



THREE AND NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2009

MANAGEMENT'S REPORT ON FINANCIAL POSITION AND OPERATING RESULTS

All amounts included in this report are expressed in Canadian dollars unless otherwise stated.

GENERAL

The following analysis provides a review of the Company's results of operations, financial condition and cash flows for the three and nine-month periods ended September 30, 2009 and 2008. This analysis should be read in conjunction with the information contained in the consolidated financial statements and related notes for the years ended December 31, 2008 and 2007, appearing in the annual report of the Company, which are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

The 2008 Annual Report of the Medicago Inc. ("Medicago"), the Annual information form and additional information regarding the business of the Company are available on SEDAR at www.sedar.com.

The consolidated financial statements and the accompanying notes included in this quarterly report have not been subject to a review engagement by the external auditors of the Company. Currently, Medicago believes that the cost related to a review engagement of its interim financial statements exceed the benefits inherent to such a review.

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to the Company. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. The information contained herein is dated as of November 24, 2009, date of the Board's approval for the MD&A and the Consolidated Financial Statements.

COMPANY OVERVIEW

Medicago is committed to providing highly effective and affordable vaccines based on proprietary Virus-Like Particles (VLPs) and manufacturing technologies. Medicago is developing VLP vaccines to protect against H5N1 pandemic influenza, using a transient expression system which produces recombinant vaccine antigens in the cells of non-transgenic plants. This technology has potential to offer advantages of speed and cost over competitive technologies. It promises to deliver a vaccine for testing rapidly after the identification and reception of genetic sequences from a pandemic strain. This production time frame has the potential to allow vaccination of the population before the first wave of a pandemic strikes and to supply large volumes of vaccine antigens to the world market.

MARKET AND ECONOMIC SITUATION OVERVIEW

The influenza vaccine market is expected to expand over \$3.7 billion by 2010. We are developing products for a growing market, with a first product (H5N1 pandemic influenza VLP vaccine) expected to be on the market in 2013 or after, if all clinical phases are successfully completed and market approval is granted by the regulatory authorities.

We did not incur any losses on asset-backed commercial paper as we have never invested in such securities. Our main credit facility (BioLevier loan) runs until 2014 and we have met all related requirements thereunder. In 2009, we are of the opinion that we have the financial resources required to work towards the attainment of our objectives (See *Products in development*) for this year, despite current economic conditions.

KEY DEVELOPMENTS

CORPORATE

INTERNATIONAL DEVELOPMENT

MEDICAGO AND GENOPOLE(R) SIGN AGREEMENT FOR INFLUENZA VACCINE PRODUCTION IN FRANCE

Medicago and Genopole biopark (Evry, France), have signed a partnership agreement with a plan to build a commercial facility to manufacture pandemic and seasonal influenza vaccines in France. Medicago and Genopole believe that this facility could complement France's existing domestic influenza vaccine production infrastructure by offering surge capacity of influenza vaccines before the first wave of a pandemic strikes. This agreement builds on the feasibility study announced in July, 2008, which was successfully completed this year to evaluate the economic and technological viability of a novel vaccine production facility in France.

Genopole and Medicago will work together to establish a commercial-scale facility based on Medicago's Proficia plant-based manufacturing technology and VLP vaccine technology on Genopole's site in Evry, France. The new facility would initially produce pandemic and seasonal influenza vaccines, and in the long term, could be used for a broad range of vaccines and other biodefense related products. Construction of the facility is conditional upon Medicago's successful completion of a phase I clinical trial with its H5N1 pandemic influenza vaccine and a reasonable level of commitment by the French authorities to support this novel technology.

AJANTA PHARMA - INDIA AND OTHER TERRITORIES

Medicago has signed a memorandum of understanding (MOU) with Ajanta Pharma Limited to discuss and negotiate an agreement to commercialize Medicago's pandemic and seasonal influenza VLP-based vaccines in India and other territories. Ajanta is one of India's fastest-growing pharmaceutical companies and has strong relationships with government health departments, defence services and hospitals. Under the terms of the MOU, the parties will evaluate and select an optimal deal structure with the objective of formalizing a definitive agreement within the end of the first quarter of 2010.

TABUK PHARMACEUTICALS - SAUDI ARABIA AND OTHER TERRITORIES

Medicago has signed a letter of intent (LOI) with Tabuk Pharmaceuticals to negotiate an agreement to develop, produce and commercialize Medicago's influenza VLP-based vaccines in Saudi Arabia and other territories in the Middle East and North Africa. Tabuk is the second-largest pharmaceutical manufacturer in Saudi Arabia. Under the terms of the letter of intent, the parties will collaborate to identify the interest of targeted governments and will select an optimal deal structure with the objective of establishing a commercial partnership within 12 months.

