UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

[X] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[_] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended _____

OR

[_] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

OR

[_] **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number

DIAMEDICA INC.

(Exact Name of Registrant as Specified in Its charter)

Manitoba, Canada
(Jurisdiction of Incorporation or Organization)

One Carlson Parkway, Suite 124, Minneapolis, MN 55447, United States
(Address of Principal Executive Offices)

Rick Pauls
President & Chief Executive Officer
One Carlson Parkway, Suite 124,
Minneapolis, MN 55447
Telephone: (763) 710-4455
Email: rpauls@diamedica.com
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares, no par value	**Nasdaq Stock Market**
[Rights to Purchase Common Shares	**Nasdaq Stock Market]**

Securities registered or to be registered pursuant to section 12(g) of the Act: **None.**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common shares as of the close of the period covered by the annual report. **Not Applicable.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [_] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [_] No [X]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [_] No [_]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [_] Accelerated filer [_] Non-accelerated filer [X]

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP [_] International Financial Reporting Standards as issued [X]Other [_]
by the International Accounting Standards Board

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INTRODUCTION

All references in this registration statement to "the Company", "DiaMedica", "we", "us", or "our" refer to DiaMedica Inc. and the subsidiaries through which it conducts its business, unless otherwise indicated.

CURRENCY TRANSLATION

Unless otherwise indicated, all references to "dollars" or the use of the symbol "$" are to Canadian dollars, and all references to "US dollars" or "US$" are to United States dollars. See "Exchange Rate Data" under Item 1 for relevant information about the rates of exchange between Canadian dollars and United States dollars.

FORWARD-LOOKING STATEMENTS

This registration statement contains forward-looking statements within the meaning of applicable securities laws. All statements, other than statements of historical fact, included in this registration statement 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 forward-looking statements contained in this registration statement include, but are not limited to, statements regarding our:

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

Our statements of "belief" in respect of our drug candidates are based primarily upon results derived to date from our preclinical and clinical research and development and our research and development program. We also use the term "demonstrated" in this registration statement 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.

We believe that we have 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 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 the reader that the particular results expected by us will occur.

Any forward-looking statements and statements of "belief" represent our estimates only as of the date of this registration statement and should not be relied upon as representing our estimates as of any subsequent date.

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 registration statement including without limitation risks related to:

- Clinical trials and product development
- Regulatory matters
- Financing requirements and access to capital
- Our stage of development
- Competition
- Dependence on key personnel
- Our ability secure and protect our patents and proprietary rights
- Third party intellectual property infringement claims

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.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

A. Directors and Senior Management.

Name	Business Address	Position
Rick Pauls	DiaMedica Inc. One Carlson Parkway, Suite 124 Minneapolis, MN 55447	Chairman of the Board, President & Chief Executive Officer
Michael Giuffre	DiaMedica Inc. One Carlson Parkway, Suite 124 Minneapolis, MN 55447	Director
Richard Pilnik	DiaMedica Inc. One Carlson Parkway, Suite 124 Minneapolis, MN 55447	Director
Dawson Reimer	DiaMedica Inc. One Carlson Parkway, Suite 124 Minneapolis, MN 55447	Director
Thomas Wellner	DiaMedica Inc. One Carlson Parkway, Suite 124 Minneapolis, MN 55447	Director
Dennis D. Kim	DiaMedica Inc. One Carlson Parkway, Suite 124 Minneapolis, MN 55447	Chief Medical Officer
James Parsons	DiaMedica Inc. One Carlson Parkway, Suite 124 Minneapolis, MN 55447	Vice President, Finance
Mark Robbins	DiaMedica Inc. One Carlson Parkway, Suite 124 Minneapolis, MN 55447	Vice President, Clinical & Regulatory Affairs
Mark Williams	DiaMedica Inc. One Carlson Parkway, Suite 124 Minneapolis, MN 55447	Vice President, Research

B. Advisers.

Our legal advisers are Fillmore Riley LLP with a business address at 1700 - 360 Main Street, Winnipeg, Manitoba, Canada, R3C 3Z3 and Dorsey & Whitney LLP with a business address at Suite 1605 – 777 Dunsmuir Street, Vancouver, British Columbia, Canada V7Y 1K4.

C. Auditors.

Our auditors are KPMG LLP, Chartered Accountants, with a business address at One Lombard Place, Suite 2000, Winnipeg, Manitoba, R3B 0X3. KPMG LLP, Chartered Accountants, are members of the Institute of Chartered Accountants of Manitoba and are registered with both the Canadian Public Accountability Board and the U.S. Public Company Accounting Oversight Board. KPMG LLP, Chartered Accountants, were first appointed as our auditors on May 14, 2001.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

ITEM 3. KEY INFORMATION

A. Selected Financial Data

Prepared in accordance with International Financial Reporting Standards

The following tables summarize selected financial data as at and for the nine months ended September 30, 2013 and 2012 and for the fiscal years ended December 31, 2012, 2011 and 2010 prepared in accordance with International Financial Reporting Standards, or "IFRS", as issued by the International Accounting Standards Board, or the "IASB". The financial information in the table below as at December 31, 2012, 2011 and 2010 and for the years then ended has been derived from our audited consolidated financial statements and related notes included in this registration statement. The financial information in the table below as at September 30, 2013 and for the nine months ended September 30, 2013 and 2012 has been derived from our unaudited financial statements included in this registration statement.

The selected financial data below should be read in conjunction with the financial statements included in this registration statement and with the information appearing in "Item 5. Operating and Financial Review and Prospects". Our historical results do not necessarily indicate results expected for any future period.

Consolidated statement of loss and comprehensive loss data:	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (unaudited)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Net sales	$ -	$ -	$ -	$ -	$ -
Net loss and comprehensive loss	$6,407,668	$6,959,171	$9,999,640	$6,746,915	$4,249,481
Loss from continuing operations per share	$0.12	$0.14	$0.20	$0.15	$0.15
Net loss per common share	$0.12	$0.14	$0.20	$0.15	$0.15
Net loss per common share	$0.12	$0.14	$0.20	$0.15	$0.15

Consolidated statement of financial position data:	As at September 30, 2013 (unaudited)	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Total assets	$1,531,489	$3,827,310	$6,459,677	$9,078,906
Net assets	$538,287	$2,253,057	$6,087,456	$8,524,717
Capital stock	$33,693,763	$30,119,600	$24,391,827	$21,549,456
Number of shares	55,740,685	50,534,443	46,960,943	43,315,943
Dividends declared per share	$ -	$ -	$ -	$ -

Exchange Rate Data

The following table sets forth, for each period indicated, the high, low and average exchange rates for Canadian dollars expressed in United States dollars, provided by the Bank of Canada. The exchange rates set forth below demonstrate trends in exchange rates, but the actual exchange rates used throughout this registration statement may vary. On January 21, 2013, the noon exchange rate for 1 Canadian dollar expressed in United States dollars as reported by the Bank of Canada, was Cdn$1.00=US$ 0.9114.

$1 Canadian dollar equivalent in US dollars	High	Low	Average
Year ended December 31, 2009	0.9755	0.7653	0.8798
Year ended December 31, 2010	1.0069	0.9218	0.9657
Year ended December 31, 2011	1.0630	0.9383	1.0217
Year ended December 31, 2012	1.0371	0.9576	1.0010
Year ended December 31, 2013	1.0188	0.9314	0.9662
Nine months ended September 30, 2013	1.0188	0.9426	0.9728
July 2013	0.9761	0.9426	-
August 2013	0.9732	0.9462	-
September 2013	0.9803	0.9471	-
October 2013	0.9736	0.9527	-
November 2013	0.9617	0.9391	-
December 2013	0.9471	0.9314	-
January 1 to 21, 2014	0.9444	0.9104	-

B. Capitalization and Indebtedness

We are authorized to issue an unlimited number of common shares without par value. Common shareholders are entitled to receive dividends as declared by our board of directors in their discretion and are entitled to one vote per share at the annual general meeting. As at the date hereof, 58,809,095 common shares were issued and outstanding, and 5,649,254 common share purchase warrants were outstanding at a weighted average exercise price of $1.18.

As at the date hereof, there are 5,018,000 stock options outstanding to purchase common shares. The terms and conditions of such stock options are contained in our stock option plan (the "**Stock Option Plan**"). A summary of the some of the relevant parts of the Stock Option Plan are below under the heading "*Stock Option Plan*".

As at the date hereof, there are issued 74,556 deferred share units. The terms and conditions of such deferred share units are contained in the Deferred Share Units Plan (the "**DSU Plan**"). A summary of the some of the relevant parts of the DSU Plan are below under the heading "*Deferred Share Units Plan*".

The table below sets forth our total indebtedness and shows the capitalization as of September 30, 2013. You should read this table in conjunction with our consolidated financial statements included in this registration statement, together with the accompanying notes and the other information appearing in "Item 5. Operating and Financial Review and Prospects".

	As at September 30, 2013
Liabilities	$993,202
Accounts payable and accrued liabilities	
Equity	
Share capital	$33,693,763
Warrants	$886,524
Contributed surplus	$3,998,202
Deficit	$(38,040,202)

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

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

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

1. Risks Related to our Business and our Industry

Uncertainties Related to Clinical Trials and Product Development

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

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

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

Risks Related to Regulatory Matters

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

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

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

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

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

Additional Financing Requirements and Access to Capital

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

Rapid Technological Change

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

Partnerships for Development and Commercialization of Technology

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

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

Uncertainties Related to Forecasts

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

Competition

Technological competition is intense in the industry in which we operate, and in particular in the market for therapeutic products to treat and diagnose Type 1 and Type 2 diabetes. Competition comes from pharmaceutical companies, biotechnology companies and universities as well as companies that participate in each of the non-pharmaceuticals markets we may attempt to address with our products. Many of our competitors have substantially greater financial and technical resources, more extensive research and development capabilities and greater marketing, distribution, production and human resources than we do. Moreover, competitors may develop products more quickly than us and may obtain regulatory approval for such products more rapidly than we do. Products and processes which are more effective than those that we intend to develop may be developed by our competitors. Research and development by others may render our technology products or processes non-competitive or obsolete.

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

- Sulfonylureas;
- Metformin;
- Insulins (injectable and inhaled versions);
- TZDs and other PPAR or non-PPAR insulin sensitizers;
- Glinides;
- DPP-IV inhibitors;
- Incretin mimetics/GLP-1 receptor agonists;
- Alpha-glucosidase inhibitors; and
- Sodium-glucose transporter-2 (SGLT-2) inhibitors.

Unproven Market

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

Management of Growth

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

Dependence on Key Personnel

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

Supply of Raw Materials

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

Systems Failures

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

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

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

Potential Product Liability

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

Foreign Currency Risk

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

2. Risks Related to Intellectual Property

Patents and Proprietary Rights

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

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

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

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

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

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

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

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

Stage of Development

We have compounds in various stages of development. Prior to commercialization of any potential product, significant additional investments will be necessary to complete the development of any of our products. Pre-clinical and clinical trial work must be completed before some of our other products could be ready for use within the market that we have identified. We may fail to develop any products, to obtain regulatory approvals, to enter clinical trials, or to commercialize any products. Competitors may develop alternative products and methodologies to treat and diagnose T1D and T2D and this could reduce our competitive advantages. We do not know whether any of our potential product development efforts will prove to be effective, meet applicable regulatory standards, obtain the requisite regulatory approvals, be capable of being manufactured at a reasonable cost or successfully marketed. The products or processes we are currently developing are not expected to be commercially viable for several years and we may encounter unforeseen difficulties or delays in commercializing our products. In addition, our products may cause undesirable side effects. Results of early pre-clinical research may not be indicative of the results that will be obtained in later stages of pre-clinical or clinical research. If regulatory authorities do not approve our products or if we fail to maintain regulatory compliance, we would have limited ability to commercialize our products, and our business and results of operations would be harmed. If we do succeed in developing products, we will face many potential obstacles such as the need to develop or obtain manufacturing, marketing and distribution capabilities.

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

As of the date of this registration statement, we have not recorded any revenues from the sale of products. We have an accumulated deficit, based on our consolidated financial statements, since our inception through September 30, 2013 of over $38 million. Losses are expected to increase in the near term as we continue our product development efforts, enter clinical trials and seek regulatory approval for the sale of our products. Operating losses are expected to be incurred until such time as product sales, royalty payments, licensing fees and/or milestone payments are sufficient to generate revenues to fund our continuing operations. We are unable to predict the extent of any future losses or when we will become profitable, if ever. Even if we do achieve profitability, we may not be able to sustain or increase profitability on an ongoing basis. There is substantial doubt about the appropriateness of the use of the going concern assumption because we have experienced operating losses and cash outflows from operations since incorporation, our cash resources are not sufficient for the next twelve months of planned operations, and we have not reached successful commercialization of our products.

Risks and Uncertainties of Current Economic Conditions

To date, we have primarily relied on equity financing to fund our working capital requirements and drug development activities. A substantial amount of additional capital is needed to develop our products to a point where they may be commercially sold. Our future operations are dependent upon our ability to generate product sales, negotiate collaboration or license agreements, obtain research grant funding, defer expenditures, or other strategic alternatives, and/or secure additional funds. While we are striving to achieve these plans, there is no assurance these and other strategies will be achieved or that such sources of funds will be available or obtained on favorable terms or obtained at all. Our ability to continue as a going concern is dependent on our ability to continue obtaining sufficient funds to conduct our research and development, and to successfully commercialize our products. There is substantial doubt about the appropriateness of the use of the going concern assumption because we have experienced operating losses and cash outflows from operations since incorporation, our cash resources are not sufficient for the next 12 months of planned operations, and we have not reached successful commercialization of our products.

4. Risks Related to Our Company's Common Shares

Share Price Volatility

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

Dividends

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

Dilution

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

1. Name, Address and Incorporation

We were incorporated under the name Diabex Inc. pursuant to *The Corporations Act* (Manitoba) by articles of incorporation dated January 21, 2000. Our articles were amended on 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. The articles were further amended on April 3, 2001 to change the name of the Company to DiaMedica Inc. The articles were further amended on March 14, 2005 to: (i) create an unlimited number of Class A Preferred Shares, and (ii) eliminate the Non-Voting Common, Class A, Class B, Class C and Class D shares. The articles were further amended on July 2, 2008 to: (i) delete the Class A Preferred Shares, and (ii) remove the restriction on share transfers.

Our registered office is located at 1700 – 360 Main Street, Winnipeg, Manitoba, Canada, R3C 3Z3 and our head office is located at One Carlson Parkway, Suite 124, Minneapolis, Minnesota 55447; telephone: (763) 710-4455.

2. Intercorporate Relationships

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

On June 30, 2010, we acquired all the outstanding shares of Sanomune Inc., a private biotechnology company developing treatments for diabetes, neurological, and autoimmune indications. We issued to the Sanomune shareholders 12,806,377 common shares in our capital stock in consideration for their Sanomune shares. Subsequently, Sanomune was dissolved and a Certificate of Dissolution was issued by the Director, Manitoba Companies Office, on April 14, 2011.

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

3. Principal Capital Expenditures/Divestitures

Acquisition of Sanomune

On June 30, 2010, we acquired all issued and outstanding shares of Sanomune. DiaMedica acquired Sanomune to strategically connect the common base technologies of the two companies.

We issued 0.517 common shares for each of the 3,751,463 common shares and 20,998,317 preference shares of Sanomune for a total issuance of 12,806,377 DiaMedica common shares. Post-closing, Sanomune shareholders held approximately 40% of the issued and outstanding DiaMedica common shares, and Sanomune became a wholly-owned subsidiary of DiaMedica. The fair value of the common shares issued was based on our closing share price at June 30, 2010 of $0.53 per common share. Acquisition costs for Sanomune expensed in the year ended December 31, 2010 were $400,264.

Capital Expenditures

We incur minimal capital expenditures in the operation of our business as we only operate office facilities with a small staff. Capital expenditures in the last three years are set out in the following table.

	Nine months ended September 30, 2013 (unaudited)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Capital expenditures	$16,843	$3,762	$1,607	$7,372

B. Business Overview

1. General

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

With over 25 million diabetic patients in the U.S. (National Diabetes Fact Sheet, 2011, Centers for Disease Control) and 370 million diabetic patients globally, diabetes is undoubtedly one of the most challenging health problems of the 21st century (International Diabetes Federation, 2012). The major complications of chronic diabetes include hypertension, heart disease and stroke, kidney disease, neuropathies, and blindness.

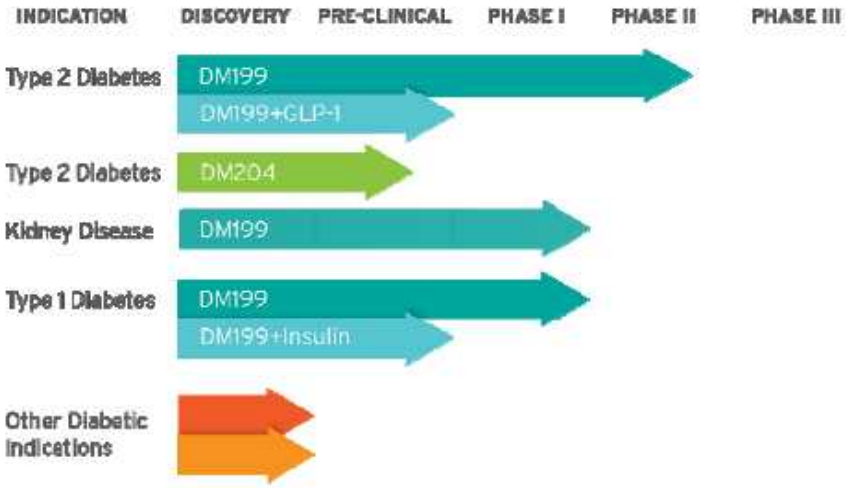
Type 2 diabetes ("**T2D**") is primarily a disease of inappropriate glucose control, where the body's cells do not respond properly to the insulin-promoted uptake of glucose from the blood (insulin resistance). As a result, Type 2 diabetic patients struggle with glucose control and hyperglycemia (as measured by Hb1Ac - an indicator of how well blood glucose levels have been controlled over several months). Type 1 diabetes ("**T1D**") results from an auto-immune event where the body's immune cells attack and deplete pancreatic beta-cells, which are the primary source for secreted insulin. T1D is prevalent in approximately 10% of all diabetic patients.

Our lead compound, DM199, is a recombinant human protein for the treatment of both T1D and T2D and their complications. We have successfully demonstrated the safety, tolerability and pharmacokinetics of DM199 in healthy volunteers, and have completed a Phase I acute escalating dose study of DM199 in T2D patients. We are currently evaluating the safety, tolerability, pharmacokinetics and pharmacodynamics of DM199 in a month-long Phase II clinical trial. Collectively, data from this trial will support chronic dosing and proof-of-concept studies of DM199 for T2D, and potentially, future clinical studies for treatment of kidney disease and TD1.

We are also developing a monoclonal antibody ("**mAb**"), DM204, for the treatment of T2D and cardiovascular disease. We plan to continue to generate additional preclinical data for both DM199 and DM204 in other indications in which these novel molecules have been shown to, or are expected to, demonstrate pharmacologic activity.

2. Products in Development

Product Pipeline Summary



(A). DM199

Type 2 Diabetes Therapeutic: Development Milestones

Our lead product, DM199, is a recombinant human tissue kallikrein protein. 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.

In October 2010, we announced results demonstrating that DM199 improves whole-body glucose uptake in a rodent hyperinsulinemic-euglycemic clamp model, the gold-standard method for characterizing the body's response to insulin. Animals treated with a single dose of DM199 were able to process 77% more total glucose compared to untreated animals.

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

In Q1 2012, we submitted our pre-Investigational New Drug ("**pre-IND**") application with the U.S. Food and Drug Administration ("**FDA**") in preparation for an upcoming clinical trial with DM199.

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

In April 2013, we received regulatory approval in the Netherlands to commence a Phase I/II clinical trial for DM199, to evaluate the safety, tolerability, pharmacokinetics and efficacy of DM199 in 36 healthy volunteers and in 40 T2D patients. Data from this trial will also support future DM199 clinical trial regulatory filings for T1D, T2D and for other potential indications.

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

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

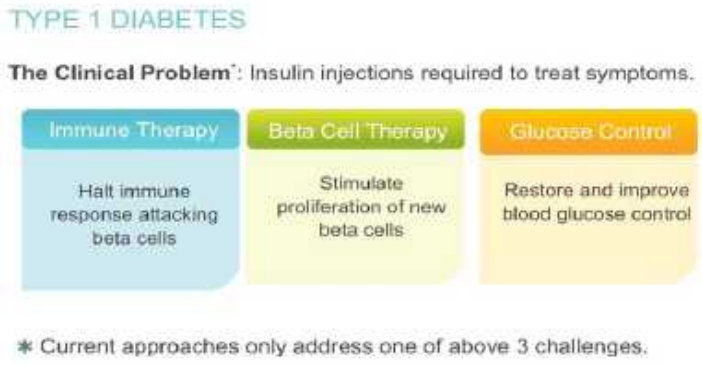
In September 2013, we successfully completed the second portion of our DM199 dose-escalation clinical trial of DM199 in T2D patients. The study achieved its primary clinical endpoints of demonstrating the safety, tolerability and sustained pharmacokinetic properties of DM199 at escalating doses, while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

On January 8, 2014 we released results of our 16-day Phase 1 multiple ascending dose ("**MAD**") clinical trial of DM199 in healthy volunteers. DM199 was well-tolerated at all three dose levels and met the primary endpoints of safety and tolerability. DM199 also demonstrated a favorable pharmacokinetic profile supporting the potential for weekly dosing.

Based on the Phase 1 MAD clinical results, we initiated dosing in a Phase 2 clinical study in patients with Type 2 diabetes to evaluate the safety, tolerability and pharmacokinetics of two dose levels of DM199 and its pharmacodynamic effects on diabetes biomarkers including: HOMA2-IR, fasting glucose and plasma insulin, meal tolerance test, lipids, HbA1c and other metabolic markers. The randomized, double-blinded, placebo-controlled study is expected to enroll 36 patients with Type 2 diabetes. The patients will start with a one-month wash out of their diabetes mediations and then be sequestered for the one-month study.

Type 1 Diabetes Therapeutic: Development Milestones

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



Insulin only addresses the glucose control aspects of type 1 diabetes. There is a clear unmet need to address type 1 diabetes at an earlier stage with immune therapy. Immune therapy is intended to stop and/or slow the immune system response that attacks the insulin producing beta cells that causes diabetes. We believe that DM199 has potential for addressing both the immune therapy and beta cell therapy of Type 1diabetes.

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

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

Restoring and improving blood glucose control will improve a patient's quality of life by decreasing glucose fluctuation levels throughout the day, and might result in reduced risk of long-term complications of diabetes.

In October 2012, we demonstrated that in a pre-clinical diabetes study, DM199 significantly lowered daily insulin needs when co-administered with basal long-acting insulin (Lantus®).

The DM199 program has now demonstrated efficacy in three critical areas of T1D treatment; immune therapy, beta cell therapy and glucose control. We are considering a plan to move forward with the clinical development of DM199 for T1D while current clinical development remains focused on the T2D market.

(B). DM204

Type 2 Diabetes Therapeutic: Development milestones

In April 2011, our preclinical studies with DM204 showed significant beneficial efficacy in a hyperinsulinemic euglycemic clamp model. Rats acutely treated with a single dose of DM204 demonstrated a 291% increase in maximal glucose infusion rate ($p<0.0035$) over control. This significant increase in glucose disposal was associated with a 160% overall average increase ($p<0.0066$) in the glucose infusion rate in order to maintain euglycemia.

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

- Glucose control - 2.6% improvement in HbA1c (measure of blood glucose levels)
- High blood pressure - 25 mm/Hg improvement
- High cholesterol - 24% improvement

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

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

Hypertension

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

We believe that a monoclonal antibody with potent dual capabilities to normalize blood glucose and blood pressure could replace currently used combination therapies of diabetic and anti-hypertensive drugs resulting in the potential for DM204 to fundamentally change the current treatment regimen for Type 2 diabetics. We are currently devoting resources to optimize DM204 for activity directed specifically at the human receptor target.

3. Diabetes and Insulin Market – The Disease and the Market Opportunity

Market sizes appearing in this document are estimates of potential markets only. We make no claim that such figures represent sales figures actually anticipated should we successfully develop and receive approval for any of our product candidates.

Type 1 diabetes develops when the body's own immune system destroys beta cells, which are the only cells in the body that produce insulin, a hormone that regulates the body's blood sugar. To survive, people with T1D must have insulin delivered by injection or pump in order to lower their blood glucose levels. T1D accounts for 5-10% of all diagnosed cases of diabetes.

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

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

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

The International Diabetes Foundation estimates that the number of people with both types of diabetes in 2012 reached a staggering 371 million globally. Each year, there are 4.8 million deaths due to diabetes and health care spending on diabetes reached US$ 471 billion. In 2010, the United Health Group estimated more than half of Americans will have diabetes or pre-diabetes over the next 10 years, costing the US healthcare system US$ 3.35 trillion. In a 2011 fact sheet issued by the CDC, it was reported that 8.3% of the total US population currently has T2D, and over 25% of those aged 65 and over have the disease.

In 2009, the global annual sales of insulin and anti-diabetic medications were approximately $25 billion (Visiongain, 2009) and forecasted to reach $55 billion by 2016 (Report Linker, 2011).

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

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

Marketed Type 2 Diabetes Drug Classes (Non-insulin)

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

The current standard of care includes generic drugs such as Metformin and various Sulfonylureas, and other patent-protected classes such as thiazolidinediones ("**TZDs**"), Glucagon-like-peptide ("**GLP-1**") agonists and dipeptidyl peptidase-4 ("**DPP4**") inhibitors and sodium/glucose cotransporter 2 (**"SGLT2"**), often administered in combination. These treatments either improve the body's sensitivity to insulin or increase insulin secretion from pancreatic beta cells to help lower blood glucose. In addition, it appears that a large portion of the T2D population (approximately two-thirds) eventually fail to control their diabetes with these drugs (as determined by HbA1c > 7%). HbA1c is an indicator of how well blood glucose levels have been controlled over several months. Furthermore, patients with T2D can progress to a point where they are no longer able to produce insulin thus requiring insulin injections to lower blood sugar, similar to treatment for T1D. As such, there is an ongoing need to develop new, safe drug treatments to complement or even replace those currently available.

4. Competitive Environment

General Overview

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

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

Biguanides, for example Metformin, are oral drugs used to control blood glucose, mainly by inhibiting glucose release by the liver, in early stage diabetic patients. Biguanides are used to treat early stage diabetic patients. Most patients become resistant to biguanides as their disease advances and are treated with other diabetes drugs. Our drugs would be used on patients that are resistant to or can no longer tolerate biguanides.

Sulfonylureas, for example Glyburide, are also oral drugs used to control blood glucose, mainly functioning by improving insulin release from the pancreas in early stage diabetic patients. Sulfonylureas are used to treat early stage diabetic patients. Most patients become resistant to sulfonylureas as their disease advances and are treated with other diabetes drugs. Our drugs would be used on patients that are resistant to or can no longer tolerate sulfonylureas.

Alpha-glucosidase inhibitors are also orally administered glucose controlling drugs that slow breakdown of carbohydrates. The result is complex carbohydrates reaching the intestines and colon that may result in diarrhea and flatulence. These drugs will block the amount of glucose absorbed into the body, but does not control the glucose released from the liver or improve insulin resistance in diabetic patients. Our drugs are expected to improve blood glucose control and improve insulin resistance.

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

GLP-1 analogues (such as Byetta and Victoza) combined with long-acting insulins (such as Lantus™ and Levemir™) as a treatment for T2D has been evolving as it allows: (1) the weight loss provided by GLP-1 agonists can help reduce (or overcome) the weight gain associated with long-acting insulin therapy; and (2) GLP-1 agonists and long-acting insulins help improve blood glucose control in a complementary manner. Long-acting insulins act over a long period of time at a constant rate to cover background (between meal) insulin needs. Meanwhile, GLP-1 agonists cause insulin secretion only when blood glucose levels are high, effectively lowering post-meal blood glucose spikes without increasing the risk for hypoglycemia. The FDA has approved Byetta for use with Lantus, and in Europe, Victoza is approved for use with Levemir. However, in the two above noted cases, the GLP-1 and long acting-insulin are administered separately due to formulation issues. Sanofi is developing a new GLP-1 analogue (Lixisenatide) that may be co-formulated with Lantus.

TZDs and other PPAR or dual PPAR insulin sensitizers, for example thiazolidinediones (TZD's), bind and activate the gamma peroxisome proliferator-activated receptors (PPAR). Many of the thiazolidinediones have been withdrawn due to increased risk of hepatitis and liver failure. Dual PPAR agonists, both the alpha and gamma PPAR isoforms, are being developed for glucose control and diabetic dyslipidemia and hypertriglyceridemia. Saroglitazar was the first glitazar to be approved for clinical use, and experimental compounds in this class include aleglitazar, muraglitazar and tesaglitazar. This class of drugs functions in part through the same pathway as TZD's (PPAR gamma) and may thus have similar side effects, specifically hepatitis and liver failure that have lead to the withdrawal of TZD's. Our products are also expected to be insulin sensitizers but function via a different pathway not involving PPAR and thus not have the same liver problems.

DPP IV inhibitors: or gliptins, are inhibitors of dipeptidyl peptidase 4, (DPP-IV), and the first agent of the class - sitagliptin - was approved by the FDA in 2006. DPP-IV inhibitors are used to control blood glucose levels in T2D. The mechanism of DPP-IV inhibitors is to increase incretin levels (GLP-1 and GIP), which inhibit glucagon release, which in turn increases insulin secretion, decreases gastric emptying, and decreases blood glucose levels. DPP-IV inhibitors. DPP-IV inhibitors would not be effective in patients with T2D and insulin resistance. Our products are targeted to T2D patients with insulin resistance.

Sodium-Glucose Linked Transporter 2 (SGLT2) inhibitors block the reabsorption of glucose by kidneys, resulting in increased glucose in urine. Phase III data suggests this class of drugs results in a 0.37% decrease in HbA1c, 2.5% weight loss, a moderate decrease in blood pressure, and improvement in the HDL/LDL ratio. This class of drugs blocks a system in the kidneys for capturing glucose using a small molecule inhibitor, and the specificity and long-term side effects of this drug are not fully realized. Side effects reported to date with this class of drugs includes cardiovascular problems and increased LDL cholesterol and urinary tract infections. DM199 is a naturally occurring protein that functions through natural pathways, and may benefit cardiovascular health due anti-hypertensive effects. Several companies have SGLT2 inhibitors in development including Dapagliflozin (AstraZeneca/ Bristol-Myers Squibb), Empagliflozin (Eli Lilly) ; remogliflozin etabonate (Glaxo Smithkline/ Kissei Pharmaceuticals) and Tofogliflozin (Chugai Pharma).

The majority of these T2D drugs in clinical development are reportedly being designed to improve upon existing therapies. Using a “best-in-class” approach, these “me-too” products are intended to improve pharmacokinetics or reduce side effects. In contrast, our products are novel, “first-in-class” therapeutics that appear to function via a different mechanism compared to the currently marketed products and medicines under development.

5. Business Strategy

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

Clinical Development Collaborations

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

Commercialization Partnerships and Other Strategic Initiatives

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

Strategic Technology Partnerships

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

Financial Strategy

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

(i) The issuance of equity; and/or

(ii) Establishment of partnership agreements or acquisition with pharmaceutical, biopharmaceutical and/or biotechnology companies for products and technologies we are developing.

6. Intellectual Property

General

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

Our patent portfolio includes 13 patent families comprising approximately 13 issued patents, 42 pending applications and three PCT applications that are owned by us, and three in-licensed patents, which include claims for composition of matter, methods of use, diagnosis and drug combinations. For our DM199 program, this includes seven patent families consisting of one issued and 32 pending applications and two PCT applications that are directed to composition of matter, formulations, glycoforms, administration and methods of use. For our DM204 product candidate, we own eight applications with claims to composition of matter and methods of use.

DM199 Program

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

DM204 Program

We are the exclusive owner of all intellectual property rights related to the development, manufacturing and testing of the antibody DM204. we have filed eight national and regional patent applications with claims to DM204, composition of matter and use of DM204 to treat diabetes, hypertension, myocardial infarction and stroke, and other indications.

7. Regulatory Process

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

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

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

US Approval Process

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

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

Stage 1: Pre-clinical Research. After an experimental drug is discovered, research is conducted to help determine its potential for treating or curing an illness. This is called pre-clinical research. Animal studies are conducted to determine if there are any harmful effects of the drug and to help understand how the drug works. Information from these experiments is submitted in an Investigational New Drug ("**IND**") application to the FDA for review, to decide if the drug is safe to proceed for study in humans.

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

Phase 1. Phase 1 includes the initial introduction of an investigational new drug into humans. Phase 1 studies are typically closely monitored and may be conducted in patients or normal volunteer subjects. These studies are designed to determine the metabolism and pharmacologic actions of the drug in humans, the side effects associated with increasing doses, and, if possible, to gain early evidence on effectiveness. During Phase 1, sufficient information about the drug's pharmacokinetics and pharmacological effects should be obtained to permit the design of well-controlled, scientifically valid, Phase 2 studies. The total number of subjects and patients included in Phase 1 studies varies with the drug, but is generally in the range of 20 to 80.

Phase 1 studies also include studies of drug metabolism, structure-activity relationships, and mechanism of action in humans, as well as studies in which investigational drugs are used as research tools to explore biological phenomena or disease processes."

Phase 2. Phase 2 includes the controlled clinical studies conducted to evaluate the effectiveness of the drug for a particular indication or indications in patients with the disease or condition under study and to determine the common short-term side effects and risks associated with the drug.

Phase 2 studies are typically well controlled, closely monitored, and conducted in a relatively small number of patients, usually involving no more than several hundred subjects.

Phase 3. Phase 3 studies are expanded controlled and uncontrolled trials. They are performed after preliminary evidence suggesting effectiveness of the drug has been obtained, and are intended to gather the additional information about effectiveness and safety that is needed to evaluate the overall benefit-risk relationship of the drug and to provide an adequate basis for physician labeling. Phase 3 studies usually include from several hundred to several thousand subjects.

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

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

European Approval Process

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

C. Organizational Structure

We have one wholly-owned subsidiary, DiaMedica USA, which was incorporated on May 15, 2012, pursuant to the General Corporation Law of the State of Delaware, United States. The registered office of DiaMedica USA is The Corporation Trust Company, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE, 19801, County of New Castle. The office address of DiaMedica USA is One Carlson Parkway, Suite 124 Minneapolis, MN 55447.

D. Property, plant and equipment

We operate from approximately 3,370 square feet of leased space at the head office of our U.S. subsidiary at One Carlson Parkway, Suite 124, Minneapolis, MN 55447. We use qualified vendors to conduct research and development and manufacturing on our behalf. We incur only minor capital expenditures in the operation of our business. As at December 31, 2012, the net carrying value of our property and equipment was $6,560.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not Applicable

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations for the nine months ended September 30, 2013, the years ended December 31, 2012 and 2011, and the years ended December 31, 2011 and 2010, should be read in conjunction with our consolidated financial statements and related notes included in this registration statement in accordance with "Item 8. Financial Information". Our consolidated financial statements were prepared in accordance with IFRS as issued by the IASB.

See "Item 17. Financial Statements" and the notes to the financial statements included as part of this registration statement for a discussion of the significant accounting policies and significant estimates and judgments required to be made by management.

A. Operating Results

For the nine months ended September 30, 2013 and 2012

Since inception, we have incurred losses while advancing the research and development of our therapeutic products. Net loss for the nine months ended September 30, 2013 was $6,407,668 compared to a loss of $6,959,171 for the nine months ended September 30, 2012. The decrease in net loss for the nine months ended September 30, 2013 over the comparable period of the prior year was due mainly to lower non-cash amortization of intangible assets of $587,208.

Research and Development

Components of research and development expenses for the nine months ended September 30 were as follows:

	2013	2012
	$	$
Research and development programs	**3,195,325**	3,145,521
Salaries, fees and short-term benefits	**970,947**	507,880
Share-based compensation	**352,479**	563,493
Depreciation of property and equipment	**3,720**	2,222
Amortization of intangible assets	**1,174,416**	1,761,624
Government assistance	**(41,276)**	(16,456)
Total	**5,655,611**	5,964,284

Research and development program expenditures include direct and indirect costs associated with the our research and development programs, including personnel costs, manufacturing, pre-clinical and clinical research costs, business development, intellectual property costs, and consulting.

The decrease in research and development expenses for the nine months ended September 30, 2013 was due mainly to lower non-cash amortization of intangibles for the Sanomune technologies by $587,208, partially offset by higher research spending on DM199 of $203,301 primarily for the Phase I/II clinical trials compared to lower costs of pre-clinical studies and manufacturing scale-up in the prior year's comparative period. DM204 costs were comparable for the two periods, while manufacturing and other consulting costs decreased by approximately $141,000. Salary and benefits costs were higher in part reflecting the addition of senior staff to manage clinical and regulatory operations and in part due to the 2012 bonuses recorded as share-based compensation expenses on the issue of DSU units. Non-cash expenses for share-based compensation were lower by $211,014 in the first half of 2013 compared to the prior year period.

General and Administrative

Components of general and administrative expenses for the nine months ended September 30 were as follows:

	2013	2012
	$	$
General and administrative	**410,046**	648,006
Salaries, fees and short-term benefits	**102,393**	122,764
Share-based compensation	**250,044**	235,562
Total	**762,483**	1,006,332

General and administration expenses include costs not directly related to research activities. This includes expenses for professional fees such as legal and audit, fees related to maintaining a public stock exchange listing, shareholder relations' activities and insurance.

General and administration expenses for the nine months ended September 30, 2013 decreased over the comparable period due mainly to lower advisory costs related to capital markets and investor relations of $237,103. Salaries, fees and short-term benefits costs and on-cash share-based compensation expenses were comparable between the periods.

Finance income and finance costs

Interest income for the nine months ended September 30, 2013 was lower than the comparable period due mainly to higher average cash balances last year. Finance costs for the nine months ended September 30, 2013 were lower than the comparable prior year period which had a net foreign exchange loss of $23,137 compared to a small net gain in 2013.

For the years ended December 31, 2012 and 2011

Net loss for the year ended December 31, 2012 was $9,999,640 compared to a loss of $6,746,915 for the year ended December 31, 2011. The increase in net loss for the year ended December 31, 2012 over the prior year was due mainly to higher DM-199 program costs for preclinical studies and for drug manufacturing in anticipation of initiating the Phase I/II clinical trial in diabetes in 2013.

Research and Development

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

	2012	2011
	$	$
Research and development programs	**5,180,887**	2,375,471
Salaries, fees and short-term benefits	**688,492**	720,886
Share-based compensation	**668,164**	418,394
Depreciation of property and equipment	**4,839**	2,858
Amortization of intangible assets	**2,348,832**	2,348,832
Government assistance	**(16,456)**	(63,229)
Total	**8,874,758**	5,803,212

The increase in net loss for the year ended December 31, 2012 over 2011 was due mainly to higher research spending on DM199 of $2,172,057 primarily for manufacturing costs, pre-clinical studies and clinical trial preparation costs, and on DM204 of $129,079 for formulation and manufacturing costs. During 2012, we successfully scaled up manufacturing of DM-199 and completed a cGMP manufacturing run at scale to provide drug product for the planned clinical studies. Patent, business development and other advisory costs were higher for 2012 by $377,677 over 2011 due in part to a comprehensive review of our patent portfolio and a change to U.S. patent counsel, and initiation of our partnership strategy. Non-cash expenses for share-based compensation were higher in 2012 by $249,770.

General and Administrative

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

	2012	**2011**
	$	**$**
General and administrative	**693,196**	335,168
Salaries, fees and short-term benefits	**110,668**	216,552
Share-based compensation	**358,572**	431,672
Total	**1,162,436**	983,392

General and administration expenses for the year ended December 31, 2012 increased over the comparable period due mainly to higher advisory costs related to capital markets strategy and investor relations, partially offset by lower staffing and lower non-cash share based compensation.

Finance income and finance costs

Finance income for the year ended December 31, 2012, was lower than the comparable prior year due mainly to lower average cash balances in 2012. Finance costs for the year ended December 31, 2012 were lower than the comparable prior year due mainly to higher foreign exchange losses in 2011.

For the years ended December 31, 2011 and 2010

Net loss for the year ended December 31, 2011 was $6,746,915 compared to a loss of $4,249,481 for the year ended December 31, 2010. The increase in net loss for the year ended December 31, 2011 resulted mainly from higher research and development expenses. The higher research and development expenses in the year ended December 31, 2011 included a full year of non-cash amortization of the acquired technology intangible asset from the acquisition of Sanomune on June 30, 2010 and higher share-based compensation, higher program spending and lower government assistance. The increase in net loss in 2011 was also due to higher research spending and lower government assistance partially offset by lower professional fees than in the comparable period.

Research and Development

Research and development expenses for the year ended December 31, 2011 were $5,803,212 compared to the year ended December 31, 2010 amount of $2,816,235. The increase in 2011 was due mainly to higher non-cash amortization of intangible assets from the Sanomune acquisition of $1,165,069, higher external program costs for DM-199 and DM-204 primarily for pre-clinical studies and manufacturing of $975,723, higher personnel costs of $435,865, higher share-based compensation of $377,610, and lower government assistance by $307,165, partially offset by lower patent and property and equipment impairment expense of $546,194.

General and Administrative

General and administration expenses for the year ended December 31, 2011 were $983,392 compared to the year ended December 31, 2010 amount of $1,009,893. The decrease in 2011 was due mainly to lower professional fees of $306,822 partially offset by higher share-based compensation of $195,407 and higher personnel costs of $85,472.

Finance income and finance costs

For the year ended December 31, 2011, finance income was higher than the comparable period due to larger average holdings of cash and cash equivalents resulting from the exercise of warrants in the fourth quarter of 2010 and the completion of the financing on July 22, 2011.

B. Liquidity and Capital resources

Since inception, we have financed our operations from public and private sales of equity, the exercise of warrants and stock options, interest income on funds available for investment and government grants and tax credits. As at September 30, 2013, we had cash and cash equivalents totaling $1,098,643 compared to $2,327,650 at December 31, 2012.

We believe we have sufficient resources available to support our activities into the second quarter of 2014. We will seek to raise additional funds for operations from current stockholders and other potential investors. This disclosure is not an offer to sell, nor a solicitation of an offer to buy our securities. While we may pursue such financing, there is no assurance that funding will be available or obtained on favourable terms.

Our consolidated financial statements have been prepared using IFRS as issued by the IASB that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. 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 will require ongoing funding in order to continue our research and development activities, and we have not reached successful commercialization of our products.

Our future operations are dependent upon our ability to generate product revenues, negotiate license agreements with partners, and secure additional funds. 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. There is also no certainty that these and other funding strategies will be sufficient to permit us to continue as a going concern.

Our consolidated financial statements do not reflect adjustments in the carrying values of our assets and liabilities, expenses, and the balance sheet classification used, which would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

Common shares issued – for the year ended December 31, 2013

On March 22, 2013, we completed a prospectus offering of 5,111,175 units at a price of $0.90 per unit, for aggregate gross proceeds of $4,600,058 ($3,949,127 net of issuance costs). Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.10 at any time prior to expiry on March 22, 2016. The warrant expiry date can be accelerated at our option in the event that the volume-weighted average trading price of our common shares exceeds $1.60 per common share for any 10 consecutive trading days. In connection with the financing, we issued 357,782 compensation warrants. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.90 prior to expiry on March 22, 2014.

The $0.90 unit issue price was allocated to common shares in the amount of $0.79 per common share and the unit warrants were allocated a price of $0.11 per half-warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $3,466,456 was allocated to common shares and $482,671 to the unit warrants, net of issue costs. Assumptions used to determine the value of the unit warrants were: dividend yield 0%; risk-free interest rate 1.1%; expected volatility 69%; and average expected life of 36 months. Assumptions used to determine the value of the compensation warrants were: dividend yield 0%; risk-free interest rate 1.0%; expected volatility 63%, respectively; and average expected life of 12 months.

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

During the year ended December 31, 2013, 96,042 common shares were issued on the exercise of stock options for gross proceeds of $63,750 and 24,025 common shares were issued on the exercise of warrants for gross proceeds of $23,442. We amended the exercise price of the 1,055,600 outstanding warrants that were issued in May 2012 in connection with an earlier exercise incentive program from an exercise price of $2.50 to an exercise price of $1.60.

Subsequent to the year-end on January 3, 2014, we completed a non-brokered private placement of 154,500 units at a price of $0.90 per unit, for aggregate gross proceeds of $139,050. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.10 at any time prior to expiry on December 23, 2015. The warrant expiry date can be accelerated at our option in the event that the volume-weighted average trading price of our common shares exceeds $1.60 per common share for any 10 consecutive trading days. A finder's fee equal to 6% cash and 6% warrants of the aggregate gross proceeds raised under the private placement may be payable to persons arm's length to us at our discretion in connection with introducing subscribers to the offering.

Common shares issued – for the year ended December 31, 2012

On May 8, 2012, we completed an incentive program to encourage the early exercise of the $1.50 warrants that were previously issued in connection with our short form prospectus offering in July 2011 (the "Original Warrants"). We amended the terms of the Original Warrants to enable the holders thereof to receive a Unit in lieu of a common share of DiaMedica on the exercise of their Original Warrants prior to the May 8, 2012 incentive expiry date. Each Unit consisted of one common share in the capital stock of DiaMedica and one-half of one warrant (each whole warrant, a "New Warrant"). Each New Warrant entitled the holder thereof to acquire a common share in DiaMedica at a price of $2.50 per share for 24 months following the date of issue of the Unit. On May 8, 2012, 2,111,200 common shares were issued on the exercise of $1.50 warrants for gross proceeds of $3,166,800 ($3,150,781 net of issuance costs) under the incentive program, and accordingly, 1,055,600 New Warrants, with a total grant date fair value of $277,000, were issued with an exercise price of $2.50. Assumptions used in an option pricing model to determine the value of the New Warrants were: dividend yield 0%; risk-free interest rate 1.2%; expected volatility 74%; and expected life of 2 years.

In the event the volume-weighted average trading price of our common shares exceeds $3.00 per share for a period of 10 consecutive trading days, we may, at our option, accelerate the New Warrant Expiry Date by delivery of notice to the holders of New Warrants and issuing a press release announcing such acceleration and, in such case, the New Warrant Expiry Date shall be deemed to be the 30th day following the later of: (i) the date on which the Warrant Acceleration Notice is sent to Warrant holders; and (ii) the date of issuance of the Warrant Acceleration Press Release.

On August 3, 2012, the ten-day volume-weighted average trading price of our common shares exceeded $2.00 per common share and we provided notice to the $1.50 Original Warrant holders that the expiry date of these warrants had been accelerated to September 7, 2012. In the third quarter, 1,189,300 warrants were exercised for gross proceeds of $1,706,324 and the remaining 115,000 warrants expired.

During the year ended December 31, 2012, 273,000 common shares were issued on the exercise of stock options for gross proceeds of $281,400.

September 30, 2013 Compared to December 31, 2012

As at September 30, 2013, we had cash and cash equivalents totaling $1,098,643 compared to $2,327,650 at December 31, 2012.

The working capital position (current assets less current liabilities) at September 30, 2013 was $234,694 compared to a working capital position of $877,528 at December 31, 2012. The decrease was due mainly to the completion of a prospectus offering of 5,111,175 units at a price of $0.90 per unit, for aggregate gross proceeds to us of $4,600,058 ($3,949,127 net of issuance costs) in the first quarter of 2013 less ongoing operating costs for the nine months ended September 30, 2013 of $4,627,009, net of a decrease in accounts payable from $1,574,253 at December 31, 2012 to $993,202 at September 30, 2013.

Total assets decreased to $1,531,489 at September 30, 2013 from $3,827,310 at December 31, 2012 due mainly to amortization of intangible assets and due to the use of cash and cash equivalents for operating expenditures. At September 30, 2013 we had no interest bearing long-term liabilities or debt.

Common shares issued – for the year ended December 31, 2011

On July 22, 2011, we completed a prospectus offering of 3,105,000 Units at a price of $1.25 per Unit, for aggregate gross proceeds of $3,881,250 ($3,178,383 net of issuance costs). Each Unit consisted of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitled the holder to purchase one common share at a price of $1.50 at any time prior to expiry on July 22, 2013. The Warrant expiry date could be accelerated at our option, in the event that the volume-weighted average trading price of our common shares exceeds $2.00 per common share for any 10 consecutive trading days. In connection with the financing, we issued 310,500 Compensation Warrants having an aggregate fair value of $65,205 estimated using an option pricing model. Each Compensation Warrant entitles the holder to acquire one common share at an exercise price of $1.25 prior to expiry on July 22, 2012.

The $1.25 unit issue price was allocated to common shares in the amount of $0.99 per share and the Warrants were allocated a price of $0.26 per Warrant. The costs of the issue were allocated on a pro rata basis to the common shares and Warrants. Accordingly, $2,517,279 was allocated to common shares and $661,104 to Warrants, net of issue costs. Assumptions used to determine the value of the Warrants and the Compensation Warrants were: dividend yield 0%; risk-free interest rate 1.5%; expected volatility 89% and 76%, respectively; and average expected life of 24 and 12 months, respectively.

During the year ended December 31, 2011, 540,000 common shares were issued on the exercise of warrants for gross proceeds of $216,000.

December 31, 2012 Compared to December 31, 2011

As at December 31, 2012, we had cash and cash equivalents totaling $2,327,650 compared to $2,707,663 at December 31, 2011.

The working capital position at December 31, 2012 was $877,528 compared to a working capital position of $2,421,300 at December 31, 2011. Accounts payable were significantly higher at the end of 2012 compared to the end of 2011 due to large expenditures for manufacturing and preclinical studies near the 2012 year end.

December 31, 2011 Compared to December 31, 2010

As at December 31, 2011, we had cash and cash equivalents totaling $2,707,663 compared to $2,837,224 at December 31, 2010. For fiscal 2011, cash inflows from financing approximated cash outflows from operations.

The working capital position at December 31, 2011 of $2,421,300 was comparable to the working capital position of $2,587,847 at December 31, 2010.

C. Research and Development, Patents and Licenses, etc.

We are a clinical stage biotechnology company developing first-in-class treatments for the treatment of diabetes. We rely on patents and licenses to enable the commercialization of our novel technologies. See “Item 4. Information on the Company” and Item 4.B. under the heading “Intellectual Property”.

D. Trend Information

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

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

E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resource that is material to investors.