MEDICAGO AWARDED CONTRACT BY THE U.S. ARMY TO EXPLORE APPLICATIONS OF ITS PLANT-BASED TECHNOLOGY IN RENEWABLE ENERGY

The Company has been awarded a proof of concept contract by the United States Army Research, Development and Engineering Command laboratory specifically the Edgewood Chemical Biological Centre Research & Technology Directorate (ECBC). Medicago will work with ECBC to investigate the affordable production of industrial enzymes in the field of biofuels. This new project builds on Medicago's proprietary plant-based manufacturing platform and its potential for applications beyond the biological drug market.

While the Company remains focused on advancing its core influenza programs, biotechnology markets are quickly evolving and may offer new opportunities to increase shareholder value.

PRODUCTS IN DEVELOPMENT

H5N1 PANDEMIC INFLUENZA VLP VACCINE

In the third quarter of 2009, an important milestone was reached in the development of Medicago's pandemic influenza VLP vaccines when the Company received clearance from Health Canada to commence its first clinical trial.

Medicago has initiated a phase I human clinical trial with its H5N1 avian influenza vaccine. The phase I placebo-controlled, double-blind, dose-escalating study will evaluate safety, tolerability and the immune response of the company's H5N1 vaccine candidate in 48 healthy volunteers between the ages 18 to 60. Results of this study are expected before the end of the fourth quarter of 2009.

A (H1N1) VACCINE

In the second quarter of 2009, Medicago has successfully expressed a new VLP antigen (H1 VLP) from the influenza A (H1N1) strain that caused the recent influenza outbreak in North America and other countries. The antigen was expressed within 14 days of receiving the DNA sequence, with the Company's VLP vaccine technology and Proficia manufacturing technology.

The Company has also received positive results from an immunogenicity study in mice with this new vaccine candidate for the influenza A (H1N1) virus, also known as swine flu. Results demonstrated that the Company's H1 VLP vaccine induced a positive immune response in 100 per cent of the mice against the H1N1 influenza A/California/04/09 virus.

In a continuation of this study, the Company has achieved additional positive results. Results showed that a single dose of five micrograms induced a positive immune response against a new emerging strain of this virus in 100 per cent of vaccinated animals. Medicago's H1N1 VLP vaccine was formulated to protect against the Influenza A/California/04/09 virus, which was one of the original viral strains selected by the WHO for vaccine manufacturers. In this study, Medicago tested the immune response of its H1N1 vaccine against the California/07 virus, a more current and mutated strain and showed positive immune response after a single dose of five micrograms.

SEASONAL VACCINE

In the third quarter of 2009, the Company continued its research program initiated in 2008 and expects to commence preclinical work in 2010.

SUBSEQUENT EVENT

On November 27, 2009, the Company announced the closing of a bought deal financing of subscription receipts (the "Offering"). The underwriters have exercised their over-allotment option in full bringing the total gross proceeds from \$10,080,000 to \$11,592,000. The proceeds from the Offering will be used to support the implementation of the Company's business plan, namely the continued clinical development of the Company's plant manufactured Influenza VLP vaccines and for general corporate and working capital purposes.

A total of 16,100,000 subscription receipts (the "Subscription Receipts") were issued at a price of C\$0.72 per Subscription Receipt. Each Subscription Receipt represents the right to receive one unit (a "Unit") of Medicago, without any additional consideration, upon the earlier of: (i) the date on which Philip Morris Participations B.V. ("PMP") refuses to exercise the Preemptive Right (as defined below), (ii) the date on which PMP subscribes to Units of Medicago pursuant to its Preemptive Right, or (iii) December 15, 2009. Each Unit consists of one common share in the share capital of Medicago (a "Common Share") and one half of one Common Share purchase warrant (each, a "Warrant"). Each whole Warrant will be exercisable at a price of C\$1.00 until 5:00 p.m. on November 26, 2010.

Medicago is a party to a Representation Right and Preemptive Right Agreement made as of October 21, 2008, with Philip Morris Participations B.V ("PMP"), and available on SEDAR (the "Preemptive Right Agreement"), under which Medicago cannot issue Common Shares without offering PMP or its affiliates the right to subscribe to a number of Common Shares which would preserve PMP's proportionate entitlement in the Company. On November 6, 2009, Medicago notified PMP of the Offering and offered PMP to subscribe to Units pursuant to the Preemptive Right Agreement. In accordance with the Preemptive Right Agreement, PMP has until December 14, 2009, being 25 business days from the date of Medicago's notice, to accept the offer, failing which PMP shall be deemed to have waived its preemptive right.

In addition, the Company has granted the Underwriters 1,127,000 compensation options (the "Compensation Option") to purchase a number of units (the "Compensation Option Units") representing 7% of of the total number of Units sold under this Offering.