F. Tabular Disclosure of Contractual Obligations

Other than as disclosed below, we do not have any contractual obligations as of September 30, 2013 relating to long-term debt obligations, capital (finance) lease obligations, operating lease obligations, purchase obligations or other long-term liabilities reflected on our latest balance sheet as at September 30, 2013:

	Payments due by period				
Contractual Obligations[1]	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Long-Term Debt Obligations	$ -	$ -	$ -	$ -	$ -
Capital (Finance) Lease Obligations	$ -	$ -	$ -	$ -	$ -
Operating Lease Obligations [2]	$89,305	$43,810	$45,495	$ -	$ -
Purchase Obligations [3]	$2,462,265	$2,261,635	$140,555	$40,050	$20,025
Other Long-Term Liabilities Reflected on our Balance Sheet under IFRS	$ -	$ -	$ -	$ -	$ -
Total	$2,551,570	$2,305,445	$186,050	$40,050	$20,025

Notes:

(1) Contractual obligations in the above table do not include amounts in accounts payable and accrued liabilities on our balance sheet as at September 30, 2013.
(2) Operating lease obligations expire in September 2015.
(3) Purchase obligations relate primarily to agreements related to the conduct of our DM199 clinical trials. We have a license agreement with the University of Manitoba that has minimum annual payments of $20,025.

G. Safe harbor

Not Applicable.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT & EMPLOYEES

A. Directors and Senior Management

The following table sets forth the name, office held, age, and functions and areas of experience in our company of each of our Directors and senior management:

Name, Present Office Held	Director Since	Principal Business Activities and Other Principal Directorships
Michael Giuffre *Director*(2)	August 2010	Dr. Giuffre is a Clinical Professor of cardiac sciences and pediatrics, faculty of Medicine, University of Calgary since 2009, and Associate Professor since 1995. He is currently President elect Alberta Medical Association, and board member since 1995 and pediatric cardiologist at Alberta Children's Hospital since June 1990.
Rick Pauls *President & Chief Executive Officer and Director,Chair*	April 2005	Mr. Pauls is the Chairman, President & Chief Executive Officer of DiaMedica Inc., since July 31, 2009. From 2002 until the beginning of 2010, he was the Managing Director of CentreStone Ventures Inc., a life sciences venture capital fund. Mr. Pauls also sits on the board of LED Medical Diagnostics Inc.
Richard Pilnik *Director* (2)	January 2009	Mr. Pilnik is the Executive Vice President of Quintiles Inc. since April 2009. In 2008, he retired after 25 years with Eli Lilly & Co. where his most recent positions were group Vice President and Chief Marketing Officer. He currently sits on the board of the Duke University Fuqua School of Business.
Dawson Reimer *Director (1)*	September 2011	Mr. Reimer is the President and Chief Operating Officer at Medicure Inc. where he has been employed since 2001. Mr. Reimer has been employed by Medicure since 2001 and held a variety of management positions in corporate, clinical, and commercial operations prior to assuming the position of President and COO in 2011.
Thomas Wellner *Director (1)(2)*	April 2008	Mr. Wellner is Co-CEO of Life Labs since its acquisition of CML Healthcare on October 1, 2013, were he was President and CEO from February 6, 2012. He was also President and CEO of Therapure Biopharma Inc. from April 2008 until May 2011. He was President and General Manager of Eli Lilly Germany from October 2004 to October 2007, before becoming Global Brand Development Leader for Insulins and Devices at Eli Lilly & Co from October 2007 to March 2008. Mr. Wellner also sits on the board of Critical Outcome Technologies, Ltd.
Dennis D. Kim, M.D. *Chief Medical Officer*	n/a	Dr. Kim was appointed Chief Medical Officer in April, 2013. He is a Principal of MetaCon, Inc. Previously, Sr. VP of Medical Affairs, Orexigen Therapeutics, and Vice President, Medical Affairs and Chief Medical Officer of EnteroMedics, Inc.
James Parsons, CA *Vice-President, Finance*	n/a	Mr. Parsons was appointed Vice President, Finance in October 2010. He was previously CFO of Amorfix Life Sciences Ltd. from 2006 to 2010. Mr. Parsons is also CFO of. Stem Cell Therapeutics Corp since August 2011.
Mark Robbins, PhD *Vice-President, Clinical and Regulatory Affairs*	n/a	Dr. Robbins was appointed Vice President, Clinical and Regulatory Affairs of DiaMedica in December 2012. From 2008 to 2011 Dr. Robbins was Vice President, Legal, Scientific and Technical Operations at Upsher-Smith Labs and from 2011 to 2012 operated Kodiak Strategic Consultants, LLC, a clinical and regulatory consulting business.
Mark Williams, PhD *Vice-President, Research*	n/a	Dr. Williams was appointed Vice President, Research of DiaMedica in June 2010. Dr. Williams has worked with DiaMedica since 2005.

Notes:

(1) Member of the Audit Committee.
(2) Member of the Governance and Compensation Committee.

Summary of Business Experience

Rick Pauls, M.B.A. *(42 years) - Chairman of the Board, President & Chief Executive Officer*

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

Michael Giuffre, M.D. *(58 years) - Director*

Dr. Giuffre was appointed to the Board of Directors in August 2010. As a Clinical Professor of Cardiac Sciences and Pediatrics at the University of Calgary, Dr. Giuffre maintains a portfolio of clinical practice, cardiovascular research, and university teaching. He maintains on-going involvement in both health care administration, and in the biotechnology business sector. Dr. Giuffre is Past President of the Calgary and Area Physicians Association (CAPA) and a past representative to the board of the Calgary Health Region. Dr Giuffre holds a B.Sc. in cellular and microbial biology, an MD and an MBA. His Canadian Royal College board certified specialties include Pediatrics, Pediatric Cardiology and a subspecialty in Pediatric Electrophysiology. As a biotechnology consultant, Dr. Giuffre has been involved with RedSky Inc. (acquired by Research in Motion), MDMI, and MedMira Inc. He is currently on the boards of IC2E Inc and FoodChek Inc. He serves on the Medical Advisory Board of the SADS Foundation and on the boards of Unicef Canada and the Alberta Medical Association. He is also an MD-MP contact for the Canadian Medical Association. Dr. Giuffre has recently received a Certified and Registered Appointment by the American Academy of Cardiology, "Distinguished Fellow of the American Academy of Cardiology," and in 2005 was awarded "Physician of the Year" by the Calgary Medical Society.

Richard Pilnik *(56 years) - Director*

Mr. Pilnik was appointed to the Board of Directors in January 2009. Mr. Pilnik served in several leadership positions during his 25-year career at Eli Lilly and Company. Most recently at Eli Lilly, Mr. Pilnik served as Group Vice President and Chief Marketing Officer, where he was directly responsible for commercial strategy, market research and medical marketing. Prior to that, Mr. Pilnik served as President of Eli Lilly Europe, Middle East and Africa and the Commonwealth of the Independent States, a regional organization of former Soviet Republics, where he oversaw 50 countries and positioned Eli Lilly as the fastest growing pharmaceutical company in the region. Mr. Pilnik also held several marketing and sales management positions in the United States, Europe and Latin America during his tenure at Eli Lilly. Mr. Pilnik is the Executive Vice President of Quintiles Inc. and also served as President of Innovex, the commercial group of Quintiles Transnational Corp. Innovex is a global pioneer in pharmaceutical services. Mr. Pilnik holds a B.A. in economics from Duke University and an MBA from the Kellogg School of Management at Northwestern University.

Dawson Reimer *(42 years) - Director*

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

Thomas Wellner *(48 years) - Director*

Mr. Wellner was appointed to the Board of Directors in August 2008. Mr. Wellner was President and Chief Executive Officer of CML Healthcare to October 1, 2013, when CML was acquired by LifeLabs, Canada's largest laboratory testing service provider . Mr. Wellner continues as Co-CEO to provide additional support and leadership through the transition and integration of the businesses. Mr. Wellner served in several leadership positions during his 20-year career at Eli Lilly and Company. Most recently at Eli Lilly, Mr. Wellner served as Global Brand Leader for Insulin and Devices. Mr. Wellner worked globally for Eli Lilly in multifaceted positions. He designed and set up Lilly's re-entry into the Chinese market and was the first marketing manager for Eli Lilly in China. In 2000, he moved to London to become Executive Director, Eli Lilly European Operations Marketing, Sales and IT before being appointed to become President & General Manger, Eli Lilly Deutschland Gmbh from 2004 to 2007. From 2008 to 2011, Mr. Wellner assumed the role of President and CEO of Therapure Biopharma Inc., a privately held Global Biologics CMO and drug development company. Mr. Wellner also serves on a number of boards of directors and advises private equity clients and invests in healthcare and technology services businesses.

Dennis D. Kim, M.D., M.B.A. *(43 years) - Chief Medical Officer*

Dr. Kim joined us in April 2013 and provided consulting services since July 2012. Dr. Kim is a board-certified endocrinologist and a founding member/Principal of MetaCon, Inc. Dr. Kim previously served in a variety of senior executive positions in the biopharmaceutical industry including Senior Vice President of Medical Affairs at Orexigen Therapeutics (public biotech company focused on obesity pharmacotherapy), Vice President, Medical Affairs and Chief Medical Officer of EnteroMedics, Inc, and various senior management positions at Amylin Pharmaceuticals, Inc. over 7 years, including Executive Director of Corporate Strategy and the program medical lead for development and commercialization of Byetta® (exenatide) for treatment of Type 2 diabetes. Dr. Kim completed his fellowship in Endocrinology/Metabolism at University of California, San Diego (UCSD) during which time he investigated the pathophysiology of diabetes and metabolic syndrome. He is extensively published in top peer-reviewed medical and scientific journals with over 50 publications to his name. Dr. Kim also received an MBA degree with honors from UCSD Rady School of Management. He continues to provide medical care to patients as a Clinical Assistant Professor of Medicine at UCSD.

James Parsons, C.A. *(48 years)* - Vice President, Finance

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

Mark Williams, Ph.D. *(42 years) - Vice President of Research*

Dr. Williams joined us in June 2010 on our acquisition of Sanomune Inc. Dr. Williams earned his Ph.D. at the University of Alberta in the laboratory of Dr. Lorne Tyrrell, who discovered Lamivudine®, for the treatment of Hepatitis B. Dr. Williams is the co-founder of Sanomune, a company focused on neurological and autoimmune disorders. He is an inventor on more than 10 patents and has been awarded several research grants. He has overseen the approval of five Phase II clinical trials in therapeutic areas ranging from diabetes and Alzheimer's disease, to rheumatoid arthritis. Three of these products have successfully completed Phase II clinical trials.

Mark Robbins, Ph.D., J.D. *(60 years) - Vice President, Clinical and Regulatory Affairs*

Dr. Robbins joined us in December 2012. Dr. Robbins has over 30 years of experience in biopharmaceutical drug development. He developed and successfully implemented regulatory/clinical strategies leading to 11 successful NDA/BLA approvals in various therapeutic areas including endocrine/metabolic, cardiology, neurology, dermatology, and oncology. Dr. Robbins spent 15 years with Upsher-Smith Laboratories, advancing to Executive Vice President, Legal, Scientific and Technical Operations, and Chief Scientific Officer, where he oversaw the clinical and regulatory strategies for several drugs ranging from R&D to manufacturing and Phase I to Phase III. Prior to this, Dr. Robbins was President and COO of Certus International, a Contract Research Organization, overseeing the clinical and regulatory development programs for pharmaceutical and biotechnology companies. Previous to this role, Dr. Robbins spent 13 years at Mallinckrodt Group, Inc., advancing to Director of Medical Affairs. Dr. Robbins is a Diplomate of the American Board of Toxicology and obtained Regulatory Affairs Certification.

Scientific Advisors

The following are members of our Company's Scientific Board of Advisors:

John Amatruda, M.D.

Dr. John Amatruda is a senior pharmaceutical research executive, and the former Senior Vice President and Franchise Head for Diabetes and Obesity at Merck Research Laboratories. Under Dr. Amatruda's leadership, the development program and regulatory approvals of Januvia™ and Janumet™ – the first compounds in the important class of DPP-IV inhibitors for Type 2 diabetes – were initiated and completed. He was also a member of the Research Management Committee and acting Therapeutic Area Head for Cardiovascular Disease while at Merck. More recently, Dr. Amatruda was on the Scientific Advisory Board of Marcadia Biotech Inc., a preclinical stage Type 2 diabetes/obesity company that was acquired by Roche Holding Ltd., of Basel, Switzerland in December, 2010. In addition to his tenure at Merck, Dr. Amatruda started and ran a drug discovery group at Bayer Corp where he served as Vice President and Therapeutic Area Research Head for Metabolic Disorders research, as well as a Professor of Medicine Adjunct at Yale University School of Medicine. He is board certified in internal medicine, endocrinology and metabolism and has a proven track record in academics and pharmaceutical discovery research and development, including several novel candidate compounds, Investigational New Drugs (INDs), translational studies, development programs and four New Drug Applications (NDAs). Dr. Amatruda is an author on over 150 papers, abstracts, reviews and book chapters, primarily in the areas of insulin action in vitro systems and in clinical diabetes and obesity. He graduated from Yale University, received his MD degree from the Medical College of Wisconsin and did his internship and residency in Internal Medicine and Fellowship in Endocrinology and Metabolism at The Johns Hopkins Hospital.

Paul Burn, Ph.D.

Dr. Burn recently retired as the Broin Chair and Director for The Sanford Project, an emerging translational research center focused on identifying and delivering a cure for Type 1 diabetes. He also holds an appointment as Professor of Pediatrics at the Sanford School of Medicine of The University of South Dakota. Prior to the appointment at Sanford Health, Dr. Burn served in the position of Senior Vice President of Research & Development at the Juvenile Diabetes Research Foundation (JDRF). Dr. Burn gained international industry R&D experience as Director of Metabolic Research & Development at Bayer Health Care; at Eli Lilly & Company where he held the position of Director of Endocrine Research & Clinical Investigation; as Vice President of Research & Development at Monsanto/Pharmacia; and at Hoffman-La Roche as the Global Head for the Metabolic Diseases Therapeutic Area and as Vice President of Biotechnology. Dr. Burn's business expertise includes establishing and leading alliances with strategic partners and in- and out-licensing of compounds and projects. In addition, he has facilitated a portfolio of 52 clinical trials, served as a consultant to several major pharmaceutical companies and has streamlined the programs of acquired or merged companies.

Alan Cherrington, Ph.D.

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

Daniel Porte Jr., M.D.

Dr. Porte is Professor of Medicine at the University of California San Diego, Emeritus Professor of Medicine at the University of Washington and past president of the American Diabetes Association. He has served as an advisor to the NIH including service on the National Institute of Diabetes and Digestive and Kidney Diseases council and published extensively over his career. Among his 350+ publications, Dr. Porte is best known for his contributions to our understanding of the regulation of the endocrine pancreas and its role in Type 2 diabetes and obesity, as well as studies of the importance of hyperglycemia to the neuropathic complications of diabetes. Dr. Porte's present interests include the mechanism for the regulation of the alpha cells secretion of glucagon by the central nervous system, in addition to pancreatic beta cell-related hormones and neuropeptides. Further interests extend to the role of insulin in brain function, glucose homeostasis and body weight regulation and the physiology of the incretin hormones in plasma glucose control and diabetes therapy. Dr. Porte received his M.D. from the University of Chicago Medical School (with Honors) and completed his residency at the VA Hospital and UC San Francisco Moffitt Hospital.

3. Family Relationships

There are no family relationships among our directors and executive officers.

4. Other Arrangements

Mr. Dawson Reimer, director, is a consultant to CentreStone Ventures Limited Partnership, a major shareholder of our Company.

B. Compensation

For the year ended December 31, 2013, our directors and members of our administrative, supervisory or management bodies received compensation for services, as follows:

Name and Principal Position	Salary/ Fees earned ($)[2] [6]	Share-based awards ($)[8]	Option-based awards ($)[4]	Non-equity incentive plan compensation [5] ($)	Total ($)
Rick Pauls *President & Chief Executive Officer*[1]	288,428	Nil	120,795	Nil	409,223
Mark Williams *Vice President, Research*	182,328	Nil	90,596	Nil	272,924
Mark Robbins *Vice President, Clinical and Regulatory Affairs*	226,622	Nil	45,298	Nil	271,920
James Parsons *Vice President, Finance*[3]	74,513	Nil	Nil	Nil	74,513
Dennis Kim *Chief Medical Officer*[3]	11,838	Nil	Nil	Nil	11,838
David Allan[7] *Director*	1,500	Nil	Nil	Nil	1,500
Michael Giuffre *Director*	11,750	Nil	26,362	Nil	38,112
Richard Pilnik *Director*	11,750	Nil	26,362	Nil	38,112
Dawson Reimer *Director*	14,000	Nil	26,362	Nil	40,362
Thomas Wellner *Director*	15,750	Nil	26,362	Nil	42,112

Notes:

(1) Mr. Pauls is also a director and did not receive any compensation related to his role as a director.
(2) Salary amounts paid to Mr. Pauls, Dr. Williams and Dr. Robbins have been converted to Canadian dollars at $1 Cdn = U.S. $0.9708.
(3) The salary amounts for Mr. Parsons and Dr. Kim were paid to them as consultants. Mr. Parsons acts in the capacity of the Chief Financial Officer and is the corporate secretary.
(4) The option-based awards value is the grant date fair value of these options calculated in accordance with International Financial Reporting Standards (IFRS) using the Black-Scholes option pricing model.
(5) As of the date of this registration statement, bonuses for 2013 have not been determined.
(6) Fees for Mr. Reimer are paid to CentreStone Ventures Limited Partnership.
(7) David Allan resigned as a director on February 22, 2013.
(8) For each board of directors meeting held in the financial year ended December 31, 2013, we compensated each director as follows: $1,500 per board meeting and $750 per committee meeting attended. Each director also receives an annual retainer of $5,000 and the chair of the audit committee receives an additional annual retainer of $2,500.

Employment Agreements

Effective January 28, 2010, we entered into an employment arrangement with Mr. Pauls pursuant to which he agreed to serve as our President & Chief Executive Officer. The arrangement may be terminated by us without prior notice on payment of a lump sum equal to 12 months of base salary plus applicable bonus with any unvested stock options continuing to vest for a period of six months after termination. In the event of voluntary resignation or termination after a specified change in control, Mr. Pauls is entitled to a payment equal to 18 months of base salary plus applicable bonus with any unvested stock options fully vesting under certain circumstances.

Effective July 1, 2010, we entered into an employment arrangement with Dr. Williams pursuant to which he agreed to serve as our Vice President, Research. The agreement may be terminated by us without prior notice on payment of a lump sum equal to 6 months of base salary. In the event of voluntary resignation or termination after a specified change in control, Dr. Williams is entitled to a payment equal to 9 months of base salary with any unvested stock options vesting immediately.

Effective December 10, 2012, we entered into an employment arrangement with Dr. Robbins pursuant to which he agreed to serve as our Vice President, Clinical and Regulatory Affairs. The agreement may be terminated by us without prior notice on payment of a lump sum equal to 6 months of base salary. In the event of voluntary resignation or termination after a specified change in control, Dr. Robbins is entitled to a payment equal to 9 months of base salary with any unvested stock options vesting immediately.

We employ the services of Mr. Parsons, Vice President, Finance, through a consulting arrangement with an indefinite term.

Stock Option Plan

Our Stock Option Plan is administered by the board of directors with stock options granted to directors, management, employees and consultants as a form of compensation. 7,000,000 common shares were reserved for issuance under the plan. Options granted vest at various rates and have terms of up to 10 years.

The purpose of this Plan is to advance our interests by encouraging the directors, officers and key employees and consultants retained by us to acquire common shares, thereby: (a) increasing the proprietary interests of such persons in us; (b) aligning the interests of such persons with the interests of our shareholders generally; (c) encouraging such persons to remain associated with us; and (d) furnishing such persons with an additional incentive in their efforts on behalf of us.

Our Stock Option Plan has the following terms and conditions:

- stock options may be issued to directors, senior officers, employees, consultants, affiliates or subsidiaries or to employees of companies providing management or administrative services to us;
- our board of directors (or any committee delegated by the board) in its sole discretion will determine the number of options to be granted, the optionees to receive the options, and term of expiry;
- the options will be non-assignable except that they will be exercisable by the personal representative of the option holder in the event of the option holder's death;
- options will be exercisable at a price which is not less than the Discounted Market Price (as defined by the TSX Venture Exchange ("**TSXV**") Policy 1.1);
- options granted to a person who is engaged in investor relations activities will expire within a maximum of 30 days after the optionee ceases to be employed and options granted to all other persons will expire within 120 days from the date the optionee ceases to hold his or her position or office;
- no more than 5% of our issued shares may be granted to any one Participant (not including a consultant or an employee conducting investor relations activities in any 12 month period (unless we have obtained disinterested shareholder approval within the meaning of the TSXV policies);
- no options representing more than 2% of our issued shares may be granted to any one consultant in any 12 month period;

- no options representing more than an aggregate of 2% of our issued shares may be granted to all persons employed in investor relations activities in any 12 month period.
- Insiders may not be granted more than ten percent (10%) of the total number of issued and outstanding common shares within a twelve (12) month period (calculated on a non-diluted basis);
- at no time shall the number of common shares reserved for issuance under stock options granted to insiders exceed 10% of the issued and outstanding common shares;
- the aggregate number of common shares which may be subject to issuance pursuant to options granted under our Stock Option Plan shall not exceed 7,000,000 common shares, and the aggregate number of common shares reserved for issuance under any compensation or incentive mechanism or plan (including deferred share unit plans or employee stock option plans, if any) granted by us, including this Plan, shall not exceed 9,000,000 common shares.
- every option granted under our Stock Option Plan shall be evidenced by a written agreement between us and the optionee;
- any consolidation or subdivision of common shares will be reflected in an adjustment to the stock options;
- any reduction in exercise price of options granted to insiders will be subject to approval of disinterested shareholders.

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

Option-Based Awards

The following table sets forth the outstanding option-based awards for each of our directors and officers as at December 31, 2013:

	Option-based Awards			
Name	Number of securities underlying unexercised options (#)	Option exercise price ($)	Option expiration date	Value of unexercised in-the- money options ($)[1]
Rick Pauls	300,000 550,000 200,000 300,000 200,000	0.42 0.68 1.15 1.70 1.07	June 30, 2015 November 4, 2015 October 6, 2021 February 15, 2022 June 25, 2023	132,000 99,000 Nil Nil Nil
Mark Williams	75,000 75,000 412,500 150,000 150,000 150,000	0.70 0.42 0.68 1.15 1.70 1.07	April 6, 2014 June 29, 2015 November 4, 2015 October 6, 2021 February 15, 2022 June 25, 2023	12,000 33,000 74,250 Nil Nil Nil
Mark Robbins	200,000 75,000	1.25 1.07	December 14, 2022 June 25, 2023	Nil Nil

James Parsons	40,000 100,000 45,000 45,000	0.44 0.68 1.15 1.70	October 20, 2015 November 4, 2015 October 6, 2021 February 15, 2022	16,800 16,000 Nil Nil
Dennis Kim	Nil	n/a	n/a	n/a
Michael Giuffre	37,500 110,000 25,000 25,000 25,000 25,000 25,000 25,000	0.68 1.20 1.44 1.15 1.70 1.66 1.07 0.86	November 4, 2015 April 10, 2016 April 13, 2016 October 6, 2021 May 9, 2022 October 31, 2022 June 25, 2023 November 6, 2023	6,000 Nil Nil Nil Nil Nil Nil Nil
Richard Pilnik	50,000 7,500 12,500 37,500 25,000 25,000 25,000 25,000 25,000 25,000	0.88 0.70 0.42 0.68 1.44 1.15 1.70 1.66 1.07 0.86	January 13, 2014 April 13, 2014 June 29, 2015 November 4, 2015 April 13, 2016 October 6, 2021 May 9, 2022 October 31, 2022 June 25, 2023 November 6, 2023	Nil 1,200 5,500 6,000 Nil Nil Nil Nil Nil Nil
Dawson Reimer	25,000 75,000 25,000 25,000 25,000	1.15 1.70 1.66 1.07 0.86	October 6, 2021 May 9, 2022 October 31, 2022 June 25, 2023 November 6, 2023	Nil Nil Nil Nil Nil
Thomas Wellner	7,500 12,500 37,500 25,000 25,000 25,000 25,000 25,000 25,000	0.70 0.42 0.68 1.44 1.15 1.70 1.66 1.07 0.86	April 13, 2014 June 29, 2015 November 4, 2015 April 13, 2016 October 6, 2021 May 9, 2022 October 31, 2022 June 25, 2023 November 6, 2023	1,200 5,500 6,000 Nil Nil Nil Nil Nil Nil

Notes:

(1) Value was calculated based on the difference between the closing market price of our common shares on the TSXV on December 31, 2013, which was $0.86, and the exercise price of the options, multiplied by the number of options.

Deferred Share Unit Plan

Our shareholders approved the adoption of a deferred share units plan (the "DSU Plan") on September 22, 2011, as amended and restated on October 31, 2012, reserving for issuance up to 2,000,000 common shares under the DSU Plan. The purpose of the DSU Plan is to provide an alternative form of compensation for directors' fees and annual and special bonuses payable to senior officers and directors. A total of 74,556 units were issued for the year ended December 31, 2012 and 74,556 units are issued and outstanding as at December 31, 2013.

Under the terms of the DSU Plan:

- an awardee of DSUs who ceases to be an Eligible Person (defined in the DSU Plan to be any person who is a director or executive officer) for any reason other than as a result of death may elect to receive one common share for each DSU net of applicable withholding tax on or before December 15 of the first calendar year commencing after the date on which the Eligible Person has Terminated Service (defined in the DSU Plan to be that the Eligible Person has ceased to be a director or executive officer, other than as a result of death) and failing such election, will be deemed to have elected to redeem all of his or her DSUs on such deadline;
- in the event of death, we will pay cash to or for the benefit of the legal representative of the Eligible Person equal to the fair market value of the common shares (on the date of death net of any applicable withholding tax) which would be deliverable in respect of the DSUs if the awardee had ceased to be an Eligible Person other than as a result of death;
- DSUs may not be assigned or transferred except to the legal representative of a deceased Eligible Person in the event of death;
- the maximum number of common shares that may be reserved for issuance to any one person pursuant to deferred share units and options granted under the Stock Option Plan will not exceed 5% of the outstanding common shares on a non-diluted basis (the "**Outstanding Issue**") at any time;
- the maximum that may be reserved for issuance to all insiders under all share compensation arrangements, may not exceed 10% of the Outstanding Issue at any time; and
- the maximum that may be issued to all insiders under all share compensation arrangements within a one year period, may not exceed 10% of the Outstanding Issue.

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

Termination and Change of Control Benefits

Except as disclosed above with respect to Rick Pauls and Mark Williams, we have no plans or arrangements in respect of remuneration received or that may be received by our directors and senior management in respect of compensating such person in the event of termination of employment (as a result of resignation, retirement, change of control, etc.) or a change in responsibilities.

Pension, Retirement or Similar Benefits

We have not set aside or accrued any amounts to provide pension, retirement or similar benefit for our directors or senior management.

C. Board Practices

Term of Office

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

Service Contracts

See “Employment Agreements” in Item 6.B. above for particulars of Rick Paul’s service contracts with us and our subsidiaries, as applicable. Other than as disclosed herein, we do not have any service contracts with directors which provide for benefits upon termination of employment.

Committees

We have an Audit Committee and a Governance and Compensation Committee.

Audit Committee

Our audit committee members are Mr. Dawson Reimer and Mr. Thomas Wellner each of whom is a non-employee member of our board of directors. Mr. Wellner chairs the audit committee. Our board of directors has determined that each of the members of the audit committee is financially literate and has sufficient financial expertise. Our board of directors has determined that each member of our audit committee is independent within the meaning of such term in the rules of NASDAQ, the SEC and Canadian provincial securities regulatory authorities. The audit committee has responsibility for oversight of the nature and scope of the annual audit, management's reporting on internal accounting standards, practices and controls, financial information and accounting systems and procedures, financial reporting and statements and recommending, for board approval, the audited financial statements and other mandatory disclosure releases containing financial information.

The objectives of the audit committee are to:

- assist directors in meeting their responsibilities in respect of the preparation and disclosure of the financial statements and related matters;
- provide effective communication between directors and external auditors;
- enhance the external auditors’ independence; and
- increase the credibility and objectivity of financial reports.

The principal responsibilities of the audit committee include:

- overseeing the work of the external auditors, including resolution of disagreements between management and the external auditors regarding financial reporting;
- overseeing the quality, integrity and appropriateness of the internal controls and accounting procedures, including reviewing the our procedures for internal control with our auditors and Chief Financial Officer;
- reviewing the quality and integrity of our internal and external reporting processes, our annual and quarterly financial statements and related management discussion and analysis, and all other material continuous disclosure documents;
- establishing separate reviews with management and external auditors of significant changes in procedures or financial and accounting practices, difficulties encountered during auditing, and significant judgments made in management's preparation of financial statements;
- monitoring compliance with legal and regulatory requirements related to financial reporting;
- reviewing and pre-approving the engagement of our auditor and independent auditor fees;
- reviewing our risk management policies and procedures; and
- reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial statements.

A copy of our audit committee's charter is available on our website at www.diamedica.com.

Governance and Compensation Committee

Our governance and compensation committee members are Dr. Michael Guiffre, Mr. Richard Pilnik and Mr. Thomas Wellner. Mr. Wellner currently chairs the committee. Our board of directors has determined that each member of our governance and compensation committee is independent within the meaning of such term in the rules of NASDAQ and Canadian provincial securities regulatory authorities. The principal responsibilities of the committee include:

- Evaluating the performance and setting the compensation level of the CEO, with regard to the achievement of corporate goals and objectives;
- Reviewing and making recommendations to the board of directors regarding compensation policies and forms of compensation provided to the directors and officers;
- Reviewing and making recommendations to the Chief Executive Officer regarding the compensation level, share-based compensation and bonuses for officers other than the Chief Executive Officer;
- Reviewing and determining cash and share-based compensation for the board of directors;
- Administering our equity incentive plans in accordance with the terms thereof;
- Reviewing and making recommendations on such other matters that are specifically delegated to the compensation committee by our board of directors, from time to time;
- assessing the effectiveness of the board of directors as a whole, the committees of the board of directors and the contributions of individual directors;
- recruiting and nominating new members to the board of directors and planning for the succession of directors; and
- the orientation and education of all new recruits to the board of directors.

A copy of our governance and compensation committee's charter is available on our website at www.diamedica.com.

D. Employees

As of January 21, 2014, we had five full-time employees and one part-time employee, all located at our head office in Minneapolis, MN.

We use consultants and contractors to carry on many of our activities, including pre-clinical testing and validation, formulation, assay development, manufacturing and clinical trials. In addition, our Vice President, Finance is a part-time consultant.

E. Share Ownership

As of January 21, 2014, our directors and senior management beneficially owned the following common shares and deferred share units of our Company:

Name and Office Held	Number of Common Shares	% of Class [1]	Number of Deferred Share Units[3]
Rick Pauls *President & Chief Executive Officer*	129,100	0.22%	34,985
Mark Williams *Vice President, Research*	100,000	0.17%	12,450
Mark Robbins *Vice President, Clinical and Regulatory Affairs*	17,000	0.03%	Nil
James Parsons *Vice President, Finance*	10,000	0.02%	Nil
Dennis Kim *Chief Medical Officer*	Nil	n/a	Nil
Michael Giuffre [2] *Director*	661,300	1.13%	5,924
Richard Pilnik *Director*	50,000	0.09%	7,767
Dawson Reimer *Director*	80,246	0.14%	Nil
Thomas Wellner *Director*	43,000	0.07%	7,649

Notes:

1. Based on 58,809,095 common shares issued and outstanding as at January 21, 2014.
2. Total of direct, indirect and other holdings where Dr. Giuffre exercises control or direction.
3. Deferred share units are redeemable on a one-for-one basis for Common Shares only after termination of service with the Company.

We are authorized to issue an unlimited number of common shares without par value. As at January 21, 2014, 58,809,095 common shares were issued and outstanding, and 5,649,254 common share purchase warrants were outstanding at a weighted average exercise price of $1.18.

As at January 21, 2014, we had 4,968,000 stock options outstanding to purchase common shares. The terms and conditions of such stock options are contained in the Stock Option Plan. A summary of the some of the relevant parts of the Stock Option Plan are below under the heading "*Stock Option Plan*". A copy of the Stock Option Plan is filed as an exhibit to this registration statement, and the description of the Stock Option Plan contained in this registration statement is qualified by reference to the full text of the Stock Option Plan filed as an exhibit to this registration statement. See Item 6.B. for details of stock option holdings by directors and officers of our Company.

As at January 21, 2014, we had issued 74,556 deferred share units. The terms and conditions of such deferred share units are contained in the DSU Plan. A summary of the some of the relevant parts of the DSU Plan are below under the heading "*Deferred Share Units Plan*". A copy of the DSU Plan is filed as an exhibit to this registration statement, and the description of the DSU Plan contained in this registration statement is qualified by reference to the full text of the DSU Plan filed as an exhibit to this registration statement.

Common Shares

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

Shareholder Rights Plan

On September 22, 2011 our shareholders adopted a shareholders rights plan (the "**Rights Plan**"). The Rights Plan was not adopted in response to any proposal to acquire us.

Purpose of Rights Plan

The primary objective of the Rights Plan is to ensure that all of our shareholders are treated fairly in connection with any take-over bid by (a) providing shareholders with adequate time to properly assess a take-over bid without undue pressure and (b) providing our board of directors with more time to fully consider an unsolicited take-over bid, and, if applicable, to explore other alternatives to maximize shareholder value.

Summary of Rights Plan

The following description of the Rights Plan is a summary only. Reference is made to full text of the Rights Plan.

Issue of Rights

The Corporation issued one right (a "**Right**") in respect of each Common Share outstanding at the close of business on the Effective Date, as defined in the Rights Plan (the "**Record Time**"). We will issue Rights on the same basis for each common share issued after the Record Time but prior to the earlier of the Separation Time and the Expiration Time (both defined below).

The Rights

Each Right will entitle the holder, subject to the terms and conditions of the Rights Plan, to purchase additional common shares after the Separation Time.

Rights Certificates and Transferability

Before the Separation Time, the Rights will be evidenced by certificates for the common shares, and are not transferable separately from the common shares. From and after the Separation Time, the Rights will be evidenced by separate Rights Certificates, which will be transferable separately from and independent of the common shares.

Exercise of Rights

The Rights are not exercisable before the Separation Time. After the Separation Time and before the Expiration Time, each Right entitles the holder to acquire one Common Share for the exercise price of five (5) times the Market Price at the Separation Time (as calculated pursuant to the Rights Plan) (subject to certain anti-dilution adjustments). Upon the occurrence of a Flip-In Event (defined below) prior to the Expiration Time (defined below), each Right (other than any Right held by an "Acquiring Person", which will become null and void as a result of such Flip-In Event) may be exercised to purchase that number of common shares which have an aggregate market price equal to twice the exercise price of the Rights for a price equal to the exercise price (subject to adjustment). Effectively, this means a shareholder (other than the Acquiring Person) can acquire additional common shares from treasury at half their market price.

Definition of "Acquiring Person"

Subject to certain exceptions, an Acquiring Person is a person who becomes the Beneficial Owner (defined below) of 20% or more of the outstanding common shares.

Definition of "Beneficial Ownership"

A person is a Beneficial Owner of securities if such person or its affiliates or associates or any other person acting jointly or in concert with such person, owns the securities in law or equity, and has the right to acquire (immediately or within 60 days) the securities upon the exercise of any convertible securities or pursuant to any agreement, arrangement or understanding.

However, a person is not a Beneficial Owner under the Rights Plan where:

(a) the securities have been deposited or tendered pursuant to a tender or exchange offer or takeover bid, unless those securities have been taken up or paid for;

(b) such person has agreed to deposit or tender the securities to a take-over bid pursuant to a permitted lock-up agreement;

(c) such person (including a mutual fund or investment fund manager, trust company, pension fund administrator, trustee or non-discretionary client accounts of registered brokers or dealers) is engaged in the management of mutual funds, investment funds or public assets for others, as long as that person:

a. holds those Common Shares in the ordinary course of its business for the account of others;

b. is not making a take-over bid or acting jointly or in concert with a person who is making a take- over bid; or

c. such person is a registered holder of securities as a result of carrying on the business of or acting as a nominee of a securities depository.

(d) such person is the registered holder of securities as a result of carrying on the business of a securities depositary or as a result of being a nominee holder of such securities.

Definition of "Separation Time"

Separation Time occurs on the tenth trading day after the earlier of:

(a) the first date of public announcement that a person has become an Acquiring Person;

(b) the date of the commencement or announcement of the intent of a person to commence a takeover bid (other than a Permitted Bid or Competing Permitted Bid); and

(c) the date on which a Permitted Bid or Competing Permitted Bid ceases to qualify as such;

or such later date as determined by the Board.

Definition of "Expiration Time"

Expiration Time occurs on the date being the earlier of:

(a) the time at which the right to exercise Rights is terminated under the terms of the Rights Plan; and

(b) immediately after our annual meeting of shareholders to be held in 2014 unless at such meeting the duration of the Rights Plan is extended.

Provided that the Expiration Time shall not occur if a Flip-in Event has occurred (other than a Flip-in Event which has been waived pursuant to Section 6.1 of the Rights Plan) prior to the date upon which the Expiration Time would otherwise have occurred.

Definition of a "Flip-In Event"

A Flip-In Event occurs when a person becomes an Acquiring Person. Upon the occurrence of a Flip-In Event, any Rights that are beneficially owned by an Acquiring Person, or any of its related parties to whom the Acquiring Person has transferred its Rights, will become null and void and, as a result, the Acquiring Person's investment in the Corporation will be greatly diluted if a substantial portion of the Rights are exercised after a Flip-In Event occurs.

Definition of "Permitted Bid"

A Permitted Bid is a take-over bid made by a person (the "**Offeror**") pursuant to a take-over bid circular that complies with the following conditions:

(a) the bid is made to all registered holders of common shares (other than the Offeror);

(b) the Offeror agrees that no common shares will be taken up or paid for under the bid for at least 60 days following the commencement of the bid and that no common shares will be taken up or paid for unless at such date more than 50% of the outstanding common shares held by Shareholders, other than the Offeror and certain related parties, have been deposited pursuant to the bid and not withdrawn;

(c) the Offeror agrees that the common shares may be deposited to and withdrawn from the takeover bid at any time before such common shares are taken up and paid for; and

(d) if, on the date specified for take-up and payment, the condition in paragraph (b) above is satisfied, the Offeror will make a public announcement of that fact and the bid will remain open for an additional period of at least 10 business days to permit the remaining Shareholders to tender their Common Shares.

Definition of "Competing Permitted Bid"

A Competing Permitted Bid is a take-over bid that:

(a) is made while another Permitted Bid or Competing Permitted Bid has been made and prior to the expiry of that Permitted Bid or Competing Permitted Bid;

(b) satisfies all the requirements of a Permitted Bid other than the requirement that no common shares will be taken up or paid for under the bid for at least 60 days following the commencement of the bid and that no common shares will be taken up or paid for unless at such date more than 50% of the outstanding common shares held by Shareholders, other than the Offeror and certain related parties, have been deposited pursuant to the bid and not withdrawn; and

(c) contains the conditions that no Common Shares be taken up or paid for pursuant to the Competing Permitted Bid (x) prior to the close of business on a date that is not earlier than the later of (1) the earliest date on which common shares may be taken up and paid for under any prior bid in existence at the date of such Competing Permitted Bid, and (2) 35 days after the date of such Competing Permitted Bid, and (y) unless, at the time that such common shares are first taken up or paid for, more than 50% of the then outstanding common shares held by Shareholders, other than the Offeror and certain related parties, have been deposited pursuant to the Competing Permitted Bid and not withdrawn.

Redemption of Rights

Subject to the prior consent of the holders of common shares or Rights, all (but not less than all) of the Rights may be redeemed by us with at the direction of our board of directors with the prior approval of the Shareholders at any time before a Flip-In Event occurs at a redemption price of $0.0001 per Right (subject to adjustment). In addition, in the event of a successful Permitted Bid, Competing Permitted Bid or a bid for which our board has waived the operation of the Rights Plan, we will immediately upon such acquisition and without further formality, redeem the Rights at the redemption price. If the Rights are redeemed pursuant to the Rights Plan, the right to exercise the Rights will, without further action and without notice, terminate and the only right thereafter of the Rights holders is to receive the redemption price.

Waiver

Before a Flip-In Event occurs, our board of directors may waive the application of the "Flip-In" provisions of the Rights Plan to any prospective Flip-In Event which would occur by reason of a take-over bid made by a take-over bid circular to all registered holders of common shares. However, if our board of directors waives the Rights Plan with respect to a particular bid, it will be deemed to have waived the Rights Plan with respect to any other take-over bid made by take-over bid circular to all registered holders of common shares before the expiry of that first bid.

Our board of directors may also waive the "Flip-In" provisions of the Rights Plan in respect of any Flip-In Event provided that our board of directors has determined that the Acquiring Person became an Acquiring Person through inadvertence and has reduced its ownership to such a level that it is no longer an Acquiring Person.

Term of the Rights Plan

Unless otherwise terminated, the Rights Plan will expire at the Expiration Time (defined above), provided that the Rights Plan will not expire if a Flip-in Event has occurred and has not been waived prior to the date upon which the Rights Plan would otherwise expire.

Amending Power

Except for amendments to correct clerical or typographical errors and amendments to maintain the validity of the Rights Plan as a result of a change of applicable legislation or applicable rules or policies of securities regulatory authorities, Shareholder (other than the Offeror and certain related parties) or Rights holder majority approval is required for supplements or amendments to the Rights Plan. In addition, any supplement or amendment to the Rights Plan will require the written concurrence of the Rights Agent and prior written consent of the TSXV.

Rights Agent

The Rights Agent under the Rights Plan is CST Trust Company (formerly CIBC Mellon Trust Company).

Rights Holder not a Shareholder

Until a Right is exercised, the holders thereof as such, will have no rights as a Shareholder of the Corporation.

In accordance with the policies of the TSXV, the Rights Plan must be approved by a majority of the votes cast at the Meeting within six months of the adoption by the Board of the Rights Plan.

Stock Option Plan and Deferred Share Units Plan

See Item 6.B. for a description of the Stock Option Plan and DSU Plan.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

To our knowledge, the only shareholder with greater than 5% or more of our outstanding common shares is CentreStone Ventures Limited Partnership, which, as of January 21, 2014, held 11,973,973 common shares, per CentreStone, or 20.4% of the issued and outstanding common shares. There has not been any significant change in this ownership level in the past three years. All shareholders have the same voting rights. Mr. Dawson Reimer, a director of our Company, is a consultant to CentreStone.

As of January 21, approximately •% of common shares were held by shareholders in the United States and there were no registered shareholders in the United States.

B. Related Party Transactions

Other than as disclosed in this registration statement and other than in the ordinary course of business, since the beginning of our preceding three financial years, there have been no transactions or loans between our Company and:

(a) enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, our Company;

(b) associates, meaning unconsolidated enterprises in which we have a significant influence or which have significant influence over our Company;

(c) individuals owning, directly or indirectly, an interest in the voting power of our Company that gives them significant influence over our Company, and close members of any such individual's family;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of our Company, including directors and senior management of our Company and close members of such individuals' families; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence, including enterprises owned by directors or major shareholders of our Company and enterprises that have a member of key management in common with our Company.

For the years ended December 31, 2011 and 2010, we incurred manufacturing services in the amounts of $169,642 and $270,183, respectively, from Therapure Biopharma Inc., of which a member of our board of directors was the Chief Executive Officer.

During the year ended December 31, 2010, we incurred expenses totaling $187,212 for laboratory rent and consulting fees payable to Genesys Venture Inc., which provided management services to us which ceased effective October 15, 2010.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

On June 30, 2010, we acquired all the outstanding shares of Sanomune Inc., a private biotechnology company developing treatments for diabetes, neurological, and autoimmune indications. At the time of the acquisition, Sanomune and DiaMedica had common shareholders which had significant influence due to their shareholderings. CentreStone Ventures Limited Partnership owned 59.79% of Sanomune Inc. shares and 22.47% of our shares immediately prior to the acquisition. Genesys Ventures Inc., which shares senior management with CentreStone Ventures Limited Partnership, owned 10.68% of Sanomune Inc. shares and 6.13% of our shares immediately prior to the acquisition.

Compensation

For information regarding compensation for our directors and senior management, see Item 6.B. Compensation.

C. Interests of Experts and Counsel

Not Applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Our financial statements are stated in Canadian dollars and are prepared in accordance with IFRS, as issued by the IASB. The following financial statements and notes thereto are filed with and incorporated herein as part of this registration statement:

(a) unaudited condensed consolidated interim financial statements as at September 30, 2013 and for the nine months ended September 30, 2013 and 2012, including: condensed consolidated interim statements of financial position, condensed consolidated interim statements of loss and comprehensive loss, condensed consolidated interim statements of changes in equity, condensed consolidated interim statements of cash flows, and notes to the condensed consolidated interim financial statements; and

(b) audited consolidated financial statements for the years ended December 31, 2012, 2011 and 2010, including: iconsolidated statements of financial position, consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity, consolidated statements of cash flows, and notes to the consolidated financial statements.

These financial statements can be found under “Item 17. Financial Statements” below.

Export Sales

We have no sales.

Legal Proceedings

To the best of our knowledge, there have not been any legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings, those involving any third party, and governmental proceedings pending or known to be contemplated, which may have, or have had in the recent past, significant effect our financial position or profitability.

Also, to the best of our knowledge, there have been no material proceedings in which any director, any member of senior management, or any of our affiliates is either a party adverse to the Company or its subsidiaries or has a material interest adverse to the Company or its subsidiaries.

Policy on Dividend Distributions

We have not declared any dividends since our inception and do not anticipate that we will do so in the foreseeable future. We currently intend to retain future earnings, if any, to finance the development of our business. Any future payment of dividends or distributions will be determined by our board of directors on the basis of our earnings, financial requirements and other relevant factors.

B. Significant Changes

We are not aware of any significant change that has occurred since September 30, 2013 included in this registration statement and that have not been disclosed elsewhere in this registration statement.

ITEM 9. THE OFFER AND LISTING

Not Applicable.

A. Offer and Listing Details

Price History

Full Financial Years (five most recent full financial years)

We were listed on the TSX Venture Exchange in March 2007. The annual high and low market prices of our common shares for the five most recent full financial years on the TSXV were as follows:

Year ended	TSXV in $ Canadian	
	High	Low
December 31, 2013	1.49	0.75
December 31, 2012	2.23	0.86
December 31, 2011	1.75	0.73
December 31, 2010	0.98	0.34
December 31, 2009	1.10	0.35

Full Financial Quarters (two most recent full financial years)

The high and low market prices of our common shares for each full financial quarter for the two most recent full financial years on the TSXV were as follows:

Quarter ended	TSXV in $ Canadian	
	High	Low
December 31, 2013	1.27	0.77
September 30, 2013	1.49	0.89
June 30, 2013	1.38	0.75
March 31, 2013	1.34	0.81
December 31, 2012	1.95	0.86
September 30, 2012	2.23	1.66
June 30, 2012	1.97	1.32
March 31, 2012	1.91	1.30

Most Recent 6 Months

The high and low market prices of our common shares for each month for the most recent six months on the TSXV were as follows:

Month ended	TSXV in $ Canadian	
	High	Low
January 1 - 20, 2014	0.95	0.82
December 31, 2013	0.96	0.82
November 30, 2013	1.00	0.77
October 31, 2013	1.27	0.86
September 30, 2013	1.49	1.25
August 31, 2013	1.35	1.01
July 31, 2013	1.06	0.89

Transfers of Common Shares

Our common shares are in registered form and the transfer of our common shares is managed by our transfer agent in Canada, CST Trust Company, 600 The Dome Tower, 333 - 7th Avenue SW, Calgary, AB T2P 2Z1 (Tel: (800) 387-0825).

B. Plan of Distribution

Not Applicable.

C. Markets

Our common shares are traded on the TSXV under the symbol "DMA".

We currently plan to apply to have our common shares traded on the NASDAQ Capital Market upon the effectiveness of the registration statement. We cannot provide our investors with any assurance that our common shares will be listed on the NASDAQ Capital Market, or, if traded, that a public market in the United States will materialize. If our common shares are not quoted on the NASDAQ Capital Market then investors in the United States may have difficulty reselling our common shares.

D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Our authorized share capital consists of an unlimited number of common shares, without par value.

Common Shares

We are authorized to issue an unlimited number of common shares, without par value. As at September 30, 2013, there were 55,740,685 common shares issued and outstanding. As at January 21, 2014, there were 58,809,095 common shares issued and outstanding.

Common shareholders are entitled to receive dividends as declared at our discretion and are entitled to one vote per share at the annual general meeting.

Warrants

As at December 31, 2013, we had the following outstanding warrants to purchase our common shares:

Number Outstanding	Exercise Price	Expiry Date
342,857	$0.90	March 22, 2014
1,055,600	$1.60	May 8, 2014
2,546,487	$1.10	March 22, 2016
173,335	$0.90	December 23, 2014
1,444,455	$1.10	December 23, 2015
Total: 5,562,734		

As at January 21, 2014, we had the following outstanding warrants to purchase our common shares:

Number Outstanding	Exercise Price	Expiry Date
342,857	$0.90	March 22, 2014
1,055,600	$1.60	May 8, 2014
2,546,487	$1.10	March 22, 2016
173,335	$0.90	December 23, 2014
1,521,705	$1.10	December 23, 2015
9,270	$1.10	January 3, 2015
Total: 5,649,254		

Stock Options

As at December 31, 2013 we had the following outstanding stock options to purchase our common shares:

Number Outstanding	Number Exercisable	Exercise Price	Expiry Date
50,000	50,000	$0.88	January 13, 2014
90,000	90,000	$0.70	April 6, 2014
15,000	15,000	$0.75	April 23, 2014
107,500	107,500	$0.42	June 29, 2015
300,000	300,000	$0.42	June 30, 2015
40,000	40,000	$0.44	October 20, 2015
1,372,500	1,372,500	$0.68	November 4, 2015
20,000	18,334	$1.26	February 11, 2016
110,000	110,000	$1.20	April 10, 2016
75,000	62,499	$1.44	April 13, 2016
250,000	250,000	$1.10	September 29, 2015
645,000	430,001	$1.15	October 6, 2021
495,000	288,751	$1.70	February 15, 2022
150,000	75,000	$1.70	May 9, 2022
50,000	50,000	$1.70	May 9, 2016
100,000	33,332	$1.66	October 31, 2022
200,000	66,667	$1.25	December 14, 2022
848,000	308,001	$1.07	June 25, 2023
100,000	0	$0.86	November 6, 2023
Total: 5,018,000	Total: 3,667,585		

As at January 21, 2014, we had the following outstanding stock options to purchase our common shares:

Number Outstanding	Number Exercisable	Exercise Price	Expiry Date
90,000	90,000	$0.70	April 6, 2014
15,000	15,000	$0.75	April 23, 2014
107,500	107,500	$0.42	June 29, 2015
300,000	300,000	$0.42	June 30, 2015
40,000	40,000	$0.44	October 20, 2015
1,372,500	1,372,500	$0.68	November 4, 2015
20,000	18,334	$1.26	February 11, 2016
110,000	110,000	$1.20	April 10, 2016
75,000	68,751	$1.44	April 13, 2016
250,000	250,000	$1.10	September 29, 2015
645,000	483,750	$1.15	October 6, 2021
495,000	288,751	$1.70	February 15, 2022
150,000	75,000	$1.70	May 9, 2022
50,000	50,000	$1.70	May 9, 2016
100,000	33,332	$1.66	October 31, 2022
200,000	66,667	$1.25	December 14, 2022
848,000	308,001	$1.07	June 25, 2023
100,000	0	$0.86	November 6, 2023
Total: 4,968,000	Total: 3,677,586		

Deferred Share Units

As at December 31, 2013**,** we had 74,556 issued and outstanding deferred share units which are convertible into common shares.