SELECTED CONSOLIDATED INFORMATION

| | Three-month period ended September 30 | | Nine-month period ended September 30 | |
|---|--|-----------|---|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| CONSOLIDATED STATEMENT OF EARNINGS | | | | |
| Revenues | - | - | - | 2,248,000 |
| Loss for the period | | | | |
| \$ | 3,163,000 | 2,739,000 | 8,584,000 | 4,641,000 |
| Basic and diluted loss per share | 0.03 | 0.07 | 0.09 | 0.15 |

CONSOLIDATED BALANCE SHEET DATA

| | As at September 30, 2009 \$ | As at December 31, 2008 \$ |
|--|--------------------------------------|-------------------------------------|
| Cash, cash equivalents and short-term investments | 7,969,000 | 14,028,000 |
| Total assets | 15,331,000 | 20,604,000 |
| Total long-term liabilities ⁽¹⁾ | 15,433,000 | 15,283,000 |

(1) Total long-term liabilities include long term-debt and current portion

COMPARISON OF THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2009 AND 2008

Consolidated statements of earnings

For the three and nine-month period ended September 30, 2009, the company had no revenue compared to \$2,248,000 for the nine-month period ended September 30, 2008. Revenues in 2008 were generated by two agreements signed with Philip Morris International (PMI). The first agreement signed in 2007, a research service agreement of \$500,000 generated \$444,000 for the first nine-month of 2008 and revenues from the second one, a non-exclusive license agreement signed in February 2008, were \$2,000,000 for the first nine-month of 2008. Revenues from the non-exclusive license agreement were diminished by \$196,000 representing the value of the 2,000,000 common share purchase warrants granted to PMI at the signing of the agreement.

Research and development (R&D) expenses increased by \$940,000 to \$2,059,000 for the third quarter of 2009 compared to the second quarter of 2008. The increase in R&D expenses for the three-month period ended September 30, 2009 is related to the production of Phase I clinical materials and the beginning of the phase I clinical study. Wage and salaries were higher (\$174,000) in the third quarter of 2009 compared to 2008 explained by hiring in the second-half of 2008 and since the beginning of 2009 of new employees required for the completion of the preclinical work and the production of clinical materials for the Phase I clinical study. More laboratory supplies and analysis (\$162,000) and a higher level of outsourced contract work (\$475,000) were also required to perform these activities. For the nine-month period ended September 30, 2009 R&D expenses increased by \$1,933,000 to \$5,284,000 and this is mainly explained by an increase in outsourced contract work (\$719,000), wage and salaries (\$589,000) and more laboratory supplies and analysis.

Research grants and contribution increased by \$118,000 and \$194,000 for the three and nine-month period ended September 30, 2009. The increase in the third quarter is mainly explained by the grant obtained in the second quarter of this year from Quebec's Consortium for Drug Discovery (CQDM) to develop the VLPEXpress, a high-throughput platform that will accelerate the Company's discovery and development of new vaccines by rapidly expressing, purifying and testing candidate VLPs for \$68,000 and the grant obtained in 2008 from Canada's National Research Council (NRC) industrial research assistance program to support the development of the Company's seasonal influenza VLP vaccine program. Grant from the CQDM totaled \$1,773,000 of which \$1,705,000 is still available as of September 30, 2009 along with \$92,000 from the grant from the NRC.

Research and development tax credits were \$120,000 and \$393,000 for the three and nine-month period ended September 30, 2009, \$210,000 and \$628,000 lower than the three and nine-month period ended September 30, 2008. Following the completion of the private placement with PMI in 2008, the Company is now considered associated with PMI for tax purposes, resulting in a decrease of the tax credit rate at the provincial level from 37.5% to 17.5% and is no longer entitled to a Federal tax credit.

General and administrative, business development and intellectual property (G&A) expenses increased by \$150,000 to \$866,000 for the three-month period ended September 30, 2009 compared to 2008. The increase was mainly due to an increase in license and patent related costs (\$51,000) and by an increase in tradeshows and travelling expenses (\$46,000). The variation in trade show and travelling expenses is explained by increased investor relations and business development activities. For the nine-month period ended September 30, 2009, G&A expenses increased by \$569,000 to \$2,615,000. This is mainly explained by an increase in tradeshows and travelling expenses (\$198,000), license and patent related costs (\$178,000) and salaries (\$92,000). The increase in salaries is explained by the hiring of a director, investor relations and communications in January 2009. The variation in trade show and travelling expenses since the beginning of the year is explained by increased investor relations and business development activities.

Stock-based compensation increased by \$42,000 for the three-month period ended September 30, 2008 (\$178,000 since the beginning of the year) following the grant of 3,472,650 stock options in the first quarter of 2009.