As at January 21, we had 74,556 issued and outstanding deferred share units which are convertible into common shares.

Other Convertible Obligations or Other Outstanding Equity-Linked Securities, or Subscription Rights

We have no convertible obligations or other outstanding equity-linked securities, or subscription rights that have been granted.

Issuances of Common Shares

Common shares issued – for the year ended December 31, 2013

On March 22, 2013, we completed a prospectus offering of 5,111,175 units at a price of $0.90 per unit, for aggregate gross proceeds of $4,600,058 ($3,949,127 net of issuance costs). Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.10 at any time prior to expiry on March 22, 2016. The warrant expiry date can be accelerated at our option in the event that the volume-weighted average trading price of our common shares exceeds $1.60 per common share for any 10 consecutive trading days. In connection with the financing, we issued 357,782 compensation warrants. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.90 prior to expiry on March 22, 2014.

The $0.90 unit issue price was allocated to common shares in the amount of $0.79 per common share and the unit warrants were allocated a price of $0.11 per half-warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $3,466,456 was allocated to common shares and $482,671 to the unit warrants, net of issue costs. Assumptions used to determine the value of the unit warrants were: dividend yield 0%; risk-free interest rate 1.1%; expected volatility 69%; and average expected life of 36 months. Assumptions used to determine the value of the compensation warrants were: dividend yield 0%; risk-free interest rate 1.0%; expected volatility 63%, respectively; and average expected life of 12 months.

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

During the year ended December 31, 2013, 96,042 common shares were issued on the exercise of stock options for gross proceeds of $63,750 and 24,025 common shares were issued on the exercise of warrants for gross proceeds of $23,442. We amended the exercise price of the 1,055,600 outstanding warrants that were issued in May 2012 in connection with an earlier exercise incentive program from an exercise price of $2.50 to an exercise price of $1.60.

Subsequent to the year-end on January 3, 2014, we completed a non-brokered private placement of 154,500 units at a price of $0.90 per unit, for aggregate gross proceeds of $139,050. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.10 at any time prior to expiry on December 23, 2015. The warrant expiry date can be accelerated at our option in the event that the volume-weighted average trading price of our common shares exceeds $1.60 per common share for any 10 consecutive trading days. A finder's fee equal to 6% cash and 6% warrants of the aggregate gross proceeds raised under the private placement may be payable to persons arm's length to us at our discretion in connection with introducing subscribers to the offering.

Common shares issued – for the year ended December 31, 2012

On May 8, 2012, we completed an incentive program to encourage the early exercise of the $1.50 warrants that were previously issued in connection with our short form prospectus offering in July 2011 (the "Original Warrants"). We amended the terms of the Original Warrants to enable the holders thereof to receive a Unit in lieu of a common share of DiaMedica on the exercise of their Original Warrants prior to the May 8, 2012 incentive expiry date. Each Unit consisted of one common share in the capital stock of DiaMedica and one-half of one warrant (each whole warrant, a "New Warrant"). Each New Warrant entitled the holder thereof to acquire a common share in DiaMedica at a price of $2.50 per share for 24 months following the date of issue of the Unit. On May 8, 2012, 2,111,200 common shares were issued on the exercise of $1.50 warrants for gross proceeds of $3,166,800 ($3,150,781 net of issuance costs) under the incentive program, and accordingly, 1,055,600 New Warrants, with a total grant date fair value of $277,000, were issued with an exercise price of $2.50. Assumptions used in an option pricing model to determine the value of the New Warrants were: dividend yield 0%; risk-free interest rate 1.2%; expected volatility 74%; and expected life of 2 years.

In the event the volume-weighted average trading price of our common shares exceeds $3.00 per share for a period of 10 consecutive trading days, we may, at our option, accelerate the New Warrant Expiry Date by delivery of notice to the holders of New Warrants and issuing a press release announcing such acceleration and, in such case, the New Warrant Expiry Date shall be deemed to be the 30th day following the later of: (i) the date on which the Warrant Acceleration Notice is sent to Warrant holders; and (ii) the date of issuance of the Warrant Acceleration Press Release.

On August 3, 2012, the ten-day volume-weighted average trading price of our common shares exceeded $2.00 per common share and we provided notice to the $1.50 Original Warrant holders that the expiry date of these warrants had been accelerated to September 7, 2012. In the third quarter, 1,189,300 warrants were exercised for gross proceeds of $1,706,324 and the remaining 115,000 warrants expired.

During the year ended December 31, 2012, 273,000 common shares were issued on the exercise of stock options for gross proceeds of $281,400.

Common shares issued – for the year ended December 31, 2011

On July 22, 2011, we completed a prospectus offering of 3,105,000 Units at a price of $1.25 per Unit, for aggregate gross proceeds of $3,881,250 ($3,178,383 net of issuance costs). Each Unit consisted of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitled the holder to purchase one common share at a price of $1.50 at any time prior to expiry on July 22, 2013. The Warrant expiry date could be accelerated at our option, in the event that the volume-weighted average trading price of our common shares exceeds $2.00 per common share for any 10 consecutive trading days. In connection with the financing, we issued 310,500 Compensation Warrants having an aggregate fair value of $65,205 estimated using an option pricing model. Each Compensation Warrant entitles the holder to acquire one common share at an exercise price of $1.25 prior to expiry on July 22, 2012.

The $1.25 unit issue price was allocated to common shares in the amount of $0.99 per share and the Warrants were allocated a price of $0.26 per Warrant. The costs of the issue were allocated on a pro rata basis to the common shares and Warrants. Accordingly, $2,517,279 was allocated to common shares and $661,104 to Warrants, net of issue costs. Assumptions used to determine the value of the Warrants and the Compensation Warrants were: dividend yield 0%; risk-free interest rate 1.5%; expected volatility 89% and 76%, respectively; and average expected life of 24 and 12 months, respectively.

During the year ended December 31, 2011, 540,000 common shares were issued on the exercise of warrants for gross proceeds of $216,000.

B. Articles of Incorporation

Incorporation
We are incorporated under *The Corporations Act* (Manitoba). Our Manitoba corporation number is 4135955 and our business number is 866422173.

Objects and Purposes of Our Company
Our articles of incorporation do not contain and are not required to contain a description of our objects and purposes. There is no restriction contained in our articles of incorporation on the business that the we may carry on.

Voting on Certain Proposal, Arrangement, Contract or Compensation by Directors
Other than as disclosed below, neither our articles nor our corporate by-laws restrict directors' power to (a) vote on a proposal, arrangement or contract in which the directors are materially interested or (b) to vote compensation to themselves or any other members of their body in the absence of an independent quorum.

Our corporate by-laws provide that a director shall not be disqualified by reason of such director's office from contracting with us or one of our subsidiaries. Subject to the provisions of *The Corporations Act*, our directors shall not by reason only of such director's office be accountable to the Corporation or its shareholders for any profit or gain realized from a contract or transaction in which such director has an interest. Such contract or transaction shall not be voidable by reason only of such interest, or by reason only of the presence of such director so interested at a meeting, or by reason only of such director's presence being counted in determining a quorum at a meeting of the directors at which such a contract or transaction is approved, provided that a declaration and disclosure of such interest shall have been made at the time and in the manner prescribed by section 115 of *The Corporations Act*, and the director so interested shall have refrained from voting as a director on the resolution approving the contract or transaction (except as permitted by *The Corporations Act*) and such contract shall have been reasonable and fair to us and shall be approved by our directors or shareholders as required by section 115 of *The Corporations Act.*

The Corporations Act (Manitoba) provides that a director who holds a disclosable interest in a contract or transaction into which we have entered or propose to enter may vote on any resolution to approve the contract if the contract is: (i) an arrangement by way of security for money lent to or obligations undertaken by such director for our benefit or to benefit one of our affiliates; or (ii) a contract relating primarily to such directors remuneration as one of our directors, officers, employees or agents or one of our affiliates; (iii) a contract for indemnity or insurance for the benefit of such director in his/her capacity as a director; (iv) a contract with one of our affiliates; or (v) other than a contract referred to in clauses (i) to (iv) referred to above provided that a directors resolution shall not be valid unless it is approved by not less than 2/3 of the votes of all our shareholders to whom notice of the nature and extent of such director's interest in the contract or transaction are declared and disclosed in reasonable detail. A director who holds a disclosable interest in a contract or transaction into which we have entered or propose to enter and who is present at the meeting of directors at which the contract or transaction is considered for approval may be counted in the quorum at the meeting. A director or senior officer generally holds a disclosable interest in a contract or transaction if (a) the contract or transaction is material to us; (b) we have entered, or proposed to enter, into the contract or transaction, and (c) either (i) the director or senior officer has a material interest in the contract or transaction or (ii) the director or senior officer is a director or senior officer of, or has a material interest in, a person who has a material interest in the contract or transaction.

Borrowing Powers of Directors

Our corporate by-laws provide that we, if authorized by our directors, may:

- borrow money upon our credit;
- issue, reissue, sell or pledge debt obligations, including bonds, debentures, notes or other evidences of indebtedness or guarantees, whether secured or unsecured;
- give a guarantee on our behalf to secure performance of an obligation of any person; and
- mortgage, hypothecate, pledge or otherwise create a security interest in all or any of our property, owned or subsequently acquired, to secure any of our obligations.

Amendment to the borrowing powers described above requires an amendment to our corporate by-laws. Our corporate by-laws do not contained any provisions in connection with amending the by-laws. *The Corporations Act* (Manitoba) does provide that our board of directors may by resolution, make, amend or repeal any by-laws that regulate our business and affairs and that the board of directors will submit such by-law, amendment or repeal to our shareholders at the next meeting of shareholders and the shareholders may, by ordinary resolution, confirm, reject or amend the by-law, amendment or repeal.

Qualifications of Directors

Under our articles and corporate by-laws, a director is not required to hold a share in the capital of the Company as qualification for his or her office but must be qualified as required by *The Corporations Act* (Manitoba) to become, act or continue to act as a director. *The Corporations Act* provides that the following persons are disqualified from being a director of a corporation: (i) anyone who is less than 18 years of age; (ii) a person who is not an individual; and (iii) a person who has the status of a bankrupt.

Share Rights

See "Share Capital" above for a summary of our authorized capital and the rights attached to our common shares.

Procedures to Change the Rights of Shareholders
Rights of our shareholders are contained in our articles of incorporation. In order to change such rights, our articles of incorporation would have to be amended. *The Corporations Act* (Manitoba) provides for how our are articles may be amended. Generally, it requires a resolution passed by a majority of not less than two-thirds of the votes cast by the shareholders entitled to vote thereon. In addition, if we resolve to make particular types of amendments to our articles, a holder of our shares may dissent to such resolution and if such shareholder so elected, we would have to pay such shareholder the fair value for such shares as of the close of business on the day before the resolution was adopted or the order was made. The types of amendments that would be subject to dissent rights include: (i) to add, change or remove any provisions restricting or constraining the issue or transfer of shares; and (ii) to add, change or remove any restriction upon the business or businesses that we may carry-on.

Meetings
Each director holds office until our next annual general meeting or until his office is earlier vacated in accordance with our articles or with the provisions of *The Corporations Act* (Manitoba). A director appointed or elected to fill a vacancy on our board also holds office until our next annual general meeting.

Our articles provide that our annual meetings of shareholders must be held at such time in each calendar year and not more than 15 months after the last annual general meeting and shall be at such place within Canada as the board of directors may determine. Our directors may, at any time, call a meeting of our shareholders.

Our corporate by-laws provide that shareholders may requisition a special meeting in accordance with *The Corporations Act* (Manitoba). *The Corporations Act* (Manitoba) provides that the holders of not less than five percent of our issued shares that carry the right to vote at a meeting may requisition our directors to call a special meeting of shareholders for the purposes stated in the requisition.

Under our corporate by-laws, the quorum for the transaction of business at a meeting of our shareholders is one or more persons, present in person or by proxy and holding in all not less than 10% of the issued capital of our Company carrying voting rights.

Limitations on Ownership of Securities
Except as provided in the *Investment Canada Act* (Canada), there are no limitations specific to the rights of non-Canadians to hold or vote our common shares under the laws of Canada or Manitoba, or in our charter documents.

Change in Control
We refer you to our shareholders' rights plan described under the heading "Shareholders' Rights Plan". There are no provisions in our articles or in *The Corporations Act* (Manitoba) that would have the effect of delaying, deferring or preventing a change in control of our Company, and that would operate only with respect to a merger, acquisition or corporate restructuring involving our Company or our subsidiaries.

Ownership Threshold
Our articles do not contain any provisions governing the ownership threshold above which shareholder ownership must be disclosed. *The Corporations Act* (Manitoba) requires that an annual return in the form prescribed is filed with The Companies Office (Manitoba). The prescribed form requires that holders of shares carrying votes representing more than 10% of the issued and outstanding shares be listed thereon. In addition, The Corporations Act (Manitoba) provides that a holder of shares shown on an annual return as a registered holder of more than 10% or more of the issued voting shares may be required to file a declaration with respect to the ownership of such shares. In addition, securities legislation in Canada, requires that we disclose in our information circular for our annual general meeting, holders who beneficially own more than 10% of our issued and outstanding shares.

Upon the effectiveness of this registration statement on Form 20-F, we expect that the United States federal securities laws will require us to disclose, in our annual report on Form 20-F, holders who own 5% or more of our issued and outstanding shares.

C. Material Contracts

There are no other contracts, other than those disclosed in this registration statement and those entered into in the ordinary course of our business, that are material to us and which were entered into in the last two completed fiscal years or which were entered into before the two most recently completed fiscal years but are still in effect as of the date of this registration statement:

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

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

3. We have a shareholder rights plan pursuant to an agreement between us and CIBC Mellon Trust Company dated August 25, 2011. This plan was approved by our shareholders on September 22, 2011 and by the TSXV on October 6, 2011. A copy of the shareholder rights plan is available on SEDAR at www.sedar.com.

4. We have a Stock Option Plan which was last approved by our shareholders on September 22, 2011. See "Stock Option Plan" above and within our Management Information Circular dated August 25, 2011, available on SEDAR at www.sedar.com, for a summary of the terms of the Stock Option Plan.

5. We have a deferred share unit plan that was approved by our shareholders on September 22, 2011 and by the TSXV on October 6, 2011. A copy of the DSU Plan is available on SEDAR at www.sedar.com.

6. Effective January 28, 2010, we entered into an employment arrangement with Mr. Pauls pursuant to which he agreed to serve as our President & Chief Executive Officer. The arrangement may be terminated by us without prior notice on payment of a lump sum equal to 12 months of base salary plus applicable bonus with any unvested stock options continuing to vest for a period of six months after termination. In the event of voluntary resignation or termination after a specified change in control, Mr. Pauls is entitled to a payment equal to 18 months of base salary plus applicable bonus with any unvested stock options fully vesting under certain circumstances.

7. Effective July 1, 2010, we entered into an employment arrangement with Dr. Williams pursuant to which he agreed to serve as our Vice President, Research. The agreement may be terminated by us without prior notice on payment of a lump sum equal to 6 months of base salary. In the event of voluntary resignation or termination after a specified change in control, Dr. Williams is entitled to a payment equal to 9 months of base salary with any unvested stock options vesting immediately.

8. Effective December 10, 2012, we entered into an employment arrangement with Dr. Robbins pursuant to which he agreed to serve as our Vice President, Clinical and Regulatory Affairs.

D. Exchange Controls

There are no government laws, decrees or regulations in Canada that restrict the export or import of capital or that affect the remittance of dividends, interest or other payments to non-resident holders of our common shares. Any remittances of dividends to United States residents and to other non-residents are, however, subject to withholding tax. See "Taxation" below.

E. Taxation

Certain Canadian Federal Income Taxation

We consider that the following general summary fairly describes the principal Canadian federal income tax consequences applicable to a holder of our common shares who is a resident of the United States, who is not, will not be and will not be deemed to be a resident of Canada for purposes of the *Income Tax Act* (Canada) and any applicable tax treaty and who does not use or hold, and is not deemed to use or hold, his, her or its common shares in the capital of our Company in connection with carrying on a business in Canada (a "**non-resident holder**").

This summary is based upon the current provisions of the *Income Tax Act* (Canada), the regulations thereunder (the "**Regulations**"), the current publicly announced administrative and assessing policies of the Canada Revenue Agency and the Canada-United States Tax Convention as amended by the Protocols thereto (the "**Treaty**"). This summary also takes into account the amendments to the *Income Tax Act* (Canada) and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**") and assumes that all such Tax Proposals will be enacted in their present form. However, no assurances can be given that the Tax Proposals will be enacted in the form proposed, or at all. This summary is not exhaustive of all possible Canadian federal income tax consequences applicable to a holder of our common shares and, except for the foregoing, this summary does not take into account or anticipate any changes in law, whether by legislative, administrative or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax consequences described herein.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal, business or tax advice to any particular holder or prospective holder of our common shares, and no opinion or representation with respect to the tax consequences to any holder or prospective holder of our common shares is made. Accordingly, holders and prospective holders of our common shares should consult their own tax advisors with respect to the income tax consequences of purchasing, owning and disposing of our common shares in their particular circumstances.

Dividends

Dividends paid on our common shares to a non-resident holder will be subject under the *Income Tax Act* (Canada) to withholding tax at a rate of 25% subject to a reduction under the provisions of an applicable tax treaty, which tax is deducted at source by our Company. The Treaty provides that the *Income Tax Act* (Canada) standard 25% withholding tax rate is reduced to 15% on dividends paid on shares of a corporation resident in Canada (such as our Company) to residents of the United States, and also provides for a further reduction of this rate to 5% where the beneficial owner of the dividends is a corporation resident in the United States that owns at least 10% of the voting shares of the corporation paying the dividend.

Capital Gains

A non-resident holder is not subject to tax under the *Income Tax Act* (Canada) in respect of a capital gain realized upon the disposition of a common share of our Company unless such share represents "taxable Canadian property", as defined in the *Income Tax Act* (Canada), to the holder thereof. Our common shares generally will be considered taxable Canadian property to a non-resident holder if:

- the non-resident holder;
- persons with whom the non-resident holder did not deal at arm's length; or
- the non-resident holder and persons with whom such non-resident holder did not deal at arm's length,

owned, or had an interest in an option in respect of, not less than 25% of the issued shares of any class of our capital stock at any time during the 60 month period immediately preceding the disposition of such shares. In the case of a non-resident holder to whom shares of our Company represent taxable Canadian property and who is resident in the United States, no Canadian taxes will generally be payable on a capital gain realized on such shares by reason of the Treaty unless the value of such shares is derived principally from real property situated in Canada.

United States Federal Income Taxation

The following is a general summary of certain material U.S. federal income tax considerations applicable to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of common shares of the Company.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax considerations that may apply to a U.S. Holder arising from and relating to the acquisition, ownership, and disposition of common shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences to such U.S. Holder, including specific tax consequences to a U.S. Holder under an applicable tax treaty. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. This summary does not address the U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences to U.S. Holders of the acquisition, ownership, and disposition of common shares. Except as specifically set forth below, this summary does not discuss applicable tax reporting requirements. Each U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences relating to the acquisition, ownership and disposition of common shares.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the "IRS") has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of common shares. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the positions taken in this summary.

Scope of this Summary

Authorities

This summary is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury Regulations (whether final, temporary, or proposed), published rulings of the IRS, published administrative positions of the IRS, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended, or the Canada-U.S. Tax Convention, and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this document. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis which could affect the U.S. federal income tax considerations described in this summary. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive or prospective basis.

U.S. Holders

For purposes of this summary, the term "U.S. Holder" means a beneficial owner of common shares that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the U.S., any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the U.S. and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

Non-U.S. Holders

For purposes of this summary, a "non-U.S. Holder" is a beneficial owner of common shares that is not a U.S. Holder. This summary does not address the U.S. federal income tax consequences to non-U.S. Holders arising from and relating to the acquisition, ownership, and disposition of common shares. Accordingly, a non-U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences (including the potential application of and operation of any income tax treaties) relating to the acquisition, ownership, and disposition of common shares.

U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax considerations applicable to U.S. Holders that are subject to special provisions under the Code, including, but not limited to, the following: (a) U.S. Holders that are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) U.S. Holders that are financial institutions, underwriters, insurance companies, real estate investment trusts, or regulated investment companies; (c) U.S. Holders that are broker-dealers, dealers, or traders in securities or currencies that elect to apply a mark-to-market accounting method; (d) U.S. Holders that have a "functional currency" other than the U.S. dollar; (e) U.S. Holders that own common shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (f) U.S. Holders that acquired common shares in connection with the exercise of employee stock options or otherwise as compensation for services; (g) U.S. Holders that hold common shares other than as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment purposes); or (h) U.S. Holders that own or have owned (directly, indirectly, or by attribution) 10% or more of the total combined voting power of the outstanding shares of the Company. This summary also does not address the U.S. federal income tax considerations applicable to U.S. Holders who are: (a) U.S. expatriates or former long-term residents of the U.S.; (b) persons that have been, are, or will be a resident or deemed to be a resident in Canada for purposes of the Income Tax Act (Canada) (the "Tax Act"); (c) persons that use or hold, will use or hold, or that are or will be deemed to use or hold common shares in connection with carrying on a business in Canada; (d) persons whose common shares constitute "taxable Canadian property" under the Tax Act; or (e) persons that have a permanent establishment in Canada for the purposes of the Canada-U.S. Tax Convention. U.S. Holders that are subject to special provisions under the Code, including, but not limited to, U.S. Holders described immediately above, should consult their own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences relating to the acquisition, ownership and disposition of common shares.

If an entity or arrangement that is classified as a partnership (or "pass-through" entity) for U.S. federal income tax purposes holds common shares, the U.S. federal income tax consequences to such partnership and the partners of such partnership generally will depend on the activities of the partnership and the status of such partners (or owners). This summary does not address the tax consequences to any such partnership or partner. Partners of entities or arrangements that are classified as partnerships for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal income tax consequences arising from and relating to the acquisition, ownership, and disposition of common shares.

Passive Foreign Investment Company Rules

If the Company were to constitute a "passive foreign investment company" under the meaning of Section 1297 of the Code, or a PFIC, as defined below, for any year during a U.S. Holder's holding period, then certain different and potentially adverse rules will affect the U.S. federal income tax consequences to a U.S. Holder resulting from the acquisition, ownership and disposition of common shares. In addition, in any year in which the Company is classified as a PFIC, such holder may be required to file an annual report with the IRS containing such information as Treasury Regulations and/or other IRS guidance may require. U.S. Holders should consult their own tax advisors regarding the requirements of filing such information returns under these rules, including the requirement to file an IRS Form 8621.

PFIC Status of the Company

The Company generally will be a PFIC if, for a tax year, (a) 75% or more of the gross income of the Company is passive income (the "income test") or (b) 50% or more of the value of the Company's assets either produce passive income or are held for the production of passive income, based on the quarterly average of the fair market value of such assets (the "asset test"). "Gross income" generally includes all sales revenues less the cost of goods sold, plus income from investments and from incidental or outside operations or sources, and "passive income" generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

For purposes of the PFIC income test and asset test described above, if the Company owns, directly or indirectly, 25% or more of the total value of the outstanding shares of another corporation, the Company will be treated as if it (a) held a proportionate share of the assets of such other corporation and (b) received directly a proportionate share of the income of such other corporation. In addition, for purposes of the PFIC income test and asset test described above, and assuming certain other requirements are met, "passive income" does not include certain interest, dividends, rents, or royalties that are received or accrued by the Company from certain "related persons" (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to the income of such related person that is not passive income.

In addition, under certain attribution rules, if the Company is a PFIC, U.S. Holders will be deemed to own their proportionate share of the stock of any subsidiary of the Company that is also a PFIC, or a Subsidiary PFIC, and will be subject to U.S. federal income tax on their proportionate share of (a) a distribution on the stock of a Subsidiary PFIC and (b) a disposition or deemed disposition of the stock of a Subsidiary PFIC, both as if such U.S. Holders directly held the shares of such Subsidiary PFIC.

The Company believes that it was classified as a PFIC during the tax year ended December 31, 2013, and may be a PFIC in future tax years. The determination of whether any corporation was, or will be, a PFIC for a tax year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether any corporation will be a PFIC for any tax year depends on the assets and income of such corporation over the course of each such tax year and, as a result, cannot be predicted with certainty as of the date of this document. Accordingly, there can be no assurance that the IRS will not challenge any determination made by the Company (or a Subsidiary PFIC) concerning its PFIC status. Each U.S. Holder should consult its own tax advisor regarding the PFIC status of the Company and any Subsidiary PFIC.

Default PFIC Rules Under Section 1291 of the Code

If the Company is a PFIC, the U.S. federal income tax consequences to a U.S. Holder of the acquisition, ownership, and disposition of common shares will depend on whether such U.S. Holder makes an election to treat the Company and each Subsidiary PFIC, if any, as a "qualified electing fund" or "QEF" under Section 1295 of the Code, or a QEF Election, or a mark-to-market election under Section 1296 of the Code, or a Mark-to-Market Election. A U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a "Non-Electing U.S. Holder."

A Non-Electing U.S. Holder will be subject to the rules of Section 1291 of the Code with respect to (a) any gain recognized on the sale or other taxable disposition of common shares and (b) any excess distribution received on our common shares. A distribution generally will be an "excess distribution" to the extent that such distribution (together with all other distributions received in the current tax year) exceeds 125% of the average distributions received during the three preceding tax years (or during a U.S. Holder's holding period for our common shares, if shorter).

Under Section 1291 of the Code, any gain recognized on the sale or other taxable disposition of common shares (including an indirect disposition of the stock of any Subsidiary PFIC), and any "excess distribution" received on common shares, must be ratably allocated to each day in a Non-Electing U.S. Holder's holding period for the respective common shares. The amount of any such gain or excess distribution allocated to the tax year of disposition or distribution of the excess distribution and to years before the entity became a PFIC, if any, would be taxed as ordinary income. The amounts allocated to any other tax year would be subject to U.S. federal income tax at the highest tax rate applicable to ordinary income in each such year, and an interest charge would be imposed on the tax liability for each such year, calculated as if such tax liability had been due in each such year. A Non-Electing U.S. Holder that is not a corporation must treat any such interest paid as "personal interest," which is not deductible.

If the Company is a PFIC for any tax year during which a Non-Electing U.S. Holder holds common shares, the Company will continue to be treated as a PFIC with respect to such Non-Electing U.S. Holder, regardless of whether the Company ceases to be a PFIC in one or more subsequent tax years. A Non-Electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above), but not loss, as if such common shares were sold on the last day of the last tax year for which the Company was a PFIC.

QEF Election

A U.S. Holder that makes a timely and effective QEF Election for the first tax year in which its holding period of its common shares begins generally will not be subject to the rules of Section 1291 of the Code discussed above with respect to its common shares. A U.S. Holder that makes a timely and effective QEF Election will be subject to U.S. federal income tax on such U.S. Holder's pro rata share of (a) the net capital gain of the Company, which will be taxed as long-term capital gain to such U.S. Holder, and (b) the ordinary earnings of the Company, which will be taxed as ordinary income to such U.S. Holder. Generally, "net capital gain" is the excess of (a) net long-term capital gain over (b) net short-term capital loss, and "ordinary earnings" are the excess of (a) "earnings and profits" over (b) net capital gain. A U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such amounts for each tax year in which the Company is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Holder by the Company. However, for any tax year in which the Company is a PFIC and has no net income or gain, U.S. Holders that have made a QEF Election would not have any income inclusions as a result of the QEF Election. If a U.S. Holder that made a QEF Election has an income inclusion, such a U.S. Holder may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. If such U.S. Holder is not a corporation, any such interest paid will be treated as "personal interest," which is not deductible.

A U.S. Holder that makes a timely and effective QEF Election with respect to the Company generally (a) may receive a tax-free distribution from the Company to the extent that such distribution represents "earnings and profits" of the Company that were previously included in income by the U.S. Holder because of such QEF Election and (b) will adjust such U.S. Holder's tax basis in our common shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF Election.

In addition, a U.S. Holder that makes a QEF Election generally will recognize capital gain or loss on the sale or other taxable disposition of common shares.

The procedure for making a QEF Election, and the U.S. federal income tax consequences of making a QEF Election, will depend on whether such QEF Election is timely. A QEF Election will be treated as "timely" if such QEF Election is made for the first year in the U.S. Holder's holding period for our common shares in which the Company was a PFIC. A U.S. Holder may make a timely QEF Election by filing the appropriate QEF Election documents at the time such U.S. Holder files a U.S. federal income tax return for such year. If a U.S. Holder does not make a timely and effective QEF Election for the first year in the U.S. Holder's holding period for our common shares, the U.S. Holder may still be able to make a timely and effective QEF Election in a subsequent year if such U.S. Holder also makes a "purging" election to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if such common shares were sold for their fair market value on the day the QEF Election is effective.

A QEF Election will apply to the tax year for which such QEF Election is timely made and to all subsequent tax years, unless such QEF Election is invalidated or terminated or the IRS consents to revocation of such QEF Election. If a U.S. Holder makes a QEF Election and, in a subsequent tax year, the Company ceases to be a PFIC, the QEF Election will remain in effect (although it will not be applicable) during those tax years in which the Company is not a PFIC. Accordingly, if the Company becomes a PFIC in another subsequent tax year, the QEF Election will be effective and the U.S. Holder will be subject to the QEF rules described above during any subsequent tax year in which the Company qualifies as a PFIC.

U.S. Holders should be aware that there can be no assurance that the Company will satisfy record keeping requirements that apply to a QEF, or that the Company will supply U.S. Holders with information that such U.S. Holders require to report under the QEF rules, in event that the Company is a PFIC and a U.S. Holder wishes to make a QEF Election. Thus, U.S. Holders may not be able to make a QEF Election with respect to their common shares. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a QEF Election.

Mark-to-Market Election

A U.S. Holder may make a Mark-to-Market Election only if the common shares are marketable stock. Our common shares generally will be "marketable stock" if our common shares are regularly traded on (a) a national securities exchange that is registered with the Securities and Exchange Commission, (b) the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or (c) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such foreign exchange has trading volume, listing, financial disclosure, and meets other requirements and the laws of the country in which such foreign exchange is located, together with the rules of such foreign exchange, ensure that such requirements are actually enforced and (ii) the rules of such foreign exchange ensure active trading of listed stocks. If such stock is traded on such a qualified exchange or other market, such stock generally will be "regularly traded" for any calendar year during which such stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter.

A U.S. Holder that makes a Mark-to-Market Election with respect to its common shares generally will not be subject to the rules of Section 1291 of the Code discussed above with respect to such common shares. However, if a U.S. Holder does not make a Mark-to-Market Election beginning in the first tax year of such U.S. Holder's holding period for our common shares or such U.S. Holder has not made a timely QEF Election, the rules of Section 1291 of the Code discussed above will apply to certain dispositions of, and distributions on, our common shares.

A U.S. Holder that makes a Mark-to-Market Election will include in ordinary income, for each tax year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of our common shares, as of the close of such tax year over (b) such U.S. Holder's tax basis in such common shares. A U.S. Holder that makes a Mark-to-Market Election will be allowed a deduction in an amount equal to the excess, if any, of (a) such U.S. Holder's adjusted tax basis in our common shares, over (b) the fair market value of such common shares (but only to the extent of the net amount of previously included income as a result of the Mark-to-Market Election for prior tax years).

A U.S. Holder that makes a Mark-to-Market Election generally also will adjust such U.S. Holder's tax basis in our common shares to reflect the amount included in gross income or allowed as a deduction because of such Mark-to-Market Election. In addition, upon a sale or other taxable disposition of common shares, a U.S. Holder that makes a Mark-to-Market Election will recognize ordinary income or ordinary loss (not to exceed the excess, if any, of (a) the amount included in ordinary income because of such Mark-to-Market Election for prior tax years over (b) the amount allowed as a deduction because of such Mark-to-Market Election for prior tax years).

A Mark-to-Market Election applies to the tax year in which such Mark-to-Market Election is made and to each subsequent tax year, unless our common shares cease to be "marketable stock" or the IRS consents to revocation of such election. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

Although a U.S. Holder may be eligible to make a Mark-to-Market Election with respect to our common shares, no such election may be made with respect to the stock of any Subsidiary PFIC that a U.S. Holder is treated as owning, because such stock is not marketable. Hence, the Mark-to-Market Election will not be effective to eliminate the application of the default rules of Section 1291 of the Code described above with respect to deemed dispositions of Subsidiary PFIC stock or distributions from a Subsidiary PFIC.

Other PFIC Rules

Under Section 1291(f) of the Code, the IRS has issued proposed Treasury Regulations that, subject to certain exceptions, would cause a U.S. Holder that had not made a timely QEF Election to recognize gain (but not loss) upon certain transfers of common shares that would otherwise be tax-deferred (e.g., gifts and exchanges pursuant to corporate reorganizations). However, the specific U.S. federal income tax consequences to a U.S. Holder may vary based on the manner in which common shares are transferred.

Certain additional adverse rules will apply with respect to a U.S. Holder if the Company is a PFIC, regardless of whether such U.S. Holder makes a QEF Election. For example under Section 1298(b)(6) of the Code, a U.S. Holder that uses common shares as security for a loan will, except as may be provided in Treasury Regulations, be treated as having made a taxable disposition of such common shares.

Special rules also apply to the amount of foreign tax credit that a U.S. Holder may claim on a distribution from a PFIC. Subject to such special rules, foreign taxes paid with respect to any distribution in respect of stock in a PFIC are generally eligible for the foreign tax credit. The rules relating to distributions by a PFIC and their eligibility for the foreign tax credit are complicated, and a U.S. Holder should consult with their own tax advisor regarding the availability of the foreign tax credit with respect to distributions by a PFIC.

The PFIC rules are complex, and each U.S. Holder should consult its own tax advisor regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of common shares.

Ownership and Disposition of Common Shares

The following discussion is subject to the rules described above under the heading “Passive Foreign Investment Company Rules.”

Distributions on Common Shares

Subject to the PFIC rules discussed above, a U.S. Holder that receives a distribution, including a constructive distribution, with respect to an Offered Share will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian income tax withheld from such distribution) to the extent of the current or accumulated “earnings and profits” of the Company, as computed for U.S. federal income tax purposes. A dividend generally will be taxed to a U.S. Holder at ordinary income tax rates if the Company is a PFIC. To the extent that a distribution exceeds the current and accumulated “earnings and profits” of the Company, such distribution will be treated first as a tax-free return of capital to the extent of a U.S. Holder's tax basis in our common shares and thereafter as gain from the sale or exchange of such common shares. (See “ Sale or Other Taxable Disposition of common shares” below). However, the Company may not maintain the calculations of earnings and profits in accordance with U.S. federal income tax principles, and each U.S. Holder should therefore assume that any distribution by the Company with respect to our common shares will constitute ordinary dividend income. Dividends received on common shares generally will not be eligible for the “dividends received deduction”. Subject to applicable limitations and provided the Company is eligible for the benefits of the Canada-U.S. Tax Convention, dividends paid by the Company to non-corporate U.S. Holders, including individuals, generally will be eligible for the preferential tax rates applicable to long-term capital gains for dividends, provided certain holding period and other conditions are satisfied, including that the Company not be classified as a PFIC in the tax year of distribution or in the preceding tax year. The dividend rules are complex, and each U.S. Holder should consult its own tax advisor regarding the application of such rules.

Sale or Other Taxable Disposition of Common Shares

Subject to the PFIC rules discussed above, upon the sale or other taxable disposition of common shares, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount of cash plus the fair market value of any property received and such U.S. Holder's tax basis in such common shares sold or otherwise disposed of. Subject to the PFIC rules discussed above, gain or loss recognized on such sale or other disposition generally will be long-term capital gain or loss if, at the time of the sale or other disposition, our common shares have been held for more than one year.

Preferential tax rates apply to long-term capital gain of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gain of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

Additional Considerations

Additional Tax on Passive Income

Individuals, estates and certain trusts whose income exceeds certain thresholds will be required to pay a 3.8% Medicare surtax on "net investment income" including, among other things, dividends and net gain from disposition of property (other than property held in certain trades or businesses). U.S. Holders should consult with their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of common shares.

F. Dividends and Paying agents

There is no dividend restriction; however, we have not declared any dividends since our inception and do not anticipate that we will do so in the foreseeable future. We currently intend to retain future earnings, if any, to finance the development of our business. Any future payment of dividends or distributions will be determined by our board of directors on the basis of our earnings, financial requirements and other relevant factors. There is no special procedure for non-resident holders to claim dividends. Any remittances of dividends to United States residents and to other non-residents are, however, subject to withholding tax. See "Taxation" above.

G. Statement by Expert

Our consolidated financial statements as at and for the years ended December 31, 2012, 2011, and 2010 included in this registration statement have been audited by KPMG LLP, Chartered Accountants, with a business address at One Lombard Place, Suite 2000, Winnipeg, Manitoba, Canada R3B 0X3, as stated in their report appearing in this registration statement and have been so included in reliance upon the report of such firm given their authority as experts in accounting and auditing.

H. Documents on Display

Upon the effectiveness of this registration statement, we will be subject to the informational requirements of the Securities Exchange Act of 1934, and we will thereafter file reports and other information with the Securities and Exchange Commission. You may read and copy any of our reports and other information at, and obtain copies upon payment of prescribed fees from, the Public Reference Room maintained by the SEC at 450 Fifth Street, N.W., Room 1024, Washington, DC 20549. In addition, the Securities and Exchange Commission maintains a web site that contains reports and other information regarding registrants that file electronically with the Securities and Exchange Commission at http://www.sec.gov. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We are also subject to the full informational requirements of the securities commissions in all provinces of Canada, and you are also invited to read and copy any reports, statements or other information, other than confidential filings, that we file with the Canadian provincial securities commissions. These filings are also electronically available from the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com, the Canadian equivalent of the SEC's electronic document gathering and retrieval system.

I. Subsidiary Information

We owns 100% of the voting securities of DiaMedica USA, which does not have a class of restricted securities. DiaMedica USA was incorporated pursuant to the General Corporation Law of the State of Delaware. The registered office of DiaMedica USA is The Corporation Trust Company, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801. The office address of DiaMedica USA is One Carlson Parkway, Suite 124 Minneapolis, MN 55447.

ITEM 11. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Fair value

Certain of our accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Financial instruments consist of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities. As at December 31, 2012, there were no significant differences between the carrying values of these amounts and their estimated fair values due to their short-term nature. We have classified our cash and cash equivalents as Level 1 as fair values are determined by quoted prices of identical assets in active markets.

Risk

We have exposure to credit risk, liquidity risk and market risk. Our board of directors has overall responsibility for the establishment and oversight of our risk management framework. The audit committee of the board is responsible to review our risk management policies.

(a) **Credit risk**

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from our cash and cash equivalents and amounts receivable. The carrying amount of these financial assets represents the maximum credit exposure. We follow an investment policy to mitigate against the deterioration of principal and to enhance our ability to meet our liquidity needs. Cash and cash equivalents are on deposit with a credit union and guaranteed by the Credit Union Deposit Guarantee Corporation of Manitoba in Canada, and in bank accounts in the United States. Amounts receivable are primarily comprised of amounts due from the Canadian Federal government.

(b) **Liquidity risk**

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We are a development stage company and are reliant on external sources of capital to support our operations. Once funds have been raised, usually through equity offerings, we manage our liquidity risk by investing in cash and cash equivalents to provide regular cash flow for current operations. We also manage liquidity risk by continuously monitoring actual and projected cash flows. The board of directors reviews and approves our operating and capital budgets, as well as any material transactions not in the ordinary course of business. The majority of our accounts payable and accrued liabilities have maturities of less than three months.

(c) **Market risk**

(i) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our cash and cash equivalents are highly liquid holdings in bank accounts or high interest savings accounts which have a variable rate of interest. We manage our interest rate risk by holding highly liquid short-term instruments and by holding our investments to maturity, where possible.

(ii) **Currency risk**

We are exposed to currency risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Currency risk is limited to the portion of our business transactions denominated in currencies other than the Canadian dollar which are primarily expenses in US dollars. We manage our exposure to currency fluctuations by holding cash and cash equivalents denominated in US dollars in amounts approximating current US dollar financial liabilities and US dollar planned expenditures. As at September 30, 2013, we held US dollar cash and cash equivalents in the amount of US$315,498 (December 31, 2012 – US$1,065,141) and had US dollar denominated accounts payable in the amount of US$280,700 (December 31, 2012 – US$1,163,590). Therefore a 1% change in the foreign exchange rate would have had a net impact on the consolidated financial statements of $347 (December 31, 2012 - $984).

US dollars expenses paid for the nine months ended September 30, 2013 were approximately $4,036,000 (year ended December 31, 2012 were approximately $2,850,000). Varying the US exchange rate for the year to reflect a 1% strengthening of the Canadian dollar would have decreased the net loss by approximately $40,360 (year ended December 31, 2012 - $28,500) assuming that all other variables remained constant.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.

We have a shareholder rights plan pursuant to an agreement between us and CIBC Mellon Trust Company dated August 25, 2011. This plan was approved by our shareholders on September 22, 2011 and by the TSXV on October 6, 2011. The primary objective of the Rights Plan is to ensure that all of our shareholders are treated fairly in connection with any take-over bid for our Company by (a) providing shareholders with adequate time to properly assess a take-over bid without undue pressure and (b) providing the board of directors with more time to fully consider an unsolicited take-over bid, and, if applicable, to explore other alternatives to maximize shareholder value. One right has been issued in respect of each issued common share of the Company.

ITEM 15. CONTROL AND PROCEDURES

Not Applicable.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Not Applicable.

ITEM 16B. CODE OF ETHICS

Not Applicable.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not Applicable.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not Applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not Applicable.

ITEM 16G. CORPORATE GOVERNANCE

Not Applicable.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

The following financial statements and notes thereto are filed with and incorporated herein as part of this registration statement:

(a) unaudited condensed consolidated interim financial statements as at September 30, 2013 and for the nine months ended September 30, 2013 and 2012, including: condensed consolidated interim statements of financial position, condensed consolidated interim statements of loss and comprehensive loss, condensed consolidated interim statements of changes in equity, condensed consolidated interim statements of cash flows, and notes to the condensed consolidated interim financial statements; and

(b) audited consolidated financial statements for the years ended December 31, 2012, 2011 and 2010, including: consolidated statements of financial position, consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity, consolidated statements of cash flows, and notes to the consolidated financial statements.

ITEM 18. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 17.

ITEM 19. EXHIBITS

Exhibit Number	Description
1.1	Articles of Incorporation dated January 21, 2000
1.2	Articles of Amendment dated October 6, 200
1.3	Articles of Amendment dated April 3, 2001
1.4	Articles of Amendment dated March 14, 2005
1.5	Articles of Amendment dated July 2, 2008
2.1	Shareholder Rights Plan Agreement between DiaMedica Inc. and CIBC Mellon Trust Company dated August 25, 2011
4.1	Employment Agreement with Rick Pauls dated January 28, 2010
4.2	Employment Agreement with Mark Williams dated July 1, 2010
4.3	Employment Agreement with Mark Robbins dated December 10, 2012
4.4	Stock Option Plan
4.5	Amended and Restated Deferred Share Unit Plan
4.6*	License Agreement between Sanomune Inc. and the University of Manitoba effective October 1, 2005
4.7*	Share Exchange Agreement among Sanomune shareholders, Sanomune Inc. and DiaMedica Inc. dated February 18, 2010
8.1	List of Subsidiaries

* to be filed by amendment

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this registration statement on its behalf on January 21, 2013.

DIAMEDICA INC.

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Rick Pauls
President & Chief Executive Officer

INDEX TO THE FINANCIAL STATEMENTS

As at and for the years ended December 31, 2012, 2011 and 2010

As at and for the nine months ended September 30, 2013 and 2012

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2012, 2011 AND 2010

KPMG LLP
Chartered Accountants
Suite 2000 – One Lombard Place
Winnipeg MB R3B 0X3
Canada

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of DiaMedica Inc.

We have audited the accompanying consolidated statements of financial position of DiaMedica Inc. as of December 31, 2012, December 31, 2011 and December 31, 2010 and the related consolidated statements of loss and comprehensive loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of DiaMedica Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DiaMedica Inc. as of December 31, 2012, December 31, 2011 and December 31, 2010, and its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The accompanying consolidated financial statements have been prepared assuming that DiaMedica Inc. will continue as a going concern. DiaMedica Inc. has experienced operating losses and cash outflows from operations since incorporation, has a deficit of $31,632,534, will require ongoing funding in order to continue its research and development activities and has not reached successful commercialization of its products. These conditions, along with other matters as set forth in note 2(b) to the consolidated financial statements, indicate the existence of a material uncertainty that casts substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2(b). The consolidated financial statements do not include any adjustments that might result from the outcome of this material uncertainty.

Chartered Accountants

January 21, 2014
Winnipeg, Canada

DIAMEDICA INC.

Consolidated Statements of Financial Position
Amounts in Canadian Dollars

	Note	As at December 31, 2012 $	As at December 31, 2011 $	As at December 31, 2010 $
equivalents		**2,327,650**	2,707,663	2,837,224
vable	4	**20,405**	51,448	220,987
es		**103,726**	34,410	83,825
assets		**2,451,781**	2,793,521	3,142,036
quipment	5	**6,560**	7,637	8,888
s	6	**1,368,969**	3,658,519	5,927,982
rent assets		**1,375,529**	3,666,156	5,936,870
		3,827,310	6,459,677	9,078,906
s				
ble and accrued liabilities	7	**1,574,253**	372,221	554,189
s		**1,574,253**	372,221	554,189
	8	**30,119,600**	24,391,827	21,549,456
	8	**277,000**	726,309	114,143
rplus	8	**3,488,991**	2,602,214	1,747,097
		(31,632,534)	(21,632,894)	(14,885,979)
		2,253,057	6,087,456	8,524,717
s and equity		**3,827,310**	6,459,677	9,078,906

Going concern (note 2(b))
Events after the statement of financial position date (note 19)

Approved by the Board and authorized for issue on January 21, 2014:

(signed) Dawson Reimer, Director (signed) Thomas Wellner, Director

See accompanying notes to the consolidated financial statements

DIAMEDICA INC.

Consolidated Statements of Loss and Comprehensive Loss
Amounts in Canadian Dollars

	Note	**Year ended December 31, 2012 $**	Year ended December 31, 2011 $	Year ended December 31, 2010 $
EXPENSES				
Research and development	10	**8,874,758**	5,803,212	2,816,235
General and administrative	11	**1,162,436**	983,392	1,009,893
Acquisition expenses	15	**-**	-	400,264
		10,037,194	6,786,604	4,226,392
Finance income		**(40,820)**	(52,521)	(4,530)
Finance costs	12	**3,266**	12,832	27,619
		(37,554)	(39,689)	23,089
Net loss and comprehensive loss for the year		**9,999,640**	6,746,915	4,249,481
Basic and diluted loss per common share	8(c)	**(0.20)**	(0.15)	(0.15)

See accompanying notes to the consolidated financial statements

DIAMEDICA INC.

Consolidated Statements of Changes in Equity
Amounts in Canadian Dollars

	Share capital		Warrants		Contributed		
	Number	Amount	Number	Amount	surplus	Deficit	Total
	#	$	#	$	$	$	$
	(note 8)		(note 8)	(note 8)			
Balance, December 31, 2011	46,960,943	24,391,827	3,415,500	726,309	2,602,214	(21,632,894)	6,087,456
Net loss and comprehensive loss for the period	-	-	-	-	-	(9,999,640)	(9,999,640)
Transactions with owners of the Company, recognized directly in equity							
Issuance and exercise of warrants, net of issue costs	3,300,500	5,281,929	(2,244,900)	(424,824)	-	-	4,857,105
Shares issued on exercise of stock options	273,000	445,844	-	-	(164,444)	-	281,400
Warrants expired	-	-	(115,000)	(24,485)	24,485	-	-
Share-based compensation	-	-	-	-	1,026,736	-	1,026,736
Total transactions with owners of the Company	3,573,500	5,727,773	(2,359,900)	(449,309)	886,777	-	6,165,241
Balance, December 31, 2012	50,534,443	30,119,600	1,055,600	277,000	3,488,991	(31,632,534)	2,253,057

	Share capital		Warrants		Contributed		
	Number	Amount	Number	Amount	surplus	Deficit	Total
	#	$	#	$	$	$	$
Balance, December 31, 2010	43,315,943	21,549,456	565,000	114,143	1,747,097	(14,885,979)	8,524,717
Net loss and comprehensive loss for the period	-	-	-	-	-	(6,746,915)	(6,746,915)
Transactions with owners of the Company, recognized directly in equity							
Units issued, net of issue costs	3,105,000	2,517,279	3,105,000	661,104	-	-	3,178,383
Share compensation warrants issued	-	-	310,500	65,205	-	-	65,205
Shares issued on exercise of warrants	540,000	325,092	(540,000)	(109,092)	-	-	216,000
Warrants expired	-	-	(25,000)	(5,051)	5,051	-	-
Share-based compensation	-	-	-	-	850,066	-	850,066
Total transactions with owners of the Company	3,645,000	2,842,371	2,850,500	612,166	855,117	-	4,309,654
Balance, December 31, 2011	46,960,943	24,391,827	3,415,500	726,309	2,602,214	(21,632,894)	6,087,456

See accompanying notes to the consolidated financial statements

DIAMEDICA INC.

Consolidated Statements of Changes in Equity
Amounts in Canadian Dollars

	Share capital		Warrants		Contributed		
	Number	Amount	Number	Amount	surplus	Deficit	Total
	#	$	#	$	$	$	$
	(note 8)		(note 8)	(note 8)			
Balance, January 1, 2010	19,209,566	10,263,399	-	-	1,470,048	(10,636,498)	1,096,949
Net loss and comprehensive loss for the period	-	-	-	-	-	(4,249,481)	(4,249,481)
Transactions with owners of the Company, recognized directly in equity							
Units issued, net of issue costs	5,650,000	1,087,890	5,650,000	585,787	-	-	1,673,677
Share compensation warrants issued	-	-	565,000	114,143	-	-	114,143
Issued on acquisition of Sanomune	12,806,377	6,787,380	-	-	-	-	6,787,380
Shares issued on exercise of warrants	5,650,000	3,410,787	(5,650,000)	(585,787)	-	-	2,825,000
Share-based compensation	-	-	-	-	277,049	-	277,049
Total transactions with owners of the Company	24,106,377	11,286,057	565,000	114,143	277,049	-	11,677,249
Balance, December 31, 2010	43,315,943	21,549,456	565,000	114,143	1,747,097	(14,885,979)	8,524,717

See accompanying notes to the consolidated financial statements

DIAMEDICA INC.