Depreciation of property, plant and equipment amounted to \$117,000 and \$333,000 for the three and nine-month period ended

September 30, 2009 comparable with the three and nine-month period ended September 30, 2008.

Amortization of intangible assets amounted to \$13,000 and \$40,000 for the three and nine-month period ended September 30, 2009, \$14,000 and \$43,000 lower than the three and nine-month period ended September 30, 2008. A write-off of a license of a carrying value of \$572,000 at the end of the third quarter of 2008 explained this decrease.

Net financial expenses amounted to \$259,000 for the three-month period ended September 30, 2009, \$190,000 lower compared to the three-month period ended September 30, 2008. This decrease is mainly the result of lower interest rate on the Bio-levier loan for \$91,000, higher interest income for \$36,000 explained by the increase in cash, cash equivalents and short-term investments and no expenses of warrants issued as financing fees in 2009 compared to \$86,000 in 2008. For the nine-month period ended September 30, 2009 net financial expenses decreased by \$663,000 to \$682,000 and this is mainly explained by lower interest rate on the Bio-levier loan for \$275,000, higher interest income for \$204,000 and no expense of warrants issued as financing fees in 2009 compared to \$172,000 in 2008.

Consolidated loss for the three-month period ended September 30, 2009 was \$3,163,000, or \$0.03 per basic and diluted share compared to a loss of \$2,739,000, or \$0.07 per basic and diluted share for the three-month period ended September 30, 2008. Since the beginning of the year the consolidated loss was \$8,584,000 or \$0.09 per basic and diluted share compared to a loss of \$4,641,000, or \$0.15 per basic and diluted share.

Consolidated Balance Sheet

Cash, cash equivalents and short-term investments were of \$8.0 million as at September 30, 2009 a decrease of \$6.0 million from December 31, 2008. This decrease is mainly the result of loss for the nine-month period net of items not affecting cash and cash equivalents for \$7,755,000 that was partly offset by the exercise of 7,135,760 warrants totaling \$2,060,000 since the beginning of 2009.

Total consolidated assets were of \$15.3 million as at September 30, 2009, a decrease of \$5.3 million since December 31, 2008. The variation is mainly due to a decrease in the total of cash, cash equivalents and short term investments by \$6.0 million.

Long-term debt increased by \$0.1 million to \$15.4 million, mainly the result of the theoretical interest on non-bearing interest loans.

QUARTERLY FINANCIAL DATA

| | Quarters ended | | | |
|--------------------------------------|---------------------------|----------------------|-----------------------|--------------------------|
| | September 30, 2009 | June 30, 2009 | March 31, 2009 | December 31, 2008 |
| Revenues | - | - | - | - |
| Total expenses | (\$3,163,000) | (\$2,794,000) | (\$2,625,000) | (\$3,007,000) |
| Loss | (\$3,163,000) | (\$2,794,000) | (\$2,625,000) | (\$3,007,000) |
| Basic and diluted net loss per share | (\$0.03) | (\$0.03) | (\$0.04) | (\$0.07) |
| | September 30, 2008 | June 30, 2008 | March 31, 2008 | December 31, 2007 |
| Revenues | - | \$583,000 | \$1,665,000 | \$55,000 |
| Total expenses | (\$2,739,000) | (\$2,160,000) | (\$1,991,000) | (\$2,109,000) |
| Loss | (\$2,739,000) | (\$1,577,000) | (\$326,000) | (\$2,053,000) |
| Basic and diluted net loss per share | (\$0.07) | (\$0.05) | (\$0.01) | (\$0.07) |

Revenues from quarter to quarter may vary significantly. They are non-recurring by nature and are generated by license agreements as well as contract research agreements. It is also important to note that historical patterns of expenses cannot be taken as an indication of future expenses. The amount and timing of expenses and availability of capital resources vary substantially

from quarter to quarter, depending on the level of R&D activities being undertaken at any one time and the availability of funding from investors and/or partners.

Revenues for Q4 of 2007, Q1 and Q2 of 2008 were generated by two agreements signed with PMI. The first agreement, a research service agreement of \$500,000, signed in 2007 and completed in 2008, generated \$444,000 in 2008 and revenues from the second one, a non-exclusive license agreement signed in February 2008 and completed in 2008, were \$2,000,000. Revenues from the non-exclusive license agreement were diminished by \$196,000 representing the value of the 2,000,000 common share purchase warrants granted to PMI at the signing of the agreement.