Consolidated Statements of Cash Flows
Amounts in Canadian Dollars

	Note	**Year ended December 31, 2012 $**	Year ended December 31, 2011 $	Year ended December 31, 2010 $
OPERATING ACTIVITIES				
Net loss and comprehensive loss for the period		**(9,999,640)**	(6,746,915)	(4,249,481)
Adjustments for items not affecting cash				
Share-based compensation		**1,026,736**	850,066	277,049
Impairment loss on property and equipment	5	-	-	76,244
Depreciation of property and equipment	5	**4,839**	2,858	14,244
Amortization and impairment loss on patents	6	-	-	479,297
Amortization of intangible assets	6	**2,348,832**	2,348,832	1,174,416
		(6,619,233)	(3,545,159)	(2,228,231)
Changes in non-cash working capital items				
Amounts receivable		**31,043**	169,539	(170,871)
Prepaid expenses		**(69,316)**	49,415	(65,778)
Accounts payable and accrued liabilities		**1,202,032**	(181,968)	87,731
Cash used in operating activities		**(5,455,474)**	(3,508,173)	(2,377,149)
FINANCING ACTIVITIES				
Issue of common share units, net of cash issue costs	8	-	3,243,588	1,787,820
Issue of common shares on exercise of stock options	8	**281,400**	-	-
Issue of common shares on exercise of warrants, net	8	**4,857,105**	216,000	2,825,000
Cash provided by financing activities		**5,138,505**	3,459,588	4,612,820
INVESTING ACTIVITIES				
Acquisition of property and equipment	5	**(3,762)**	(1,607)	(7,372)
Acquisition of Sanomune, net of cash acquired	15	-	-	149
Acquisition of patents pending	6	**(59,282)**	(79,369)	(50,401)
Cash used in investing activities		**(63,044)**	(80,976)	(57,624)
Net decrease in cash and cash equivalents during the period		**(380,013)**	(129,561)	2,178,047
Cash and cash equivalents, beginning of the period		**2,707,663**	2,837,224	659,177
Cash and cash equivalents, end of period		**2,327,650**	2,707,663	2,837,224
Cash and cash equivalents are comprised of:				
Cash in bank		**2,327,650**	2,707,663	2,837,224
Supplemental cash flow information				
Incentive warrants issued May 8, 2012 (note 8)		**277,000**	-	-
Common shares issued on acquisition of Sanomune (note 15)		-	-	6,787,380
Common share purchase warrants issued as agents consideration (note 8)		-	65,205	114,143

See accompanying notes to the consolidated financial statements

1. Corporate information

DiaMedica Inc. (the "Company" or "DiaMedica") is a development stage biopharmaceutical company engaged in the discovery and development of drugs for the treatment of diabetes and related diseases.

The Company is a listed company incorporated under the Corporations Act (Manitoba) and domiciled in Manitoba, Canada whose shares are publicly traded on the TSX Venture Exchange. The Company's registered office is at 1700 – 360 Main Street, Winnipeg, Manitoba R3C 3Z3.

2. Basis of presentation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement and going concern

These consolidated financial statements have been prepared on the historical cost basis, except for held-for-trading financial assets which are measured at fair value.

These consolidated financial statements have been prepared using IFRS that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. 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, the Company will require ongoing funding in order to continue its research and development activities, and it has not reached successful commercialization of its products.

The Company's future operations are dependent upon its ability to generate product revenues, negotiate license agreements with partners, and secure additional funds. There can be no assurance that the Company will be successful in commercializing its products, entering into strategic agreements with partners, or raising additional capital on favourable terms or at all. There is also no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern.

These consolidated financial statements do not reflect adjustments in the carrying values of the Company's assets and liabilities, expenses, and the balance sheet classification used, that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses and the related disclosures of contingent assets and liabilities. Actual results could differ materially from these estimates and assumptions. We review our estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods.

We have applied significant estimates and assumptions to the measurement and timing of period of use of intangible assets, and to valuing our share-based compensation and warrants.

Valuation of share-based compensation and warrants

Management measures the costs for share-based compensation and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected risk-free interest rate, future employee turnover rates, future exercise behaviours and corporate performance. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based payments and warrants.

Measurement, period of use and potential impairment of intangible assets

Management reviews objective evidence each reporting period to assess whether there are indications of impairment of the intangible assets and make judgments about their period of use. These determinations and their individual assumptions require that management make a decision based on the best and most reliable information available at each reporting period.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

These financial statements include the accounts of the Company and its wholly-owned and controlled subsidiaries, DiaMedica USA Inc., Sanomune Inc. and DiaMedica Europe Limited. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. DiaMedica USA Inc. was incorporated May 15, 2012. Sanomune Inc. and DiaMedica Europe Limited were inactive in 2011 and both were wound-up into the Company in 2011. All significant intercompany transactions and balances have been eliminated.

(b) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the subsidiaries of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

In preparing the financial statements of the subsidiaries of the Company in its functional currency, transactions in currencies other than the subsidiaries' functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period-end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are recognized in profit or loss.

(c) Financial instruments

Financial assets

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss where the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with our documented risk management and investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit and loss are measured at fair value and changes therein are recognized in profit or loss. The Company has classified cash and cash equivalents and short-term investments as fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents includes cash on deposit, money market funds and short-term debt instruments with maturities of less than 90 days at the time of purchase.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest rate method less any impairment losses. The Company has classified its amounts receivable as loans and receivables.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset.

Financial liabilities

Other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and subsequently at amortized cost using the effective interest method. The Company has classified its accounts payable and accrued liabilities as other financial liabilities.

Derecognition

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

Equity

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

(d) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation

The estimated useful lives and the methods of depreciation for the current and comparative periods are as follows:

Asset	Basis
Computer equipment	Straight-line over 4 years
Office equipment	Diminishing balance at 20%
Scientific equipment	Diminishing balance at 20%
Leasehold improvements	Straight-line over lease term

Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting period-end and adjusted if appropriate. Depreciation expense is recognized in research and development expenses.

(e) Intangible assets

Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are expensed as incurred. No development costs have been capitalized to date.

Research and development expenses includes all direct and indirect operating expenses supporting the products in development.

Intangible assets

Intangible assets that are acquired separately (acquired technology) and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use in the manner intended by management. The period that the technology acquired in the June 30, 2010 Sanomune Inc. acquisition is available for use is estimated at three years which reflects management's intent about commercializing the assets.

Patents are amortized on a straight-line basis over the shorter of their legal or estimated economic life. The cost of servicing the Company’s patents are expensed as incurred.

The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in research and development expenses.

(f) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net profit or loss and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or cash-generating units. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses for intangible assets are recognized in research and development expenses.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are assessed by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount on provisions is recognized in finance costs. No provisions have been recognized.

(h) Government assistance

Government assistance relating to research and development is recorded as a reduction of expenses when the related expenditures are incurred.

(i) Share-based compensation

The grant-date fair value of share-based payment awards granted to employees is recognized as personnel costs, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that met the related service and non-market performance conditions at the vesting date.

For equity-settled share-based payment transactions, including deferred share units and stock options, the Company measures the goods or services received, and the corresponding increase in contributed surplus, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it measures their value by reference to the fair value of the equity instruments granted. Transactions measured by reference to the fair value of the equity instruments granted, have their fair values remeasured each vesting and reporting date until fully vested.

(j) Income taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

(k) Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, warrants and deferred share units, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options, warrants and deferred share units were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. The inclusion of the Company's stock options, warrants and deferred share units in the computation of diluted loss per share has an anti-dilutive effect on the loss per share and therefore, they have been excluded from the calculation of diluted loss per share.

(l) New standards and interpretations not yet effective

Certain pronouncements were issued by the International Accounting Standards Board (“IASB”) or International Financial Reporting Interpretation Committee that are mandatory for annual periods beginning after January 1, 2013 or later periods. Many of these updates are not applicable or are inconsequential to the Company and have been excluded from the discussion below. The remaining pronouncements are being assessed to determine their impact on the Company's results and financial position.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 (2010) reflects the first phase of the IASBs work on the replacement of IAS 39, Financial instruments: Recognition and Measurement and deals with the classification and measurement of financial assets and financial liabilities. This standard establishes two primary measurement categories for financial assets, amortized cost and fair value, and eliminates the existing categories of held to maturity, available for sale, and loans and receivables. The new classification will depend on the entity’s business model and the contractual cash flow characteristics of the financial asset.

Amounts in Canadian Dollars

In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 Financial Instruments (2013). The new standard removes the 1 January 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized.

The mandatory effective date is not yet determined; however, early adoption of the new standard is still permitted. Canadian reporting entities cannot early adopt IFRS 9 (2013) until it has been approved by the Canadian Accounting Standards Board. The Company does not intend to adopt IFRS 9 (2010) or IFRS 9 (2013) in its financial statements for the annual period beginning on January 1, 2014.

The Company does not currently expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 (2010) because of the nature of the Company's operations and the types of financial assets that it currently holds.

IFRS 10 *Consolidated Financial Statements*

This amendment provides a single model to be applied in the control analysis for all investees. The amendments issued in June 2012 simplify the process of adopting IFRS 10 and provide additional relief from certain disclosures. The Company intends to adopt IFRS 10, including the amendments issued in June 2012, in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

IFRS 13 *Fair Value Measurement*

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013 and does not expect IFRS 13 to have a material impact on its financial statements.

Annual Improvements to IFRS (2010 – 2012) and (2011-2013) cycles

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

4. Amounts receivable

	December 31, 2012	December 31, 2011	December 31, 2010
	$	$	$
Other receivables	**2,752**	6,781	126,107
Taxes receivable	**17,653**	44,667	94,880
	20,405	51,448	220,987

Amounts in Canadian Dollars

5. Property and equipment

	Computer and office equipment $	Scientific equipment $	Leasehold improvements $	Total $
Cost				
Balance, January 1, 2010	11,254	78,695	101,512	191,461
Additions	7,372	-	-	7,372
Disposals	(1,712)	(78,695)	(101,512)	(181,919)
Balance, December 31, 2010	16,914	-	-	16,914
Additions	1,607	-	-	1,607
Balance, December 31, 2011	18,521	-	-	18,521
Additions	3,762	-	-	3,762
Balance, December 31, 2012	22,283	-	-	**22,283**
Accumulated depreciation				
Balance, January 1, 2010	6,841	46,936	45,680	99,457
Depreciation	2,309	6,352	5,583	14,244
Disposals and impairments	(1,124)	(53,288)	(51,263)	(105,675)
Balance, December 31, 2010	8,026	-	-	8,026
Depreciation	2,858	-	-	2,858
Balance, December 31, 2011	10,884	-	-	10,884
Depreciation	4,839	-	-	4,839
Balance, December 31, 2012	15,723	-	-	**15,723**
Net carrying amounts				
December 31, 2010	8,888	-	-	8,888
December 31, 2011	7,637	-	-	7,637
December 31, 2012	6,560	-	-	**6,560**

In 2010, the Company terminated its laboratory facility lease and recognized impairment losses on the remaining net carrying amounts of the laboratory leasehold improvements and the scientific equipment.

Amounts in Canadian Dollars

6. Intangible assets

	Acquired technology $	Patents $	Total $
Cost			
Balance, January 1, 2010	-	495,363	495,363
Additions	7,046,496	50,401	7,096,897
Disposals and impairments	-	(469,950)	(469,950)
Balance, December 31, 2010	7,046,496	75,814	7,122,310
Additions	-	79,369	79,369
Balance, December 31, 2011	7,046,496	155,183	7,201,679
Additions	-	59,282	59,282
Balance, December 31, 2012	7,046,496	214,465	**7,260,961**
Accumulated amortization			
Balance, January 1, 2010	-	10,565	10,565
Amortization	1,174,416	9,347	1,183,763
Balance, December 31, 2010	1,174,416	19,912	1,194,328
Amortization	2,348,832	-	2,348,832
Balance, December 31, 2011	3,523,248	19,912	3,543,160
Amortization	2,348,832	-	2,348,832
Balance, December 31, 2012	5,872,080	19,912	**5,891,992**
Net carrying amounts			
December 31, 2010	5,872,080	55,902	5,927,982
December 31, 2011	3,523,248	135,271	3,658,519
December 31, 2012	1,174,416	194,553	**1,368,969**

On June 30, 2010, the Company acquired Sanomune Inc., including its intellectual property with a fair value of $7,046,496 (note 15).

As part of the ongoing review of the Company's portfolio of intellectual property, an impairment loss was recognized on patents and technology licenses of $nil (2011 - $nil; 2010 - $469,950). The write-down recognized certain applications no longer being pursued and certain patents under license with limited or no benefit within the Company's development plans which were voluntarily returned to the originator, and consequently determined to have no future value.

7. Accounts payable and accrued liabilities

	December 31, 2012 $	December 31, 2011 $	December 31, 2010 $
Trade and other payables	**1,185,558**	142,037	57,976
Accrued liabilities	**329,658**	139,679	315,823
Due to related parties (note 14)	**59,037**	90,505	180,390
	1,574,253	372,221	554,189

8. Share capital

(a) Authorized

The Company has authorized share capital of an unlimited number of common voting shares.

Common shareholders are entitled to receive dividends as declared by the Company at its discretion and are entitled to one vote per share at the Company's annual general meeting.

In connection with the acquisition of Sanomune on June 30, 2010 (note 15), 1,640,916 common shares were placed in escrow for a period of three years to be released in six semi-annual instalments. As at December 31, 2012, 273,486 (December 31, 2011, 820,458; December 31, 2010, 1,367,430) common shares remain in escrow.

(b) Common shares issued – for the year ended December 31, 2012

On May 8, 2012, the Company completed an incentive program to encourage the early exercise of the $1.50 warrants that were previously issued in connection with DiaMedica's short form prospectus offering in July, 2011 (the "Original Warrants"). DiaMedica amended the terms of the Original Warrants to enable the holders thereof to receive a Unit in lieu of a common share of DiaMedica on the exercise of their Original Warrants prior to the May 8, 2012 incentive expiry date. Each Unit consisted of one common share in the capital stock of DiaMedica and one-half of one warrant (each whole warrant, a "New Warrant"). Each New Warrant entitled the holder thereof to acquire a common share in DiaMedica at a price of $2.50 per share for 24 months following the date of issue of the Unit. On May 8, 2012, 2,111,200 common shares were issued on the exercise of $1.50 warrants for gross proceeds of $3,166,800 ($3,150,781 net of issuance costs) under the incentive program, and accordingly, 1,055,600 New Warrants, with a total grant date fair value of $277,000, were issued with an exercise price of $2.50. Assumptions used in an option pricing model to determine the value of the New Warrants were: dividend yield 0%; risk-free interest rate 1.2%; expected volatility 74%; and expected life of 2 years.

In the event the volume-weighted average trading price of DiaMedica's common shares exceeds $3.00 per share for a period of 10 consecutive trading days, DiaMedica may, at its option, accelerate the New Warrant Expiry Date by delivery of notice to the holders of New Warrants and issuing a press release announcing such acceleration and, in such case, the New Warrant Expiry Date shall be deemed to be the 30th day following the later of: (i) the date on which the Warrant Acceleration Notice is sent to Warrant holders; and (ii) the date of issuance of the Warrant Acceleration Press Release.

On August 3, 2012, the ten-day volume-weighted average trading price of DiaMedica common shares exceeded $2.00 per common share and the Company provided notice to the $1.50 Original Warrant holders that the expiry date of these warrants had been accelerated to September 7, 2012. In the third quarter, 1,189,300 warrants were exercised for gross proceeds of $1,706,324 and the remaining 115,000 warrants expired.

During the year ended December 31, 2012, 273,000 common shares were issued on the exercise of stock options for gross proceeds of $281,400.

Common shares issued – for the year ended December 31, 2011

On July 22, 2011, the Company completed a prospectus offering of 3,105,000 Units at a price of $1.25 per Unit, for aggregate gross proceeds to the Company of $3,881,250 ($3,178,383 net of issuance costs). Each Unit consisted of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitled the holder to purchase one common share at a price of $1.50 at any time prior to expiry on July 22, 2013. The Warrant expiry date could be accelerated at the option of the Company, in the event that the volume-weighted average trading price of the Company's common shares exceeds $2.00 per common share for any 10 consecutive trading days. In connection with the financing, the Company issued 310,500 Compensation Warrants having an aggregate fair value of $65,205 estimated using an option pricing model. Each Compensation Warrant entitles the holder to acquire one common share at an exercise price of $1.25 prior to expiry on July 22, 2012.

8. Share capital (continued)

The $1.25 unit issue price was allocated to common shares in the amount of $0.99 per share and the Warrants were allocated a price of $0.26 per Warrant. The costs of the issue were allocated on a pro rata basis to the common shares and Warrants. Accordingly, $2,517,279 was allocated to common shares and $661,104 to Warrants, net of issue costs. Assumptions used to determine the value of the Warrants and the Compensation Warrants were: dividend yield 0%; risk-free interest rate 1.5%; expected volatility 89% and 76%, respectively; and average expected life of 24 and 12 months, respectively.

During the year ended December 31, 2011, 540,000 common shares were issued on the exercise of warrants for gross proceeds of $216,000.

Common shares issued – for the year ended December 31, 2010

On June 30, 2010, the Company completed a prospectus offering of 5,650,000 Units at a price of $0.40 per Unit, for aggregate gross proceeds to the Company of $2,260,000 ($1,673,677 net of issuance costs). Each Unit consisted of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share at a price of $0.50 at any time prior to expiry on June 30, 2012. The Warrant expiry date can be accelerated at the option of the Company, in the event that the volume-weighted average trading price of the Company's common shares exceeds $0.75 per common share for any 10 consecutive trading days. In connection with the financing, the Company issued 565,000 Compensation Warrants having an aggregate fair value of $114,143 estimated using the Black-Scholes option pricing model. Each Compensation Warrant entitles the holder to acquire one common share at an exercise price of $0.40 prior to expiry on June 30, 2011.

The allocation of the $0.40 common share unit issue price to the common shares and Warrants was based on the relative fair values of the common shares and the Warrants. The fair value of the Warrant was determined using the Black-Scholes option pricing model. The common shares were allocated a price of $0.26 per share and the Warrants were allocated a price of $0.14 per Warrant. The costs of the issue were allocated on a pro rata basis to the common shares and Warrants. Accordingly, $1,087,890 was allocated to common shares and $585,787 to Warrants, net of issue costs. Assumptions used to determine the value of the Warrants and the Compensation Warrants were: dividend yield 0%; risk-free interest rate 1.4%; expected volatility 120% and 124%, respectively; and average expected life of 24 and 12 months, respectively.

In November, 2010, the ten-day volume-weighted average trading price of DiaMedica common shares exceeded $0.75 per common share and the Company provided notice to the warrant holders of the 5,650,000 Warrants that the expiry date had been accelerated to December 23, 2010. All accelerated warrants were exercised for gross proceeds of $2,825,000.

On June 30, 2010, the Company completed a definitive share exchange agreement with all of the shareholders of Sanomune whereby DiaMedica acquired all of the issued and outstanding shares of Sanomune Inc. (see note 15).

(c) Weighted average number of shares

The weighted average number of shares for the year ended December 31, 2012 was 48,916,986 (2011- 45,139,117; 2010 - 28,637,438). The Company has not adjusted its weighted average number of shares outstanding for the purpose of calculating the diluted loss per share as any adjustment related to stock options, warrants or deferred share units would be anti-dilutive.

(d) Shareholder rights plan

The shareholders of the Company approved the adoption of a shareholder rights plan agreement (the "Plan") on September 22, 2011. The Plan is designed to provide adequate time for the Board of Directors and the shareholders to assess an unsolicited takeover bid for DiaMedica, to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value if a takeover bid is made, and to provide shareholders with an equal opportunity to participate in a takeover bid and receive full and fair value for their Common Shares. The Plan will expire at the close of the Company's annual meeting of shareholders in 2014.

Amounts in Canadian Dollars

8. Share capital (continued)

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

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

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

(e) Deferred Share Units Plan

The shareholders of the Company approved the adoption of a deferred share units plan (the "DSU Plan") on September 22, 2011 reserving for issuance up to 2,000,000 common shares under the DSU Plan. The purpose of the DSU Plan is to provide an alternative form of compensation for directors' fees and annual and special bonuses payable to senior officers and directors of the Corporation. A total of 74,556 units were issued for the year ended December 31, 2012 (2011 – 0; 2010 – 0) in the amount of $128,549 (2011 - $0; 2010 - $0). The DSU Plan is equity-settled and the fair value of units granted, which vest upon issuance, is included in share-based compensation expense.

(f) Stock option plan

The Company has a stock option plan which is administered by the Board of Directors of the Company with stock options granted to directors, management, employees and consultants as a form of compensation. 7,000,000 common shares were reserved for issuance under the plan. Options granted vest at various rates and have terms of up to 10 years.

Changes in the number of options outstanding during the years ended December 31 were as follows:

	2012		2011		2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance, beginning of period	3,860,000	$ 0.87	3,040,208	$ 0.77	1,387,000	$ 1.13
Granted	1,045,000	1.61	1,150,000	1.17	2,195,000	0.61
Exercised	(273,000)	1.03	-	-	-	-
Forfeited	(96,500)	0.65	(7,500)	0.42	(2,292)	0.42
Expired/ cancelled	(208,000)	1.43	(322,708)	1.01	(539,500)	1.08
Balance, end of period	4,327,500	1.01	3,860,000	0.87	3,040,208	0.77
Options exercisable, end of period	2,460,418	0.85	1,827,499	0.87	1,183,541	0.98

Amounts in Canadian Dollars

8. Share capital (continued)

For the year ended December 31, 2012, the fair value of 50,000 (2011 - 320,000; 2010 – 210,000) options granted to non-employees for services was determined with reference to the fair value of the equity instruments granted as the fair value of the services is not reliably measurable. The weighted average grant date fair value of these options was $0.99 (2011 - $0.76; 2010 - $0.36) .

The contributed surplus balance represents accumulated share-based compensation expenses and the fair value of warrants that have expired.

The following table reflects stock options outstanding at December 31, 2012:

	Stock options outstanding			Stock options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Exercisable number	Weighted average exercise price
$0.42 - $0.50	460,000	2.5 years	$ 0.42	426,668	$ 0.42
$0.51 - $1.00	1,672,500	2.5 years	$ 0.70	1,222,501	$ 0.70
$1.01 - $1.50	1,350,000	6.9 years	$ 1.18	608,331	$ 1.16
$1.51 - $1.70	845,000	8.9 years	$ 1.69	202,918	$ 1.70
	4,327,500	5.1 years	$ 1.01	2,460,418	$ 0.85

The following table reflects stock options outstanding at December 31, 2011:

	Stock options outstanding			Stock options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Exercisable number	Weighted average exercise price
$0.42 - $0.50	485,000	3.5 years	$ 0.42	285,833	$ 0.42
$0.51 - $1.00	1,880,000	3.4 years	$ 0.71	888,332	$ 0.74
$1.01 - $1.48	1,495,000	5.8 years	$ 1.21	653,334	$ 1.25
	3,860,000	4.3 years	$ 0.87	1,827,499	$ 0.87

Amounts in Canadian Dollars

8. Share capital (continued)

The following table reflects stock options outstanding at December 31, 2010:

	Stock options outstanding			Stock options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Exercisable number	Weighted average exercise price
$0.42 - $0.50	495,208	4.5 years	$ 0.42	126,041	$ 0.42
$0.51 - $1.00	2,045,000	4.1 years	$ 0.70	557,500	$ 0.75
$1.01 - $1.48	500,000	1.5 years	$ 1.39	500,000	$ 1.39
	3,040,208	3.8 years	$ 0.77	1,183,541	$ 0.98

Share-based compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011	2010
Expected option life	**3.3 years**	3.3 years	3.9 years
Risk free interest rate	**1.2%**	1.3%	1.8%
Dividend yield	**nil**	nil	nil
Expected volatility	**87%**	101%	99%

The Black-Scholes model used by the Company to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires highly subjective assumptions, including future stock price volatility and average option life, which greatly affect the calculated values. The risk-free interest rate is based on the yield of a Canadian Government bond with a remaining term equal to the expected term of the option. The volatility is based solely on historical volatility equal to the expected life of the option. The life of the options is estimated considering the vesting period at the grant date, the life of the option and the average length of time similar grants have remained outstanding in the past. The dividend yield was excluded from the calculation since it is the present policy of the Company to retain all earnings to finance operations and future growth.

During the year ended December 31, 2012, the Company issued 1,045,000 (2011 – 1,150,000; 2010 - 2,195,000) stock options with a fair value of $967,389 (2011 – $908,172; 2010 - $912,340). The weighted average grant-date fair value of the stock options granted during the year ended December 31, 2012 was $0.93 (2011 - $0.79; 2010 - $0.42) .

Amounts in Canadian Dollars

9. Income taxes

The Company recognized no income taxes in the statements of loss and comprehensive loss, as it has been incurring losses since inception, and it is not probable that future taxable profits will be available against which the accumulated tax losses can be utilized.

(a) Unrecognized deferred tax assets:

As at December 31, 2012, 2011 and 2010, deferred tax assets have not been recognized with respect to the following items:

	December 31, 2012 $	December 31, 2011 $	December 31, 2010 $
Non-capital losses carried forward	**4,922,307**	3,443,154	2,388,211
Research and development expenditures	**924,831**	724,012	648,189
Share issue costs	**159,567**	233,092	185,713
Property and equipment	**685**	52,237	13,476
	6,007,390	4,452,495	3,235,589

(b) Deferred tax liabilities:

As at December 31, 2012, 2011 and 2010, deferred tax liabilities were as follows:

	December 31, 2012 $	December 31, 2011 $	December 31, 2010 $
Intangible assets and other	**115,282**	861,579	1,477,842

The deferred tax liability was not recorded as there are sufficient deductible temporary differences which are available to reverse in the same period as the taxable temporary differences.

(c) As at December 31, 2012, the company has available research and development expenditures for income tax purposes of approximately $4,080,000 (2011 - $3,020,000; 2010 - $2,639,000), which may be carried forward indefinitely to reduce future years' taxable income.

(d) As at December 31, 2012, the company has non-capital income tax loss carry-forwards of approximately $18,231,000 (2011 - $12,752,000; 2010 - $7,213,000), available to reduce future years' taxable income with expiry dates ranging from 2014 to 2032.

(e) As at December 31, 2012, the company has approximately $655,000 (2011 - $339,000; 2010 - $238,000) of non-refundable Federal investment tax credits available to offset future income taxes with expiry dates ranging from 2020 to 2032.

Amounts in Canadian Dollars

9. Income taxes (continued)

(f) The reconciliation of the Canadian statutory income tax rate applied to the net loss for the period to the income tax recovery is as follows:

	2012	2011	2010
Statutory income tax rate	**27.0%**	28.5%	30.0%
Income tax recovery based on statutory rate	**$ (2,699,903)**	$ (1,922,871)	$ (1,274,844)
Rate difference between current and future taxes	**-**	88,400	101,100
Stock-based compensation	**278,966**	242,300	83,154
Acquisition expenses	**-**	-	120,100
Scientific research and experimental development	**144,585**	27,200	62,200
Share issue costs	**(7,040)**	(172,200)	(127,500)
Expiry of losses	**-**	-	356,600
Losses acquired	**-**	-	(440,600)
Intangible assets acquired	**-**	-	1,902,600
Other	**(17,800)**	(95,998)	(67,993)
Change in unrecognized temporary difference	**2,301,192**	1,833,169	(714,817)
Income tax recovery	**$ -**	$ -	$ -

10. Research and development

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

	2012	2011	2010
	$	$	$
Research and development programs, excluding the below	**5,180,887**	2,375,471	1,023,081
Salaries, fees and short-term benefits	**688,492**	720,886	378,562
Share-based compensation	**668,164**	418,394	40,785
Depreciation of property and equipment	**4,839**	2,858	14,244
Amortization of intangible assets	**2,348,832**	2,348,832	1,653,713
Impairment loss on property and equipment	**-**	-	76,244
Government assistance	**(16,456)**	(63,229)	(370,394)
	8,874,758	5,803,212	2,816,235

Quarterly research and development expenses may vary due to the timing of costs for manufacturing, initiating and completing pre-clinical and clinical trials, granting of stock options, and recognizing government assistance.

Amounts in Canadian Dollars

11. General and Administrative

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

	2012	2011	2010
	$	$	$
General and administrative, excluding the below	**693,196**	335,168	500,613
Salaries, fees and short-term benefits	**110,668**	216,552	273,016
Share-based compensation	**358,572**	431,672	236,264
	1,162,436	983,392	1,009,893

12. Finance costs

Finance costs for the years ended December 31 were as follows:

	2012	2011	2010
	$	$	$
Bank charges	**2,701**	3,969	441
Net foreign currency loss	**565**	8,863	27,178
	3,266	12,832	27,619

13. Commitments and contingencies

As at December 31, 2012 and in the normal course of business, the Company had obligations to make future payments, representing research and development contracts and other commitments that are known and committed in the amount of $771,000 over the next 12 months, $156,000 from 12 to 24 months, $100,000 from 24-36 months and $20,000 each year thereafter.

The Company enters into research, development and license agreements in the ordinary course of business where the Company receives research services and rights to proprietary technologies. Milestone and royalty payments that may become due under various agreements are dependent on, among other factors, clinical trials, regulatory approvals and ultimately the successful development of a new drug, the outcome and timing of which is uncertain.

The Company periodically enters into research and license agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of claims arising from research and development activities undertaken by or on behalf of the Company. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

Amounts in Canadian Dollars

14. Related parties

The key management personnel of the Company are the Directors, the President and Chief Executive Officer, the Vice President, Research and the Vice President, Finance.

Compensation for key management personnel of the Company for the years ended December 31 were as follows:

	2012 **$**	2011 $	2010 $
Salaries, fees and short-term benefits	**614,004**	687,467	415,237
Share-based compensation	**742,201**	551,547	183,776
Total personnel expenses	**1,356,205**	1,239,014	599,013

Executive officers and directors participate in the stock option plan and certain officers participate in the Company's health plan. Directors receive annual and meeting fees for their services. As at December 31, 2012, the key management personnel control approximately 2% of the voting shares of the Company (2011 – 1.9%; 2010 – 1.6%) ..

During the year ended December 31, 2012, the Company incurred $nil (2011 - $169,642; 2010 - $270,183) in expenses for manufacturing services to a supplier that was formerly related to a director of the Company.

Amounts due to related parties (note 7), including amounts due to key management personnel, at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

15. Acquisition of Sanomune

On June 30, 2010, the Company acquired all issued and outstanding shares of Sanomune Inc. ("Sanomune"), a privately-held biopharmaceutical company developing treatments for neurological, autoimmune and other indications. DiaMedica acquired Sanomune to strategically connect the common base technologies of the two companies.

The Company applied the acquisition method of accounting for the business combination. The purchase price, determined by the fair value of the consideration given at the date of the acquisition, and the fair value of the identifiable assets acquired and the liabilities assumed on the date of the acquisition was as follows:

Fair value of consideration paid:		
12,806,377 common shares of the Company	$	6,787,380
Assets acquired:		
Cash	$	149
Acquired technology		7,046,496
		7,046,645
Liabilities assumed:		
Accounts payable and accrued liabilities		(259,265)
Net identifiable assets acquired	$	6,787,380

DiaMedica issued 0.517 common shares for each of the 3,751,463 common shares and 20,998,317 preference shares of Sanomune for a total issuance of 12,806,377 DiaMedica common shares. Post-closing, Sanomune shareholders held approximately 40% of the issued and outstanding DiaMedica common shares, and Sanomune became a wholly-owned subsidiary of DiaMedica. The fair value of the common shares issued was based on the closing share price of the Company at June 30, 2010 of $0.53 per common share. Acquisition costs for Sanomune expensed in the year ended December 31, 2010 were $400,264.

From the date of the acquisition to December 31, 2010, Sanomune contributed revenue of $nil and a loss of $1,214,513. If the acquisition had occurred on January 1, 2010, management estimates that consolidated revenue would have been $nil, and consolidated loss for the year ended December 31, 2010 would have been $5,485,618. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2010.

The Sanomune acquisition fell within the definition of a related party transaction, within the meaning of Multilateral Instrument 61-101, as, at the date that the Sanomune Acquisition was agreed to, certain parties to the transaction were related parties of the Company and Sanomune.

16. Operating segment

The Company has a single operating segment, the discovery and development of drugs for the treatment of diabetes and related diseases. During 2012, most of the Company's operations and employees were relocated to the United States, while the intangible assets continue to reside in Canada.

17. Management of capital

The Company defines its capital as capital stock, warrants and contributed surplus. The Company's objectives when managing capital are to ensure there are sufficient funds available to carry out its research and development programs. To date, these programs have been funded primarily through the sale of equity securities and the conversion of common share purchase warrants. The Company also sources non-dilutive funding by accessing grants, government assistance and tax incentives, and through partnerships with corporations and research institutions. The Company uses budgets and purchasing controls to manage its costs. There has been no change to the capital management strategy during the year.

The Company is not exposed to any externally imposed capital requirements.

18. Financial instruments

Fair value

Certain of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Financial instruments of the Company consist of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities. As at December 31, 2012, there were no significant differences between the carrying values of these amounts and their estimated fair values due to their short-term nature. The Company has classified its cash and cash equivalents as Level 1 as fair values are determined by quoted prices of identical assets in active markets.

Risk

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The audit committee of the board is responsible to review the Company's risk management policies.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents and amounts receivable. The carrying amount of these financial assets represents the maximum credit exposure. The Company follows an investment policy to mitigate against the deterioration of principal and to enhance the Company's ability to meet its liquidity needs. Cash and cash equivalents are on deposit with a credit union and guaranteed by the Credit Union Deposit Guarantee Corporation of Manitoba in Canada, and in bank accounts in the United States. Amounts receivable are primarily comprised of amounts due from the Federal government.

(b) **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is a development stage company and is reliant on external sources of capital to support its operations. Once funds have been raised, usually through equity offerings, the Company manages its liquidity risk by investing in cash and cash equivalents to provide regular cash flow for current operations. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions not in the ordinary course of business. The majority of the Company's accounts payable and accrued liabilities have maturities of less than three months.

(c) **Market risk**

(i) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash and cash equivalents are highly liquid holdings in bank accounts or high interest savings accounts which have a variable rate of interest. The Company manages its interest rate risk by holding highly liquid short-term instruments and by holding its investments to maturity, where possible.

(ii) **Currency risk**

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar which are primarily expenses in US dollars. The Company manages its exposure to currency fluctuations by holding cash and cash equivalents denominated in US dollars in amounts approximating current US dollar financial liabilities and US dollar planned expenditures. As at December 31, 2012 the Company held US dollar cash and cash equivalents in the amount of US$1,065,141 and had US dollar denominated accounts payable in the amount of US$1,163,590. Therefore a 1% change in the foreign exchange rate would have had a net impact on the consolidated financial statements of $984.

US dollars expenses for the year ended December 31, 2012 were approximately $2,850,000. Varying the US exchange rate for the year to reflect a 1% strengthening of the Canadian dollar would have decreased the net loss by approximately $28,500 assuming that all other variables remained constant.

19. Events after the statement of financial position date

(a) On March 22, 2013, the Company completed a prospectus offering of 5,111,175 units at a price of $0.90 per unit, for aggregate gross proceeds to the Company of $4,600,058 ($3,949,127 net of issuance costs). Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.10 at any time prior to expiry on March 22, 2016. The warrant expiry date can be accelerated at the option of the Company, in the event that the volume-weighted average trading price of the Company's common shares exceeds $1.60 per common share for any 10 consecutive trading days. In connection with the financing, the Company issued 357,782 compensation warrants. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.90 prior to expiry on March 22, 2014.

The $0.90 unit issue price was allocated to common shares in the amount of $0.79 per common share and the unit warrants were allocated a price of $0.11 per half-warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $3,466,456 was allocated to common shares and $482,671 to the unit warrants, net of issue costs. Assumptions used to determine the value of the unit warrants were: dividend yield 0%; risk-free interest rate 1.1%; expected volatility 69%; and average expected life of 36 months. Assumptions used to determine the value of the compensation warrants were: dividend yield 0%; risk-free interest rate 1.0%; expected volatility 63%, respectively; and average expected life of 12 months.

(b) Subsequent to December 31, 2012, 96,042 common shares were issued on the exercise of stock options for gross proceeds of $63,750 and 24,025 common shares were issued on the exercise of warrants for gross proceeds of $23,442. Subsequent to December 31, 2012, 948,000 stock options were granted with an average exercise price of $1.05.

(c) Effective on July 9, 2013, the Company amended the exercise price of the 1,055,600 outstanding warrants that were issued in May 2012 in connection with an earlier exercise incentive program from an exercise price of $2.50 to an exercise price of $1.60.

(d) On December 16, 2013 the shareholders of the Company passed a special resolution that the Articles of the Company may be amended to consolidate all of the issued and outstanding common shares on the basis of a ratio of one (1) post- consolidation common share for each (2) two to (5) five outstanding pre-consolidation Common Shares, with such ratio and such amendment to be determined by the board of directors in its sole discretion. As at the issue date of these financial statements, no share consolidation has been implemented.

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

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

(UNAUDITED)

DIAMEDICA INC.
Condensed Consolidated Interim Statements of Financial Position
Amounts in Canadian Dollars
(Unaudited)

	Note	As at September 30, 2013 $	As at December 31, 2012 $
ASSETS			
Current			
Cash and cash equivalents		**1,098,643**	2,327,650
Amounts receivable	4	**25,235**	20,405
Prepaid expenses		**104,018**	103,726
Total current assets		**1,227,896**	2,451,781
Property and equipment	5	**19,683**	6,560
Intangible assets	6	**283,910**	1,368,969
Total non-current assets		**303,593**	1,375,529
Total assets		**1,531,489**	3,827,310
LIABILITIES			
Current			
Accounts payable and accrued liabilities	7	**993,202**	1,574,253
Total liabilities		**993,202**	1,574,253
EQUITY			
Share capital	8	**33,693,763**	30,119,600
Warrants	8	**886,524**	277,000
Contributed surplus	8	**3,998,202**	3,488,991
Deficit		**(38,040,202)**	(31,632,534)
Total equity		**538,287**	2,253,057
Total liabilities and equity		**1,531,489**	3,827,310

Going concern (note 2(b))

Approved by the Board and authorized for issue on November 28, 2013:

(signed) Dawson Reimer, Director (signed) Thomas Wellner, Director

See accompanying notes to the condensed consolidated interim financial statements

DIAMEDICA INC.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
Amounts in Canadian Dollars
(Unaudited)

	Note	**Three Months Ended September 30, 2013 $**	Three Months Ended September 30, 2012 $	**Nine Months Ended September 30, 2013 $**	Nine Months Ended September 30, 2012 $
EXPENSES					
Research and development	10,11	**1,204,034**	2,252,916	**5,655,611**	5,964,284
General and administrative	10,11	**148,860**	298,329	**762,483**	1,006,332
		1,352,894	2,551,245	**6,418,094**	6,970,616
Finance income	12	**(4,738)**	(14,005)	**(17,430)**	(35,558)
Finance costs	12	**9,642**	442	**7,004**	24,113
		4,904	(13,563)	**(10,426)**	(11,445)
Net loss and comprehensive loss for the period		**1,357,798**	2,537,682	**6,407,668**	6,959,171
Basic and diluted loss per common share		**(0.02)**	(0.05)	**(0.12)**	(0.14)

See accompanying notes to the condensed consolidated interim financial statements

DIAMEDICA INC.
Condensed Consolidated Interim Statements of Changes in Equity
Amounts in Canadian Dollars
(Unaudited)

	Share capital		Warrants		Contributed		
	Number	Amount	Number	Amount	surplus	Deficit	Total
	#	$	#	$	$	$	$
	(note 8)		(note 8)	(note 8)			
Balance, December 31, 2012	50,534,443	30,119,600	1,055,600	277,000	3,488,991	(31,632,534)	2,253,057
Net loss and comprehensive loss for the period	-	-	-	-	-	(6,407,668)	(6,407,668)
Transactions with owners of the Company, recognized directly in equity							
Units issued, net of issue costs	5,111,175	3,466,456	2,555,587	482,671	-	-	3,949,127
Compensation warrants issued	-	-	357,782	71,556	-	-	71,556
Shares issued on exercise of stock options	71,042	79,562	-	-	(33,312)	-	46,250
Warrant repricing	-	-	-	60,000	(60,000)	-	-
Shares issued on exercise of warrants	24,025	28,145	(24,025)	(4,703)	-	-	23,442
Share-based compensation	-	-	-	-	602,523	-	602,523
Total transactions with owners of the Company	5,206,242	3,574,163	2,889,344	609,524	509,211	-	4,692,898
Balance, September 30, 2013	55,740,685	33,693,763	3,944,944	886,524	3,998,202	(38,040,202)	538,287

	Share capital		Warrants		Contributed		
	Number	Amount	Number	Amount	surplus	Deficit	Total
	#	$	#	$	$	$	$
Balance, December 31, 2011	46,960,943	24,391,827	3,415,500	726,309	2,602,214	(21,632,894)	6,087,456
Net loss and comprehensive loss for the period	-	-	-	-	-	(6,959,171)	(6,959,171)
Transactions with owners of the Company, recognized directly in equity							
Shares issued on exercise of warrants, net of issue costs	3,300,500	5,281,929	(2,244,900)	(424,824)	-	-	4,857,105
Shares issued on exercise of stock options	273,000	445,844	-	-	(164,444)	-	281,400
Warrants expired	-	-	(115,000)	(24,485)	24,485	-	-
Share-based compensation	-	-	-	-	799,055	-	799,055
Total transactions with owners of the Company	3,573,500	5,727,773	(2,359,900)	(449,309)	659,096	-	5,937,560
Balance, September 30, 2012	50,534,443	30,119,600	1,055,600	277,000	3,261,310	(28,592,065)	5,065,845

See accompanying notes to the condensed consolidated interim financial statements

DIAMEDICA INC.
Condensed Consolidated Interim Statements of Cash Flows
Amounts in Canadian Dollars
(Unaudited)

	Note	Nine months ended September 30, 2013 $	Nine months ended September 30, 2012 $
OPERATING ACTIVITIES			
Net loss and comprehensive loss for the period		**(6,407,668)**	(6,959,171)
Adjustments for items not affecting cash			
Share-based compensation		**602,523**	799,055
Depreciation of property and equipment	5	**3,720**	2,222
Amortization of intangible assets	6	**1,174,416**	1,761,624
		(4,627,009)	(4,396,270)
Changes in non-cash working capital items			
Amounts receivable		**(4,830)**	31,530
Prepaid expenses		**(292)**	(46,582)
Accounts payable and accrued liabilities		**(581,051)**	435,084
Cash used in operating activities		**(5,213,182)**	(3,976,238)
FINANCING ACTIVITIES			
Units issued, net of cash issue costs	8	**4,020,683**	-
Issue of common shares on exercise of warrants	8	**23,442**	4,857,105
Issue of common shares on exercise of stock options	8	**46,250**	281,400
Cash provided by financing activities		**4,090,375**	5,138,505
INVESTING ACTIVITIES			
Acquisition of property and equipment	5	**(16,843)**	(1,315)
Acquisition of patents pending	6	**(89,357)**	(44,506)
Cash used in investing activities		**(106,200)**	(45,821)
Net increase (decrease) in cash and cash equivalents during the period		**(1,229,007)**	1,116,446
Cash and cash equivalents, beginning of the period		**2,327,650**	2,707,663
Cash and cash equivalents, end of period		**1,098,643**	3,824,109
Cash and cash equivalents are comprised of			
Cash in bank		**1,098,643**	3,824,109
Supplemental cash flow information			
Incentive warrants issued May 8, 2012 (Note 8)		**-**	277,000
Common share purchase warrants issued as agents consideration (Note 8)		**71,556**	-

See accompanying notes to the condensed consolidated interim financial statements

1. Corporate information

DiaMedica Inc. (the "Company" or "DiaMedica") is a development stage biopharmaceutical company engaged in the discovery and development of drugs for the treatment of diabetes and related diseases.

The Company is a listed company incorporated under the Corporations Act (Manitoba) and domiciled in Manitoba, Canada whose shares are publicly traded on the TSX Venture Exchange. The Company's registered office is at 1700 – 360 Main Street, Winnipeg, Manitoba R3C 3Z3.

2. Basis of presentation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared in compliance with International Accounting Standard 34 ("IAS 34") Interim Financial Reporting. The notes presented in these consolidated financial statements include only significant events and transactions occurring since our last fiscal year end and are not fully inclusive of all matters required to be disclosed in our annual audited consolidated financial statements.

The policies applied in these consolidated financial statements are based on IFRS issued and in effect as of November 28, 2013, the date the Board of Directors approved the statements. Any subsequent changes to IFRS or their interpretation, that are given effect in the company's annual consolidated financial statements for the year ending December 31, 2013 could result in restatement of these interim consolidated financial statements.

(b) Basis of measurement and going concern

These consolidated financial statements have been prepared on the historical cost basis, except for held-for-trading financial assets which are measured at fair value.

These consolidated financial statements have been prepared using IFRS that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. 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, the Company will require ongoing funding in order to continue its research and development activities, and it has not reached successful commercialization of its products.

The Company's future operations are dependent upon its ability to generate product revenues, negotiate license agreements with partners, and secure additional funds. There can be no assurance that the Company will be successful in commercializing its products, entering into strategic agreements with partners, or raising additional capital on favourable terms or at all. There is also no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern. The Company believes it has sufficient resources available to support the Company's activities into the fourth quarter of 2013. The Company has advanced in seeking new funding from equity financings and/or licensing arrangements with development partners, however, there is no assurance that these funding initiatives will be successful.

These consolidated financial statements do not reflect adjustments in the carrying values of the Company's assets and liabilities, expenses, and the balance sheet classification used, that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses and the related disclosures of contingent assets and liabilities. Actual results could differ materially from these estimates and assumptions. We review our estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods.

We have applied significant judgments, estimates and assumptions to the measurement and timing of period of use of intangible assets, and to valuing our share-based compensation and warrants as follows:

Valuation of share-based compensation and warrants

Management measures the costs for share-based compensation and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected risk-free interest rate, future employee turnover rates, future exercise behaviours and corporate performance. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based payments and warrants.

Measurement, period of use and potential impairment of intangible assets

Management reviews objective evidence each reporting period to assess whether there are indications of impairment of the intangible assets and make judgments about their period of use. These determinations and their individual assumptions require that management make a decision based on the best and most reliable information available at each reporting period.

3. Significant accounting policies

The Company's principal accounting policies were outlined in the Company's annual audited consolidated financial statements for the year ended December 31, 2012 and have been applied consistently to all periods presented in these consolidated financial statements, except as noted below. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2012.

New standards and interpretations adopted

IFRS 10 *Consolidated Financial Statements*

This amendment provides a single model to be applied in the control analysis for all investees. The amendments issued in June 2012 simplify the process of adopting IFRS 10 and provide additional relief from certain disclosures. The Company adopted IFRS 10, including the amendments issued in June 2012, in its financial statements for the annual period beginning on January 1, 2013. The adoption did not have a material impact on the financial statements.

IFRS 13 *Fair Value Measurement*

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The Company adopted IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The adoption did not have a material impact on the financial statements.

Amounts in Canadian Dollars

Annual Improvements to IFRSs 2009-2011 Cycle – various standards

In May 2012, the IASB published Annual Improvements to IFRSs – 2009-2011 Cycle as part of its annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments are effective for annual periods beginning on or after January 1, 2013 with retrospective application. The Company adopted the amendments to the standards in its financial statements for the annual period beginning on January 1, 2013. The adoption did not have a material impact on the financial statements.

New standards and interpretations not yet effective

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 (2010) reflects the first phase of the IASBs work on the replacement of IAS 39, Financial instruments: Recognition and Measurement and deals with the classification and measurement of financial assets and financial liabilities. This standard establishes two primary measurement categories for financial assets, amortized cost and fair value, and eliminates the existing categories of held to maturity, available for sale, and loans and receivables. The new classification will depend on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. The Company does not currently expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 (2010) because of the nature of the Company's operations and the types of financial assets that it currently holds.

4. Amounts receivable

	September 30, 2013	December 31, 2012
	$	$
Other receivables	**2,445**	2,752
Taxes and tax credits receivable	**22,790**	17,653
	25,235	20,405

Amounts in Canadian Dollars

5. Property and equipment

	Computer and office equipment $
Cost	
Balance, December 31, 2011	18,521
Additions	3,762
Balance, December 31, 2012	22,283
Additions	16,843
Balance, September 30, 2013	**39,126**
Accumulated depreciation	
Balance, December 31, 2011	10,884
Depreciation	4,839
Balance, December 31, 2012	15,723
Depreciation	3,720
Balance, September 30, 2013	**19,443**
Net carrying amounts	
December 31, 2012	6,560
September 30, 2013	**19,683**

6. Intangible assets

	Acquired technology $	Patents $	Total $
Cost			
Balance, December 31, 2011	7,046,496	155,183	7,201,679
Additions	-	59,282	59,282
Balance, December 31, 2012	7,046,496	214,465	7,260,961
Additions	-	89,357	89,357
Balance, September 30, 2013	7,046,496	303,822	**7,350,318**
Accumulated amortization			
Balance, December 31, 2011	3,523,248	19,912	3,543,160
Amortization	2,348,832	-	2,348,832
Balance, December 31, 2012	5,872,080	19,912	5,891,992
Amortization	1,174,416	-	1,174,416
Balance, September 30, 2013	7,046,496	19,912	**7,066,408**
Net carrying amounts			
December 31, 2012	1,174,416	194,553	1,368,969
September 30, 2013	-	283,910	**283,910**

Amounts in Canadian Dollars

7. Accounts payable and accrued liabilities

	September 30, 2013 $	December 31, 2012 $
Trade and other payables	**328,267**	1,185,558
Accrued liabilities	**489,725**	329,658
Due to related parties	**175,210**	59,037
	993,202	1,574,253

8. Share capital

(a) Authorized

The Company has authorized share capital of an unlimited number of common voting shares.

Common shareholders are entitled to receive dividends as declared by the Company at its discretion and are entitled to one vote per share at the Company's annual general meeting.

In connection with the acquisition of Sanomune on June 30, 2010, 1,640,916 common shares were placed in escrow for a period of three years to be released in six semi-annual instalments. As at September 30, 2013, all common shares have been released from escrow.

(b) Common shares issued – for the nine months ended September 30, 2013

On March 22, 2013, the Company completed a prospectus offering of 5,111,175 units at a price of $0.90 per unit, for aggregate gross proceeds to the Company of $4,600,058 ($3,949,127 net of issuance costs). Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.10 at any time prior to expiry on March 22, 2016. The warrant expiry date can be accelerated at the option of the Company, in the event that the volume-weighted average trading price of the Company's common shares exceeds $1.60 per common share for any 10 consecutive trading days. In connection with the financing, the Company issued 357,782 compensation warrants. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.90 prior to expiry on March 22, 2014.

The $0.90 unit issue price was allocated to common shares in the amount of $0.79 per common share and the unit warrants were allocated a price of $0.11 per half-warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $3,466,456 was allocated to common shares and $482,671 to the unit warrants, net of issue costs. Assumptions used to determine the value of the unit warrants were: dividend yield 0%; risk-free interest rate 1.1%; expected volatility 69%; and average expected life of 36 months. Assumptions used to determine the value of the compensation warrants were: dividend yield 0%; risk-free interest rate 1.0%; expected volatility 63%, respectively; and average expected life of 12 months.

During the nine months ended September 30, 2013, 71,042 common shares were issued on the exercise of stock options for gross proceeds of $46,250 and 24,025 common shares were issued on the exercise of warrants for gross proceeds of $23,442.

Effective on July 9, 2013, the Company amended the exercise price of the 1,055,600 outstanding warrants that were issued in May 2012 in connection with an earlier exercise incentive program from an exercise price of $2.50 to an exercise price of $1.60.

Common shares issued – for the nine months ended September 30, 2012

During the nine months ended September 30, 2012, 273,000 common shares were issued on the exercise of stock options for gross proceeds of $281,400.

8. Share capital (continued)

On May 8, 2012, the Company completed an incentive program to encourage the early exercise of the $1.50 warrants that were previously issued in connection with DiaMedica's short form prospectus offering in July, 2011 (the "Original Warrants"). DiaMedica amended the terms of the Original Warrants to enable the holders thereof to receive a Unit in lieu of a common share of DiaMedica on the exercise of their Original Warrants prior to the May 8, 2012 expiry date. Each Unit consisted of one common share in the capital stock of DiaMedica and one-half of one warrant (each whole warrant, a "New Warrant"). Each New Warrant entitles the holder thereof to acquire a common share in DiaMedica at a price of $2.50 per share for 24 months following the date of issue of the Unit. On May 8, 2012, 2,111,200 common shares were issued on the exercise of $1.50 warrants for gross proceeds of $3,166,800 ($3,150,781 net of cash issue costs) under the incentive program, and accordingly, 1,055,600 New Warrants, with a total grant date fair value of $277,000, were issued with an exercise price of $2.50. Assumptions used in an option pricing model to determine the value of the New Warrants were: dividend yield 0%; risk-free interest rate 1.2%; expected volatility 74%; and expected life of 2 years.

In the event the volume-weighted average trading price of DiaMedica's common shares exceeds $3.00 per share for a period of 10 consecutive trading days, DiaMedica may, at its option, accelerate the New Warrant Expiry Date by delivery of notice to the holders of New Warrants and issuing a press release announcing such acceleration and, in such case, the New Warrant Expiry Date shall be deemed to be the 30th day following the later of: (i) the date on which the Warrant Acceleration Notice is sent to Warrant holders; and (ii) the date of issuance of the Warrant Acceleration Press Release.

On August 3, 2012, the ten-day volume-weighted average trading price of DiaMedica common shares exceeded $2.00 per common share and the Company provided notice to warrant holders that the expiry date of these warrants had been accelerated to September 7, 2012. In the third quarter, 1,189,300 warrants were exercised for gross proceeds of $1,706,324 and the remaining 115,000 warrants expired.

(c) Weighted average number of shares

The weighted average number of shares for the three and nine months ended September 30, 2013 was 55,723,868 and 54,157,827 (2012 - 49,830,510 and 48,373,898). The Company has not adjusted its weighted average number of shares outstanding for the purpose of calculating the diluted loss per share as any adjustment related to stock options, warrants or deferred share units would be anti-dilutive.

(d) Shareholder rights plan

The shareholders of the Company approved the adoption of a shareholder rights plan agreement (the "Plan") on September 22, 2011. The Plan is designed to provide adequate time for the Board of Directors and the shareholders to assess an unsolicited takeover bid for DiaMedica, to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value if a takeover bid is made, and to provide shareholders with an equal opportunity to participate in a takeover bid and receive full and fair value for their Common Shares. The Plan will expire at the close of the Company's annual meeting of shareholders in 2014.

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

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

Amounts in Canadian Dollars

8. Share capital (continued)

(e) Deferred Share Units Plan

The shareholders of the Company approved the adoption of a deferred share units plan (the "DSU Plan") on September 22, 2011 reserving for issuance up to 2,000,000 common shares under the DSU Plan. The purpose of the DSU Plan is to provide an alternative form of compensation to satisfy directors' fees and annual and special bonuses payable to senior officers and Directors of the Corporation. No units were issued in the nine months ended September 30, 2013 (2012 – 47,435 units with a value of $80,640). A total of 74,556 units have been issued since inception of the DSU Plan. The DSU Plan is equity-settled and the fair value of units granted, which vest upon issuance, is included in share-based compensation expense.

(f) Stock option plan

The Company has a stock option plan which is administered by the Board of Directors of the Company with stock options granted to directors, management, employees and consultants as a form of compensation. 7,000,000 common shares were reserved for issuance under the plan. Options granted vest at various rates and have terms of up to 10 years.

Changes in the number of options outstanding during the nine months ended September 30 were as follows:

	2013		2012	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance, beginning of period	4,327,500	$ 1.01	3,860,000	$ 0.87
Granted	848,000	1.07	720,000	1.70
Exercised	(71,042)	0.65	(273,000)	1.03
Forfeited	(111,458)	1.40	(96,500)	0.65
Expired/ cancelled	(50,000)	1.00	(208,000)	1.43
Balance, end of period	4,943,000	1.02	4,002,500	0.98
Options exercisable, end of period	3,385,458	0.92	2,212,914	0.83

The contributed surplus balance represents accumulated share-based compensation expenses and the fair value of warrants that have expired.

Amounts in Canadian Dollars

8. Share capital (continued)

The following table reflects stock options outstanding at September 30, 2013:

	Stock options outstanding			Stock options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Exercisable number	Weighted average exercise price
$0.42 - $0.50	447,500	1.8 years	$0.42	444,167	$0.42
$0.51 - $1.00	1,552,500	1.9 years	$0.69	1,443,126	$0.69
$1.01 - $1.50	2,148,000	7.6 years	$1.14	1,113,164	$1.15
$1.51 - $1.70	795,000	8.1 years	$1.69	385,001	$1.70
	4,943,000	5.3 years	$1.02	3,385,458	$0.92

Share-based compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

	September 30, 2013	September 30, 2012
Expected option life	3.8 years	3.2 years
Risk free interest rate	1.6%	1.2%
Dividend yield	nil	nil
Expected volatility	77%	91%

The Black-Scholes model used by the Company to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires highly subjective assumptions, including future stock price volatility and average option life, which greatly affect the calculated values. The risk-free interest rate is based on the yield of a Canadian Government bond with a remaining term equal to the expected term of the option. The volatility is based solely on historical volatility equal to the expected life of the option. The life of the options is estimated considering the vesting period at the grant date, the life of the option and the average length of time similar grants have remained outstanding in the past. The forfeiture rate is an estimate based on future expectations. The dividend yield is assumed to be nil since it is the present policy of the Company to retain all earnings to finance operations and future growth.

During the nine months ended September 30, 2013, the Company issued 848,000 (2012 – 720,000) stock options with a fair value of $512,172 (2012 – $725,620). The weighted average grant-date fair value of the stock options granted during the nine months ended September 30, 2013 was $0.60 (2012 - $1.01) .

9. Income taxes

The Company recognized no income taxes in the statements of loss and comprehensive loss, as it has been incurring losses since inception, and it is not probable that future taxable profits will be available against which the accumulated tax losses can be utilized.

Amounts in Canadian Dollars

10. Research and development

Components of research and development expenses for the three months ended September 30 were as follows:

	2013	2012
	$	$
Research and development programs, excluding the below	**753,096**	1,316,036
Salaries, fees and short-term benefits	**319,880**	215,790
Share-based compensation	**150,494**	133,114
Depreciation of property and equipment	**1,202**	768
Amortization of intangible assets	**-**	587,208
Government assistance	**(20,638)**	-
Total	**1,204,034**	2,252,916

Components of research and development expenses for the nine months ended September 30 were as follows:

	2013	2012
	$	$
Research and development programs, excluding the below	**3,195,325**	3,145,521
Salaries, fees and short-term benefits	**970,947**	507,880
Share-based compensation	**352,479**	563,493
Depreciation of property and equipment	**3,720**	2,222
Amortization of intangible assets	**1,174,416**	1,761,624
Government assistance	**(41,276)**	(16,456)
Total	**5,655,611**	5,964,284

Quarterly research and development expenses may vary due to the timing of costs for manufacturing, initiating and completing pre-clinical and clinical trials, granting of stock options, and recognizing government assistance.

11. General and Administrative

Components of general and administrative expenses for the three months ended September 30 were as follows:

	2013	**2012**
	$	**$**
General and administrative, excluding the below	**82,567**	193,834
Salaries, fees and short-term benefits	**16,300**	29,774
Share-based compensation	**49,993**	74,721
Total	**148,860**	298,329

Components of general and administrative expenses for the nine months ended September 30 were as follows:

	2013	**2012**
	$	**$**
General and administrative, excluding the below	**410,046**	648,006
Salaries, fees and short-term benefits	**102,393**	122,764
Share-based compensation	**250,044**	235,562
Total	**762,483**	1,006,332

Amounts in Canadian Dollars

12. Finance income and finance costs

Finance income for the three months ended September 30 was as follows:

	2013	2012
	$	$
Interest income	**4,738**	12,611
Net foreign currency gain	**-**	1,394
Finance income	**4,738**	14,005

Finance income for the nine months ended September 30 was as follows:

	2013	2012
	$	$
Interest income	**13,967**	35,558
Net foreign currency gain	**3,463**	-
Finance income	**17,430**	35,558

Finance costs for the three months ended September 30 were as follows:

	2013	2012
	$	$
Bank charges	**1,231**	442
Net foreign currency loss	**8,411**	-
Finance costs	**9,642**	442

Finance costs for the nine months ended September 30 were as follows:

	2013	2012
	$	$
Bank charges	**7,004**	976
Net foreign currency loss	**-**	23,137
Finance costs	**7,004**	24,113

13. Commitments and contingencies

As at September 30, 2013 and in the normal course of business, the Company had obligations to make future payments, representing research and development contracts and other commitments that are known and committed in the amount of $2,305,000 over the next 12 months, $97,000 from 12 to 24 months, $44,000 from 24-36 months and $20,000 each year thereafter. The Company's largest commitment is a contract in the amount of approximately $2.5 million for the Phase I/II clinical trial of which $930,000 has been expensed to date.

The Company enters into research, development and license agreements in the ordinary course of business where the Company receives research services and rights to proprietary technologies. Milestone and royalty payments that may become due under various agreements are dependent on, among other factors, clinical trials, regulatory approvals and ultimately the successful development of a new drug, the outcome and timing of which is uncertain.

Amounts in Canadian Dollars

The Company periodically enters into research and license agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of claims arising from research and development activities undertaken by or on behalf of the Company. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

14. Related parties

The key management personnel of the Company are the Directors, the President and Chief Executive Officer and the Vice Presidents.

Compensation for key management personnel of the Company for the three months ended September 30 was as follows:

	2013	2012
	$	$
Salaries, fees and short-term benefits	**217,857**	140,784
Share-based compensation	**168,435**	179,198
Total personnel expenses	**386,292**	319,982

Compensation for key management personnel of the Company for the nine months ended September 30 was as follows:

	2013	2012
	$	$
Salaries, fees and short-term benefits	**705,854**	454,753
Share-based compensation	**419,699**	577,567
Total personnel expenses	**1,125,553**	1,032,320

Executive officers and directors participate in the stock option plan and certain officers participate in the Company's health plan. Directors receive annual and meeting fees for their services. As at September 30, 2013, the key management personnel control approximately 2% of the voting shares of the Company.

Amounts due to related parties, including amounts due to key management personnel, at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

EXHIBIT INDEX

Exhibit Number	Description
1.1	Articles of Incorporation dated January 21, 2000
1.2	Articles of Amendment dated October 6, 200
1.3	Articles of Amendment dated April 3, 2001
1.4	Articles of Amendment dated March 14, 2005
1.5	Articles of Amendment dated July 2, 2008
2.1	Shareholder Rights Plan Agreement between DiaMedica Inc. and CIBC Mellon Trust Company dated August 25, 2011
4.1	Employment Agreement with Rick Pauls dated January 28, 2010
4.2	Employment Agreement with Mark Williams dated July 1, 2010
4.3	Employment Agreement with Mark Robbins dated December 10, 2012
4.4	Stock Option Plan
4.5	Amended and Restated Deferred Share Unit Plan
4.6*	License Agreement between Sanomune Inc. and the University of Manitoba effective October 1, 2005
4.7*	Share Exchange Agreement among Sanomune shareholders, Sanomune Inc. and DiaMedica Inc. dated February 18, 2010
8.1	List of Subsidiaries

* to be filed by amendment

The Corporations Act/
Loi sur les corporations

ARTICLES OF INCORPORATION (share capital)/
STATUTS CONSTITUTIFS (corporations avec capital-actions)

MANITOBA

Manitoba The Corporations Act / Loi sur les corporations

CERTIFICATE / CERTIFICAT

ARTICLES EFFECTIVE /
LES STATUTS PRENNENT EFFET LE
21 JAN / JAN 2000

DIRECTOR, CORPORATIONS DIVISION /
DIRECTEUR, DIRECTION DES CORPORATIONS

Corporation No. / N° de la corporation 4135955

1-Name of Corporation / Dénomination sociale

DIABEX INC.

2-The address in full of the registered office (include postal code)
Adresse complète du bureau enregistré (inclure le code postal)

1700 – 360 Main Street
Winnipeg, Manitoba R3C 3Z3

3-Number (or minimum and maximum number) of directors
Nombre (ou nombre minimal et maximal) d'administrateurs

Minimum of One (1); Maximum of Ten (10)

4-First directors/Premiers administrateurs

Name in full / Nom complet	Address in full (include postal code)/Adresse complète (inclure le code postal
DR. ALBERT D. FRIESEN	**77 Shorecrest Drive** **Winnipeg, MB R3P 1P4**

5-The classes and any maximum number of shares that the corporation is authorized to issue
Catégories et tout nombre maximal d'actions que la corporation est autorisée à émettre

The Corporation is authorized to issue six classes of shares: Voting Common Shares; Non-voting Common Shares; Class A Shares; Class B Shares; Class C Shares; and Class D Shares. The shares of each class may be issued in unlimited numbers, for unlimited consideration.

6-The rights, privileges, restrictions and conditions attaching to the shares, if any
Droits, privilèges, restrictions et conditions dont les actions sont assorties, s'il y a lieu

As set forth in Schedule "I" attached hereto.

7-Restrictions, if any, on share transfers/ Restrictions au transfer des actions, s'il y a lieu

No share of the Corporation shall be transferred without the consent of a majority of the Directors of the Corporation expressed by written instrument. For purposes of greater certainty, such restriction shall not apply to any redemption by the Corporation of its Class A Shares, Class B Shares, Class C Shares or Class D Shares.

8-Restrictions, if any, on business the corporation may carry on/
Limites imposées quant à l'entreprise que la corporation peut exercer, s'il y a lieu

Not applicable.

9-Other provisions, if any/Autres dispositions, s'il y a lieu

As set forth in Schedule "II" attached hereto.

10-I have satisfied myself that, the proposed name of the corporation is not the same as or similar to the name of any known body corporate, association, partnership, individual or business so as to be likely to confuse or mislead.
Je me suis assuré que la dénomination sociale projetée n'est ni identique ni semblable à la dénomination d'une personne morale, d'une association, d'une société ou d'une entreprise connue ou au nom d'un particulier connu et qu'elle ne saurait prêter à confusion ni induire en erreur.

11-Incorporators/Fondateurs

Name in full/ Nom complet	Address in full (include postal code)/ Adresse complète (inclure le code postal)	Signature/ Signature
DR. ALBERT D. FRIESEN	**77 Shorecrest Drive** **Winnipeg, MB R3P 1P4**	

Note: If any First Director named in paragraph 4 is not an Incorporator, a Form 3 "Consent to Act as a First Director" must be attached. State the full civic address in paragraphs 2, 4 and 11 - a P.O. box number alone is not acceptable.

Remarque: Si l'un des premiers administrateurs nommés à la rubrique 4 n'est pas un fondateur, joindre la formule 3 intitulée "Consentement à agir en qualité de premier administrateur". Indiquer l'adresse complète dans les rubriques 2, 4 et 11; un numéro de case postale seul n'est pas suffisant.

SCHEDULE "I"
to Article 6 of the Articles of Incorporation of
DIABEX INC.

There shall be six classes of shares, the Voting Common Shares, the Non-voting Common Shares, the Class A Shares, the Class B Shares, the Class C Shares and the Class D Shares, which shall have attached thereto the following rights, privileges, restrictions and conditions:

1. "Redemption Amount per Class A Share" shall be the quotient obtained when the fair market value of the net consideration received by the Corporation from the first holder of Class A Shares at the time of the first issuance of Class A Shares for their issuance by the Corporation is divided by the number of Class A Shares issued at such time. The fair market value of the net consideration received by the Corporation upon the first issue of Class A Shares shall be determined by the Directors of the Corporation at the time of the first issuance of Class A Shares, provided that if Canada Customs and Revenue Agency should make any assessment on either the Corporation or a holder of Class A Shares which assessment is based upon the fair market value of the net consideration received by the Corporation upon the first issue of Class A Shares being an amount greater or lesser than the amount determined by the Directors of the Corporation and such assessment or notification of intention to assess is either accepted by the Corporation and the holder of Class A Shares or is appealed to any authority or court of competent jurisdiction and such appeal is settled by agreement between the Corporation, the Shareholder and Canada Customs and Revenue Agency, or, if upon final disposition of the appeal the assessment is upheld in whole or in part by a court of competent jurisdiction, then the Redemption Amount per Class A Share shall be adjusted to reflect the fair market value of the net consideration as finally determined, and such Redemption Amount so adjusted shall be deemed to be and to have always been the Redemption Amount per Class A Share from the time of the first issuance of Class A Shares. If as a result of the adjustment the Redemption Amount has been increased, the Corporation shall pay to any former holders of Class A Shares which had previously been redeemed the amount of the increase, and if as a result of the adjustment the Redemption Amount has been decreased, any former holders of Class A Shares which had previously been

redeemed shall reimburse the Corporation the amount of such decrease. If any dividends previously have been paid by the Corporation on the Class A Shares in any financial year at a rate in excess of eight (8%) per cent of the Redemption Amount per Class A Share so adjusted, then the holders of such Class A Shares shall reimburse the Corporation the amount of such excess.

2. "Redemption Amount per Class B Share" shall be the quotient obtained when the fair market value of the net consideration received by the Corporation from the first holder of Class B Shares at the time of the first issuance of Class B Shares for their issuance by the Corporation is divided by the number of Class B Shares issued at such time. The fair market value of the net consideration received by the Corporation upon the first issue of Class B Shares shall be determined by the Directors of the Corporation at the time of the first issuance of Class B Shares, provided that if Canada Customs and Revenue Agency should make any assessment on either the Corporation or a holder of Class B Shares which assessment is based upon the fair market value of the net consideration received by the Corporation upon the first issue of Class B Shares being an amount greater or lesser than the amount determined by the Directors of the Corporation and such assessment or notification of intention to assess is either accepted by the Corporation and the holder of Class B Shares or is appealed to any authority or court of competent jurisdiction and such appeal is settled by agreement between the Corporation, the Shareholder and Canada Customs and Revenue Agency, or, if upon final disposition of the appeal the assessment is upheld in whole or in part by a court of competent jurisdiction, then the Redemption Amount per Class B Share shall be adjusted to reflect the fair market value of the net consideration as finally determined, and such Redemption Amount so adjusted shall be deemed to be and to have always been the Redemption Amount per Class B Share from the time of the first issuance of Class B Shares. If as a result of the adjustment the Redemption Amount has been increased, the Corporation shall pay to any former holders of Class B Shares which had previously been redeemed the amount of the increase, and if as a result of the adjustment the Redemption Amount has been decreased, any former holders of Class B Shares which had previously been redeemed shall reimburse the Corporation the amount of such decrease. If any dividends previously have been paid by the Corporation on the Class B Shares in any financial year at a rate in excess of seven (7%) per cent of the

Redemption Amount per Class B Share so adjusted, then the holders of such Class B Shares shall reimburse the Corporation the amount of such excess.

3. "Redemption Amount per Class C Share" shall be the quotient obtained when the fair market value of the net consideration received by the Corporation from the first holder of Class C Shares at the time of the first issuance of Class C Shares for their issuance by the Corporation is divided by the number of Class C Shares issued at such time. The fair market value of the net consideration received by the Corporation upon the first issue of Class C Shares shall be determined by the Directors of the Corporation at the time of the first issuance of Class C Shares, provided that if Canada Customs and Revenue Agency should make any assessment on either the Corporation or a holder of Class C Shares which assessment is based upon the fair market value of the net consideration received by the Corporation upon the first issue of Class C Shares being an amount greater or lesser than the amount determined by the Directors of the Corporation and such assessment or notification of intention to assess is either accepted by the Corporation and the holder of Class C Shares or is appealed to any authority or court of competent jurisdiction and such appeal is settled by agreement between the Corporation, the Shareholder and Canada Customs and Revenue Agency, or, if upon final disposition of the appeal the assessment is upheld in whole or in part by a court of competent jurisdiction, then the Redemption Amount per Class C Share shall be adjusted to reflect the fair market value of the net consideration as finally determined, and such Redemption Amount so adjusted shall be deemed to be and to have always been the Redemption Amount per Class C Share from the time of the first issuance of Class C Shares. If as a result of the adjustment the Redemption Amount has been increased, the Corporation shall pay to any former holders of Class C Shares which had previously been redeemed the amount of the increase, and if as a result of the adjustment the Redemption Amount has been decreased, any former holders of Class C Shares which had previously been redeemed shall reimburse the Corporation the amount of such decrease. If any dividends previously have been paid by the Corporation on the Class C Shares in any financial year at a rate in excess of six (6%) per cent of the Redemption Amount per Class C Share so adjusted, then the holders of such Class C Shares shall reimburse the Corporation the amount of such excess.

4. "Redemption Amount per Class D Share" shall be the amount of $1.00.

5. Subject to the provisions of paragraph 10, the holders of the Class A Shares shall in each financial year of the Corporation be entitled to receive, if declared by the Directors of the Corporation on the Class A Shares out of the monies or other property of the Corporation properly applicable to the payment of dividends, non-cumulative dividends in an amount to be determined by and in the discretion of the Directors of the Corporation, provided such amount shall not in any one financial year be greater than eight (8%) per cent of the Redemption Amount per Class A Share. If in any year the Directors in their discretion do not declare any dividends on the Class A Shares, then the rights of the holders of the Class A Shares to any dividend for the year shall forever be extinguished.

6. Subject to the provisions of paragraph 10, the holders of the Class B Shares shall in each financial year of the Corporation be entitled to receive, if declared by the Directors of the Corporation on the Class B Shares out of the monies or other property of the Corporation properly applicable to the payment of dividends, non-cumulative dividends in an amount to be determined by and in the discretion of the Directors of the Corporation, provided such amount shall not in any one financial year be greater than seven (7%) per cent of the Redemption Amount per Class B Share. If in any year the Directors in their discretion do not declare any dividends on the Class B Shares, then the rights of the holders of the Class B Shares to any dividend for the year shall forever be extinguished.

7. Subject to the provisions of paragraph 10, the holders of the Class C Shares shall in each financial year of the Corporation be entitled to receive, if declared by the Directors of the Corporation on the Class C Shares out of the monies or other property of the Corporation properly applicable to the payment of dividends, non-cumulative dividends in an amount to be determined by and in the discretion of the Directors of the Corporation, provided such amount shall not in any one financial year be greater than six (6%) per cent of the Redemption Amount per Class C Share. If in any year the Directors in their discretion do not declare any dividends on the Class C Shares, then the rights of the holders of the Class C Shares to any dividend for the year shall forever be extinguished.

8. Subject to the provisions of paragraph 10, the holders of the Class D Shares shall in each financial year of the Corporation be entitled to receive, if declared by the Directors of the Corporation on the Class D Shares out of the monies or other property of the Corporation properly applicable to the payment of dividends, non-cumulative dividends in an amount to be determined by and in the discretion of the Directors of the Corporation, provided such amount shall not in any one financial year be greater than five (5%) per cent of the Redemption Amount per Class D Share. If in any year the Directors in their discretion do not declare any dividends on the Class D Shares, then the rights of the holders of the Class D Shares to any dividend for the year shall forever be extinguished.

9. Subject to the provisions of paragraph 10, the holders of the Voting Common Shares and the holders of the Non-voting Common Shares shall in each financial year of the Corporation be entitled to receive, if declared by the Directors of the Corporation out of the monies or other property of the Corporation properly applicable to the payment of dividends, non-cumulative dividends in an amount to be determined by and in the discretion of the Directors of the Corporation. If in any year the Directors of the Corporation in their discretion decide to declare a dividend, the same amount of dividend must be declared on each such share, whether a Voting Common Share or a Non-voting Common Share, without preference or distinction. If in any year the Directors in their discretion do not declare any dividend, then the rights of the holders of the Voting Common Shares and of the holders of the Non-voting Common Shares to any dividend for the year shall forever be extinguished.

10. No dividends shall be paid on any class of shares of the Corporation which will result in the Corporation having net assets (that is, the amount by which the realizable value of its assets exceeds its liabilities) insufficient to redeem all issued and outstanding Class A Shares at the Redemption Amount per Class A Share, all issued and outstanding Class B Shares at the Redemption Amount per Class B Share, all issued and outstanding Class C Shares at the Redemption Amount per Class C Share, and all issued and outstanding Class D Shares at the Redemption Amount per Class D Share, together with all dividends, if any, declared thereon and unpaid.

11. It shall be in the sole discretion of the Directors of the Corporation whether in any financial year of the Corporation any dividend is declared on any class or classes of shares of the Corporation and it shall be in the sole discretion of the Directors on which class or classes of shares, if any, a dividend is declared in a particular financial year of the Corporation, provided that the provisions of paragraphs 5, 6, 7, 8, 9, and 10 shall always be complied with. For purposes of greater certainty, it is herewith stated that a dividend may be paid in money or property or by issuing fully paid shares of the Corporation.

12. In the event of liquidation, dissolution or winding up of the Corporation or other distribution of assets of the Corporation among Shareholders for the purposes of winding up its affairs, before any amount is paid or any property or assets of the Corporation are distributed to the holders of any Class D Shares, Voting Common Shares or Non-voting Common Shares, the holders of the Class A Shares, Class B Shares and Class C Shares shall be entitled to receive out of the assets and property of the Corporation the Redemption Amounts for each Class A Share, Class B Share and Class C Share, together with all dividends declared thereon and remaining unpaid. If the property and assets of the Corporation are insufficient to pay the respective Redemption Amounts for each Class A Share, Class B Share and Class C Share, then the property and assets of the Corporation shall be distributed among the holders of the Class A Shares, Class B Shares and Class C Shares in a manner such that the ratio of the amount distributed on each share to its Redemption Amount shall be the same for all such shares. After payment to the holders of the Class A Shares, Class B Shares and Class C Shares of the respective Redemption Amounts for each such share, they shall not be entitled to participate in any further distribution of the property or assets of the Corporation. Thereafter, the holders of the Class D Shares shall be entitled to receive out of the assets and property of the Corporation the Redemption Amount for each Class D Share together with all dividends declared thereon and remaining unpaid, and after such payment to the holders of Class D Shares they shall not be entitled to participate in any further distribution of the property or assets of the Corporation. Thereafter, the holders of the Voting Common Shares and Non-voting Common Shares shall exclusively be entitled to receive rateably, share for share, without preference or distinction, any remaining property or assets of the Corporation.

13. The Corporation shall have the right, at its option at any time, and from time to time, on notice in the manner hereinafter prescribed, or, if all the Shareholders of Class A Shares, Class B Shares, Class C Shares and Class D Shares so agree, without any notice, to redeem all or any portion of the Class A Shares held by any Shareholder for the sum of the Redemption Amount per Class A Share, together with any declared and unpaid dividends thereon. Such redemption may be effected selectively among the holders thereof, such that, for greater certainty, the Class A Shares of one or more Shareholders thereof may be redeemed without any Class A Shares of the other holders (or without any Class B Shares, Class C Shares or Class D Shares) being redeemed concurrently therewith or at all. The prescribed manner of notice of redemption of the Class A Shares shall be sixty (60) or more days notice from date of mailing given by registered letter directed to the registered holder or holders of the Class A Shares to be redeemed at the address of the holders appearing on the books of the Corporation. At the same time the notice of redemption is mailed, a copy of such notice shall be sent by registered mail to all the registered holders of Class A Shares, Class B Shares, Class C Shares and Class D Shares, for their information. By the date specified for redemption (the "Surrender Date") in the said notice, a holder of Class A Shares to be redeemed shall surrender at the registered office of the Corporation the certificate or certificates for the said shares, duly endorsed, and upon surrender of the certificate or certificates, the Corporation shall pay or cause to be paid to or to the order of the holder the sum of the Redemption Amount per Class A Share, together with any declared and unpaid dividends thereon. If by the Surrender Date a holder of Class A Shares to be redeemed has not surrendered the certificate or certificates for such shares, his Class A Shares called for redemption may be redeemed and for all purposes shall be deemed to be redeemed on the Corporation depositing into any chartered bank in Canada for such holder's credit the amount due thereon for redemption as aforesaid without interest, and after such deposit is made, the Class A Shares called for redemption shall cease to be entitled to dividends and the holder thereof shall not be entitled to exercise any of the rights of a holder of shares in respect thereof.

14. The Corporation shall have the right, at its option at any time, and from time to time, on notice in the manner hereinafter prescribed, or, if all the

Shareholders of Class A Shares, Class B Shares, Class C Shares and Class D Shares so agree, without any notice, to redeem all or any portion of the Class B Shares held by any Shareholder for the sum of the Redemption Amount per Class B Share, together with any declared and unpaid dividends thereon. Such redemption may be effected selectively among the holders thereof, such that, for greater certainty, the Class B Shares of one or more Shareholders thereof may be redeemed without any Class B Shares of the other holders (or without any Class A Shares, Class C Shares or Class D Shares) being redeemed concurrently therewith or at all. The prescribed manner of notice of redemption of the Class B Shares shall be sixty (60) or more days notice from date of mailing given by registered letter directed to the registered holder or holders of the Class B Shares to be redeemed at the address of the holders appearing on the books of the Corporation. At the same time the notice of redemption is mailed, a copy of such notice shall be sent by registered mail to all the registered holders of Class A Shares, Class B Shares, Class C Shares and Class D Shares, for their information. By the date specified for redemption (the "Surrender Date") in the said notice, a holder of Class B Shares to be redeemed shall surrender at the registered office of the Corporation the certificate or certificates for the said shares, duly endorsed, and upon surrender of the certificate or certificates, the Corporation shall pay or cause to be paid to or to the order of the holder the sum of the Redemption Amount per Class B Share, together with any declared and unpaid dividends thereon. If by the Surrender Date a holder of Class B Shares to be redeemed has not surrendered the certificate or certificates for such shares, his Class B Shares called for redemption may be redeemed and for all purposes shall be deemed to be redeemed on the Corporation depositing into any chartered bank in Canada for such holder's credit the amount due thereon for redemption as aforesaid without interest, and after such deposit is made, the Class B Shares called for redemption shall cease to be entitled to dividends and the holder thereof shall not be entitled to exercise any of the rights of a holder of shares in respect thereof.

15. The Corporation shall have the right, at its option at any time, and from time to time, on notice in the manner hereinafter prescribed, or, if all the Shareholders of Class A Shares, Class B Shares, Class C Shares and Class D Shares so agree, without any notice, to redeem all or any portion of the Class C

Shares held by any Shareholder for the sum of the Redemption Amount per Class C Share, together with any declared and unpaid dividends thereon. Such redemption may be effected selectively among the holders thereof, such that, for greater certainty, the Class C Shares of one or more Shareholders thereof may be redeemed without any Class C Shares of the other holders (or without any Class A Shares, Class B Shares or Class D Shares) being redeemed concurrently therewith or at all. The prescribed manner of notice of redemption of the Class C Shares shall be sixty (60) or more days notice from date of mailing given by registered letter directed to the registered holder or holders of the Class C Shares to be redeemed at the address of the holders appearing on the books of the Corporation. At the same time the notice of redemption is mailed, a copy of such notice shall be sent by registered mail to all the registered holders of Class A Shares, Class B Shares, Class C Shares and Class D Shares, for their information. By the date specified for redemption (the "Surrender Date") in the said notice, a holder of Class C Shares to be redeemed shall surrender at the registered office of the Corporation the certificate or certificates for the said shares, duly endorsed, and upon surrender of the certificate or certificates, the Corporation shall pay or cause to be paid to or to the order of the holder the sum of the Redemption Amount per Class C Share, together with any declared and unpaid dividends thereon. If by the Surrender Date a holder of Class C Shares to be redeemed has not surrendered the certificate or certificates for such shares, his Class C Shares called for redemption may be redeemed and for all purposes shall be deemed to be redeemed on the Corporation depositing into any chartered bank in Canada for such holder's credit the amount due thereon for redemption as aforesaid without interest, and after such deposit is made, the Class C Shares called for redemption shall cease to be entitled to dividends and the holder thereof shall not be entitled to exercise any of the rights of a holder of shares in respect thereof.

16. The Corporation shall have the right, at its option at any time, and from time to time, on notice in the manner hereinafter prescribed, or, if all the Shareholders of Class A Shares, Class B Shares, Class C Shares and Class D Shares so agree, without any notice, to redeem all or any portion of the Class D Shares held by any Shareholder for the sum of the Redemption Amount per Class D Share, together with any declared and unpaid dividends thereon. Such

redemption may be effected selectively among the holders thereof, such that, for greater certainty, the Class D Shares of one or more Shareholders thereof may be redeemed without any Class D Shares of the other holders (or without any Class A Shares, Class B Shares or Class C Shares) being redeemed concurrently therewith or at all. The prescribed manner of notice of redemption of the Class D Shares shall be sixty (60) or more days notice from date of mailing given by registered letter directed to the registered holder or holders of the Class D Shares to be redeemed at the address of the holders appearing on the books of the Corporation. At the same time the notice of redemption is mailed, a copy of such notice shall be sent by registered mail to all the registered holders of Class A Shares, Class B Shares, Class C Shares and Class D Shares, for their information. By the date specified for redemption (the "Surrender Date") in the said notice, a holder of Class D Shares to be redeemed shall surrender at the registered office of the Corporation the certificate or certificates for the said shares, duly endorsed, and upon surrender of the certificate or certificates, the Corporation shall pay or cause to be paid to or to the order of the holder the sum of the Redemption Amount per Class D Share, together with any declared and unpaid dividends thereon. If by the Surrender Date a holder of Class D Shares to be redeemed has not surrendered the certificate or certificates for such shares, his Class D Shares called for redemption may be redeemed and for all purposes shall be deemed to be redeemed on the Corporation depositing into any chartered bank in Canada for such holder's credit the amount due thereon for redemption as aforesaid without interest, and after such deposit is made, the Class D Shares called for redemption shall cease to be entitled to dividends and the holder thereof shall not be entitled to exercise any of the rights of a holder of shares in respect thereof.

17. Any Shareholder of Class A Shares shall be entitled to require the Corporation to redeem at any time and from time to time all or any portion of the Class A Shares registered in the name of such holder by tendering to the Corporation at its registered office the certificate or certificates representing the Class A Shares which the said holder desires to have the Corporation redeem, together with a request in writing (the "Redemption Request") specifying the desire for redemption, the number of shares which the holder desires to have redeemed and the effective date of such redemption (the "Redemption Date") on

which the holder desires to have the Corporation redeem such shares, which Redemption Date (unless otherwise agreed to in writing by the Corporation and by all of the Shareholders of Class A Shares, Class B Shares and Class C Shares) shall not be less than fourteen (14) days after the day on which the request is received by the Corporation. Prior to the tender to the Corporation of the Redemption Request, the holder shall serve notice (the "Shareholder's Notice") of the Redemption Request on each of the other registered holders of Class A Shares, Class B Shares and Class C Shares, which Shareholder's Notice shall be served in the manner provided in subparagraph 20(a) hereof. For greater certainty, no Shareholder's Notice need be served on any holder of Class D Shares, Voting Common Shares or Non-voting Common Shares. Prior to or at the same time that the Redemption Request is tendered to the Corporation, the holder shall provide to the Corporation proof of service of the Shareholder's Notice on each of the other registered holders of Class A Shares, Class B Shares and Class C Shares (or a written waiver of such notice) in the manner provided in subparagraph 20(a) hereof. Upon receipt by the Corporation of the Redemption Request together with the share certificates to be redeemed and of the proof of service of the Shareholder's Notice on each of the other registered holders of Class A Shares, Class B Shares and Class C Shares (or a written waiver of such notice), the Corporation shall on the Redemption Date redeem such shares by paying or causing to be paid to or to the order of such holder, the sum of the Redemption Amount per Class A Share to be redeemed, together with any declared and unpaid dividends thereon. Thereafter, the holder thereof shall not be entitled to exercise any of the rights of a holder of shares in respect thereof. In the event of default of payment of the redemption price on the Redemption Date, the Shareholder shall have the option to rescind the redemption in which event the rights of the holder of such shares shall remain unaffected or to make claim for the redemption price with interest from the Redemption Date at the rate equal to the prime lending rate from time to time of the financial institution used by the Corporation as its banker.

18. Any Shareholder of Class B Shares shall be entitled to require the Corporation to redeem at any time and from time to time all or any portion of the Class B Shares registered in the name of such holder by tendering to the Corporation at its registered office the certificate or certificates representing the Class B Shares which the said holder desires to have the Corporation redeem,

together with a request in writing (the "Redemption Request") specifying the desire for redemption, the number of shares which the holder desires to have redeemed and the effective date of such redemption (the "Redemption Date") on which the holder desires to have the Corporation redeem such shares, which Redemption Date (unless otherwise agreed to in writing by the Corporation and by all of the Shareholders of Class A Shares, Class B Shares and Class C Shares) shall not be less than fourteen (14) days after the day on which the request is received by the Corporation. Prior to the tender to the Corporation of the Redemption Request, the holder shall serve notice (the "Shareholder's Notice") of the Redemption Request on each of the other registered holders of Class A Shares, Class B Shares and Class C Shares, which Shareholder's Notice shall be served in the manner provided in subparagraph 20(a) hereof. For greater certainty, no Shareholder's Notice need be served on any holder of Class D Shares, Voting Common Shares or Non-voting Common Shares. Prior to or at the same time that the Redemption Request is tendered to the Corporation, the holder shall provide to the Corporation proof of service of the Shareholder's Notice on each of the other registered holders of Class A Shares, Class B Shares and Class C Shares (or a written waiver of such notice) in the manner provided in subparagraph 20(a) hereof. Upon receipt by the Corporation of the Redemption Request together with the share certificates to be redeemed and of the proof of service of the Shareholder's Notice on each of the other registered holders of Class A Shares, Class B Shares and Class C Shares (or a written waiver of such notice), the Corporation shall on the Redemption Date redeem such shares by paying or causing to be paid to or to the order of such holder, the sum of the Redemption Amount per Class B Share to be redeemed, together with any declared and unpaid dividends thereon. Thereafter, the holder thereof shall not be entitled to exercise any of the rights of a holder of shares in respect thereof. In the event of default of payment of the redemption price on the Redemption Date, the Shareholder shall have the option to rescind the redemption in which event the rights of the holder of such shares shall remain unaffected or to make claim for the redemption price with interest from the Redemption Date at the rate equal to the prime lending rate from time to time of the financial institution used by the Corporation as its banker.

19. Any Shareholder of Class C Shares shall be entitled to require the Corporation to redeem at any time and from time to time all or any portion of the

Class C Shares registered in the name of such holder by tendering to the Corporation at its registered office the certificate or certificates representing the Class C Shares which the said holder desires to have the Corporation redeem, together with a request in writing (the "Redemption Request") specifying the desire for redemption, the number of shares which the holder desires to have redeemed and the effective date of such redemption (the "Redemption Date") on which the holder desires to have the Corporation redeem such shares, which Redemption Date (unless otherwise agreed to in writing by the Corporation and by all of the Shareholders of Class A Shares, Class B Shares and Class C Shares) shall not be less than fourteen (14) days after the day on which the request is received by the Corporation. Prior to the tender to the Corporation of the Redemption Request, the holder shall serve notice (the "Shareholder's Notice") of the Redemption Request on each of the other registered holders of Class A Shares, Class B Shares and Class C Shares, which Shareholder's Notice shall be served in the manner provided in subparagraph 20(a) hereof. For greater certainty, no Shareholder's Notice need be served on any holder of Class D Shares, Voting Common Shares or Non-voting Common Shares. Prior to or at the same time that the Redemption Request is tendered to the Corporation, the holder shall provide to the Corporation proof of service of the Shareholder's Notice on each of the other registered holders of Class A Shares, Class B Shares and Class C Shares (or a written waiver of such notice) in the manner provided in subparagraph 20(a) hereof. Upon receipt by the Corporation of the Redemption Request together with the share certificates to be redeemed and of the proof of service of the Shareholder's Notice on each of the other registered holders of Class A Shares, Class B Shares and Class C Shares (or a written waiver of such notice), the Corporation shall on the Redemption Date redeem such shares by paying or causing to be paid to or to the order of such holder, the sum of the Redemption Amount per Class C Share to be redeemed, together with any declared and unpaid dividends thereon. Thereafter, the holder thereof shall not be entitled to exercise any of the rights of a holder of shares in respect thereof. In the event of default of payment of the redemption price on the Redemption Date, the Shareholder shall have the option to rescind the redemption in which event the rights of the holder of such shares shall remain unaffected or to make claim for the redemption price with interest from the Redemption Date at the rate equal to the prime lending rate from time to time of the financial institution used by the Corporation as its banker.

20. (a) The Shareholder's Notice to be served by a Shareholder regarding redemption of his shares under paragraphs 17, 18 or 19 must be effected on each of the other registered Shareholders of Class A Shares, Class B Shares and Class C Shares not less than thirty (30) days prior to the tender of the Redemption Request by the Shareholder to the Corporation. Service of the Shareholder's Notice shall be effected on a Shareholder by registered letter directed to the address of the Shareholder appearing on the books of the Corporation (deemed effective the date of mailing) or by leaving a copy of the Shareholder's Notice at the address of the Shareholder appearing on the books of the Corporation. (If no address of the Shareholder appears on the books of the Corporation, the address for service of an individual shall be deemed to be his place of residence reasonably determined, or in the case of a Corporation, the registered office of the Corporation.) The Shareholder's Notice shall include a copy of the Redemption Request. Proof of service of the Shareholder's Notice on a Shareholder may be made to the Corporation by providing to the Corporation an affidavit of service in the same form as the affidavit of service used for proof of service of a document under the Federal Court Rules of the Federal Court of Canada.

(b) Another Shareholder of Class A Shares, Class B Shares or Class C Shares may in writing waive the requirement to be served with the Shareholder's Notice in which case the Shareholder requesting redemption of his shares shall provide the waiver to the Corporation in lieu of proof of service of the Shareholder's Notice.

(c) Notwithstanding anything contained in paragraphs 17, 18 and 19 hereof, or in subparagraphs 20(a) and 20(b) hereof, another Shareholder of Class A Shares, Class B Shares or Class C Shares (the "Second Preferred Shareholder") who receives a Shareholder's Notice from the Shareholder who is requesting the redemption of his shares (the "First Preferred Shareholder") shall not be required to serve a Shareholder's Notice on the First Preferred Shareholder or on the other registered Shareholders of Class A Shares, Class B Shares or Class C Shares in the event that the Second Preferred Shareholder decides to request the Corporation to redeem on the Redemption Date selected by the First Preferred Shareholder a number of Class A Shares, Class B Shares

or Class C Shares, as the case may be, owned by the Second Preferred Shareholder which have aggregate Redemption Amounts less than or equal to the aggregate Redemption Amounts of the shares which the First Preferred Shareholder has requested to have redeemed on the Redemption Date. In such case, notwithstanding paragraphs 17, 18 or 19, the Second Preferred Shareholder shall accordingly not be required to provide the Corporation with proofs of service of the Shareholder's Notice.

21. (a) If less than all of the Class A Shares represented by any certificate or certificates of a holder are to be redeemed as set forth in paragraphs 13 or 17, the holder shall be entitled to receive, at the expense of the Corporation, a new certificate representing the Class A Shares comprised in the certificate or certificates surrendered as aforesaid which are not to be redeemed.

(b) If less than all of the Class B Shares represented by any certificate or certificates of a Shareholder are to be redeemed as set forth in paragraphs 14 or 18, the holder shall be entitled to receive, at the expense of the Corporation, a new certificate representing the Class B Shares comprised in the certificate or certificates surrendered as aforesaid which are not to be redeemed.

(c) If less than all of the Class C Shares represented by any certificate or certificates of a holder are to be redeemed as set forth in paragraphs 15 or 19, the holder shall be entitled to receive, at the expense of the Corporation, a new certificate representing the Class C Shares comprised in the certificate or certificates surrendered as aforesaid which are not to be redeemed.

(d) If less than all of the Class D Shares represented by any certificate or certificates of a holder are to be redeemed as set forth in paragraph 16, the holder shall be entitled to receive, at the expense of the Corporation, a new certificate representing the Class D Shares comprised in the certificate or certificates surrendered as aforesaid which are not to be redeemed.

22. The Class A Shares, Class B Shares, Class C Shares and Class D Shares shall not carry or confer on the holders thereof any further right to participate in profits or assets of the Corporation other than as expressly hereinbefore provided.

23. A holder of fractional shares issued by the Corporation shall be entitled proportionately to all the rights and privileges attaching to a whole share of the same class, including, without limiting the generality of the foregoing, the right to receive the appropriate portion of dividend, to receive the appropriate portion of the redemption amount if such class of shares are otherwise redeemable, and to exercise voting rights in respect of the fractional share if such class of shares is otherwise entitled to vote.

24. The holders of Voting Common Shares shall be entitled to one vote for each Voting Common Share held by them at all meetings of Shareholders except meetings at which, pursuant to *The Corporations Act* (Manitoba), only holders of a specified class of shares are entitled to vote. The holders of Class A Shares shall be entitled to one vote for each Class A Share held by them at all meetings of Shareholders except meetings at which, pursuant to *The Corporations Act* (Manitoba), only holders of a specified class of shares are entitled to vote. The holders of Class D Shares shall be entitled to one vote for each Class D Share held by them at all meetings of Shareholders except meetings at which, pursuant to *The Corporations Act* (Manitoba), only holders of a specified class of shares are entitled to vote. The holders of Non-voting Common Shares shall not be entitled to vote at any meetings of Shareholders, except where otherwise provided by *The Corporations Act* (Manitoba), and, in such case, they shall then be entitled to one vote for each Non-voting Common Share held. The holders of Class B Shares shall not be entitled to vote at any meetings of Shareholders, except where otherwise provided by *The Corporations Act* (Manitoba), and, in such case, they shall then be entitled to one vote for each Class B Share held. The holders of Class C Shares shall not be entitled to vote at any meetings of Shareholders, except where otherwise provided by *The Corporations Act* (Manitoba), and, in such case, they shall then be entitled to one vote for each Class C Share held.

SCHEDULE "II"
to Article 9 of the Articles of Incorporation of
DIABEX INC.

Other Provisions:

1. The number of Shareholders of the Corporation, exclusive of persons who are employed by the Corporation and exclusive of persons who, having been formerly employed by the Corporation, were, while so employed and have continued after the termination of that employment to be, Shareholders of the Corporation, is limited to not more than fifty (50), two (2) or more persons who are joint registered owners of one (1) or more shares being counted as one (1) Shareholder.

2. Any invitation to the public to subscribe for securities of the Corporation is prohibited.

3. The Corporation shall initially issue:

   (a) 37½ Voting Common Shares out of its treasury of capital stock to GENESYS VENTURE INC., upon a share subscription being received at $1.00 per share for same; and

   (b) 62½ Voting Common Shares out of its treasury of capital stock to DR. WAYNE LAUTT, of Winnipeg, Manitoba, upon a share subscription being received at $1.00 per share for same.

Other than as hereinbefore provided, the Corporation shall not issue any shares of any class out of its treasury of capital stock unless the Board of Directors of the Corporation receives the prior written consent of DR. WAYNE LAUTT, of Winnipeg, Manitoba, to such issue.

Manitoba

The Corporations Act/
Loi sur les corporations
ARTICLES OF AMENDMENT /
CLAUSES MODIFICATRICES

Corporation No.
N° de la corporation 4135955

Manitoba
The Corporations Act /
Loi sur les corporations
CERTIFICATE / CERTIFICAT
ARTICLES EFFECTIVE /
LES STATUTS PRENNENT EFFET LE
6 - OCT / OCT 2000
DIRECTOR, CORPORATIONS BRANCH /
DIRECTEUR, DIRECTION DES CORPORATIONS

1-- Name of Corporation / Dénomination sociale	2-- Corporation Number / N° de la corporation
DIABEX INC.	4135955

3-- a) The amendment to the articles has been authorized by: / La modification apportée aux statuts a été autorisée résolution:

directors	☐	administrateurs
shareholders	☒	actionnaires
members	☐	membres

b) pursuant to Section 167(1)
conformément à l'article

c) and the articles are amended as follows: / et les statuts de la corporation sont modifiés de la façon suivante:

see Schedule "A" attached hereto

Date: / Date:	Signature: / Signature:	Description of Office: / Description du poste:
October 6, 2000		PRESIDENT

Instructions: Specify the relevant subsection pursuant to which the amendment is authorized, and the changes which are being made. Specify whether amendment authorized by directors, shareholders or members. The resolution authorizing the amendment is not required to be attached hereto.

Directives: Énoncer chacune des modifications apportées aux statuts, en mentionnant la disposition de la loi qui l'autorise. Indiquer également s'il s'agit d'une modification adoptée par résolution des administrateurs ou par résolution des actionnaires ou membres. Il n'est pas nécessaire de fournir une copie de cette résolution.

SCHEDULE "A"

(a) to change all of the issued and outstanding Voting common shares of the Corporation into shares of the same class on the basis of 35,307.6923 Voting common shares for each currently issued and outstanding Voting common share such that upon such change each Voting common shareholder's shareholdings shall be rounded to the nearest whole share; and

(b) to delete Schedule II to the Articles.

G:\ARH\Diabex\Schedule A to Arts of Amend.wpd

Manitoba

The Corporations Act/
Loi sur les corporations
ARTICLES OF AMENDMENT /
CLAUSES MODIFICATRICES

Corporation No.
N° de la corporation 4135995

Manitoba
The Corporations Act /
Loi sur les corporations
CERTIFICATE / CERTIFICAT
ARTICLES EFFECTIVE /
LES STATUTS PRENNENT EFFET LE
3 - APR / AVR 2001
DIRECTOR, CORPORATIONS BRANCH /
DIRECTEUR, DIRECTION DES CORPORATIONS

1-- Name of Corporation / Dénomination sociale	2-- Corporation Number / N° de la corporation
DIABEX INC.	4135955

3-- a) The amendment to the articles has been authorized by: / La modification apportée aux statuts a été autorisée résolution:

directors	☐	administrateurs
shareholders	☒	actionnaires
members	☐	membres

b) pursuant to Section ~~167(1)~~
conformément à l'article

c) and the articles are amended as follows: / et les statuts de la corporation sont modifiés de la façon suivante:

To change the name of the Corporation to:

DIAMEDICA INC.