The shift in the stage of development of the Company from research to preclinical and clinical development for its H5N1 Avian Influenza VLP vaccine, the development of the cGMP process and the production of clinical materials for the Phase I explained the increase in expenses from the fourth quarter of 2007 onwards. Wage and salaries increased in 2008 and 2009 compared to 2007 explained by the hiring of new employees in the second half of 2008 and since the beginning of 2009 required by preclinical and clinical work related to the Phase I. More laboratory supplies and analysis and a higher level of outsourced contract work were also required to perform those activities.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company had cash, cash equivalents and short-term investments totaling \$8.0 million as at September 30, 2009, a decrease of \$6.0 million from December 31, 2008. The Company had working capital of 7.5 million as at September 30, 2009 compared to \$13.6 million as at December 31, 2008. The short-term investments do not include asset-backed commercial papers which are affected by liquidity issues. As at September 30, 2009, the Company's long-term debt amounted to \$15.4 million. Under the terms of the Bio-Levier loan agreement, the Company needs to maintain its current ratio at 1.3/1 or higher. As at September 30, 2009 this ratio stood at 3.7:1.

The Company's primary capital needs are the funds required to support its scientific research and development activities including preclinical and clinical trials, capital expenditures for the expansion of its pilot plant facilities and working capital. Medicago expect expenditures to increase in 2010 as the Company will continue to advance its programs. Management believes that existing capital resources are adequate to fund its plans until the first quarter of 2011.

Since its inception, the Company has financed its cash requirements primarily through issuances of securities, Research and development tax credits, government funding, cost recoveries, license agreement, contract research agreements, long-term debt and short-term debt guaranteed by its Research and development tax credits. The strategy of the Company for future funding is to find additional capital after a successful completion of the Phase II trial for its H5N1 pandemic influenza VLP vaccine. The amount of additional capital needed will depend on the cash on hand at that time and funds necessary to conduct a Phase III clinical for this vaccine. Management anticipates funding additional capital requirements primarily through additional issuance of securities and/or the potential monetization of our products. (See section *RISK AND UNCERTAINTIES- Additional Financing Requirements and Access to Capital* of the Annual Report)

The variation of our liquidity by activities is explained below.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>Cash flows</i> | Three-month ended September 30 | | Nine-month ended September 30 | |
|---|---------------------------------------|-------------|--------------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Operating activities | (2,892,000) | (1,917,000) | (7,817,000) | (3,491,000) |
| Financing activities | 1,947,000 | 2,078,000 | 2,198,000 | 4,473,000 |
| Investing activities | 564,000 | (126,000) | 6,224,000 | (227,000) |
| Net change in cash and cash equivalents | (381,000) | 35,000 | 605,000 | 755,000 |

Operating Activities

Cash used in operating activities increased by \$975,000 to \$2,892,000 for the three-month period ended September 30, 2009 and by \$4,326,000 to \$7,817,000 for the nine-month period ended September 30, 2009 compared to 2008. This increase is mainly explained by the increase in loss, net of items not affecting cash and cash equivalents (or burn rate) for \$1,205,000 and 5,303,000 for the three and nine-month periods.

The Company expects net cash used in operating activities for the fourth quarter of 2009 to be comparable with the third quarter of 2009, as it will complete its Phase I clinical program with its H5N1 pandemic influenza vaccine and will further advance its seasonal influenza vaccine in preclinical program (see *Outlook for the remaining of 2009 and 2010*).

Financing Activities

Cash from financing activities decreased by \$2.3 million to \$1.9 million for the first nine months of 2009 compared to 2008. The decrease is explained by the fact that in 2008 the Company completed two private placements for total gross proceeds of \$4,851,000. This decrease was partly offset by the exercise of 7,135,760 warrants totalling \$2,060,000 since the beginning of 2009.

Investing Activities

Cash used in investing activities (excluding sales of short-term investments) increased by \$421,000 to \$648,000 in 2009 related to more additions of property, plant and equipment for \$572,000.

The Company plans to invest up to \$1 million in 2009 and in the first quarter of 2010 to expand its manufacturing facility in order to optimize manufacturing activities and provide additional space to produce clinical-grade material for human clinical trials.

CONTRACTUAL OBLIGATIONS

There has been no significant change in the contractual obligations of the Company as described in Medicago's 2008 annual report.

OUTLOOK FOR THE REMAINING OF 2009 AND FOR 2010

Medicago has initiated a phase I human clinical trial with its H5N1 avian influenza vaccine in the quarter and results of this study are expected before the end of the fourth quarter of 2009.

The strategy of the Company for future funding is to find additional capital after a successful completion of the Phase I trial for its H5N1 pandemic influenza VLP vaccine. The amount of additional capital needed will depend on the cash on hand at that time and funds necessary to conduct a Phase II clinical for this vaccine.

Assuming a successful phase I, Medicago expects expenditures to increase in 2010 compared to 2009 as the Company will continue to advance its H5N1 avian influenza vaccine program in phase II human clinical trials.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

There were no related party transactions and off-balance sheet agreements.

OUTSTANDING SHARE DATA

As at November 26, 2009, there were 98,016,690 common shares issued and outstanding, 5,816,412 stock options outstanding and 53,233,946 warrants outstanding.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates are generally made in connection with the calculation of revenues, research and development expenses, stock-based compensation expense, as well as in determining future income tax

assets and liabilities, the useful lives of property, plant and equipment and intangible assets with finite lives and the valuation of intangible assets, the fair value of stock options granted, and certain accrued liabilities. Estimates are based on historical experience, where relevant, and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

There have been no significant changes in the Company accounting policies and estimates since December 31, 2008 except for the application of the new standards described below. Please refer to the appropriate section of the financial statements included in our 2008 Annual Report for a complete description of our accounting policies.

NEW ACCOUNTING STANDARDS AND FUTURE ACCOUNTING CHANGES

New accounting standards adopted in 2009

On January 1, 2009, the Company adopted Section 3064, "Goodwill and Intangible Assets", of the CICA Handbook. This section establishes standards for the recognition, measurement and disclosure applicable to intangible assets. It replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The adoption of this new standard had not impact significantly our financial position and results of operations.

In January 2009, the CICA's Emerging Issue Committee ("EIC") issued Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*, which requires entities to take both counterparty credit risk and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. EIC-173 will be effective for interim and annual periods beginning on or after January 1, 2009. The adoption of this guidance had no significant impact on the consolidated financial statements.

Future accounting changes

In January 2009, the CICA published the following sections of the CICA Handbook that apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

- (a) Section 1582, "Business Combinations", which replaces the former Section 1581 with the same title, establishes accounting standards for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS3, "Business Combinations".
- (b) Section 1601, "Consolidated Financial Statements", which replaces the former Section 1600 with the same title, establishes standards for the preparation of consolidated financial statements.
- (c) Section 1602, "Non-Controlling Interests". This new section establishes standards on accounting for non-controlling interests in a subsidiary in consolidated financial statements prepared subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27, "Consolidated and Separate Financial Statements".

The Company is currently evaluating the impact of these new standards on its financial statements.

In June 2009, the Canadian Accounting Standards Board issued amendments to Section 3862, *Financial Instruments Disclosures*, to improve disclosure requirements on fair value measurement and liquidity risk. The amendments will be effective for the Company's December 31, 2010 annual financial statements. As the amendments only concern disclosure requirements, they will not have a significant impact on results or financial position.

International Financial Reporting Standards

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible Assets", thus mitigating the impact of adopting IFRS at the mandatory transition date.

During 2008, the Company proceeded with the assistance of external experts to establish a stage 1 diagnosis for the adoption of IFRS. This diagnosis has identified the main differences between the accounting treatments applied by the Company under Canadian GAAP and the IFRS as well as the practical implications related to the measure. The differences were further classified according to their degree of complexity and by the amount of work to implement with respect to the measure.

The Company has decided to switch to IFRS on January 1, 2011. Some options permitted under IFRS are currently under analysis. A summary analysis indicates that in most cases, the Company would opt for a prospective application when the choice is available. The changeover to IFRS will result in changes to our accounting systems, our internal control systems and our management and evaluation systems. Therefore, we are currently analyzing the potential of our systems and the possibility to integrate all our subsidiaries on the same information system. The Company is currently evaluating the impact of the adoption of IFRS on its consolidated financial statements.

RISK FACTORS AND UNCERTAINTIES

There has been no significant change in the risk factors and uncertainties facing the Company as described in Medicago's 2008 annual information form.

On behalf of management,

(signed)

Pierre Labbé, CA

Vice-president and Chief Financial Officer

(signed)

Andrew J. Sheldon

President and Chief Executive Officer

November 27, 2009

Medicago Inc.

Interim Consolidated Financial Statements
(unaudited)
September 30, 2009

Medicago Inc.

Consolidated Balance Sheets

| | September 30, 2009 \$ (unaudited) | December 31, 2008 \$ |
|--|--|----------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 1,696,000 | 1,091,347 |
| Short-term investments (note 3) | 6,272,701 | 12,936,773 |
| Accounts receivable | 287,101 | 181,587 |
| Investment tax credits receivable | 1,821,573 | 1,428,289 |
| Grants receivable | 56,940 | 44,750 |
| Prepaid expenses | 140,052 | 76,962 |
| | <hr/> | <hr/> |
| | 10,274,367 | 15,759,708 |
| Property, plant and equipment | 4,318,293 | 4,065,399 |
| Intangible assets | 738,260 | 778,512 |
| | <hr/> | <hr/> |
| | 15,330,920 | 20,603,619 |
| Liabilities | | |
| Current liabilities | | |
| Bank loans | 985,000 | 727,950 |
| Accounts payable and accrued liabilities | 1,513,740 | 1,314,089 |
| Deferred revenues | 166,946 | - |
| Current portion of long-term debt | 96,462 | 73,071 |
| | <hr/> | <hr/> |
| | 2,762,148 | 2,115,110 |
| Long-term debt (note 4) | 15,336,499 | 15,209,518 |
| | <hr/> | <hr/> |
| | 18,098,647 | 17,324,628 |
| Shareholders' Equity (Deficiency) | | |
| Share capital (note 5) | 39,659,846 | 37,182,667 |
| Contributed surplus | 1,554,679 | 1,087,608 |
| Other equity components (note 6) | | |
| Stock options plan (note 6a) | 842,846 | 500,081 |
| Unit options | - | 66,640 |
| Warrants (note 6b) | 7,601,079 | 8,410,743 |
| Deficit | (52,502,634) | (43,920,364) |
| Accumulated other comprehensive income (loss) | 76,457 | (48,384) |
| | <hr/> | <hr/> |
| | (2,767,727) | 3,278,991 |
| | <hr/> | <hr/> |
| | 15,330,920 | 20,603,619 |