Date: / Date:	Signature: / Signature:	Description of Office: / Description du poste:
February 26/01		Albert Friesen, President

Instructions: Specify the relevant subsection pursuant to which the amendment is authorized, and the changes which are being made. Specify whether amendment authorized by directors, shareholders or members. The resolution authorizing the amendment is not required to be attached hereto.

Directives: Énoncer chacune des modifications apportées aux statuts, en mentionnant la disposition de la loi qui l'autorise. Indiquer également s'il s'agit d'une modification adoptée par résolution des administrateurs ou par résolution des actionnaires ou membres. Il n'est pas nécessaire de fournir une copie de cette résolution.

Manitoba

The Corporations Act
Loi sur les corporations

ARTICLES OF AMENDMENT
CLAUSES MODIFICATRICES

Manitoba
The Corporations Act /
Loi sur les corporations
CERTIFICATE / CERTIFICAT
ARTICLES EFFECTIVE /
LES STATUTS PRENNENT EFFET LE
14 MAR MAR 2005
DIRECTOR, CORPORATIONS BRANCH
DIRECTEUR, DIRECTION DES CORPORATIONS

1. Name of corporation / Dénomination sociale	2. Business Number / Numéro d'entreprise
DIAMEDICA INC.	866422173

3. a) The amendment to the articles has been authorized by: / La modification apportée aux statuts a été autorisée par résolution des :

directors / administrateurs ☐

shareholders / actionnaire ☒

members / membres ☐

b) under section / conformément à l'article 167(1)

c) and the articles are amended as follows: / et les statuts de la corporation sont modifiés de la façon suivante :

The annexed Schedule A is incorporated herein.

Date / Date	Signature / Signature	Office held / Poste
March 14, 2005		CEO

Instructions: Specify the provision of the Act that authorizes the amendment, and the changes that are being made. Specify whether amendment was authorized by directors or shareholders. It is not necessary to attach a copy of the authorizing resolution.

Directives : Mentionner la disposition applicable de la Loi ainsi que les modifications apportée aux statuts. Indiquer également s'il s'agit d'une modification autorisée par les administrateurs ou par les actionnaires. Il n'est pas nécessaire de fournir une copie de la résolution qui autorise la modification.

FORM 10 / FORMULE 10

OFFICE USE ONLY / RÉSERVÉ À L'ADMINISTRATION

Corporation Number / N° de la corporation : 4135955

SCHEDULE "A"

TO THE ARTICLES OF AMENDMENT OF

DIAMEDICA INC.

(the "Corporation")

The amendment to the Articles of Incorporation of the Corporation dated January 21, 2000, as amended by Articles of Amendment dated October 6, 2000 and April 3, 2001 (collectively, the "Articles") has been authorized by the shareholders pursuant to Section 167(1) of *The Corporations Act* (Manitoba) and the Articles are amended as follows:

1. by creating an unlimited number of Class A Preferred shares which may be issued for an unlimited maximum consideration;

2. by providing that the Class A Preferred shares shall be subject to the rights, privileges, restrictions and conditions set forth in the annexed Schedule "I", which Schedule "I" is incorporated in this form;

3. by deleting the Non-Voting Common, Class A, Class B, Class C and Class D shares of the Corporation;

4. by deleting the rights, privileges, restrictions and conditions attaching to the Non-Voting Common, Class A, Class B, Class C and Class D shares of the Corporation;

5. after giving effect to the foregoing, the authorized capital of the Corporation shall consist of:

an unlimited number of Voting Common shares; and
an unlimited number of Class A Preferred shares.

Schedule "I" to Articles of Amendment of
DiaMedica Inc.
(the "Corporation")

1. In these Articles of Amendment, unless the context otherwise requires:

"Articles" means the amended articles of incorporation of the Corporation, as shall be in force from time to time.

"Original Issue Price" means $0.60 per share the price actually paid by each respective Class A Preferred Shareholder in Canadian Dollars for each Class A Preferred Share held by such Class A Preferred Shareholder (as adjusted for any Common Share Reorganization, as defined herein).

2. The Class A Preferred Shares shall have attached thereto the following rights, privileges, restrictions and conditions:

Dividends

(a) The holders of Class A Preferred Shares shall be entitled to receive dividends when, as and if declared thereon by the board of directors of the Corporation, provided that no dividend may be declared or paid on the common voting shares (the "Common Shares") unless the identical dividend per share is declared or paid, as the case may be, on the Class A Preferred Shares.

Voting

(b) The holders of the Class A Preferred Shares shall be entitled to receive notice of and to attend any meeting of the shareholders of the Corporation and shall be entitled to such number of votes as is equal to the number of Common Shares into which such Class A Preferred Shares are convertible at the time of the applicable vote.

Liquidation Preference on Liquidation, Dissolution or Winding-up

(c) In the event of the liquidation, dissolution or winding up of the Corporation or other distribution of assets of the Corporation amongst its shareholders for the purposes of winding up its affairs, the holders of Class A Preferred Shares shall be entitled to receive in preference to the holders of any other class of capital stock of the Corporation, an amount per Class A Preferred Share equal to the greater of: (i) the Original Issue Price; and (ii) an amount equal to the pro rata share of the assets which would be available for distribution to the holders of the Class A Preferred Shares if such Class A Preferred Shares were converted into Common Shares at the applicable time of such liquidation or wind-up, together with holders of Common Shares (such greater amount is referred to herein as the "Liquidation Preference"). A merger, acquisition, sale of voting control or sale of substantially all of the assets and/or shares of the Corporation which results in the shareholders of the Corporation not owning a majority of the outstanding shares of the surviving corporation shall be deemed to be a liquidation for the purposes of this clause. All rights of the holders of Class A Preferred Shares shall cease with respect to the Class A Preferred Shares upon receipt of the payment of the full amount of the

Liquidation Preference.

Conversion Right and Conversion Price

(d) The Class A Preferred Shares are convertible into Common Shares at the option of the holder. Each Class A Preferred Shares is convertible into such number of fully paid and non-assessable Common Shares as is determined by dividing the Original Issue Price for such Class A Preferred Share by the applicable conversion price at the time in effect for such share (the "Conversion Price"). The initial Conversion Price of the Class A Preferred Shares shall be $0.60; provided however, that the Conversion Price shall be subject to adjustment pursuant to the provisions set forth below.

Conversion Procedure

(e) The conversion privileges for which provision is made herein shall be exercised by notice in writing given to the Corporation accompanied by the certificate or certificates representing the Class A Preferred Shares in respect of which the holder desires to exercise such conversion privilege and such notice shall be signed by the holder of the Class A Preferred Shares in respect of which such right is being exercised or by his duly authorized representative(s) and shall specify the number of Class A Preferred Shares which the holder desires to have converted. The Corporation shall pay any governmental or other tax imposed in respect of such conversion. Upon receipt of such notice and certificate or certificates, the Corporation shall, effective as of the date of such receipt, issue or cause to be issued a certificate or certificates representing such number of fully paid Common Shares as determined by dividing the Original Issue Price of the Class A Preferred Shares to be converted by the Conversion Price then in effect. If less than all of the Class A Preferred Shares represented by any certificate are to be converted, the holder shall be entitled to receive a new certificate representing the Class A Preferred Shares represented by the original certificate which are not to be converted.

IPO Conversion

(f) The Class A Preferred Shares shall automatically convert into Common Shares based on the then applicable Conversion Price immediately prior to the closing of an Initial Public Offering (as defined below) of the Corporation at a share price not less than Original Issue Price per Common Share (as adjusted for stock splits, stock dividends, recapitalizations and the like).

For the purposes hereof, "Initial Public Offering" shall mean an offering of Common Shares by the Corporation to members of the public of not less than $2,000,000 (before deduction of commissions and expenses) and the listing of the Common Shares on a recognized stock exchange or completion of another transaction which results in the listing or public trading of the Common Shares or another class of shares, the terms of which are acceptable to the holders of 2/3 of the issued and outstanding Common Shares and the holders of 2/3 of the issued and outstanding Class A Preferred Shares.

Anti-Dilution Provisions

(g) If at any time after the issuance of the first issued Class A Preferred Share, and until the closing of an Initial Public Offering, the Corporation shall issue any Additional Securities (as defined below) at a price per share lower than the Conversion Price then in effect (the "Reduced Price"), then in such event, the Conversion Price shall be reduced, concurrently with such issue, for no additional consideration, to a price which equals the Reduced Price.

No adjustments of the Conversion Price shall be made in an amount less than one cent per share ($0.01). No adjustment of the Conversion Price pursuant to this paragraph shall be made if it has the effect of increasing the Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

In the case of the issuance of Additional Securities for cash, the consideration shall be deemed to be the amount of cash received by the Corporation therefor.

In the case of the issuance of Additional Securities for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof, determined in good faith by the board of directors of the Corporation.

"Additional Securities" means securities of any class issued by the Corporation after the issuance of the first Class A Preferred Share, other than shares issued upon a subdivision or combination of any of the Common Shares of the Corporation as described below.

Adjustment of Conversion Price

(h) If the Corporation shall declare a dividend or make a distribution on its outstanding Common Shares, in either case payable in Common Shares, other than pursuant to any dividend reinvestment or stock purchase plan, or shall divide its outstanding Common Shares into a greater number of shares, or shall consolidate its outstanding Common Shares into a lesser number of shares, or there should occur a consolidation or merger or amalgamation of the Corporation with or into any other company or body corporate, including by way of a sale whereby all or substantially all of the Corporation's undertaking and assets would become the property of any other company or body corporate (any such event being herein called a "Common Share Reorganization"), the Conversion Price then in effect shall be adjusted immediately after the effective date or record date of the Common Share Reorganization such that the number of Common Shares (or the shares into which the Common Shares of the Corporation are changed or reclassified) into which the Class A Preferred Shares are convertible shall be increased, decreased or changed by increasing or decreasing (as applicable) the number of Common Shares of the Corporation or changing the appropriate class or classes resulting from said reclassification or change or reclassifications or changes as the holder of the Class A Preferred Shares would have been entitled to

receive had the right of conversion been exercised before such reclassification or change or reclassifications or changes.

Redemption at Option of Class A Preferred Shareholders

(i) The Corporation shall, at any time and from time to time, after March 14, 2010, upon 60 days prior notice and at the election of the holders of at least a majority of the outstanding Class A Preferred Shares, redeem all of the outstanding Class A Preferred Shares in preference to all other classes of shares in one installment to be paid in full. Such redemption shall be at a purchase price equal to the greater of (i) Original Issue Price per Class A Preferred Share and (ii) the fair market value of the Class A Preferred Shares on an as if converted basis. For the purposes of this section, "fair market value" shall be the purchase price for Class A Preferred Shares or Common Shares in respect of the most recent sale made to a bona fide arm's length third party purchaser within the previous six months or, if no such sale has occurred within the previous six months, as determined by the directors of the Corporation acting reasonably.

The Corporations Act
ARTICLES OF AMENDMENT

Manitoba

Manitoba

CERTIFICATE / CERTIFICAT
ARTICLES EFFECTIVE /
LES STATUTS PRENNENT EFFET LE

02 JUL / JUIL 2008

DIRECTOR/DIRECTEUR
The Corporations Act /Loi sur les corporations

1. Name of corporation	2. Business Number
DIAMEDICA INC.	866422173

3. a) The amendment to the articles has been authorized by:

directors ☐

shareholders ☑

members ☐

b) under section 167(1)

c) and the articles are amended as follows:

The annexed Schedule A is incorporated herein.

Date	Signature	Office held
July 2, 2008		Corporate Secretary

Instructions: Specify the provision of the Act that authorizes the amendment, and the changes that are being made. Specify whether amendment was authorized by directors or shareholders. It is not necessary to attach a copy of the authorizing resolution.

OFFICE USE ONLY

Corporation Number: 4135955

FORM 10

SCHEDULE "A"

TO THE ARTICLES OF AMENDMENT OF

DIAMEDICA INC.

(the "Corporation")

The amendment to the Articles of Incorporation dated January 21, 2000, as amended by Articles of Amendment dated October 6, 2000, April 3, 2001 and March 14, 2005 (collectively, the "Articles") has been authorized by the shareholders of the Corporation pursuant to Section 167(1) of *The Corporations Act* (Manitoba) and the Articles are amended as follows:

1. by deleting the provisions contained under Article 7 – "Restrictions, if any, on share transfers/ Restrictions au transfer des actions, s'il y a lieu" and substituting the word "None" therefor;

2. by deleting the authorized and unissued Class A Preferred Shares of the Corporation and the rights, privileges, restrictions and conditions attaching thereto; and

3. to declare that, after giving effect to the foregoing, the authorized capital of the Corporation shall consist of an unlimited number of Voting Common Shares.

SHAREHOLDER RIGHTS PLAN AGREEMENT

DATED AS OF AUGUST 25TH, 2011

Between DIAMEDICA INC. and

CIBC MELLON TRUST COMPANY

as Rights Agent

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MEMORANDUM OF AGREEMENT made as of the 25th day of August, 2011.

BETWEEN:

DIAMEDICA INC., a company existing under the laws of Manitoba,

(hereinafter called the "**Company**"), OF

THE FIRST PART,

AND:

CIBC MELLON TRUST COMPANY, a trust company existing under the laws of Canada, as rights agent,

(hereinafter called the "**Rights Agent**"), OF

THE SECOND PART.

WHEREAS the Board of Directors of the Company has determined that it is advisable that the Company adopt a shareholder rights plan to take effect on the Effective Date (as hereinafter defined), subject to approval by the Independent Shareholders (as hereinafter defined) at the annual and meeting of shareholders of the Company scheduled to be held i n 2 0 1 1 , to ensure fair and equal treatment of all the Company's shareholders in the event of a take-over bid, to protect shareholders from coercive take-over tactics and to allow the Board of Directors and Shareholders of the Company adequate time to assess the bid and consider alternatives to enhance value for Shareholders (the "**Rights Plan**");

AND WHEREAS in order to implement the Rights Plan the Board of Directors of the Company has:

(a) authorized the issuance of one right (a "**Right**") in respect of each Common Share (as hereinafter defined) outstanding at the Record Time (as hereinafter defined); and

(b) authorized the issuance of one Right in respect of each Common Share issued after the Record Time and prior to the earlier of the Separation Time (as hereinafter defined) and the Expiration Time (as hereinafter defined);

AND WHEREAS each Right entitles the holder thereof, after the Separation Time, to purchase Common Shares of the Company, pursuant to the terms and subject to the conditions set forth herein;

AND WHEREAS the Company desires to appoint the Rights Agent to act on behalf of the Company and holders of Rights, and the Rights Agent is willing so to act, in connection with the issuance, transfer, exchange and replacement of Rights Certificates (as hereinafter defined), the exercise of Rights and other matters referred to herein;

NOW THEREFORE, in consideration of the premises and the respective covenants and agreements set forth herein the parties hereby agree as follows:

ARTICLE 1
INTERPRETATION

1.1 Certain Definitions

For the purposes of this Agreement, the following terms have the meanings indicated:

(a) "**1933 Securities Act**" shall mean the Securities Act of 1933 of the United States, as amended, and the regulations thereunder, and any comparable or successor regulations thereto;

(b) "**1934 Exchange Act**" shall mean the Securities Exchange Act of 1934 of the United States, as amended, and the regulations thereunder, and any comparable or successor regulations thereto;

(c) "**Acquiring Person**" shall mean any Person who is the Beneficial Owner of 20% or more of the outstanding Common Shares of the Company. Notwithstanding the foregoing, the term "Acquiring Person" shall not include:

(i) the Company or any Subsidiary of the Company;

(ii) any Person who becomes the Beneficial Owner of 20% or more of the outstanding Common Shares of the Company as a result of any one or any combination of:

(a) an acquisition and cancellation or redemption by the Company or a Subsidiary of the Company of Common Shares which, by reducing the number of Common Shares outstanding, increases the percentage of outstanding Common Shares Beneficially Owned by such Person to 20% or more of the Common Shares outstanding (a "**Share Reduction**");

(b) an acquisition of Common Shares made pursuant to a Permitted Bid or a Competing Permitted Bid (a "**Permitted Bid Acquisition"**);

(c) an acquisition of Common Shares in respect of which the Board of Directors has waived the application of section 4.1 pursuant to the provisions of section 6.1 (an "**Exempt Acquisition**");

(d) a Convertible Security Acquisition; or

(e) a Permitted Acquisition;

provided, however, that if a Person shall become the Beneficial Owner of 20% or more of the Common Shares of the Company then outstanding by reason of one or any combination of a Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition, a Convertible Security Acquisition or a Permitted Acquisition and thereafter such Person, while such Person is the Beneficial Owner of 20% or more of the Common Shares of the Company then outstanding, increases the number of Common Shares of the Company beneficially owned by such Person by more than 1% of the number of Common Shares outstanding (other than pursuant to one or any combination of a Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition, a Convertible Security Acquisition or a Permitted Acquisition) then, as of the date such Person becomes the Beneficial Owner of such additional outstanding Common Shares of the Company, such Person shall be an "**Acquiring Person**";

(iii) for a period of 10 days after the Disqualification Date (as hereinafter defined), any Person who becomes the Beneficial Owner of 20% or more of the outstanding Common Shares of the Company as a result of such Person becoming disqualified from relying on clause 1.1(f)(v) hereof because such Person makes or announces an intention to make a Take- over Bid in respect of the Common Shares of the Company alone or by acting jointly or in concert with any other Person and, for this purpose, "**Disqualification Date**" means the first date of public announcement of facts indicating that such Person is making or intends to make a Take-over Bid;

(iv) an underwriter or member of a banking or selling group acting in such capacity that becomes the Beneficial Owner of 20% or more of the Common Shares of the Company in connection with a distribution of securities of the Company; or

(v) a Person (a "**Grandfathered Person**") who is the Beneficial Owner of more than 20% of the outstanding Common Shares of the Company determined as of the Record Time; provided, however, that this exemption shall not be, and shall cease to be, applicable to a Grandfathered Person in the event that such Grandfathered Person shall, after the Record Time, become the Beneficial Owner of additional Common Shares of the Company that increases its Beneficial Ownership by more than 1% of the number of Common Shares of the Company outstanding (other than through one or any combination of a Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition, a Convertible Security Acquisition or a Permitted Acquisition);

(d) "**Affiliate**", when used to indicate a relationship with a specified corporation, means a Person who directly, or indirectly through one or more controlled intermediaries, controls, or is controlled by, or is under common control with, such specified corporation;

(e) "**Associate**" of a specified Person shall mean any Person to whom such specified Person is married or with whom such specified Person is living in a conjugal relationship outside marriage, or any relative of such specified Person, said spouse or other Person who has the same home as such specified Person;

(f) a Person shall be deemed the "**Beneficial Owner**" of, and to have "**Beneficial Ownership**" of, and to "**Beneficially Own**":

(i) any securities as to which such Person or any of such Person's Affiliates or Associates is the owner at law or equity;

(ii) any securities as to which such Person or any of such Person's Affiliates or Associates has the right to acquire (where such right is exercisable within a period of 60 days, or upon the occurrence of a contingency) (a) upon the exercise of any Convertible Securities (other than a Right) or (b) pursuant to any agreement, arrangement, pledge or understanding, whether or not in writing (other than customary agreements with and between underwriters or banking group or selling group members with respect to a distribution of securities and other than pledges or hypothecs of securities in the ordinary course of business); and

(iii) any securities which are Beneficially Owned within the meaning of the foregoing provisions of this subsection 1.1(f) by any other Person with whom such Person is acting jointly or in concert;

provided, however, that a Person shall not be deemed the Beneficial Owner of or to have Beneficial Ownership of, or to Beneficially Own, any security because:

(iv) such security has been agreed to be deposited or tendered pursuant to a Lock- up Agreement or is otherwise deposited or tendered pursuant to any Take-over Bid made by such Person, made by any of such Person's Affiliates or Associates or made by any Person acting jointly or in concert with such Person until such deposited security has been taken up or paid for, whichever shall occur first;

(v) such Person holds such security, provided that:

(a) the ordinary business of such Person (an "**Investment Manager**") includes the management of mutual funds or investment funds for others (which others, for greater certainty, may include or be limited to one or more employee benefit plans or pension plans) and such security is held by the Investment Manager in the ordinary course of such business in the performance of such Investment Manager's duties for the account of any other Person or Persons (a "**Client**") including non- discretionary accounts held on behalf of a broker or dealer registered under applicable laws; or

(b) such Person (a "**Trust Company**") is licensed to carry on the business of a trust company under applicable laws and, as such, acts as trustee or administrator or in a similar capacity in relation to the estates of deceased or incompetent Persons ("**Estate Accounts**") or in relation to other accounts ("**Other Accounts**") and holds such security in the ordinary course of such duties for the estate of any such deceased or incompetent Person or for such Estate Accounts or Other Accounts; or

(c) such Person (an "**Administrator**") is the administrator or the trustee of one or more pension funds or plans (each a "**Plan**") or is a Plan registered under applicable laws and holds such security in the ordinary course of such duties for such Plan; or

(d) such Person is a Plan or is a Person established by statute (the "**Statutory Body**") for purposes that include, and the ordinary business or activity of such Person includes, the management of investment funds for employee benefit plans, pension plans, insurance plans (other than plans administered by insurance companies) of various public bodies and the Statutory Body holds such security for the purposes of its activities as such; or

(e) such Person is a Crown agent or agency;

provided that the Investment Manager, Trust Company, Administrator, the Plan, the Statutory Body or the Crown agent or agency, as the case may be, is not then making or has not announced a current intention to make a Take-over Bid, alone or acting jointly or in concert with any other Person (other than an Offer to Acquire Shares of the Company by means of a distribution by the Company or by means of ordinary market transactions (including pre-arranged trades) executed through the facilities of a stock exchange or organized over-the-counter market);

(vi) such Person, any of such Person's Affiliates or Associates or any Person acting jointly or in concert with such Person is a Client of the same Investment Manager as another Person on whose account the Investment Manager holds such security, or by reason of such Person being an Estate Account or an Other Account of the same Trust Company as another Person on whose account the Trust Company holds such security or by reason of such Person being a Plan which has an Administrator which is also a trustee for another Plan on whose account the Trustee holds such security;

(vii) such Person is (i) a Client of an Investment Manager and such security is owned at law or in equity by the Investment Manager, or (ii) an account of a Trust Company and such security is owned at law or in equity by the Trust Company, or (iii) a Plan and such security is owned at law or in equity by the Administrator thereof; or

(viii) such Person is the registered holder of securities as a result of carrying on the business of a securities depositary or as a result of being a nominee holder of such securities.

(g) "**Board of Directors**" shall mean the board of directors of the Company or, if duly constituted and whenever duly empowered, the executive committee of the board of directors of the Company;

(h) "**Business Day**" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in Winnipeg, Manitoba are authorized or obligated by law to close;

(i) "**Canadian Dollar Equivalent**" of any amount which is expressed in United States dollars shall mean on any date the Canadian dollar equivalent of such amount determined by multiplying such amount by the U.S.-Canadian Exchange Rate in effect on such date;

(j) "**Canadian-U.S. Exchange Rate**" shall mean on any date the inverse of the U.S.- Canadian Exchange Rate;

(k) "**Close of Business**" on any date shall mean the time on such date (or, if such date is not a Business Day, the time on the next succeeding Business Day) at which the offices of the transfer agent for the Shares (or, after the Separation Time, the offices of the Rights Agent in Winnipeg, Manitoba) are closed to the public in the city in which such transfer agent or Rights Agent has an office for the purposes of this Agreement;

(l) "**Common Share**" when used with reference to the Company, shall mean the Common Shares and/or any other shares entitled to vote generally in the election of directors, as the context requires, and, when used with reference to any Person other than the Company, shall mean shares of capital stock of such other Person entitled to vote generally in the election of the directors of such other Person.

(m) "***Companies Act***" shall mean The Corporations Act (Manitoba), as amended, and the regulations made thereunder, and any comparable or successor laws or regulations thereto;

(n) "**Competing Permitted Bid**" means a Take-over Bid that is made by means of a Take- over Bid circular and which also complies with the following additional provisions:

(i) the Take-over Bid is made after a Permitted Bid has been made and prior to the expiry of the Permitted Bid or of any other Competing Permitted Bids (in this definition the "**Prior Bids**");

(ii) the Take-over Bid satisfies all components of the definition of a Permitted Bid other than the requirements set out in clause (ii) of such definition; and

(iii) the Take-over Bid contains, and the take-up and payment for Common Shares tendered or deposited thereunder are subject to, irrevocable and unqualified conditions that no Common Shares will be taken up and paid for pursuant to such Take-over Bid (x) prior to the Close of Business on a date that is no earlier than the later of (1) the earliest date on which Common Shares may be taken up and paid for under any Prior Bids in existence when the Take-over Bid is made and (2) 35 days after the date of such Take-over Bid constituting the Competing Permitted Bid, and (y) unless, at the time that the Common Shares are to be taken up, more than 50% of the then outstanding Common Shares held by Independent Shareholders, have been deposited or tendered pursuant to such Take-over Bid and not withdrawn;

(o) "**controlled**": a corporation is "controlled" by another Person or two or more Persons, acting jointly or in concert, if:

(i) securities entitled to vote in the election of directors carrying more than 50% of the votes for the election of the directors are held, directly or indirectly, by or for the benefit of the other Person or Persons acting jointly or in concert; and

(ii) the votes carried by such securities are entitled, if exercised, to elect a majority of the board of directors of such corporation;

and "**controls**", "**controlling**" and "**under common control with**" shall be interpreted accordingly;

(p) "**Convertible Securities**" means at any time any securities issued by the Company from time to time (other than the Rights) carrying any exercise, conversion or exchange right pursuant to which the holder thereof may acquire Common Shares or other securities which are convertible into exercisable or exchangeable for Common Shares.

(q) "**Convertible Securities Acquisition**" means the acquisition of Common Shares upon the exercise of a Convertible Security received by a Person pursuant to a Permitted Bid Acquisition, an Exempt Acquisition or a Permitted Acquisition.

(r) "**dividends paid in the ordinary course**" shall mean cash dividends paid at regular intervals in any financial year of the Company to the extent that such cash dividends do not exceed, in the aggregate, the greatest of:

(i) 200% of the aggregate amount of cash dividends declared payable by the company on its Shares in its immediately preceding financial year;

(ii) 300% of the arithmetic average of the aggregate amounts of cash dividends declared payable by the Company on its Shares in its three immediately preceding financial years;

(iii) 100% of the aggregate consolidated net income of the Company, before extraordinary items, for its immediately preceding financial year; and

(iv) 100% of the aggregate consolidated net income of the Company, before extraordinary items, for its current financial year;

(s) "**Effective Date**" shall mean the time at which the annual and special meeting of the holders of Common Shares scheduled to be held in 2011 terminates;

(t) "**Election to Exercise**" shall have the meaning ascribed thereto in clause 3.1(e)(ii);

(u) "**Exempt Acquisition**" shall have the meaning ascribed thereto in subclause 1.1(c)(ii)(c);

(v) "**Exercise Price**" shall mean, as of any date from and after the Separation Time, the price at which a holder of a Right may purchase the securities issuable upon exercise of one whole Right which, subject to adjustment in accordance with the terms hereof, shall be an amount equal to five times the Market Price per Common Share determined as at the Separation Time;

(w) "**Expiration Time**" shall mean the earlier of:

(i) the Termination Time;

(ii) the termination of the annual meeting of the shareholders of the Company in the year 2014; and

(iii) the Close of Business on the date this Agreement becomes void pursuant to the provisions of section 6.15;

Provided that the Expiration Time shall not occur if a Flip-in Event has occurred (other than a Flip-in Event which has been waived pursuant to Section 6.1 hereof) prior to the date upon which the Expiration Time would otherwise have occurred;

(x) "**Flip-in Event**" shall mean a transaction in or pursuant to which any Person shall become an Acquiring Person provided, however, that a Flip-in Event shall be deemed to occur at the Close of Business on the tenth day (or on such later day as the Board of Directors shall determine) after a Stock Acquisition Date;

(y) "**Grandfathered Person**" shall have the meaning ascribed thereto in clause 1.1(c)(v);

(z) "**Independent Shareholders**" shall mean all holders of Common Shares of the Company, other than (i) any Acquiring Person, (ii) any Offeror other than a Person described in paragraph (v) of the definition of "**Beneficial Owner**", (iii) any Affiliate or Associate of any Acquiring Person or Offeror, (iv) any Person acting jointly or in concert with any Acquiring Person or Offeror, and (v) any Person who is an administrator or trustee of any employee benefit plan, deferred profit sharing plan, stock participation plan or any similar plan or trust for the benefit of employees of the Company or a wholly-owned Subsidiary of the Company, unless the beneficiaries of such plan or trust direct the manner in which such Common Shares are to be voted or direct whether the Common Shares are to be tendered to a Take-over Bid;

(aa) "**Lock-up Agreement**" means an agreement between an Offeror, any of its Affiliates or Associates or any other Person acting jointly or in concert with the Offeror and a Person (the "**Locked-up Person**") who is not an Affiliate or Associate of the Offeror or a Person acting jointly or in concert with the Offeror whereby the Locked-up Person agrees to deposit or tender the Common Shares by the Locked-up Person to the Offeror's Take-over Bid or to any Take-over Bid made by any of the Offeror's Affiliates or Associates or made by any other Person acting jointly or in concert with the Offeror (the "**Subject Bid**"), where (A) in the context of a Subject Bid that is supported by the Company, the agreement shall terminate automatically or may be terminated by the Locked-up Person upon termination, in accordance with its terms, of the agreement between the Offeror, any of its Affiliates or Associates or any other Person acting jointly or in concert with the Offeror and the Company, under which it was agreed that the Offeror or any Affiliates or Associates or any other Person acting jointly or in concert with the Offeror would acquire all of the Common Shares outstanding in accordance with the terms of the agreement, (B) in the context of a Subject Bid that is not supported by the Company, where the agreement:

(i) permits the Locked-up Person to withdraw the Common Shares from the agreement in order to tender or deposit the Common Shares to another Take- over Bid or to support another transaction that in either case will provide greater value to the Locked-up Person than the Subject Bid; or

(ii) (a) permits the Locked-up Person to withdraw the Common Shares from the agreement in order to tender or deposit the Common Shares to another Take- over Bid or to support another transaction that contains an offering price for each Common Share that exceeds by as much as or more than a specified amount (the "**Specified Amount**") the offering price for each Common Share contained in or proposed to be contained in the Subject Bid; and (b) does not by its terms provide for a Specified Amount that is greater than 7% of the offering price contained in or proposed to be contained in the Subject Bid; and

(iii) does not provide for any "**break-up fees**", "**top-up fees**", penalties, expenses or other amounts that exceed in the aggregate the greater of:

(a) the cash equivalent of 2.5% of the price or value payable under the Take-over Bid to a Locked-up Person; and

(b) 50% of the amount by which the price or value payable under another Take-over Bid or transaction to a Locked-up Person exceeds the price or value of the consideration that such Locked-up Person would have received under the Take-over Bid;

which shall be payable by a Locked-up Person pursuant to the Lock-up Agreement in the event a Locked-up Person fails to deposit or tender Common Shares to the Take-over Bid or withdraws Common Shares in order to accept the other Take-over Bid or support another transaction;

and for a greater clarity an agreement may contain a right of first refusal or require a period of delay to give an offeror an opportunity to match a higher price in another Take-over Bid or other similar limitation on a Locked-up Person as long as the Locked-up Person can accept another bid or tender to another transaction;

(bb) "**Market Price**" per share of any securities on any date of determination shall mean the weighted average trading price per share of such securities (determined as described below) for the 20 consecutive Trading Days through and including the Trading Day immediately preceding such date; provided, however, that if an event of a type analogous to any of the events described in section 3.2 shall have caused the sale prices in respect of any Trading Day used to determine the Market Price not to be fully comparable with the sale prices on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day, each such sale price so used shall be appropriately adjusted in a manner analogous to the applicable adjustment provided for in section 3.2 in order to make it fully comparable with the sale price on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day. The weighted average trading price per share of any securities on any date shall be determined by dividing the aggregate sale price of all securities sold on the principal stock exchange in Canada on which such securities are listed and posted for trading divided by the total number of securities so sold; and

(i) if for any reason such prices are not available on such day or the securities are not listed and posted for trading on any stock exchange in Canada, the Market Price shall be calculated using the sale prices for such securities as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the principal national securities exchange in the United States on which such securities are listed or admitted to trading;

(ii) if for any reason such prices are not available on such day or the securities are not listed and posted for trading on a stock exchange in Canada or a national securities exchange in the United States, the Market Price shall be calculated using the average of the high bid and low asked prices of each share of such securities in the over-the-counter market, as reported by The National Association of Securities Dealers, Inc. or such other comparable system then in use; or

(iii) if on any such date the securities are not quoted by any such organization, the Market Price shall be calculated using the average of the closing bid and asked prices as furnished by a professional market maker making a market in the securities;

provided, however, that if on any such date the securities are not traded on any exchange or in the over-the-counter market and the price referred to in clause 1.1(aa)(iii) is not available, the closing price per share of such securities on such date shall mean the fair value per share of such securities on such date as determined by a nationally or internationally recognized investment dealer or investment banker with respect to the fair value per share of such securities. The Market Price shall be expressed in Canadian dollars and if initially determined in respect of any day forming part of the 20 consecutive Trading Day period in question in United States dollars, such amount shall be translated into Canadian dollars on such date at the Canadian Dollar Equivalent thereof;

(cc) "**Offer to Acquire**" shall include:

(i) an offer to purchase, or a solicitation of an offer to sell Common Shares; and

(ii) an acceptance of an offer to sell Common Shares, whether or not such offer to sell has been solicited;

or any combination thereof, and the Person accepting an offer to sell shall be deemed to be making an Offer to Acquire to the Person who made the offer to sell;

(dd) "**Offeror**" shall mean a Person who has announced a current intention to make or who is making a Take-over Bid (including a Permitted Bid or a Competing Permitted Bid) but only so long as the Take-over Bid so made or announced has not been withdrawn or terminated or has not expired;

(ee) "**Permitted Acquisition**" shall mean an acquisition of Common Shares of the Company by a Person

(i) as a result of a stock dividend, a stock split or other event pursuant to which such Person receives or acquires Common Shares of the Company or Convertible Securities on the same pro rata basis as all other holders of Common Shares, or

(ii) pursuant to a regular dividend reinvestment or other plan of the Company made available by the Company to the holders of Common Shares of the Company, or

(iii) pursuant to the receipt and/or exercise of rights issued by the Company to all of the holders of Common Shares of the Company to subscribe for or purchase Common Shares of the Company or Convertible Securities, provided that such rights are acquired directly from the Company and not from any other Person, provided that the Person does not thereby acquire a greater percentage of Common Shares than the Person's percentage of Common Shares Beneficially Owned immediately prior to such acquisition or exercise; or

(iv) pursuant to a distribution to the public by the Company of Common Shares, or securities convertible into or exchangeable for Common Shares or Convertible Securities, pursuant to a prospectus, provided that the Person does not thereby acquire a greater percentage of such Common Shares or Convertible Securities or securities convertible into or exchangeable for Common Shares or Convertible Securities, so offered than the Person's percentage of Common Shares Beneficially Owned immediately prior to such acquisition or to an amalgamation, merger or other statutory procedure requiring shareholders' approval; or

(v) pursuant to a distribution by the Company of Common Shares or Convertible Securities by way of a private placement by the Company or upon the exercise by an individual employee of stock options granted under a stock option plan of the Company or rights to purchase securities granted under a share purchase plan of the Company, provided that (1) all necessary stock exchange approvals for such private placement, stock option plan or share purchase plan have been obtained and such private placement, stock option plan or share purchase plan complies with the terms and conditions of such approvals and (2) such Person does not become the Beneficial Owner of more than 25% of the Common Shares outstanding immediately prior to the distribution, and in making this determination the Common Shares to be issued to such Person in the distribution shall be deemed to be held by such Person but shall not be included in the aggregate number of outstanding Common Shares immediately prior to the distribution;

(ff) "**Permitted Bid**" means a Take-over Bid that is made by means of a Take-over Bid circular and that also complies with the following additional provisions:

(i) the Take-over Bid is made to all holders of Common Shares of the Company as registered on the books of the Company, other than the Offeror;

(ii) the Take-over Bid contains, and the take-up and payment for Common Shares tendered or deposited thereunder are subject to, an irrevocable and unqualified condition that no Common Shares shall be taken up and paid for pursuant to the Take-over Bid prior to the Close of Business on the date which is not less than 60 days after the date of the Take-over Bid and only if at such date more than 50% of the Common Shares then outstanding held by Independent Shareholders, shall have been deposited or tendered pursuant to the Take-over Bid and not withdrawn;

(iii) the Take-over Bid contains an irrevocable and unqualified provision that, unless the Take-over Bid is withdrawn, Common Shares may be deposited pursuant to such Take-over Bid at any time during the period of time between the date of the Take-over Bid and the date on which the Common Shares may be taken up and paid for and that any such shares deposited pursuant to the Take-over Bid may be withdrawn until taken up and paid for; and

(iv) the Take-over Bid contains an irrevocable and unqualified provision that in the event that more than 50% of the Common Shares then outstanding held by Independent Shareholders shall have been deposited to the Take- over Bid as at the date of first take-up or payment for Common Shares under the Take-over Bid, the Offeror will make a public announcement of that fact and the Take-over Bid will remain open for deposits and tenders of Common Shares for not less than 10 Business Days from the date of such public announcement;

(gg) "**Permitted Bid Acquisition**" shall have the meaning ascribed thereto in subclause 1.1(c)(ii)(b);

(hh) "**Person**" shall include any individual, body corporate, firm, partnership, association, cooperative, trust, trustee, executor, administrator, legal personal representative, group, unincorporated organization, syndicate, government or governmental agency or instrumentality, or any other entity;

(ii) "**Record Time**" shall mean 6:00 p.m. (Winnipeg time) on April 14, 2011;

(jj) "**Right**" shall have the meaning ascribed thereto in the recitals hereto;

(kk) "**Rights Agent**" shall mean CIBC Mellon Trust Company;

(ll) "**Rights Certificates**" shall mean the certificates representing the Rights after the Separation Time, which shall be in the form attached hereto as Exhibit A;

(mm) "**Rights Register**" and "Rights Registrar" shall have the respective meanings ascribed thereto in subsection 2.3(a);

(nn) "***Securities Act* (Manitoba)**" shall mean the Securities Act, R.S.M. 1988, c. S50, as amended, and the regulations thereunder, and any comparable or successor laws or regulations thereto;

(oo) "***Securities Act* (Ontario)**" shall mean the Securities Act, R.S.O. 1990, c. S.5, as amended, and the regulations thereunder, and any comparable or successor laws or regulations thereto;

(pp) "**Separation Time**" shall mean, subject to subsection 6.1(f), the Close of Business on the tenth Business Day after the earlier of:

(i) the Stock Acquisition Date;

(ii) the date of the commencement of, or first public announcement of the intent of any Person (other than the Company or any Subsidiary of the Company) to commence a Take-over Bid (other than a Permitted Bid or a Competing Permitted Bid, as the case may be); and

(iii) the date on which a Permitted Bid or Competing Permitted Bid ceases to qualify as such;

or such later time as may be determined by the Board of Directors acting in good faith; provided that if the Take-over Bid expires, or is cancelled, terminated or otherwise withdrawn prior to the Separation Time, such Take-over Bid shall be deemed, for the purposes of this subsection 1.1(pp), never to have been made and provided further that if the Board of Directors determines pursuant to section 6.1 hereof to waive the application of section 4.1 to a Flip-in Event, the Separation Time in respect of such Flip-in Event shall be deemed never to have occurred;

(qq) "**Shares**" shall mean the shares in the capital of the Company;

(rr) "**Share Reduction**" shall have the meaning ascribed thereto in subclause 1.1(c)(ii)(a);

(ss) "**Stock Acquisition Date**" shall mean the date of the first public announcement (which for purposes of this definition includes, without limitation, a report filed pursuant to applicable securities legislation) of facts indicating that a Person has become an Acquiring Person;

(tt) "**Subsidiary**" of a Person shall have the meaning ascribed thereto in the *Securities Act* (Ontario);

(uu) "**Take-over Bid**" shall mean an Offer to Acquire Common Shares of the Company or other securities convertible into Common Shares of the Company, where the Common Shares or other securities of the Company subject to the Offer to Acquire are acquired at the date of such Offer to Acquire by the Person making such Offer to Acquire, together with the Common Shares Beneficially Owned by the Person making the Offer to Acquire would constitute in the aggregate 20% or more of the outstanding Common Shares of the Company;

(vv) "**Termination Time**" shall mean the time at which the right to exercise Rights shall terminate pursuant to subsection 6.1(e) or section 6.15;

(ww) "**Trading Day**", when used with respect to any securities, shall mean a day on which the principal United States or Canadian securities exchange on which such securities are listed or admitted to trading is open for the transaction of business or, if the securities are not listed or admitted to trading on any United States or Canadian securities exchange, a Business Day;

(xx) "**US.-Canadian Exchange Rate**" shall mean on any date:

(i) if on such date the Bank of Canada sets an average noon spot rate of exchange for the conversion of one United States dollar into Canadian dollars, such rate; and

(ii) in any other case, the rate for such date for the conversion of one United States dollar into Canadian dollars which shall be calculated in the manner determined by the Board of Directors from time to time acting in good faith;

(yy) "**US. Dollar Equivalent**" of any amount which is expressed in Canadian dollars shall mean on any date the United States dollar equivalent of such amount determined by multiplying such amount by the Canadian-U.S. Exchange Rate in effect on such date.

1.2 Currency

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada, unless otherwise specified.

1.3 Descriptive Headings

Descriptive headings appear herein for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

1.4 References to Agreement

References to "this Agreement", "hereto", "herein" "hereby" "hereunder", "hereof" and similar expressions refer to this Agreement, as amended or supplemented from time to time, and not to any particular Article, section, subsection, clause, subclause, subdivision or other portion hereof and include any and every instrument supplemental or ancillary hereto.

1.5 Calculation of Number and Percentage of Beneficial Ownership of Outstanding Common Shares

(a) For the purposes of this Agreement, in determining the percentage of the outstanding Common Shares of the Company with respect to which a Person is or is deemed to be the Beneficial Owner, all unissued Common Shares of the Company of which such Person is deemed to be the Beneficial Owner shall be deemed to be outstanding.

(b) The percentage of outstanding Common Shares of the Company Beneficially Owned by any Person shall, for the purposes of this Agreement, be and be deemed to be the product determined by the formula:

$$100 \times \frac{A}{B}$$

where: A = the number of votes for the election of all directors generally attaching to the Common Shares Beneficially Owned by such Person; and

B = the number of votes for the election of all directors generally attaching to all outstanding Common Shares of the Company.

1.6 Acting Jointly or in Concert

For purposes of this Agreement, a Person shall be acting jointly or in concert with another Person if such Person has any agreement, arrangement or understanding (whether formal or informal and whether or not in writing) with such other Person to acquire, or Offer to Acquire any Common Shares of the Company (other than customary agreements with and between underwriters and banking group or selling group members with respect to a distribution of securities by way of a prospectus or by way of a private placement or pursuant to a pledge of securities in the ordinary course of business).

1.7 Application of Statutes, Regulations and Rules

Where a statute, regulation or rule is referred to in a definition or other provision of this Agreement, it

shall be conclusively deemed to have application in the contemplated circumstances notwithstanding that such statute, regulation or rule might not, but for the provisions of this section 1.7 have application for want of jurisdiction or otherwise.

ARTICLE 2
THE RIGHTS

2.1 Legend on Certificates

Certificates for Common Shares issued after the Record Time but prior to the Close of Business on the earlier of the Separation Time and the Expiration Time shall evidence, one Right for each Common Share evidenced thereby and shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

> UNTIL THE SEPARATION TIME (AS DEFINED IN THE RIGHTS AGREEMENT REFERRED TO BELOW), THIS CERTIFICATE ALSO EVIDENCES AND ENTITLES THE HOLDER HEREOF TO CERTAIN RIGHTS AS SET FORTH IN A SHAREHOLDER RIGHTS PLAN AGREEMENT, DATED AS OF THE 25TH DAY OF AUGUST, 2011 (THE "**RIGHTS AGREEMENT**") BETWEEN DIAMEDICA INC. (THE "**COMPANY**") AND CIBC MELLON TRUST COMPANY, AS RIGHTS AGENT, (AS THE SAME MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME IN ACCORDANCE WITH THE TERMS THEREOF) THE TERMS OF WHICH ARE HEREBY INCORPORATED HEREIN BY REFERENCE AND A COPY OF WHICH MAY BE INSPECTED DURING NORMAL BUSINESS HOURS AT THE HEAD OFFICE OF THE COMPANY. UNDER CERTAIN CIRCUMSTANCES, AS SET FORTH IN THE RIGHTS AGREEMENT SUCH RIGHTS MAY BE TERMINATED, MAY EXPIRE, MAY BECOME VOID (IF, IN CERTAIN CASES, THEY ARE "BENEFICIALLY OWNED" BY AN "ACQUIRING PERSON", AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT, WHETHER CURRENTLY HELD BY OR ON BEHALF OF SUCH PERSON OR ANY SUBSEQUENT HOLDER) OR MAY BE EVIDENCED BY SEPARATE CERTIFICATES AND MAY NO LONGER BE EVIDENCED BY THIS CERTIFICATE. THE COMPANY WILL MAIL OR ARRANGE FOR THE MAILING OF A COPY OF THE RIGHTS AGREEMENT TO THE HOLDER OF THIS CERTIFICATE WITHOUT CHARGE AS SOON AS IS PRACTICABLE UPON RECEIPT OF A WRITTEN REQUEST THEREFOR.

Certificates representing Common Shares that are issued and outstanding at the Record Time shall evidence one Right for each Common Share evidenced thereby, notwithstanding the absence of the foregoing legend until the earlier of the Separation Time and the Expiration Time.

2.2 Execution, Authentication, Delivery and Dating of Rights Certificates

(a) The Rights Certificates shall be executed on behalf of the Company by any of the Chairman of the Board, the President and Chief Executive Officer or the Vice President, Finance, together with any other of such persons or together with any one of the Secretary or any other officer of the Company. The signature of any such officers of the Company on the Rights Certificates may be manual or facsimile. Rights Certificates bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the countersignature and delivery of such Rights Certificates.

(b) Promptly after the Company learns of the Separation Time, the Company will notify the Rights Agent of such Separation Time and will deliver Rights Certificates executed by the Company to the Rights Agent for countersignature and disclosure statement describing the Rights, and the Rights Agent shall manually (or by facsimile signature in a manner satisfactory to the Company) countersign and deliver such Rights Certificates to the holders of the Rights pursuant to subsection 3.1(d) . No Rights Certificate shall be valid for any purpose until countersigned by the Rights Agent as aforesaid.

(c) Each Rights Certificate shall be dated the date of the countersignature thereof.

2.3 Registration, Registration of Transfer and Exchange

(a) After the Separation Time, the Company w ill cause to be kept a register (the "**Rights Register**") in which, subject to such reasonable regulations as it may prescribe, the Company will provide for the registration and transfer of Rights. The Rights Agent is hereby appointed the "**Rights Registrar**" for the purpose of maintaining the Rights Register for the Company and registering Rights and transfers of rights as herein provided. In the event that the Rights Agent shall cease to be the Rights Registrar, the Rights Agent will have the right to examine the Rights Register at all reasonable times. After the Separation Time and prior to the Expiration Time, upon surrender for registration of transfer or exchange of any Rights Certificate, and subject to the provisions of subsection 2.3(c), the Company will execute, and the Rights Agent will countersign, register and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder's instructions, one or more new Rights Certificates evidencing the same aggregate number of Rights as did the Rights Certificates so surrendered.

(b) All Rights issued upon any registration of transfer or exchange of Rights Certificates shall be valid obligations of the Company, and such Rights shall be entitled to the same benefits under this Agreement as the Rights surrendered upon such registration of transfer or exchange.

(c) Every Rights Certificate surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company or the Rights Agent, as the case may be, duly executed by the holder thereof or such holder's attorney duly authorized in writing. As a condition to the issuance of any new Rights Certificate under this section 2.3, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Rights Agent) in connection therewith.

2.4 Mutilated, Destroyed, Lost and Stolen Rights Certificates

(a) If any mutilated Rights Certificate is surrendered to the Rights Agent prior to the Expiration Time, the Company shall execute and the Rights Agent shall manually or by facsimile countersign and deliver in exchange therefor a new Rights Certificate evidencing the same number of Rights as the Rights Certificate so surrendered.

(b) If there shall be delivered to the Company and the Rights Agent prior to the Expiration Time: (i) evidence to their satisfaction of the destruction, loss or theft of any Rights Certificate; and (ii) such security or indemnity as may be required by each of them to save each of them in their sole discretion and any of their agents harmless, then, in the absence of notice to the Company or the Rights Agent that such Rights Certificate has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Rights Agent shall countersign and deliver, in lieu of any such destroyed, lost or stolen Rights Certificate, a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so destroyed, lost or stolen.

(c) As a condition to the issuance of any new Rights Certificate under this section 2.4, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Rights Agent) in connection therewith.

(d) Every new Rights Certificate issued pursuant to this section 2.4 in lieu of any destroyed, lost or stolen Rights Certificate shall evidence the contractual obligation of the Company, whether or not the destroyed, lost or stolen Rights Certificate shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Agreement equally and proportionately with any and all other Rights duly issued by the Company.

2.5 Persons Deemed Owners of Rights

Prior to due presentment of a Rights Certificate, the Company, the Rights Agent and any agent of the Company or the Rights Agent may deem and treat the Person in whose name such Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby, for all purposes whatsoever. As used in this Agreement, unless the context otherwise requires, the term "holder" of any Rights shall mean the registered holder of such Rights (or, prior to the Separation Time, the associated Common Shares).

2.6 Delivery and Cancellation of Certificates

All Rights Certificates surrendered upon exercise or for redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Rights Agent, be delivered to the Rights Agent and, in any case, shall be promptly cancelled by the Rights Agent. The Company may at any time deliver to the Rights Agent for cancellation any Rights Certificates previously countersigned and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Rights Certificates so delivered shall be promptly cancelled by the Rights Agent. No Rights Certificate shall be countersigned in lieu of or in exchange for any Rights Certificates cancelled as provided for in this section 2.6, except as expressly permitted by this Agreement. The Rights Agent shall, subject to applicable law, destroy all cancelled Rights Certificates and deliver a certificate of destruction to the Company upon request.

2.7 Agreement of Rights Holders

Every holder of Rights by accepting such Rights consents and agrees with the Company and the Rights Agent and with every other holder of Rights:

(a) to be bound by and subject to the provisions of this Agreement, as amended from time to time in accordance with the terms hereof, in respect of the Rights held;

(b) that prior to the Separation Time, each Right will be transferable only together with, and will be transferred by a transfer of, the associated Common Share;

(c) that after the Separation Time, the Rights Certificates will be transferable only upon registration of the transfer on the Rights Register as provided herein;

(d) that prior to due presentment of a Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) for registration of transfer, the Company, the Rights Agent and any agent of the Company or the Rights Agent may deem and treat the Person in whose name the Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on such Rights Certificate or the associated Common Share certificate, made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary;

(e) that such holder of Rights is not entitled to receive any fractional Rights or any fractional Common Shares upon exercise of a Right (except as provided herein);

(f) subject to the provisions of Section 6.5 that without the approval of any holder of Rights and upon the sole authority of the Board of Directors acting in good faith, this Agreement may be supplemented or amended from time to time pursuant to and as provided herein; and

(g) notwithstanding anything in this Agreement to the contrary, neither the Company nor the Rights Agent and their respective directors, officers, employees and agents shall have any liability to any holder of a Right or any other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission or any statute, rule, regulation or executive order promulgated or enacted by such governmental or regulatory authority, prohibiting or otherwise restraining performance of such obligation.

2.8 Rights Certificate Holder Not Deemed a Shareholder

No holder, as such, of any Right or Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose whatsoever the holder of any Common Share which may at any time be issuable on the exercise of such Right, nor shall anything contained herein or in any Rights Certificate be construed or deemed to confer upon the holder of any Right or Rights Certificate, as such, any of the rights, titles, benefits or privileges of a shareholder of the Company or any right to vote at any meeting of shareholders of the Company whether for the election of directors or otherwise or upon any matter submitted to holders of any Shares at any meeting thereof, or to give or withhold consent to any action of the Company, or to receive notice of any meeting or other action affecting any shareholder of the Company except as expressly provided herein, or to receive dividends, distributions or subscription rights, or otherwise, until the Right or Rights evidenced by any Rights Certificate shall have been duly exercised in accordance with the terms and provisions hereof.

ARTICLE 3
EXERCISE OF THE RIGHTS

3.1 Initial Exercise Price, Exercise of Rights, Detachment of Rights

(a) Subject to adjustment as herein set forth, from and after the Separation Time and prior to the Expiration Time, each Right will entitle the holder thereof to purchase one Common Share for the Exercise Price (or its U.S. Dollar Equivalent) as at the Close of Business on the day immediately preceding the date of the exercise of the Right (which Exercise Price and number of Common Shares are subject to adjustment as set forth below). Notwithstanding any other provision of this Agreement, any Rights held by the Company or any of its Subsidiaries shall be void.

(b) Until the Separation Time:

(i) the Rights shall not be exercisable and no Right may be exercised; and

(ii) each Right will be evidenced by the certificate for the associated Common Share registered in the name of the holder thereof (which certificate shall also be deemed to be a Rights Certificate) and will be transferable only together with, and will be transferred by a transfer of, such associated Common Share.

(c) From and after the Separation Time and prior to the Expiration Time: (i)

the Rights shall be exercisable; and

(ii) the registration and transfer of the Rights shall be separate from and independent of the Common Shares.

(d) Promptly following the Separation Time, the Company w ill prepare and the Rights Agent will mail to each holder of record of Common Shares as of the Separation Time (other than an Acquiring Person and other than, in respect of any Rights Beneficially Owned by such Acquiring Person which are not held of record by such Acquiring Person, the holder of record of such Rights (a "**Nominee**")), at such holder's address as shown by the records of the Company (and the Company hereby agrees to furnish copies of such records to the Rights Agent for this purpose):

(i) a Rights Certificate representing the number of Rights held by such holder at the Separation Time in substantially the form of Exhibit A hereto, appropriately completed and having such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law, rule, regulation or judicial or administrative order or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange or quotation system on which the Rights may from time to time be listed or traded, or to conform to usage; and

(ii) a disclosure statement describing the Rights;

provided that a Nominee shall be sent the materials provided for in clauses 3.1(d)(i) and 3.1(d)(ii) only in respect of all Common Shares held of record by it which are not Beneficially Owned by an Acquiring Person.

(e) Rights may be exercised in whole or in part on any Business Day after the Separation Time and prior to the Expiration Time by submitting to the Rights Agent:

(i) the Rights Certificate evidencing such Rights;

(ii) an election to exercise such Rights (an "**Election to Exercise**"), substantially in the form attached to the Rights Certificate, duly completed and executed by the holder or his executors or administrators or other personal representatives or his or their legal attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Rights Agent; and

(iii) payment by certified cheque, banker's draft or money order payable to the order of the Rights Agent, of a sum equal to the applicable Exercise Price multiplied by the number of Rights being exercised and a sum sufficient to cover any transfer or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for the relevant Common Shares in a name other than that of the holder of the Rights being exercised. The Rights Agent may retain any cash balance held in connection with this Agreement and may, but need not, hold same in its deposit department or the deposit department of one of its Affiliates; but the Rights Agent and its Affiliates shall not be liable to account for any profit to the Company or any other person or entity other than at a rate, if any, established from time to time by the Rights Agent or one of its Affiliates.

(f) Upon receipt of the Rights Certificate which is accompanied by a completed Election to Exercise (provided that such Right is not null and void pursuant to subsection 4.1(b)) and payment as set forth in clause 3.1(e)(iii), the Rights Agent

(unless otherwise instructed in writing by the Company in the event that the Company is of the opinion that the Rights cannot be exercised in accordance with this Agreement) will thereupon promptly:

(i) requisition from the transfer agent for the Common Shares certificates representing the number of such Common Shares to be purchased (the Company hereby irrevocably authorizing its transfer agents to comply with all such requisitions);

(ii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of issuing fractional Common Shares;

(iii) after receipt of such Common Share certificate referred to in clause 3.1(f)(i), deliver the same to or to the order of the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder;

(iv) when appropriate, after receipt, deliver such cash referred to in clause 3.1(f)(ii) to or to the order of the registered holder of the Rights Certificate; and

(v) tender to the Company all payments received on exercise of the Rights.

(g) In case the holder of any Rights shall exercise less than all the Rights evidenced by such holder's Rights Certificate, a new Rights Certificate evidencing the Rights remaining unexercised will be issued by the Rights Agent to such holder or to such holder's duly authorized assigns.

(h) The Company covenants and agrees that it will:

(i) take all such reasonable action as may be necessary and within its power to ensure that all Common Shares delivered upon exercise of Rights shall, at the time of delivery of the certificates representing such Common Shares (subject to payment of the Exercise Price), be duly and validly authorized, issued and delivered as fully paid and non-assessable;

(ii) take all such actions as may be necessary and within its power to comply with any applicable requirements of the Companies Act, the Securities Act (Ontario), the Securities Act (Manitoba) and the securities act or comparable legislation of each of the other provinces of Canada, the 1933 Securities Act and the 1934 Exchange Act (if applicable) and any other applicable law, rule or regulation, in connection with the issuance and delivery of the Rights Certificates and the issuance of any Common Shares upon exercise of Rights;

(iii) use reasonable efforts to cause all Common Shares issued upon exercise of Rights to be listed on the principal exchanges on which the Common Shares were traded immediately prior to the Stock Acquisition Date;

(iv) cause to be reserved and kept available out of its authorized and unissued Common Shares the number of Common Shares that, as provided in this Agreement, will from time to time be sufficient to permit the exercise in full of all outstanding Rights; and

(v) pay when due and payable any and all federal and provincial transfer taxes (for greater certainty not including any income taxes of the holder or exercising holder or any liability of the Company to withhold tax) which may be payable in respect of the original issuance or delivery of the Rights Certificates, provided that the Company shall not be required to pay any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for Common Shares in a name other than that of the holder of the Rights being transferred or exercised.

3.2 Adjustments to Exercise Price, Number of Rights

The Exercise Price, the number of Common Shares (or other securities) subject to purchase upon the exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this section 3.2.

(a) In the event the Company shall at any time after the Record Time and prior to the Expiration Time:

(i) declare or pay a dividend on the Common Shares payable in Common Shares (or other securities exchangeable for or convertible into or giving a right to acquire Common Shares or other capital stock of the Company) other than pursuant to any dividend reinvestment program;

(ii) subdivide or change the outstanding Common Shares of any class into a greater number of Common Shares; or

(iii) combine or change the outstanding Common Shares of any class into a smaller number of Common Shares; or

(iv) issue any new Common Shares (or other securities exchangeable for or convertible into or giving a right to acquire Common Shares) in respect of, in lieu of or in exchange for existing Common Shares, in a reclassification, amalgamation, merger, statutory arrangement or consolidation,

the Exercise Price and the number of Rights outstanding, or, if the payment or effective date therefor shall occur after the Separation Time, the securities purchasable upon exercise of Rights shall be adjusted in the manner set forth below.

If the Exercise Price and the number of Rights outstanding are to be adjusted:

(i) the Exercise Price in effect after such adjustment will be equal to the Exercise Price in effect immediately prior to such adjustment divided by the number of Common Shares (or other capital stock) (the "**Expansion Factor**") that a holder of one Common Share immediately prior to such dividend, subdivision, change, consolidation or issuance would hold thereafter as a result thereof (assuming the exercise of all such exchange or conversion rights, if any); and

(ii) each Right held prior to such adjustment will become that number of Rights equal to the Expansion Factor,

and the adjusted number of Rights will be deemed to be distributed among the Common Shares with respect to which the original Rights were associated (if they remain outstanding) and the Common Shares issued in respect of such dividend, subdivision, change, consolidation or issuance, so that each such Common Share (or other capital stock) will have exactly one Right associated with it.

If the securities purchasable upon exercise of Rights are to be adjusted, the securities purchasable upon exercise of each Right after such adjustment will be the securities that a holder of the securities purchasable upon exercise of one Right immediately prior to such dividend, subdivision, change, consolidation or issuance would hold immediately thereafter as a result thereof. To the extent that such rights of exchange, conversion or acquisition are not exercised prior to the expiration thereof, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect based on the number of Common Shares (or securities convertible into or exchangeable for Common Shares) actually issued upon the exercise of such rights.

If an event occurs which would require an adjustment under both this section 3.2 and section 4.1, the adjustment provided for in this section 3.2 shall be in addition to, and shall be made prior to, any adjustment required under section 4.1.

If the Company shall at any time after the Record Time and prior to the Separation Time issue any Common Shares otherwise than in a transaction referred to in this subsection 3.2(a), each such Common Share so issued shall automatically have one new Right associated with it, which Right shall be evidenced by the certificate representing such Common Share.

(b) In case the Company shall at any time after the Record Time and prior to the Separation Time fix a record date for the issuance of rights, options or warrants to all holders of Common Shares entitling them to subscribe for or purchase (for a period expiring within 45 calendar days after such record date) Common Shares (or shares having the same rights, privileges and preferences as Common Shares ("**equivalent Common Shares**")) or securities convertible into Common Shares or equivalent Common Shares at a price per Common Share or per equivalent Common Share (or having a conversion price per share, if a security convertible into Common Shares or equivalent Common Shares) less than 90% of the Market Price per Common Share on such record date, the Exercise Price in respect of the Rights to be in effect after such record date shall be determined by multiplying the Exercise Price in respect of the Rights in effect immediately prior to such record date by a fraction: (i) the numerator of which shall be the number of Common Shares outstanding on such record date, plus the number of Common Shares that the aggregate offering price of the total number of Common Shares and/or equivalent Common Shares so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such Market Price per Common Share; and (ii) the denominator of which shall be the number of Common Shares outstanding on such record date, plus the number of additional Common Shares and/or equivalent Common Shares to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid by delivery of consideration, part or all of which may be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights. Such adjustment shall be made successively whenever such a record date is fixed and, in the event that such rights or warrants are not so issued, the Exercise Price in respect of the Rights shall be readjusted to be the Exercise Price which would then be in effect if such record date had not been fixed. To the extent that such rights of conversion, exchange or purchase are not exercised prior to the expiration thereof, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect based on the number of Common Shares (or securities convertible into or exchangeable or exercisable for Common Shares) actually issued upon the exercise of such rights.

(c) For purposes of this Agreement, the granting of the right to purchase Common Shares (whether from treasury or otherwise) pursuant to a dividend or interest reinvestment plan or any Common Share purchase plan providing for the reinvestment of dividends or interest payable on the securities of the Company or the investment of periodic optional payments or any employee benefit, stock option or similar plans shall be deemed not to constitute an issue of rights, options or warrants by the Company; provided, however, that in all such cases the right to purchase Common Shares is at a price per share of not less than 90% of the current market price per share (determined as provided in such plans) of Common Shares.

(d) In case the Company shall at any time after the Record Time and prior to the Separation Time fix a record date for a distribution to all holders of Common Shares (including any such distribution made in connection with a merger in which the Company is the continuing Company) of evidences of indebtedness or assets, including cash (other than a dividend paid in the ordinary course or a dividend paid in Common Shares, but including any dividend payable in securities other than Common Shares), or subscription rights or warrants entitling them to subscribe for or purchase Common Shares (excluding those referred to in subsection 3.2(b)) at a price per Common Share that is less than 90% of the Market Price per Common Share on such record date, the Exercise Price in respect of the Rights to be in effect after such record date shall be determined by multiplying the Exercise Price in respect of the Rights in effect immediately prior to such record date by a fraction: (i) the numerator of which shall be the Market Price per Common Share on such record date, less the fair market value (as determined in good faith by the Board of Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights) of the portion of the cash, assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to a Common Share; and (ii) the denominator of which shall be such Market Price per Common Share. Such adjustments shall be made successively whenever such a record date is fixed and, in the event that such distribution is not so made, the Exercise Price in respect of the Rights shall be adjusted to be the Exercise Price in respect of the Rights which would have been in effect if such record date had not been fixed.

(e) Notwithstanding anything herein to the contrary, no adjustment in an Exercise Price shall be required unless such adjustment would require an increase or decrease of at least 1% in such Exercise Price; provided, however, that any adjustments which by reason of this subsection 3.2(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this section 3.2 shall be made to the nearest cent or to the nearest ten-thousandth of a Common Share or other share, as the case may be. Notwithstanding the first sentence of this subsection 3.2(e), any adjustment required by this section 3.2 shall be made no later than the earlier of (i) three years from the date of the transaction which mandates such adjustment and (ii) the Expiration Time.

(f) Subject to the prior consent of the holders of Common Shares or Rights obtained in accordance with the provisions of Article 6, as applicable, in the event the Company shall at any time after the Record Time and prior to the Separation Time issue any shares of capital stock (other than Common Shares), or rights or warrants to subscribe for or purchase any such capital stock, or securities convertible into or exchangeable for any such capital stock, in a transaction referred to in clauses 3.2(a)(i) or 3.2(a)(iv), if the Board of Directors acting in good faith determines that the adjustments contemplated by subsections 3.2(a), 3.2(b) and 3.2(c) above in connection with such transaction will not appropriately protect the interests of the holders of Rights, the Company may determine what other adjustments to the Exercise Price, number of Rights or securities purchasable upon exercise of Rights would be appropriate and, notwithstanding subsections 3.2(a), 3.2(b) and 3.2(c) above, such adjustments (rather than the adjustment contemplated by subsections 3.2(a), 3.2(b) and 3.2(c)), shall be made. The Company and the Rights Agent at the written direction of the Company shall amend this Agreement as appropriate to provide for such adjustments.

(g) If, as a result of an adjustment made pursuant to section 4.1, the holder of any Right thereafter exercised shall become entitled to receive any Shares other than Common Shares, thereafter the number of such other Shares so receivable upon exercise of any Right and the applicable Exercise Price thereof shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as is practicable to the provisions with respect to the Common Shares contained in this section 3.2, and the provisions of this Agreement with respect to the Common Shares shall apply on like terms to any such other Shares.

(h) All Rights originally issued by the Company subsequent to any adjustment made to an Exercise Price hereunder shall evidence the right to purchase, at the adjusted Exercise Price, that number of Common Shares purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(i) Unless the Company shall have exercised its election as provided in subsection 3.2(j), upon each adjustment of an Exercise Price as a result of the calculations made in subsections 3.2(b) and 3.2(d), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Exercise Price, that number of Common Shares (calculated to the nearest one ten-thousandth) determined by:

(i) multiplying:

(a) the number of such Common Shares which would have been issuable upon the exercise of a Right immediately prior to this adjustment; by

(b) the relevant Exercise Price in effect immediately prior to such adjustment of the Relevant Exercise Price; and

(ii) dividing the product so obtained by the relevant Exercise Price in effect immediately after such adjustment of the relevant Exercise Price.

(j) The Company may elect on or after the date of any adjustment of an Exercise Price to adjust the number of Rights, in lieu of any adjustment in the number of Common Shares purchasable upon the exercise of a Right. Each of the Rights outstanding after the adjustment in the number of Rights shall be exercisable for the number of Common Shares for which such a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one ten-thousandth) obtained by dividing the relevant Exercise Price in effect immediately prior to adjustment of the relevant Exercise Price by the relevant Exercise Price in effect immediately after adjustment of the relevant Exercise Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the relevant Exercise Price is adjusted or any day thereafter, but, if the Rights Certificates have been issued, shall be atleast 10 days later than the date of the public announcement. If Rights Certificates have been issued, upon each adjustment of the number of Rights pursuant to this subsection 3.2(j), the Company shall, as promptly as is practicable, cause to be distributed to holders of record of Rights Certificates on such record date, Rights Certificates evidencing, subject to section 6.4, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Rights Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Rights Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Rights Certificates to be so distributed shall be issued, executed and countersigned in the manner provided for herein and may bear, at the option of the Company, the relevant adjusted Exercise Price and shall be registered in the names of holders of record of Rights Certificates on the record date specified in the public announcement.

(k) Irrespective of any adjustment or change in an Exercise Price or the number of Common Shares issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the relevant Exercise Price per Common Share and the number of Common Shares which were expressed in the initial Rights Certificates issued hereunder.

(l) In any case in which this section 3.2 shall require that an adjustment in an Exercise Price be made effective as of a record date for a specified event, the Company may elect to defer, until the occurrence of such event, the issuance to the holder of any Right exercised after such record date of the number of Common Shares and other securities of the Company, if any, issuable upon such exercise over and above the number of Common Shares and other securities of the Company, if any, issuable upon such exercise on the basis of the relevant Exercise Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional Common Shares (fractional or otherwise) or other securities upon the occurrence of the event requiring such adjustment.

(m) Notwithstanding anything in this section 3.2 to the contrary, the Company shall be entitled to make such reductions in each Exercise Price in addition to those adjustments expressly required by this section 3.2, as and to the extent that in its good faith judgment the Board of Directors shall determine to be advisable in order that any: (i) consolidation or subdivision of Common Shares; (ii) issuance wholly for cash of any Common Share or securities that by their terms are convertible into or exchangeable for Common Shares; (iii) stock dividends; or (iv) issuance of rights, options or warrants referred to in this section 3.2 hereafter made by the Company to holders of its Common Shares shall not be taxable to such shareholders.

(n) The Company covenants and agrees that, after the Separation Time, it will not, except as permitted by section 6.1 or 6.5, take (or permit any Subsidiary of the Company to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

(o) Whenever an adjustment to the Exercise Price or a change in the securities purchasable upon exercise of the Rights is made at any time after the Separation Time pursuant to this Section 3.2, the Company shall promptly:

(i) File with the Rights Agent and with the transfer agent for the Common Shares a certificate specifying the particulars of such adjustment or change; and

(ii) Cause notice of the particulars of such adjustment or change to be given to the holders of the Rights; provided that failure to file such certificate or cause such notice to be given as aforesaid, or any defect therein, shall not affect the validity of any such adjustment or change.

3.3 Date on Which Exercise is Effective

Each Person in whose name any certificate for Common Shares is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Common Shares represented thereby on, and such certificate shall be dated, the date upon which the Rights Certificate evidencing such Rights was duly surrendered (together with a duly completed Election to Exercise) and payment of the relevant Exercise Price for such Rights (and any applicable transfer taxes and other governmental charges payable by the exercising holder hereunder) was made; provided, however, that if the date of such surrender and payment is a date upon which the relevant Common Share transfer books of the Company are closed, such Person shall be deemed to have become the holder of record of such Common Shares on, and such certificate shall be dated, the next succeeding Business Day on which the relevant Common transfer books of the Company are open.

ARTICLE 4
ADJUSTMENTS TO THE RIGHTS
IN THE EVENT OF CERTAIN TRANSACTIONS

4.1 Flip-in Event

(a) Subject to subsection 4.1(b) and subsections 6.1(f), 6.1(g) and 6.1(h), in the event that prior to the Expiration Time a Flip-in Event shall occur, each Right shall constitute, effective on and after the later of its date of issue and the Close of Business on the tenth Trading Day following the Stock Acquisition Date, the right to purchase from the Company, upon payment of the relevant Exercise Price and otherwise exercising such Right in accordance with the terms hereof, that number of Common Shares having an aggregate Market Price on the date of consummation or occurrence of such Flip-in Event equal to twice the relevant Exercise Price for an amount in cash equal to the relevant Exercise Price (such right to be appropriately adjusted in a manner analogous to the applicable adjustments provided for in section 3.2 upon each occurrence after the Stock Acquisition Date of any event analogous to any of the events described in section 3.2).

(b) Notwithstanding anything in this Agreement to the contrary, upon the occurrence of any Flip-in Event, any Rights that are or were Beneficially Owned on or after the earlier of the Separation Time and the Stock Acquisition Date by: (i) an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person); or (ii) a transferee or other successor in title, directly or indirectly, (a "**Transferee**") of Rights held by an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person) who becomes a Transferee concurrently with or subsequent to the Acquiring Person becoming an Acquiring Person in a transfer that the Board of Directors has determined is part of a plan, arrangement or scheme of an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person), that has the purpose of avoiding the effect of this subsection 4.1(b) shall become null and void without any further action, and any holder of such Rights (including any Transferee) shall not have any right whatsoever to exercise such Rights under any provision of this Agreement and shall not have thereafter any other rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The holder of any Rights represented by a Rights Certificate which is submitted to the Rights Agent upon exercise or for registration of transfer or exchange which does not contain the necessary certifications set forth in the Rights Certificate establishing that such Rights are not void under this subsection 4.1(b) shall be deemed to be an Acquiring Person for the purposes of this subsection 4.1(b) and such Rights shall become null and void.

(c) In the event that there shall not be sufficient Common Shares authorized for issuance to permit the exercise in full of the Rights in accordance with this section 4.1 the Company shall take all such action as may be necessary to authorize additional Common Shares for issuance upon the exercise of the Rights.

(d) From and after the Separation Time, the Company shall do all such acts and things as shall be necessary and within its power to ensure compliance with the provisions of this section 4.1 including, without limitation, all such acts and things as may be required to satisfy the requirements of the Companies Act, the Securities Act (Ontario), the Securities Act (Manitoba) or comparable legislation of each of the provinces of Canada, if necessary, in respect of the issue of Common Shares upon the exercise of Rights in accordance with this Agreement.

(e) Any Rights Certificate that represents Rights Beneficially Owned by a Person described in subsection 4.1(b) or transferred to any nominee of any such Person, and any Rights Certificate issued upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain the following legend:

> "The Rights represented by this Certificate were issued to a Person who was an Acquiring Person or an Affiliate or an Associate of an Acquiring Person (as such terms are defined in the Rights Agreement) or a Person acting jointly or in concert with any of them. This Rights Certificate and the Rights represented hereby shall become void in the circumstances specified in subsection 4.1(b) of the Rights Agreement."

provided that the Rights Agent shall not be under any responsibility to ascertain the existence of facts that would require the imposition of such legend but shall be required to impose such legend only if instructed to do so by the Company in writing or if a holder fails to certify upon transfer or exchange in the space provided on the Rights Certificate that such holder is not a Person described in such legend.

ARTICLE 5
THE RIGHTS AGENT

5.1 General

(a) The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of Rights in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint one or more Co-Rights Agents as it may deem necessary or desirable subject to the approval of the Rights Agent. In the event the Company appoints one or more Co- Rights Agents, the respective duties of the Rights Agents and Co-Rights Agents shall be as the Company may determine with the approval of the Rights Agent. The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by them from time to time, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent, its offices, directors, employees and agents for, and to hold them harmless against, all losses, damages, costs, charges, counsel fees, payments, expenses and liabilities, incurred without negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability, which right to indemnification will survive the termination of this Agreement or the resignation or removal of the Rights Agent.

(b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it (without negligence, bad faith or willful misconduct on the part of the Rights Agent) in connection with its administration of this Agreement in reliance upon any certificate for Common Shares, Rights Certificate, certificate for Shares of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons.

(c) The Company shall inform the Rights Agent in a reasonably timely manner of events which may materially affect the administration of this Agreement by the Rights Agent and shall, at any time, upon request by the Rights Agent provide to the Rights Agent an incumbency certificate certifying the then current officers of the Company.

(d) In the absence of negligence, bad faith or willful misconduct on its part, the Rights Agent shall not be liable for any action taken, suffered, or omitted by it or for any error of judgement made by it in the performance of its duties under this Agreement. In no event will the Rights Agent be liable for special, indirect, consequential or punitive loss or damages of any kind whatsoever (including but not limited to lost profits), even if the Rights Agent has been advised of the possibility of such damages. Any liability of the Rights Agent will be limited in the aggregate to an amount equal to the annual fee paid by the Company pursuant to this Agreement.

(e) In the event any question or dispute arises with respect to the Rights Agent's duties hereunder, the Rights Agent shall not be required to act or be held liable or responsible for its failure or refusal to act until the question or dispute has been (i) judicially settled (and, if appropriate the Rights Agent may file a suit in interpleader or for a declaratory judgement for such purpose) by final judgement by a court of competent jurisdiction that is binding on all parties in the matter and is no longer subject to review or appeal, or (ii) settled by written document in form and substance satisfactory to the Rights Agent and executed by the Company. In addition, the Rights Agent may require for such purpose, but shall not be obligated to require, the execution of such written settlement by parties that may have an interest in the settlement.

5.2 Merger or Amalgamation or Change of Name of Rights Agent

(a) Any Company into which the Rights Agent or any successor Rights Agent may be merged or amalgamated or with which it may be consolidated, or any Company resulting from any merger, amalgamation or consolidation to which the Rights Agent or any successor Rights Agent is a party, or any Company succeeding to the shareholder or stockholder services business of the Rights Agent or any successor Rights Agent, will be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such Company would be eligible for appointment as a successor Rights Agent under the provisions of section 5.4. In case at the time such successor Rights Agent succeeds to the agency created by this Agreement any of the Rights Certificates have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights Certificates have not been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificates will have the full force provided in the Rights Certificates and in this Agreement.

(b) In case at any time the name of the Rights Agent is changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

5.3 Duties of Rights Agent

The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

(a) the Rights Agent may retain and consult with legal counsel (who may be legal counsel for the Company) and the opinion of such legal counsel will be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion; the Rights Agent may also, with the approval of the Company (where such approval may reasonable be obtained and such approval not be unreasonably withheld), consult with such other experts as the Rights Agent shall consider necessary or appropriate to properly carry out the duties and obligations imposed under this Agreement (at the Company's expense, which expenses must be reasonable in the circumstances) and the Rights Agent shall be entitled to act and rely in good faith on the advice of any such expert;

(b) whenever in the performance of its duties under this Agreement the Rights Agent deems it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or refraining from taking any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by a Person believed by the Rights Agent to be the Chairman of the Board, the President and Chief Executive Officer, the Chief Financial Officer or any Vice-President and by the Treasurer or any Assistant-Treasurer or the Secretary or any Assistant-Secretary of the Company and delivered to the Rights Agent and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate;

(c) the Rights Agent will be liable hereunder only for its own negligence, bad faith or wilful misconduct;

(d) the Rights Agent will not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the certificates for Shares or the Rights Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and will be deemed to have been made by the Company only;

(e) the Rights Agent will not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due authorization, execution and delivery hereof by the Rights Agent) or in respect of the validity or execution of any Share certificate or Rights Certificate (except its countersignature thereof); nor will it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate, nor will it be responsible for any change in the exercisability of the Rights (including the Rights becoming void pursuant to subsection 4.1(b)) or any adjustment required under the provisions of section 3.2 or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights after receipt of the certificate contemplated by section 3.2 describing any such adjustment); nor will it by any act hereunder be deemed to make any representation or warranty as to the authorization of any Common Shares to be issued pursuant to this Agreement or any Rights or as to whether any Shares will, when issued, be duly and validly authorized, executed, issued and delivered as fully paid and non-assessable;

(f) the Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement;

(g) the Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any Person believed by the Rights Agent to be the Chairman of the Board, the President and Chief Executive Officer, the Chief Financial Officer, any Vice-President or the Secretary or any Assistant-Secretary or the Treasurer or any Assistant-Treasurer of the Company, and to apply to such Persons for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered by it in good faith in accordance with instructions of any such Person; it is understood that instructions to the Rights Agent will, except where circumstances make it impracticable or the Rights Agent otherwise agrees, be given in writing and, where not in writing, such instructions w ill be confirmed in writing as soon as reasonably possible after the giving of such instructions.

(h) the Rights Agent and any shareholder or stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in Shares, Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not the Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity;

(i) the Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent will not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof; and

(j) the Rights Agent may retain any cash balance held in connection with this Agreement and may, but need not, hold same in its deposit department or the deposit department of one of its Affiliates; but the Rights Agent and its Affiliates shall not be liable to account for any profit to the Company or any other person or entity other than at a rate, if any, established from time to time by the Rights Agent or one of its Affiliates.

5.4 Change of Rights Agent

The Rights Agent may resign and be discharged from its duties under this Agreement upon 90 days prior written notice (or such lesser notice as is acceptable to the Company) mailed to the Company and to each transfer agent of Shares by registered or certified mail, and to the holders of the Rights in accordance with section 6.8. The Company may remove the Rights Agent upon 30 days prior written notice, mailed to the Rights Agent and to each transfer agent of the Shares by registered or certified mail, and to the holders of the Rights in accordance with section 6.8. If the Rights Agent should resign or be removed or otherwise become incapable of acting, the Company will appoint a successor to the Rights Agent. If the Company fails to make such appointment within a period of 30 days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of any Rights (which holder shall, with such notice, submit such holder's Rights Certificate for inspection by the Company), then by prior written notice to the Company, the Rights Agent (at the Company's expense, which expenses must be reasonable in the circumstances) or the holder of any Rights may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be a Company incorporated under the laws of Canada or a province thereof authorized to carry on the business of a trust company in the Province of Manitoba. After appointment, the successor Rights Agent will be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent, upon payment by the Company to the predecessor Rights Agent of all outstanding fees and expenses owed by the Company to the predecessor Rights Agent pursuant to this

Agreement, shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company w ill file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Shares, and mail a notice thereof in writing to the holders of the Rights. Failure to give any notice provided for in this section 5.4, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

ARTICLE 6
MISCELLANEOUS

6.1 Redemption and Waiver

(a) Subject to the prior consent of the holders of Common Shares or Rights obtained in accordance with subsection 6.5(b) or 6.5(c), as applicable, and prior to the occurrence of a Flip-in Event as to which the application of section 4.1 has not been waived pursuant to this section 6.1, the Board of Directors may, acting in good faith, elect to redeem all but not less than all of the then outstanding Rights at a redemption price of $0.0001 per Right, appropriately adjusted in a manner analogous to the applicable adjustment provided for in section 3.2, if an event of the type analogous to any of the events described in section 3.2 shall have occurred (such redemption price being herein referred to as the "**Redemption Price**").

(b) If a Person acquires pursuant to a Permitted Bid, a Competing Permitted Bid or an Exempt Acquisition outstanding Common Shares other than Common Shares Beneficially Owned by such Person at the date of the Permitted Bid, the Competing Permitted Bid or such Exempt Acquisition, the Board of Directors of the Company shall, immediately upon such acquisition and without further formality be deemed to have elected to redeem the Rights at the Redemption Price.

(c) Where a Take-over Bid that is not a Permitted Bid or a Competing Permitted Bid is withdrawn or otherwise terminated after the Separation Time has occurred and prior to the occurrence of a Flip-in Event, the Board of Directors may elect to redeem all the outstanding Rights at the Redemption Price.

(d) Within 10 Business Days after the Board of Directors electing or being deemed to have elected to redeem the Rights or, if subsection 6.1(a) is applicable, within 10 Business Days after the holders of Common Shares or the holders of Rights have approved a redemption of Rights in accordance with subsection 6.5(b) or 6.5(c), as applicable, the Company shall give notice of such redemption to the holders of the then outstanding Rights by mailing such notice to each such holder at his last address as it appears on the Rights Register or, prior to the Separation Time, on the register of Common Shares maintained by the Company's transfer agent. Each such notice of redemption shall state the method by which the payment of the Redemption Price shall be made. The Company may not redeem, acquire or purchase for any value any Rights at any time in any manner other than that specifically set forth in this section 6.1 or in connection with the purchase of Common Shares prior to the Separation Time.

(e) If the Board of Directors elects to or is deemed to have elected to redeem the Rights and, in circumstances where subsection 6.1(a) is applicable, such redemption is approved by the holders of Common Shares or the holders of Rights in accordance with subsection 6.5(b) or 6.5(c), as applicable, (i) the right to exercise the Rights will thereupon without further action and without notice terminate and the only right thereafter of the holder of a Right shall be to receive the Redemption Price, and (ii) no further Rights shall thereafter be issued.

(f) Upon written notice to the Rights Agent, the Board of Directors may, in respect of any Flip-in Event waive the application of section 4.1 in respect of that Flip-in Event, provided that both of the following conditions are satisfied: (i) the Board of Directors had determined, within 10 Business Days following a Stock Acquisition Date, that the Person became an Acquiring Person by inadvertence and without any intent to become, or knowledge that it would become, an Acquiring Person; and (ii) such Acquiring Person, within 14 days after such determination or such earlier or later period as the Board of Directors may determine (the "**Disposition Date**") has reduced its Beneficial Ownership of Common Shares such that at the time of waiver pursuant to this subsection 6.1(f) it is no longer an Acquiring Person; if the Acquiring Person remains an Acquiring Person at the close of business on the Disposition Date, the Disposition Date shall be deemed to be the date of occurrence of a further Stock Acquisition Date and section 4.1 shall apply thereto. In the event of any such waiver pursuant to this subsection 6.1(g), for the purposes of this Agreement, such Flip-in Event shall be deemed not to have occurred and the Separation Time shall be deemed not to have occurred as a result of such Person having inadvertently become an Acquiring Person.

(g) The Board of Directors may, until a Flip-in Event shall have occurred, upon written notice delivered to the Rights Agent, determine to waive the application of section 4.1 to a Flip-in Event but only if such Flip-in Event occurs by reason of a Take-over Bid made by way of a take-over bid circular to all holders of record of the Common Shares of the Company which are subject to the Take-over Bid (which, for greater certainty, does not include the circumstances described in subsection 6.1(f)); provided however, that if the Board of Directors waives the application of section 4.1 to a particular Flip-in Event pursuant to this subsection 6.1(g), the Board of Directors shall be deemed to have waived the application of section 4.1 to any other Flip-in Event occurring by reason of any Take-over Bid which is made by means of a take-over bid circular to all holders of record of Common Shares prior to the expiry of any Take-over Bid in respect of which a waiver is, or is deemed to have been, granted under this subsection 6.1(g).

(h) The Board of Directors may, with the prior consent of the holders of Common Shares given in accordance with subsection 6.5(b), determine, at any time prior to the occurrence of a Flip-in Event as to which the application of section 4.1 has not been waived pursuant to this section 6.1, if such Flip-in Event would occur by reason of an acquisition of Common Shares otherwise than pursuant to a Take- over Bid made by means of a Take-over Bid circular to all holders of record of Common Shares and otherwise than in the circumstances set forth in subsection 6.1(f), to waive the application of section 4.1 to such Flip-in Event. In the event that the Board of Directors proposes such a waiver, the Board of Directors shall extend the Separation Time to a date subsequent to and not more than 10 Business Days following the meeting of shareholders called to approve such waiver.

6.2 Expiration

No Person shall have any rights pursuant to this Agreement or in respect of any Right after the expiration Time, except the Rights Agent as specified in section 5.1.

6.3 Issuance of New Rights Certificate

Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by the Board of Directors to reflect any adjustment or change in the number or kind or class of shares purchasable upon exercise of Rights made in accordance with the provisions of this Agreement.

6.4 Fractional Rights and Fractional Shares

(a) The Company shall not be required to issue fractions of Rights or to distribute Rights Certificates which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Rights Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the fraction of the Market Price of a whole Right that the fraction of a Right which would otherwise be issuable is of one whole Right at the date of such issuance.

(b) The Company shall not be required to issue fractions of Common Shares upon exercise of the Rights or to distribute certificates which evidence fractional Common Shares. In lieu of issuing fractional Common Shares, the Company shall pay to the registered holders of Rights Certificates, at the time such Rights are exercised as herein provided, an amount in cash equal to the fraction of the Market Price of a whole Common Shares that the fraction of a Common Share which would otherwise be issuable upon the exercise of such right is of one whole Common Share at the date of such exercise.

(c) The Rights Agent shall have no obligation to make any payments in lieu of issuing fractions of Rights or Common Shares pursuant to paragraph (a) or (b), respectively, unless and until the Company shall have provided to the Rights Agent the amount of cash to be paid in lieu of issuing such fractional Rights or Common Shares.

6.5 Supplements and Amendments

(a) The Company may make, without the approval of the holders of Rights or Common Shares, any amendments to this Agreement (i) to correct any clerical or typographical error or (ii) which are required to maintain the validity and effectiveness of the Agreement as a result of any change in any applicable laws, rules or regulatory requirements. The Company may, prior to the due date of the shareholders' meeting referred to in section 6.15, supplement, amend, vary, rescind or delete any of the provisions of this Agreement without the approval of any holders of Rights or Common Shares (whether or not such action would materially adversely affect the interest of the holders of Rights generally) where the Board of Directors acting in good faith deems such action necessary or desirable. Notwithstanding anything in this section 6.5 to the contrary, no amendment shall be made to the provisions of Article 5 except with the written concurrence of the Rights Agent to such supplement or amendment.

(b) Subject to subsection 6.5(a), the Company may, with the prior consent of the holders of Common Shares obtained as set forth below, at any time before the Separation Time, amend, vary or rescind any of the provisions of this Agreement and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally). Such consent shall be deemed to have been given if provided by the holders of Common Shares at a special meeting called and held in compliance with applicable laws, rules and regulatory requirements and the requirements in the articles and by-laws of the Company. Subject to compliance with any requirements imposed by the foregoing, consent shall be given if the proposed amendment, variation or rescission is approved by the affirmative vote of a majority of the votes cast by Independent Shareholders represented in person or by proxy at the special meeting.

(c) Subject to subsection 6.5(a), the Company may, with the prior consent of the holders of Rights obtained as set forth below, at any time after the Separation Time and before the Expiration Time, amend, vary or rescind any of the provisions of this Agreement and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally). Such consent shall be deemed to have been given if provided by the holders of Rights at a special meeting of holders of Rights called and held in compliance with applicable laws and regulatory requirements and, to the extent possible, with the requirements in the articles and by-laws of the Company applicable to meetings of holders of Common Shares, applied *mutatis mutandis*. Subject to compliance with any requirements imposed by the foregoing, consent shall be given if the proposed amendment, variation or rescission is approved by the affirmative vote of a majority of the votes cast by holders of Rights (other than holders of Rights whose Rights have become null and void pursuant to subsection 4.1(b)), represented in person or by proxy at the special meeting.

(d) Any amendments made by the Company to this Agreement pursuant to subsection 6.5(a) which are required to maintain the validity and effectiveness of this Agreement as a result of any change in any applicable laws, rules or regulatory requirements shall:

(i) if made before the Separation Time, be submitted to the holders of Common Shares of the Company at the next meeting of shareholders and the shareholders may, by the majority referred to in subsection (b), confirm or reject such amendment; and

(ii) if made after the Separation Time, be submitted to the holders of Rights at a meeting to be called for on a date not later than immediately following the next meeting of shareholders of the Company and the holders of Rights may, by resolution passed by the majority referred to in subsection 6.5(c), confirm or reject such amendment.

Any such amendment shall be effective from the date of the resolution of the Board of Directors adopting such amendment, until it is confirmed or rejected or until it ceases to be effective (as described in the next sentence) and, where such amendment is confirmed, it continues in effect in the form so confirmed. If such amendment is rejected by the shareholders of the Company or the holders of Rights or is not submitted to the shareholders of the Company or holders of Rights as required, then such amendment shall cease to be effective from and after the termination of the meeting at which it was rejected or to which it should have been but was not submitted or from and after the date of the meeting of holders of Rights as the case may be.

(e) The Company shall give notice in writing to the Rights Agent of any supplement, amendment, deletion, variation or rescission to this Agreement pursuant to Section 6.5 within five Business Days of the date of any such supplement, amendment, deletion, variation or rescission, provided that failure to give such notice, of any defect therein, shall not affect the validity of any such supplement, amendment, deletion, variation or rescission.

6.6 Rights of Action

Subject to the terms of this Agreement, all rights of action in respect of this Agreement, other than rights of action vested solely in the Rights Agent, are vested in the respective holders of the Rights; and any holder of any Rights, without the consent of the Rights Agent or of the holder of any other Rights, may, on such holder's own behalf and for such holder's own benefit and the benefit of other holders of Rights, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, such holder's right to exercise such holder's Rights in the manner provided in such holder's Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations of, and injunctive relief against actual or threatened violations of the obligations of, any Person subject to this Agreement.

6.7 Notice of Proposed Actions

If after the Separation Time and prior to the Expiration Time:

(a) there shall occur an adjustment to the Rights pursuant to section 4.1 as a result of the occurrence of a Flip-in Event; or

(b) the Company proposes to effect the liquidation, dissolution or winding-up of the Company or the sale of all or substantially all of the Company's assets;

then, in each such case, the Company shall give to each holder of a Right, in accordance with section 6.8, a notice of such proposed action, which shall specify the date on which such adjustment to the Rights, liquidation, dissolution or winding-up occurred or is to take place, and such notice shall be so given at least 10 Business Days after the occurrence of an adjustment to the Rights or at least 20 Business Days prior to the date of taking such proposed action.

6.8 Notices

Notices or demands authorized or required by this Agreement to be given or made by the Rights Agent or by the holder of any Rights to or on the Company shall be sufficiently given or made if delivered or sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

DiaMedica Inc.
200-135 Innovation Drive
Winnipeg, MB
R3T6A8

Attention: President
Facsimile:

Any notice or demand authorized or required by this Agreement to be given or made by the Company or by the holder of any Rights to or on the Rights Agent shall be sufficiently given or made if delivered or sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

CIBC Mellon Trust Company
600 The Dome Tower
333 – 7 Avenue SW
Calgary, AB
T2P 2Z1

Attention: Manager, Client Relations
Facsimile: (403) 264-2100

Notices or demands authorized or required by this Agreement to be given or made by the Company or the Rights Agent to or on the holder of any Rights shall be sufficiently given or made if delivered or sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as it appears upon the registry books of the Rights Agent or, prior to the Separation Time, on the registry books of the Company for the Common Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice.

6.9 Costs of Enforcement

The Company agrees that if the Company fails to fulfill any of its obligations pursuant to this Agreement, then the Company will reimburse the holder of any Rights for the costs and expenses (including reasonable legal fees) incurred by such holder in actions to enforce his rights pursuant to any Rights or this Agreement.

6.10 Successors

All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and enure to the benefit of their respective successors and assigns hereunder.

6.11 Benefits of this Agreement

Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the holders of the Rights any legal or equitable right, remedy or claim under this Agreement, and this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the holders of the Rights.

6.12 Governing Law

This Agreement and each Right issued hereunder shall be deemed to be a contract made under the laws of the Province of Manitoba and for all purposes shall be governed by and construed in accordance with the laws of such province applicable to contracts to be made and performed entirely within such province.

6.13 Counterparts

This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute one and the same instrument.

6.14 Severability

If any section, subsection, clause, subclause, term or provision hereof or the application thereof to any circumstance shall, in any jurisdiction and to any extent, be invalid or unenforceable, such section, subsection, clause, subclause, term or provision shall be ineffective as to such jurisdiction to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining sections, subsections, clauses, subclauses, terms and provisions hereof or the application of such section, subsection, clause, subclause, term or provision to circumstances other than those as to which it is held invalid or unenforceable.

6.15 Effective Date

(a) Notwithstanding the date hereof, and subject to subsection 6.15(b), this Agreement:

(i) shall be effective and in full force and effect in accordance with its terms from and after the Effective Date and shall constitute the entire agreement between the parties pertaining to the subject matter hereof as of the Effective Date; and

(ii) shall expire and be of no further force or effect from and after the Expiration Time, provided that termination shall not occur if a Flip-in Event has occurred (other than a Flip-in Event which has been waived pursuant to Section 6.1 hereof) prior to the date upon which the Agreement would otherwise terminate pursuant to this Section 6.15.

(b) Notwithstanding subsection 6.15(a), if the Agreement is not approved by a resolution passed by a majority of the votes cast by Independent Shareholders who vote in respect of approval of this Agreement at the annual and special meeting of the holders of Common Shares scheduled to be held on September 22, 2011, then the Plan and all outstanding Rights shall be null and void and of no further force and effect from and after the Effective Date.

6.16 Determinations and Actions by the Board of Directors

All actions, calculations and determinations (including any omissions with respect thereto) made or done by the Board of Directors in good faith for the purposes hereof shall not subject the Board of Directors, or any director of the Company, to any liability to the holders of Rights.

6.17 Time of the Essence

Time shall be of the essence in this Agreement.

6.18 Regulatory Approvals

Any obligation of the Company or action contemplated by this Agreement shall be subject to the receipt of any requisite approval or consent from any applicable regulatory authority including, without limiting the generality of the foregoing, any necessary approvals of any stock exchanges on which any securities of the Company are listed.

6.19 Language

The parties hereto have required that this Agreement and all documents and notices related thereto and/or resulting therefrom be drawn up in the English language

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be duly executed as of the date first above written.

DIAMEDICA INC.

By: *(signed) Rick Pauls*
President and Chief Executive Officer

CIBC MELLON TRUST COMPANY

By: *(signed) Donald Santini*
Name: Donald Santini
Title: Manager, Client Relations

(signed) Jacquie Fisher
Name: Jacquie Fisher
Title: Director, Relationship Management

EXHIBIT A

FORM OF RIGHTS CERTIFICATE

Certificate No. _____ _____ Rights

RIGHTS CERTIFICATE

THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES (SPECIFIED IN SECTION 4.1(b) OF THE RIGHTS AGREEMENT), RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR ITS AFFILIATES OR ASSOCIATES OR ANY PERSON ACTING JOINTLY OR IN CONCERT WITH ANY OF THEM OR SUCH PERSON'S ASSOCIATES OR AFFILIATES (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) OR TRANSFEREES OF ANY OF THE FOREGOING WILL BECOME VOID WITHOUT FURTHER ACTION.

This certifies that _____, or registered assigns, is the registered holder of the number of Rights set forth above, each of which entitles the registered holder thereof, subject to the terms, provisions and conditions of the Shareholder Rights Plan Agreement, as the same may be amended or supplemented from time to time, made as of August 25th, 2011 (the "**Rights Agreement**") between DiaMedica Inc., a company existing under the laws of Manitoba (the "**Company**") and CIBC Mellon Trust Company, a trust company existing under the laws of Canada, as rights agent (the "**Rights Agent**", which term shall include any successor Rights Agent under the Rights Agreement) to purchase from the Company at any time after the Separation Time and prior to the Expiration Time (as such terms are defined in the Rights Agreement), one fully paid Common Share of the Company (a "**Share**"), at the Exercise Price referred to below, upon presentation and surrender of this Rights Certificate together with the Form of Election to Exercise duly executed and submitted to the Rights Agent at its principal office in any of the cities of Vancouver, Calgary, Winnipeg, Toronto, Montreal and Halifax.

This Rights Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Rights Agent, the Company and the holders of the Rights Certificates. Copies of the Rights Agreement are on file at the registered office of the Company and are available upon written request.

This Rights Certificate, with or without other Rights Certificates, upon surrender at any of the offices of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing an aggregate number of Rights equal to the aggregate number of Rights evidenced by the Rights Certificate or Rights Certificates surrendered. If this Rights Certificate shall be exercised in part, the registered holder shall be entitled to receive, upon surrender hereof, another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Rights Certificate (i) may be, and under certain circumstances are required to be, redeemed by the Company at a redemption price of $0.0001 per Right and (ii) may be exchanged at the option of the Company for cash, debt or equity securities or other assets of the Company.

No fractional Common Shares will be issued upon the exercise of any Right or Rights evidenced hereby, but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of Common Shares or of any Shares of the Company which may at any time be issuable upon the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders of the Company at any meeting thereof, or to give or w ithhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders of the Company, or to receive dividends or subscription rights, or otherwise, until the Rights evidenced by this Rights Certificate shall have been exercised as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal:

Date: _____

DIAMEDICA INC.

By: _____

By: _____

Countersigned:

CIBC MELLON TRUST COMPANY

By: _____

By: _____

FORM OF ELECTION TO EXERCISE

TO: CIBC MELLON TRUST COMPANY

The undersigned hereby irrevocably elects to exercise _____ whole Rights represented by the attached Rights Certificate to purchase Common Shares (the "**Shares**") issuable upon the exercise of such Rights and requests that certificates for such Shares to be issued to:

Name _____

_____

Address

_____

City and Province

_____

Social Insurance, Social Security Number or other taxpayer identification number

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance of such Rights shall be registered in the name of and delivered to:

Name _____

_____

Address

_____

City and Province

_____

Social Insurance, Social Security Number or other taxpayer identification number

Dated: _____

_____

Signature

Signature Guaranteed:

(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever)

Note: The Signature must be guaranteed by one of the following methods:

***In Canada and the US*: a Medallion Guarantee obtained from a member of an acceptable Medallion Guarantee Program (STAMP, SEMP or MSP). Many banks, credit unions and broker dealers are members of a Medallion Guarantee Program. The guarantor must affix a stamp in the space above bearing the actual words "Medallion Guaranteed".**

***In Canada*: a Signature Guarantee obtained from a major Canadian Schedule I bank that is not a member of a Medallion Guarantee Program. The guarantor must affix a stamp in the space above bearing the actual words "Signature Guaranteed".**

***Outside Canada and the US*: Warrantholders must obtain a guarantee from a local financial institution that has a corresponding affiliate in Canada or the US that is a member of an acceptable Medallion Guarantee Program. The corresponding affiliate must overguarantee the guarantee provided by the local financial institution.**

(To be completed if true)

The undersigned hereby represents, for the benefit of the Company and all holders of Rights and of Shares of the Company, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof or any Person acting jointly or in concert with any of the foregoing (as such terms are defined in the Rights Agreement).