The accompanying notes are an integral part of these interim consolidated financial statements.

Approved by the Board of Directors

(signed) PIERRE SECCARECCIA
Director

(signed) ANDREW J. SHELDON
Director

Medicago Inc.

Interim Consolidated Statements of Earnings and Comprehensive Loss

For the three and nine-month period ended September 30, 2009 and 2008

(unaudited)

| | Three-month period ended September 30 | | Nine-month period ended September 30 | |
|--|--|--------------------|---|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Revenues | | | | |
| Revenues from license agreement | - | - | - | 2,000,000 |
| Revenues from research agreements | - | - | - | 444,400 |
| Less: Warrants issued under a licensing agreement | - | - | - | (196,136) |
| | - | - | - | 2,248,264 |
| Expenses | | | | |
| Research and development | 2,059,422 | 1,118,852 | 5,283,945 | 3,350,728 |
| Research grants and contributions | (117,589) | - | (207,513) | (13,750) |
| Research and development tax credits | (120,284) | (330,000) | (393,284) | (1,021,248) |
| General and administrative, business development and intellectual property | 866,261 | 716,488 | 2,614,679 | 2,046,401 |
| Stock-based compensation | 111,342 | 68,827 | 350,649 | 173,398 |
| Exchange (gain) loss | (16,458) | 2,403 | (36,396) | (4,152) |
| Depreciation of property, plant and equipment | 117,434 | 113,695 | 332,566 | 357,861 |
| Amortization of intangible assets | 13,297 | 27,059 | 40,252 | 82,853 |
| Gain on sale of available-for-sale investments | (9,643) | - | (82,338) | - |
| Write-off of intangible assets | - | 572,439 | - | 572,439 |
| Financial expenses, net (note 7) | 259,037 | 449,210 | 681,530 | 1,345,138 |
| | 3,162,819 | 2,738,973 | 8,584,090 | 6,889,668 |
| Loss for the period | (3,162,819) | (2,738,973) | (8,584,090) | (4,641,404) |
| Comprehensive Income (loss) | | | | |
| Unrealized gain on available-for-sale investments | 31,593 | - | 207,179 | - |
| Reclassification of gain on available-for-sale investments realized upon sale to loss for the period | (9,643) | - | (82,338) | - |
| | 21,950 | - | 124,841 | - |
| Comprehensive loss for the period | (3,140,869) | (2,738,973) | (8,459,249) | (4,641,404) |
| Basic and diluted loss per share (note 11) | (0.03) | (0.07) | (0.09) | (0.15) |

The accompanying notes are an integral part of these interim consolidated financial statements.

Medicago Inc.

Interim Consolidated Statements of Deficit, Accumulated Other Comprehensive Loss and Contributed Surplus

For the nine-month period ended September 30, 2009 and 2008

(unaudited)

| | Nine-month period ended September 30 | |
|---|---|-------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Deficit | | |
| Balance – Beginning of period | 43,920,364 | 36,271,760 |
| Loss for the period | <u>8,584,090</u> | <u>4,641,404</u> |
| Balance – End of period | <u>52,504,454</u> | <u>40,913,164</u> |
| Accumulated comprehensive (income) loss | | |
| Balance – Beginning of period | 48,384 | - |
| Other comprehensive income | <u>(124,841)</u> | <u>-</u> |
| Balance – End of period | <u>(76,457)</u> | <u>-</u> |
| Total deficit and accumulated other comprehensive loss | <u>52,427,997</u> | <u>40,913,164</u> |
| Contributed Surplus | | |
| Balance – Beginning of period | 1,087,608 | 802,219 |
| Stock options forfeited | 7,883 | 810 |
| Unit options forfeited | 66,640 | 55,495 |
| Warrants forfeited | <u>392,548</u> | <u>220,442</u> |
| Balance – End of period | <u>1,554,679</u> | <u>1,078,966</u> |

The accompanying notes are an integral part of these interim consolidated financial statements.