_____

Signature

FORM OF ASSIGNMENT

FOR VALUE RECEIVED _____

hereby sells, assigns and transfers unto _____

_____

(Please print name and address of transferee) _____

the Rights represented by this Rights Certificate, together with all right, title and interest therein. Dated:

Signature Guaranteed:

(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever)

Note: Signature must be guaranteed by one of the following methods:

***In Canada and the US*: a Medallion Guarantee obtained from a member of an acceptable Medallion Guarantee Program (STAMP,SEMP or MSP). Many banks, credit unions and broker dealers are members of a Medallion Guarantee Program. The guarantor must affix a stamp in the space above bearing the actual words "Medallion Guaranteed".**

***In Canada*: a Signature Guarantee obtained from a major Canadian Schedule I bank that is not a member of a Medallion Guarantee Program. The guarantor must affix a stamp in the space above bearing the actual words "Signature Guaranteed".**

***Outside Canada and the US*: Warrantholders must obtain a guarantee from a local financial institution that has a corresponding affiliate in Canada or the US that is a member of an acceptable Medallion Guarantee Program. The corresponding affiliate must overguarantee the guarantee provided by the local financial institution.**

(To be completed if true)

The undersigned hereby represents, for the benefit of the Company and all holders of Rights and of Shares of the Company, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof or any Person acting jointly or in concert with any of the foregoing (as defined in the Rights Agreement).

_____

Signature

NOTICE

In the event the certification set forth above in the Forms of Assignment and Election to Exercise is not completed, the Company w ill deem the Beneficial Owner of the Rights evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement) and accordingly such Rights will be null and void.

January 28, 2010

Rick Pauls
6 Falcon Ridge Drive
Winnipeg, Manitoba
R3Y1Y1

Dear Rick:

To confirm our discussions, DiaMedica Inc. is very pleased to offer you a position with the Company as President and Chief Executive Officer, reporting to the board of directors.

The annual salary for this position is $250,000 paid on a semi-monthly basis. DiaMedica will also provide you with the standard DiaMedica benefits plan. The board will structure an annual performance agreement tied to corporate goal attainment, in 2010 the Company will offer a $50,000 bonus tied to three agree upon objectives. The start date for this position is to be agreed upon, expected in January 2010.

In addition, we extend the following benefits to be included in your employment:

Stock Options – DiaMedica Inc. would like to extend to you the opportunity to participate in the DiaMedica stock option plan, and therefore we will provide you with 300,000 stock options. 100,000 will vest immediately, 100,000 in 12 months and 100,000 in 24 months. In addition, an annual option grant will be determined on an annual basis effective January of each year with stock options to remain available for 5 years, subject to your continued involvement with the Company. The price of the stock options will be set on or about the day approved by the Board of Directors.

Health Benefits – DiaMedica Inc. would also like to offer you the DiaMedica group benefits plan.

Change-in-control Termination Agreement - You will be entitled to a change-in-control payment equal to 18 months of base pay and applicable bonus in the event of termination or voluntary resignation after a specified change in control. The stock options agreements under the Plan would provide that the vesting and exercisability of the options will accelerate in full in the event the employment is terminated or voluntarily terminated for specified reasons within 60 days after a specified change in control.

Severance Agreement - You will be entitled to a lump sum severance payment equal to 12 months of base pay and applicable bonus in the event of termination other than for cause. Stock options will continue to vest for six months from termination. Vested options will remain available for exercise for six months from date of termination.

Vacation, Holidays, Sick Time - DiaMedica will provide you with four weeks of vacation plus holiday days according to the DiaMedica employee policy manual.

We would like to include your input as we finalize a formal employment agreement. In acknowledging your acceptance of our offer, please sign the documents accordingly and return to Tom Wellner, Chair of DiaMedica Compensation Committee, at your earliest opportunity. We also trust that you will keep all information confidential and will request that you sign Confidentiality Agreements prior to your start date.

We trust that these conditions are satisfactory and look forward to you joining DiaMedica Inc.

Yours sincerely,

DIAMEDICA INC.

/s/ Thomas G. Wellner
Thomas G. Wellner
Board Member

Accepted:

/s/ Rick Pauls
Rick Pauls

January 28, 2010
Date Signed

July 1, 2010

Mark Williams

Dear Mark:

To confirm our discussions, DiaMedica Inc. is very pleased to offer you a position with the Company as Vice President of research, reporting to Rick Pauls.

The annual salary for this position is $160,000 paid on a semi-monthly basis. DiaMedica will also provide you with the standard DiaMedica benefits plan. The start date for this position is to be July 1 2010.

In addition, we extend the following benefits to be included in your employment:

Health Benefits – DiaMedica Inc. would also like to offer you the DiaMedica group benefits plan.

Change-in-control Termination Agreement – In the event of a specified change of control, Dr. Mark Williams will be eligible to receive a payment equal to 9 months of base pay in the event of termination or voluntary resignation. The stock options agreements under the Corporation's Stock Option Plan would provide that any unvested options would vest immediately.

Severance Agreement – you will be entitled to a lump sum severance payment equal to 6 months of base pay in the event of termination for other than for cause.

Vacation, Holidays, Sick Time – DiaMedica will provide 15 days of vacation plus holiday days in accordance with the Corporation's employee policy manual.

In acknowledging your acceptance of our offer, please sign the documents accordingly and return to Rick Pauls, at your earliest opportunity. We also trust that you will keep all information confidential and will request that you sign Confidentiality Agreements prior to your start date.

We trust that these conditions are satisfactory and look forward to you joining DiaMedica Inc.

Yours sincerely,

DIAMEDICA INC.

/s/ Rick Pauls
Rick Pauls
President & CEO

Accepted:

/s/ Mark Williams
Mark Williams

July 1, 2010
Date Signed

December 10, 2012

Dr. Mark Robbins
2875 Deer Run
Orono, MN 55356

Dear Mark:

We are very pleased to offer you the position as Vice President of Clinical Development and Regulatory Affairs of DiaMedica reporting to the CEO.

The annual salary for this position is $230,000 paid on a semi-monthly basis. The board will structure an annual performance agreement tied to corporate goal attainment of 25% of base salary starting in 2013. The start date for this position is to be agreed upon, expected in December 2012.

In addition, we extend the following benefits to be included in your employment:

Stock Options – DiaMedica Inc. would like to extend to you the opportunity to participate in the DiaMedica stock option plan, and therefore we will provide you with 200,000 stock options. Stock options to vest over 3 years. In addition, an annual option grant will be determined on an annual basis effective January of each year with stock options to remain available for 10 years, subject to your continued involvement with the Company. The price of the stock options will be set on or about the day approved by the Board of Directors.

Health Benefits – DiaMedica Inc. would also like to offer you the DiaMedica group benefits plan consisting of the BlueCross Aware Gold healthcare plan and SunLife dental, life insurance and disability insurance.

Vacation, Holidays, Sick Time - DiaMedica will provide you with four weeks of vacation plus holiday days according to the DiaMedica employee policy manual.

In acknowledging your acceptance of our offer, please sign the documents accordingly and return to Rick Pauls, at your earliest opportunity. We also trust that you will keep all information confidential and will request that you sign Confidentiality Agreements prior to your start date.

We trust that these conditions are satisfactory and look forward to you joining DiaMedica Inc.

Yours sincerely,

DIAMEDICA INC.

/s/ Rick Pauls
Rick Pauls
Chairman & CEO

Accepted:

/s/ Mark Robbins
Mark Robbins

December 10, 2012
Date Signed

DIAMEDICA INC.

STOCK OPTION PLAN

Amended and Restated September 22, 2011

1. **The Plan**

A stock option plan (the "Plan") pursuant to which options (hereinafter, an "Option" or "Options") to purchase common shares or such other shares or other securities as may be substituted therefor or may be acquired by a Participant (as defined in Section 6 hereof) upon the exercise of an Option, as may be modified in accordance with section 15 below (collectively, the "Shares") in the capital of DiaMedica Inc. (the "Corporation") may be granted to the Participants is hereby established on the terms and conditions herein set forth.

2. **Purpose**

The purpose of this Plan is to advance the interests of the Corporation by encouraging the directors, officers and key employees of the Corporation and consultants retained by the Corporation to acquire Shares, thereby:

(a) increasing the proprietary interests of such persons in the Corporation;

(b) aligning the interests of such persons with the interests of the Corporation's shareholders generally;

(c) encouraging such persons to remain associated with the Corporation; and

(d) furnishing such persons with an additional incentive in their efforts on behalf of the Corporation.

3. **Administration**

(a) This Plan shall be administered by the board of directors of the Corporation (the "Board").

(b) Subject to the terms and conditions set forth herein, the Board is authorized to provide for the granting, exercise and method of exercise of Options, all on such terms as it shall determine in its sole discretion. In addition, the Board shall have the authority to:

(i) construe and interpret this Plan and all option agreements entered into hereunder;

(ii) prescribe, amend and rescind rules and regulations relating to this Plan; and

(iii) make all other determinations necessary or advisable for the administration of this Plan. All determinations and interpretations made by the Board shall be binding on all Participants (as hereinafter defined) and on their legal, personal representatives and beneficiaries of the Participants.

(c) Notwithstanding the foregoing or any other provision contained herein, the Board shall have the right to delegate the administration and operation of this Plan, in whole or in part, to a committee of the Board or to the President or any other officer of the Corporation. Whenever used herein, the term “Board” shall be deemed to include any committee or officer to which the Board has, fully or partially, delegated responsibilities and/or authority relating to the Plan or the administration and operation of the Plan pursuant to this section 3.

(d) Options granted hereunder to purchase the Shares shall be evidenced by an agreement, signed on behalf of the Corporation and by the person to whom an Option is granted, which agreement shall be in such form as the Board shall approve, as amended from time to time by the Board.

4. **Shares Subject to Plan**

(a) Subject to section 15 below, the securities that may be acquired by Participants under this Plan shall consist of authorized but unissued common shares of the Corporation.

(b) The aggregate number of Shares reserved for issuance under this Plan shall not exceed 7,000,000 Shares and the aggregate number of Shares reserved for issuance under any compensation or incentive mechanism or plan (including deferred share unit plans or employee stock option plans, if any) granted by the Corporation, including this Plan, shall not exceed 9,000,000 Shares.

(c) If any Option granted under this Plan shall expire or terminate for any reason without having been exercised in full, any unpurchased Shares to which such Option relates shall be available for the purposes of the granting of Options under this Plan.

5. **Maintenance of Sufficient Capital**

The Corporation shall at all times during the term of this Plan ensure that the number of Shares it is authorized to issue shall be sufficient to satisfy the requirements of this Plan.

6. **Eligibility and Participation**

(a) The Board may from time to time, in its sole discretion, grant an Option to any Participant, upon such terms, conditions and limitations as the Board may determine, including the terms, conditions and limitations set forth herein and pursuant to the terms and conditions of an individual option agreement set forth as Schedule "A", provided that Options granted to any Participant shall be approved by the applicable shareholders of the Corporation if the rules of the TSX Venture Exchange (the “Exchange”) require such approval. A reduction in the exercise price of an Option previously granted to a Participant who is currently an Insider, as defined by the Exchange, shall receive approval from the disinterested shareholders of the Corporation.

(b) The Board may, in its discretion, select any of the following Persons to participate in this Plan, provided that any such Person, at the time of issuance, was:

(i) a member of the Board of the Corporation or any subsidiary of the Corporation;

(ii) a senior officer of the Corporation or any subsidiary of the Corporation;

(iii) an Employee of the Corporation, or any subsidiary of the Corporation;

(iv) a Management Company Employee of the Corporation or any subsidiary of the Corporation; or

(v) a Consultant retained by the Corporation or any subsidiary of the Corporation;

(vi) a Consultant retained to carry out Investor Relations Activities for the Corporation.

Any such person having been selected for participation in this Plan by the Board

is herein referred to as a "Participant". When such Participant is an Employee, Consultant or Management Company Employee, the Corporation represents that the Participant is a bona fide Employee, Consultant or Management Company Employee.

(c) Where used herein:

"Consultant" means an individual (or a company controlled by such individual) who:

(i) provides ongoing consulting services to the Corporation or any subsidiary of the Corporation under a written contract, and

(ii) possesses technical, business or management expertise of value to the Corporation or any subsidiary of the Corporation, and

(iii) spends a significant amount of time and attention on the business and affairs of the Corporation or any subsidiary of the Corporation; and

(iv) has a relationship with the Corporation of any subsidiary of the Corporation that enables the individual to be knowledgeable about the business and affairs of the Corporation.

"Employee" means:

(i) an individual who is considered an employee under the *Income Tax Act* (Canada) (i.e. for whom income tax, employment insurance and CPP deductions must be made at source); or

(ii) an individual who works full time for the Corporation providing services normally provided by an employee and who is subject to the same control and direction by the Corporation over the details and methods of work as an employee of the Corporation, but for whom income tax deductions are not made at source; or

(iii) an individual who works for the Corporation on a continuing and regular basis for a minimum amount of time per week providing services normally provided by an employee and who is subject to the same control and direction of the Corporation over the details and methods of work as an employee of the Corporation, but for whom income tax deductions are not made at source.

"Investor Relations Activities" means activities or oral or written communications, by or on behalf of the Corporation or a shareholder of the Corporation, that promote or reasonably could be expected to promote the purchase or sale of securities of the Corporation, but does not include:

(i) the dissemination of information provided, or records prepared, in the ordinary course of business of the Corporation:

a. to promote the sale of products or services of the Corporation; or

b. to raise public awareness of the Corporation,

that cannot reasonably be considered to promote the purchase or sale of

securities of the Corporation;

(ii) activities or communications necessary to comply with the requirements of:

a. any and all securities laws applicable to the Corporation; or

b. requirements of the Exchange or the by-laws, rules or other regulatory instruments of any other self regulatory body or exchange having jurisdiction over the Corporation;

(iii) communications by a publisher of, or writer for, a newspaper, magazine or business or financial publication, that is of general and regular paid circulation, distributed only to subscribers to it for value or to purchaser of it, if:

a. the communication is only through the newspaper, magazine or publication; and

b. the publisher or writer receives no commission or other consideration other than for acting in the capacity of publisher or writer; or

(iv) activities or communications that may be otherwise specified by the Exchange.

"Management Company Employees" means individuals employed by a Person providing management services to the Corporation, which are required for the ongoing successful operation of the business enterprise of the Corporation, but excluding a Person engaged in Investor Relations Activities;

"Person" means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual,

7. **Exercise Price**

The Board shall, at the time an Option is granted under this Plan, fix the exercise price at which Shares may be acquired upon the exercise of such Option provided that the minimum exercise price shall not be less than the Discounted Market Price. The Discounted Market Price is the Market Price of the Shares, less a discount which shall not exceed 25% if the Market Price is $0.50 or less, 20% if the Market Price is from $0.51 to $2.00 and 15% if the Market Price is above $2.00. Where used herein "Market Price" means, subject to certain exceptions required by the rules of the Exchange, the last daily closing price of the shares of the Corporation listed on the Exchange before either the issuance of the news release or the filing of a price reservation form (Form 4N) required to fix the price at which the Shares are issued or deemed to be issued.

8. **Number of Optioned Shares**

The number of Shares that may be acquired under an Option granted to a Participant shall be determined by the Board as at the time the Option is granted, provided that:

(a) no more than 5% of the issued and outstanding shares of the Corporation may be granted to any one Participant (not including a Consultant or an employee conducting investor relation activities) in any 12 month period (unless the Corporation has obtained disinterested shareholder approval within the meaning of Exchange policies);

(b) Insiders (as defined by the Exchange) may not be granted more than ten percent (10%) of the total number of issued and outstanding shares of the Corporation within a twelve (12) month period (calculated on a non-diluted basis);

(c) at no time shall the number of Shares reserved for issuance under stock options granted to Insiders exceed 10% of the issued and outstanding shares of the Corporation;

(d) no Options representing more than 2% of the issued shares of the Corporation may be granted to any one Consultant in any 12 month period; and

(e) no Options representing more than an aggregate of 2% of the issued shares of the Corporation may be granted to all persons employed in Investor Relations Activities, in any 12 month period.

9. **Term**

The period during which an Option may be exercised (the "Option Period") shall be determined by the Board at the time the Option is granted, subject to any vesting limitations which may be imposed by the Board in its sole unfettered discretion at the time such Option is granted, provided that:

(a) for a Participant other than a person employed in Investor Relations Activities, no Option shall be exercisable for a period exceeding ten (10) years from the date the Option is granted unless otherwise specifically provided by the Board and authorized by the Exchange, if applicable;

(b) for a Participant employed in Investor Relations Activities, no Option shall be exercisable for a period exceeding twelve (12) months from the date the Option is granted, with no more than one-fourth (¼) of the Options vesting in any three (3) month period;

(c) the Option Period shall be automatically reduced in accordance with Sections 11 and 12 below upon the occurrence of any of the events referred to therein; and

(d) no Option in respect of which shareholder approval is required under the rules of any Exchange shall be exercisable until such time as the Option has been approved by the shareholders of the Corporation.

If the end of the Option Period occurs during a Blackout Period applicable to the Participant, or within five business days after the expiry of a Blackout Period applicable to the relevant Participant, then the end of such Option Period for that Option will be the date that is the tenth business day after the expiry date of the Blackout Period. Where used herein “Blackout Period” means the period during which the relevant Participant is prohibited from exercising an Option due to trading restrictions imposed by the

Corporation in accordance with its securities trading policies governing trades by Directors, Officers and Employees in the Corporation's securities.

10. **Method of Exercise of Option**

(a) Except as set forth in Sections 11 and 12 below or as otherwise determined by the Board, no Option may be exercised unless the holder of such Option is, at the time the Option is exercised, a Participant.

(b) Options may be exercised in whole or in part and may be exercised on a cumulative basis where a vesting limitation has been imposed at the time of grant.

(c) Any Participant (or his legal, personal representative) wishing to exercise an Option shall deliver to the Corporation, at its principal office in the City of Winnipeg, Manitoba:

(i) a written notice expressing the intention of such Participant (or his or her legal, personal representative) to exercise his or her Option and specifying the number of Shares in respect of which the Option is exercised; and

(ii) a cash payment, cheque or bank draft, representing the full purchase price of the Shares in respect of which the Option is exercised.

(d) Upon the exercise of an Option as aforesaid, the Corporation shall use its reasonable efforts to forthwith deliver, or cause the registrar and transfer agent of the Shares to deliver, to the relevant Participant (or his or her legal, personal representative) or to the order thereof, a certificate representing the aggregate number of fully paid and non-assessable Shares as the Participant (or his or her legal, personal representative) shall have then paid for.

11. **Ceasing to be a Director, Officer, Employee or Consultant**

If any Participant shall cease to be a member of the Board, senior officer, Employee, Management Company Employee or Consultant of the Corporation or any subsidiary of the Corporation for any reason other than death, permanent disability or normal retirement, his or her Option will terminate at 5:00 p.m. (Winnipeg time) on the earlier of the date of the expiration of the Option Period and:

(a) for Participants other than those employed in Investor Relations Activities, 120 days after the date such Participant ceases to be a member of the Board, senior officer, Employee, Management Company Employee or Consultant of the Corporation, or any subsidiary of the Corporation; and

(b) for Participants employed in Investor Relations Activities, 30 days after the date such Participant ceases to be employed in Investor Relations Activities.

If such cessation or termination is by reason of substantial breach or cause on the part of the Participant, the Options shall be automatically terminated forthwith and shall be of no further force or effect.

Neither the selection of any person as a Participant nor the granting of an Option to any Participant under this Plan shall

(c) confer upon such Participant any right to continue as a director, senior officer, Employee, Management Company Employee or Consultant of the Corporation, or any subsidiary of the Corporation as the case may be, or

(d) be construed as a guarantee that the Participant will continue as a member of the Board, senior officer, Employee, Management Company Employee or Consultant of the Corporation, or any subsidiary of the Corporation as the case may be.

12. **Death, Permanent Disability or Normal Retirement of a Participant**

In the event of the death, permanent disability or normal retirement of a Participant, any Option previously granted to such Participant shall be exercisable until the end of the Option Period or until the expiration of 12 months or a period determined by the board, after the date of death, permanent disability or normal retirement of such Participant, whichever is earlier, and then, in the event of death or permanent disability, only:

(a) by the Participant or person or persons to whom the Participant's rights under the Option shall pass by the Participant's Will or by applicable law; and

(b) to the extent that the Participant was entitled to exercise the Option as at the date of his death or permanent disability.

13. **Rights of Participants**

No person entitled to exercise any Option granted under this Plan shall have any of the rights or privileges of a shareholder of the Corporation in respect of any Shares issuable upon exercise of such Option until such Shares have been paid for in full and issued to such person.

14. **Proceeds from Exercise of Options**

The proceeds from any sale of Shares issued upon the exercise of Options shall be added to the general funds of the Corporation and shall thereafter be used from time to time for such corporate purposes as the Board may determine and direct.

15. **Adjustments**

(a) Notwithstanding any other provision of this Plan, in the event of any change in the outstanding shares of the Corporation by reason of any stock dividend, split, recapitalization, reclassification, amalgamation, merger, consolidation, combination or exchange of shares or distribution of rights to holders of shares or any other form of corporate reorganization whatsoever, an equitable adjustment shall be made to any Options then outstanding and the exercise price in respect of such Options.

(b) Adjustments under this section 15 shall be made by the Board, whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional Shares shall be issued under this Plan on any such adjustment.

16. **Transferability**

All benefits, rights and Options accruing to any Participant in accordance with the terms and conditions of this Plan shall not be transferable or assignable except, where qualified, to a Registered Retirement or similar plan where the Participant is the annuitant thereof, or to a family trust controlled by the Participant. During the lifetime of a Participant, any Options granted hereunder may only be exercised at the direction of the Participant and in the event of the death or permanent disability of a Participant, by the person or persons to whom the Participants rights under the Option pass by the Participant's Will or by applicable law.

17. **Amendment and Termination of Plan**

(a) Subject to any specific limitations contained in the Plan, the Board reserves the right, in its absolute discretion, to at any time amend, modify or terminate the Plan.

(b) Notwithstanding subparagraph 17(a), the Board may not, without approval of the holders of a majority of the issued and outstanding equity securities of the Corporation present and voting in person or by proxy at a meeting of holders of such securities, amend the Plan or an Option to:

a. increase the number of Shares reserved for issuance under the Plan;

b. make any amendment that would reduce the Exercise Price of an outstanding Option granted to an Insider (including a cancellation and reissue of an Option to an Insider at a reduced Exercise Price), which will require disinterested shareholder approval within the meaning of Exchange policies;

c. amend or delete section 9 to extend the term of any Option beyond the Option Period of the Option or, except as already contemplated under section 9, allow for the Option Period of an Option to be greater than 10 years;

d. permit assignments, or exercises other than by the Participant, of Options beyond that contemplated by section 16, except for an amendment that would permit the assignment of an Option for estate planning or estate settlement purposes; and

e. amend the Plan to provide for other types of compensation through equity issuance.

(c) Without limiting the generality of subparagraph 17(a), the Board may make the following amendments to the Plan without obtaining shareholder approval:

a. amendments to the terms and conditions of the Plan necessary to ensure that the Plan complies with the applicable regulatory requirements, including without limitation Exchange policies or the rules of any national securities exchange or system on which shares of the Corporation are then listed or reported, or by any regulatory body having jurisdiction with respect thereto;

b. making adjustments to outstanding Options in the event of certain corporate transactions;

c. the addition of a cashless exercise feature, payable in cash or securities, whether or not such feature provides for a full deduction of the number of underlying securities from the Plan reserve;

d. a change to the termination provisions of a security or the Plan which does not entail an extension beyond the original Option Period;

e. amendments to the provisions of the Plan respecting administration of the Plan and eligibility for participation under the Plan;

f. amendments to the provisions of the Plan respecting the terms and conditions on which options may be granted pursuant to the Plan, including the provisions relating to the Exercise Price, the Option Period, and the vesting schedule;

g. amendments in order to ensure that the Plan and the Options granted hereunder comply with applicable law from time to time, including without limitation requirements contained in the *Income Tax Act* (Canada), as amended; and

h. amendments to the Plan that are of a "housekeeping nature".

18. **Necessary Approvals**

The obligation of the Corporation to issue and deliver Shares in accordance with this Plan is subject to applicable securities legislation and to the receipt of any approvals that may be required from any regulatory authority to stock exchange having jurisdiction over the securities of the Corporation. If Shares cannot be issued to a Participant upon the exercise of an Option (for any reason whatsoever) the obligation of the Corporation to issue such Shares shall terminate and any funds paid to the Corporation in connection with the exercise of such Option will be returned to the relevant Participant as soon as practicable.

19. **Stock Exchange Rules**

This Plan and any option agreements entered into hereunder shall comply with the requirements from time to time of the Exchange.

20. **Right to Issue Other Shares**

The Corporation shall not by virtue of this Plan be in any way restricted from declaring and paying stock dividends, issuing further shares of any class of the Corporation, including, without limitation, shares, varying or amending its share capital or corporate structure or conducting its business in any way whatsoever.

21. **Withholding Taxes**

The Corporation or any subsidiary of the Corporation may take such steps as are considered necessary or appropriate for the withholding and/or remittance of any taxes which the Corporation or any subsidiary of the Corporation is required by any law or regulation of any governmental authority whatsoever to withhold and/or remit in connection with any Option or Option exercise including, without limiting the generality of the foregoing, the withholding and/or remitting of all or any portion of any payment or the withholding of the issue of Shares to be issued upon the exercise of any portion of any payment or the withholding of the issue of Shares to be issued upon the exercise of any Option until such time as the Optionee has paid to the Corporation or any subsidiary of the Corporation (in addition to the exercise price payable for the exercise of the Options) the amount which the Corporation or subsidiary of the Corporation reasonably determines is required to be withheld and/or remitted with respect to such taxes.

22. **Notice**

Any notice required to be given by this Plan shall be in writing and shall be given by registered mail, postage prepaid or delivered by courier or by facsimile transmission addressed, if to the Corporation, at its principal address in Winnipeg, Manitoba (being currently: 200-135 Innovation Drive, R3T 6A8), Attention: The President; or if to a Participant, to such Participant at his or her address as it appears on the books of the Corporation or in the event of the address of any such Participant not so appearing then to the last known address of such Participant; or if to any other person, to the last known address of such person.

23. **Gender**

Whenever used herein words importing the masculine gender shall include the feminine and neuter genders and vice versa.

24. **Interpretation**

This Plan will be governed by and construed in accordance with the laws of the Province of Manitoba.

DATED this 22nd day of September, 2011.

DiaMedica Inc.

Per: *"Rick Pauls"*
Rick Pauls, President and CEO

Per: *"James Parsons"*
James Parsons, Vice-President Finance

SCHEDULE "A"

OPTION AGREEMENT

This Agreement dated as of the • day of •, •,

BETWEEN:

DIAMEDICA INC.
a corporation incorporated under the laws of Canada,
(hereinafter called the "Corporation"),

OF THE FIRST PART,

- and -

•,
of the • of •, in the • of •,
(hereinafter called the "participant"),

OF THE SECOND PART.

WHEREAS the Corporation has entered into an amended and restated stock option plan dated September 22, 2011 (the "Plan");

AND WHEREAS terms not otherwise defined herein shall have the meaning set forth in the Plan;

WHEREAS the Participant is a bona fide senior officer, director, Employee, Management Company Employee or Consultant of the Corporation or any subsidiary of the Corporation;

AND WHEREAS the Corporation desires to grant to the Participant an option to purchase common Shares of the Corporation (the "Shares") on the terms and conditions hereinafter set forth;

NOW THEREFORE THIS AGREEMENT WITNESSETH that the parties hereto agree as follows:

1. The Corporation hereby grants to the Participant an irrevocable, non-assignable and non-

   transferable option (the "Option") to purchase all or any part of • Shares at a price of $• per Share subject to the terms and conditions set forth herein.

2. The Option expires and terminates at 5:00 p.m. (Winnipeg time) on the day (the "Expiry Date") that is the earlier of (i) the **[tenth]** anniversary of the date hereof and (ii) the dates determined by Sections 6 and 7 below.

3. The Shares optioned under this Agreement shall vest immediately as of the date of issuance.

4. Except as provided in Sections 6 and 7 below, and subject to paragraph 15 below, the Option may only be exercised while the Participant is a director, senior officer, Employee, Management Company Employee or Consultant of the Corporation or any subsidiary of the Corporation. The Participant (or his legal representative) may exercise the Option by delivering to the Corporation, at its principal office in Winnipeg, Manitoba:

(a) a written notice expressing the intention to exercise the Option and specifying the number of Shares in respect of which the Option is exercised;

(b) a cash payment, cheque or bank draft, representing the full purchase price of the Shares in respect of which the Option is exercised; and

(c) in the event the Option is exercised in accordance with this Agreement by person(s) other than the Participant, proof satisfactory to the Corporation of the right of such person(s) to exercise the Option.

5. Upon the exercise of the Option as aforesaid, the Corporation shall employ its reasonable efforts to forthwith deliver, or cause the registrar and transfer agent of the Shares to deliver, to the Participant (or his legal representative) or to the order thereof, a certificate representing, or if held in non-certificated form evidence of, the aggregate number of fully paid and non-assessable Shares as the Participant (or his legal representative) shall have then paid for.

6. (a) Subject to Subsection 6(b) hereof, if the Participant shall cease to be a director, senior officer, Employee, Management Company Employee or Consultant of the Corporation or any subsidiary of the Corporation for any reason other than death or permanent disability, the Option granted herein will terminate at 5:00 p.m. (Winnipeg time) on the earlier of the (i) one hundred and twentieth (120^{th}) day after the date the Participant ceases to be a director, senior officer, Employee, Management Company Employee or Consultant of the Corporation or any subsidiary of the Corporation and (ii) the **[tenth]** anniversary of the date hereof.

(b) If the Participant is engaged in Investor Relations Activities on behalf of the Corporation or any subsidiary of the Corporation and ceases to be retained as a Consultant engaged in Investor Relations Activities for the Corporation or any subsidiary of the Corporation for any reason other than death or permanent disability, his Option will terminate at 5:00 p.m. (Winnipeg time) on the earlier of the (i) thirtieth day after the date the Participant ceases to be a Consultant engaged in Investor Relations Activities on behalf of the Corporation or any subsidiary of the Corporation and (ii) the anniversary of the date hereof.

7. In the event of the death or permanent disability of the Participant, the Option shall be exercisable until 5:00 p.m. (Winnipeg time) on the day that is the earlier of (i) 12 months after the date of death or permanent disability of the Participant and (ii) the **[tenth]** anniversary of the date hereof, and then, in the event of death or permanent disability, only:

(a) by the person or persons to whom the Participant's rights under the Option shall pass by the Participant's will or applicable law; and

(b) to the extent that the Participant was entitled to exercise the Option as at the date of the Participant's death or permanent disability.

8. The Participant acknowledges and agrees that neither the selection of the Participant as a Participant under the Plan nor the granting of the Option hereunder shall confer upon the Participant any right to continue as a director, senior officer, Employee, Management Company Employee or Consultant of the Corporation or any subsidiary of the Corporation, as the case may be. The Participant further acknowledges and agrees that this Agreement and the Option granted hereby shall in no way constitute the basis for a claim for damages by the Participant against the Corporation or any subsidiary of the Corporation in the event of the termination of the employment (or other contractual relationship) of the Participant with the Corporation or any subsidiary of the Corporation for any reason whatsoever, including the Participant's wrongful dismissal, and the Participant hereby releases and forever discharges the Corporation or any subsidiary of the Corporation from all claims and rights of action for damages whatsoever based upon or arising out of this Agreement and the Option.

9. The Participant shall not have any of the rights or privileges of a shareholder of the Corporation in respect of any Shares issuable upon exercise of the Option until such Shares have been paid for in full and issued to the Participant in accordance with the terms of this Agreement.

10. The number of Shares deliverable upon the exercise of the Option shall be increased or decreased proportionately in the event of the subdivision or consolidation of the outstanding Shares of the Corporation prior to the Expiry Date, without any change in the total price applicable to the unexercised portion of the Option. In case the Corporation is reorganized or merged or consolidated or amalgamated with another corporation, appropriate provisions shall be made for the continuance of the Option and to prevent its dilution or enlargement. Adjustments under this Section 10 shall be made by the board of directors of the Corporation (or by such committee or persons as may be delegated such authority by the board of directors of the Corporation), whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional Shares shall be issued on any such adjustment.

11. The Option and all benefits and rights accruing to the Participant hereunder shall not be transferable or assignable unless specifically provided herein. During the lifetime of the Participant the Option granted hereunder may only be exercised by the Participant as herein provided and in the event of death of the Participant, by the person or persons to whom the Participant's rights under the Option pass by the Participant's will or applicable law in accordance with Section 7 above.

12. The Corporation shall at all times ensure that the number of Shares it is authorized to issue shall be sufficient to satisfy the requirements of this Agreement.

13. The obligation of the Corporation to issue and deliver Shares on the exercise of the Option in accordance with the terms and conditions of this Agreement is subject to applicable securities legislation and to the receipt of any approvals that may be required from any regulatory authority including any stock exchange having jurisdiction over the securities of the Corporation. If Shares cannot be issued to the Participant upon the exercise of the Option for any reason whatsoever, the obligation of the Corporation to issue such Shares shall terminate and any funds paid to the Corporation in connection with the exercise of the Option will be returned to the Participant as soon as practicable.

14. All Shares issued upon the exercise of the Option must be legended with a four month hold period from the date that the options are granted. The legend must state the following:

> "Without prior written approval of the TSX Venture Exchange and compliance with all applicable securities legislation, the securities represented by this certificate may not be sold, transferred, hypothecated or otherwise traded on or through the facilities of the TSX Venture Exchange or otherwise in Canada or to or for the benefit of a Canadian resident until [insert date that is four months after the issuance the Shares issued on the exercise of the Option]"

15. The Corporation or an subsidiary of the Corporation may take such steps as are considered necessary or appropriate for the withholding and/or remittance of any taxes which the Corporation or any subsidiary of the Corporation is required by any law or regulation of any governmental authority whatsoever to withhold and/or remit in connection with any Option or Option exercise including, without limiting the generality of the foregoing, the withholding and/or remitting of all or any portion of any payment or the withholding of the issue of Shares to be issued upon the exercise of any portion of any payment or the withholding of the issue of Shares to be issued upon the exercise of any Option until such time as the Optionee has paid to the Corporation or any subsidiary of the Corporation (in addition to the exercise price payable for the exercise of the Options) the amount which the Corporation or subsidiary of the Corporation reasonably determines is required to be withheld and/or remitted with respect to such taxes.

16. The Participant acknowledges that the Participant has read and understands this Agreement.

17. Time shall be of the essence of this Agreement.

18. Any notice required to be given by this Agreement shall be in writing and shall be given by registered mail, postage prepaid or delivered by courier or by facsimile transmission addressed, if to the Corporation, at its principal address in Winnipeg, Manitoba, (being currently 200-135 Innovation Drive, Winnipeg, Manitoba, R3T 6A8), Attention: President; or if to the Participant at: •.

19. This Agreement shall be governed by and construed in accordance with the laws of the Province of Manitoba.

20. This Agreement may be executed in several parts in the same form and the parts as so executed shall together constitute one original agreement, and the parts, if more than one, shall be read together and construed as if all the signing parties hereto had executed one copy of this agreement.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date and year first above written.

DIAMEDICA INC.

Per: _____

Per: _____

SIGNED, SEALED AND DELIVERED
in the presence of:

_____ _____

Witness •

DIAMEDICA INC.
(the "Company")

AMENDED AND RESTATED DEFERRED SHARE UNIT PLAN
FOR DIRECTORS AND EXECUTIVE OFFICERS

PART l - GENERAL PROVISIONS

Purpose

1.1 The purpose of this Plan is to provide an alternative form of compensation to satisfy annual and special bonuses payable to Directors and Executive Officers and to satisfy fees that may be payable to Directors for acting as directors of the Company. This form of compensation promotes a greater alignment of interests amongst Directors and Executive Officers and the Company's shareholders.

Definitions

1.2 In this Plan,

Annual Board Retainer means that annual retainer paid by the Company to a Director, but does not include Chair Fees, Committee Fees and Meeting Fees.

Applicable Withholding Tax has the meaning set forth in Section 3.4; **Awarded Amount** has the meaning set forth in Section 2.1; **Board** means the Board of Directors of the Company; **Chair** means the chair of the Board;

Chair Fees means the fees or retainers, other than Meeting Fees, the Annual Board Retainer and Committee Fees, paid by the Company to a Director for service as the Chair and as chairperson of a committee of the Board;

Committee means the Governance and Compensation Committee of the Board, or any other persons designated by the Board to perform the duties contemplated herein;

Committee Fees means the fees or retainers, other than Meeting Fees, the Annual Board Retainer and Chair Fees, paid by the Company to a Director for service on a committee of the Board;

Company means DiaMedica Inc.;

Deferred Share Unit means a right granted by the Company to an Eligible Person to receive, on a deferred payment basis, a Share or the Fair Market Value thereof, or a combination thereof on the terms contained in this Plan;

Director means any Director of the Company, or a subsidiary of the Company, appointed and approved by the Board or the shareholders;

Eligible Person means any person who is a Director or Executive Officer;

Executive Officer means the Chief Executive Officer, President, Chief Financial Officer and any senior officer of the Company, or any subsidiary of the Company or any persons acting in any such capacity on behalf of the Company or subsidiary of the Company;

Fair Market Value means the five-day volume weighted average trading price as calculated in accordance with the TSXV Policies as at, and including, the relevant determination date or such other applicable date referenced herein provided that such date is a business day and if it is not then calculated as at and including the last business day which proceeded such applicable date referenced herein, except that if the Shares are not listed on the TSXV, the Fair Market Value will be the value established by the Board based on the five-day average closing price per Share on any other public exchange on which the Shares are listed calculated as at, and including, the relevant determination date or such other applicable date referenced herein provided that such date is a business day and if it is not then calculated as at and including the last business day which proceeded such applicable date referenced herein, or if the Shares are not listed on any public exchange, by the Board based on its determination of the fair value of a Share;

Director Fees means the aggregate total of the Annual Board Retainer, Chair Fees, Committee Fees, Meeting Fees and any other fees payable to a Director;

Insider means an insider as defined in the TSXV Policies;

Meeting Fees means the fees or retainers, other than the Annual Board Retainer, Chair Fees, and Committee Fees, paid by the Company to a Director for attending meetings of the Board or any committee of the Board;

Option means the right to purchase Shares granted pursuant to the Company's stock option plan approved by the Board, as may be amended from time to time in accordance with its terms, or any successor plan accepted for filing by the TSXV;

Outstanding Issue means the number of Shares outstanding on a non-diluted basis;

Plan means this Amended and Restated Deferred Share Unit Plan, as amended from time to time;

Reserved for Issuance refers to Shares that may be issued in the future upon the exercise of Deferred Share Units which have been or are granted pursuant to this Plan;

Section 409A means Section 409A of the United States Internal Revenue Code of 1986, as amended, and any applicable United States Treasury Regulations and other binding regulatory guidance thereunder;

Separation from Service of a US Taxpayer means the date the US Taxpayer incurs a separation from service with the Company within the meaning of U.S. Treas. Regs. § 1.409A -1(h);

Service Provider means a person who is a bona fide director, officer, employee or consultant of the Company or its affiliates, and also includes a company, of which 100% of the share capital is beneficially owned by one or more such persons;

Share means a common share in the capital of the Company;

Share Compensation Arrangement means the Plan described herein and any other stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of shares to one or more Eligible Persons, including a share purchase from treasury which is financially assisted by the Company by way of a loan, guaranty or otherwise;

Specified Employee means a US Taxpayer who meets the definition of "specified employee," as defined in Section 409A(a)(2)(B)(i) of the Code;

Terminated Service means that the Eligible Person has ceased to be a Director or Executive Officer, other than as a result of death;

Total Compensation for a particular Eligible Person means the aggregate of:

(a) the discretionary annual bonus determined by the Board for which Directors or Executive Officers are eligible, and

(b) a bonus, that is not an annual bonus, that may be awarded to a Director or Executive Officer at the discretion of the Board; and

(c) Director Fees.

TSXV means the TSX Venture Exchange;

US Taxpayer means an Eligible Person whose compensation from the Company is subject to Section 409A.

Effective Date

1.3 Subject to the acceptance by the TSXV, this Plan will be effective immediately after the approval of the shareholders of the Company at the Company's Annual and Special Meeting to be held September 22, 2011.

Administration

1.4 The Board will, in its sole and absolute discretion, but taking into account relevant corporate, securities and tax laws,

(a) interpret and administer this Plan,

(b) establish, amend and rescind any rules and regulations relating to this Plan, and

(c) make any other determinations that the Board deems necessary or desirable for the administration of this Plan.

The Board may correct any defect or any omission or reconcile any inconsistency in this Plan in the manner and to the extent the Board deems, in its sole and absolute discretion, necessary or desirable. Any decision of the Board in the interpretation and administration of this Plan will be final, conclusive and binding on all parties concerned. All expenses of administration of this Plan will be borne by the Company.

Delegation

1.5 The Board may, to the extent permitted by law, delegate any of its responsibilities under this Plan and powers related thereto (including, without limiting the generality of the foregoing, those referred to under Section 1.4) to the Committee or to one or more officers of the Company and all actions taken and decisions made by the Committee or by such officers in this regard will be final, conclusive and binding on all parties concerned, including, but not limited to, the Company, the Eligible Person, and their legal representatives.

PART 2 - AWARDS UNDER THIS PLAN

Determination of Deferred Share Units

2.1 The Board will, in its sole and absolute discretion, decide at the time of declaring or awarding any Total Compensation to any Eligible Person the amount (the "**Awarded Amount**") of the Total Compensation that will be satisfied in the form of Deferred Share Units.

Issue of Deferred Share Units

2.2 The number of Deferred Share Units (including fractional Deferred Share Units, computed to three digits) to be credited to an Eligible Person for services will be determined by dividing the Awarded Amount by the Fair Market Value as at the last trading day before the date the Awarded Amount is declared by the Board.

Maximum Shares Reserved

2.3 Subject to adjustment as provided for herein, the maximum aggregate number of Shares that may be Reserved for Issuance pursuant to this Plan is 2,000,000 Shares.

2.4 In no event may the number of Shares that are Reserved for Issuance to any one person pursuant to Deferred Share Units and Options exceed 5% of the Outstanding Issue.

2.5 The maximum aggregate number of Shares that, under all Share Compensation Arrangements,

(a) may be Reserved for Issuance to Insiders of the Company, may not exceed 10% of the Outstanding Issue at any time, and

(b) may be issued to Insiders within a one-year period, may not exceed 10% of the Outstanding Issue.

2.6 For the purposes of Section 2.5, Shares issuable to an Insider pursuant to a Deferred Share Unit or other entitlement that was granted before the person became an Insider will be excluded in determining the number of Shares issuable to Insiders.

Shares Not Acquired

2.7 Any Shares not acquired under a Deferred Share Unit granted under the Plan which has expired or been cancelled or terminated may be made the subject of a further Deferred Share Unit pursuant to the provisions of the Plan.

Dividend Equivalents

2.8 On any date on which a cash dividend is paid on Shares, an Eligible Person's account will be credited with the number of Deferred Share Units (including fractional Deferred Share Units, computed to three digits) calculated by,

(a) multiplying the amount of the dividend per Share by the aggregate number of Deferred Share Units that were credited to the Eligible Person's account as of the record date for payment of the dividend, and

(b) dividing the amount obtained in Section 2.8(a) by the Fair Market Value on the date on which the dividend is paid.

Eligible Person's Account

2.9 A written confirmation of the balance in each Eligible Person's account will be sent by the Company to the Eligible Person upon request of the Eligible Person.

Adjustments and Reorganizations

2.10 In the event of any dividend paid in shares, share subdivision, combination or exchange of shares, merger, consolidation, spin-off or other distribution of Company assets to shareholders, or any other change in the capital of the Company affecting Shares, the Board, in its sole and absolute discretion, will make, with respect to the number of Deferred Share Units outstanding under this Plan, any proportionate adjustments as it considers appropriate to reflect that change.

PART 3 - TERMINATION OF SERVICE

Termination of Service

3.1 An Eligible Person who has Terminated Service may elect to receive one Share in respect of each whole Deferred Share Unit credited to the Eligible Person's account (determined in accordance with Section 3.2) net of Applicable Withholding Tax, by filing with the President of the Company a notice of redemption in the form prescribed from time to time by the Company on or before December 15 of the first calendar year commencing after the date on which the Eligible Person has Terminated Service. If the Eligible Person fails to file such notice on or before that December 15, the Eligible Person will be deemed to have filed with the President of the Company a notice of redemption on that December 15 and will be deemed to have elected to redeem all of his or her Deferred Share Units. The date on which a notice is filed or deemed to be filed with the Secretary of the Company is the "Filing Date". The Company may defer the Filing Date to any other date if such deferral is, in the sole opinion of the Company, desirable to ensure compliance with Section 4.3.

Issuance of Shares

3.2 The issuance of the Shares will be made by the Company as soon as reasonably possible following the Filing Date. In no event will the issuance be made later than December 31 of the first calendar year commencing after the Eligible Person has Terminated Service. Fractional Shares may not be issued, and where an Eligible Person would be entitled to receive a fractional Share in respect of any fractional Deferred Share Unit, the Company will pay to such Eligible Person, in lieu of such fractional Share, cash equal to its Fair Market Value, calculated as at the Filing Date.

3.3. Notwithstanding the foregoing provisions of Section 3.1 and Section 3.2, if an Eligible Person is a US Taxpayer, then the following rules shall apply relating to the redemption of Deferred Share Units and issuance of Shares:

(a) Deferred Share Units which become redeemable under Section 3.1 shall be redeemed only if the event giving rise to Terminated Service is a Separation from Service; and

(b) the redemption date shall be any date determined by the Company (and *not* the US Taxpayer) to occur as soon as reasonably possible (but not later than two months) after the Separation from Service, without a notice of filing required by the Eligible Person, except that if the US Taxpayer is determined to be a Specified Employee, the redemption date shall be the first day of the seventh month after the Separation from Service of the US Taxpayer.

Death

3.4 In the event of the death of an Eligible Person, the Company will, within two months of the Eligible Person's death, pay cash equal to the Fair Market Value of the Shares which would be deliverable to the Eligible Person if the Eligible Person had Terminated Service in respect of the Deferred Share Units credited to the deceased Eligible Person's account (net of any Applicable Withholding Tax) to or for the benefit of the legal representative of the Eligible Person. The Fair Market Value will be calculated on the date of death of the Eligible Person.

Applicable Withholding Tax

3.5 The Company is authorized to deduct such taxes and other amounts as it may be required by law to withhold ("**Applicable Withholding Tax**"), in such manner as it determines, including, without limiting the generality of the foregoing, by delivering fewer Shares than an Eligible Person otherwise would have received. The Company may require Eligible Persons, as a condition of receiving Shares otherwise to be delivered to them under this Plan, to deliver undertakings to, or indemnities in favour of, the Company respecting the payment by such Eligible Persons of applicable income or other taxes.

PART 4 - GENERAL

Non-Transferability

4.1 Deferred Share Units and all other rights, benefits or interests in this Plan are non-transferable and may not be pledged or assigned or encumbered in any way and are not subject to attachment or garnishment, except that if the Eligible Person dies, the legal representatives of the Eligible Person will be entitled to receive the amount of any payment otherwise payable to the Eligible Person hereunder in accordance with the provisions hereof.

No Right to Service

4.2 Neither participation in this Plan nor any action under this Plan will be construed to give any Eligible Person a right to be retained in the service of the Company.

Applicable Trading Policies

4.3 The Board and each Eligible Person will ensure that all actions taken and decisions made by the Board or the Eligible Person, as the case may be, pursuant to this Plan comply with any applicable securities laws and policies of the Company relating to insider trading or "blackout" periods.

Successors and Assigns

4.4 This Plan will enure to the benefit of and be binding upon the respective legal representatives of the Eligible Person.

Plan Amendment

4.5 The Board reserves the right, in its absolute discretion, to at any time amend, modify or terminate the Plan without obtaining shareholder approval as it deems necessary or appropriate, but no amendment will, without the consent of the Eligible Person or unless required by law, adversely affect the rights of an Eligible Person with respect to Deferred Share Units to which the Eligible Person is then entitled under this Plan.

4.6 Notwithstanding Section 4.5, the Board may not, without disinterested shareholder approval (as “disinterested shareholder approval” is defined in the policies of the TSXV), amend the Plan or a Deferred Share Unit to:

(a) increase the number of Shares reserved for issuance under the Plan;

(b) permit assignments, or exercises other than by the Eligible Person, of Deferred Share Units beyond that contemplated by Section 4.1, except for an amendment that would permit the assignment of a Deferred Share Unit for estate planning or estate settlement purposes; and

(c) amend the Plan to provide for other types of compensation through equity issuance, unless the change to the Plan or a Deferred Share Unit results from the application of Section 2.10.

4.7 Without limiting the generality of Section 4.5, the Board may make the following amendments to the Plan without obtaining shareholder approval:

(a) amendments to the terms and conditions of the Plan necessary to ensure that the Plan complies with the applicable regulatory requirements, including without limitation the TSXV Policies or the rules of any national securities exchange or system on which the Shares are then listed or reported, or by any regulatory body having jurisdiction with respect thereto;

(b) making adjustments to outstanding Deferred Share Units in the event of certain corporate transactions;

(c) a change to the termination provisions of a security or the Plan which does not entail an extension beyond the original termination date;

(d) amendments to the provisions of the Plan respecting administration of the Plan and eligibility for participation under the Plan, including, without limitation, to expand the class of Eligible Persons to include any or all Service Providers; and

(e) amendments to the Plan that are of a "housekeeping nature".

Plan Termination

4.8 The Board may terminate this Plan at any time, but no termination will, without the consent of the Eligible Person or unless required by law, adversely affect the rights of an Eligible Person with respect to Deferred Share Units to which the Eligible Person is then entitled under this Plan. In no event will a termination of this Plan accelerate the time at which the Eligible Person would otherwise be entitled to receive any Shares or cash in respect of Deferred Share Units hereunder.

Governing Law

4.9 This Plan and all matters to which reference is made in this Plan will be governed by and construed in accordance with the laws of Manitoba and the laws of Canada applicable therein.

Reorganization of the Company

4.10 The existence of this Plan or Deferred Share Units will not affect in any way the right or power of the Company or its shareholders to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, or to create or issue any bonds, debentures, shares or other securities of the Company or to amend or modify the rights and conditions attaching thereto or to effect the dissolution or liquidation of the Company, or any amalgamation, combination, merger or consolidation involving the Company or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar nature or otherwise.

No Shareholder Rights

4.11 Deferred Share Units are not considered to be Shares or securities of the Company, and an Eligible Person whose account is credited with Deferred Share Units will not, as such, be entitled to exercise voting rights or any other rights attaching to the ownership of Shares of other securities of the Company, or be considered the owner of Shares by virtue of such crediting of Deferred Share Units.

No Other Benefit

4.12 No amount will be paid to, or in respect of, an Eligible Person under this Plan to compensate for a downward fluctuation in the price of a Share, nor will any other form of benefit be conferred upon, or in respect of, an Eligible Person for such purpose.

Unfunded Plan

4.13 For greater certainty, this Plan will be an unfunded plan, including for tax purposes. Any Eligible Person holding Deferred Share Units or related accruals under this Plan will have the status of a general unsecured creditor of the Company with respect to any relevant rights hereunder.

Exhibit 8.1

List of Subsidiaries

DiaMedica Inc. has only one active subsidiary:

DiaMedica USA Inc.

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