Medicago Inc.

Interim Consolidated Statements of Cash Flows

For the three and nine-month period ended September 30, 2009 and 2008

(unaudited)

| | Three-month period ended September 30 | | Nine-month period ended September 30 | |
|---|--|-------------|---|-------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| Cash flows from operating activities | | | | |
| Loss for the period | (3,162,819) | (2,738,973) | (8,584,090) | (4,641,404) |
| Items not affecting cash and cash equivalents | | | | |
| Warrants issued pursuant to licensing agreement and as financing fees | - | 86,087 | - | 368,310 |
| Stock-based compensation costs | 111,342 | 68,827 | 350,649 | 173,398 |
| Depreciation and amortization | 130,731 | 140,755 | 372,818 | 440,713 |
| Amortization of deferred charges | 29,375 | 29,375 | 88,125 | 88,125 |
| Gain on sale of available-for-sale investments | (9,643) | - | (82,338) | - |
| Write-off of intangible assets | - | 572,439 | - | 572,439 |
| Interest capitalized on long-term debt | 33,128 | 178,499 | 99,514 | 546,444 |
| | (2,867,886) | (1,662,991) | (7,755,322) | (2,451,975) |
| Change in non-cash working capital items (note 8a) | (24,323) | (253,577) | (62,139) | (1,038,725) |
| | (2,892,209) | (1,916,568) | (7,817,461) | (3,490,700) |
| Cash flows from financing activities | | | | |
| Bank loans contracted (reimbursed) | - | (3,745) | 258,870 | 53,000 |
| Long-term debt contracted | - | - | 46,820 | - |
| Payments on long-term debt | (72,097) | (6,536) | (84,087) | (13,072) |
| Issuance of units | - | 2,250,625 | - | 4,850,625 |
| Exercise of warrants | 2,018,938 | - | 2,060,063 | - |
| Issue expenses | - | (162,819) | (83,290) | (417,733) |
| | 1,946,841 | 2,077,525 | 2,198,376 | 4,472,820 |
| Cash flows from investing activities | | | | |
| Sales of short-term investments | 922,078 | - | 6,871,251 | - |
| Additions to property, plant and equipment | (358,154) | (125,893) | (595,935) | (23,350) |
| Additions to intangible assets | - | - | (51,578) | (203,315) |
| | 563,924 | (125,893) | 6,223,738 | (226,665) |
| Net change in cash and cash equivalents | (381,444) | 35,064 | 604,653 | 755,455 |
| Cash and cash equivalents – Beginning of year | 2,077,444 | 944,102 | 1,091,347 | 223,711 |
| Cash and cash equivalents – End of year | 1,696,000 | 979,166 | 1,696,000 | 979,166 |
| Additional information | | | | |
| Interest paid | 191,952 | 154,670 | 658,485 | 540,819 |

The accompanying notes are an integral part of these interim consolidated financial statements.

(5)

Medicago Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2009

(Unaudited)

1 Interim financial information

The financial information for the three and nine-month periods ended September 30, 2009 and 2008 are unaudited. However, in the opinion of management, all adjustments necessary to present fairly the results of these periods have been recorded. The adjustments made were of a normal recurring nature. The results of the interim period are not necessarily indicative of results which may be expected for any other interim period or for the full year.

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP), using the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2008 with the exception of the application of new accounting standards as described in note 2 hereunder. All disclosures required for annual financial statements have not been included in these financial statements. These consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements.

Evaluation of Going Concern

Management is required to make an assessment of an entity's ability to continue as a going concern and takes into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Management's assessment took into account budgets for 2009 and forecasts for 2010. As a result of this assessment and with the public offering completed on November 27th, 2009 (see note 13), management believes that the Company has sufficient financial resources to fund planned expenditures and other working capital needs for at least the 12-month period following the balance sheet date.

2 New accounting standards

Adopted in 2009

On January 1, 2009, the Company adopted Section 3064, "Goodwill and Intangible Assets", of the CICA Handbook. This section establishes standards for the recognition, measurement and disclosure applicable to intangible assets. It replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The adoption of this new standard had no significant impact on the financial position and results of operations of the company.

In January 2009, the CICA's Emerging Issue Committee ("EIC") issued Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*, which requires entities to take both counterparty credit risk and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. EIC-173 will be effective for interim and annual periods beginning on or after January 1, 2009. The adoption of this guidance had no significant impact on the consolidated financial statements.

Medicago Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2009

(Unaudited)

Future accounting changes

In January 2009, the CICA published the following sections of the CICA Handbook that apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

- (a) Section 1582, "Business Combinations", which replaces the former Section 1581 with the same title, establishes accounting standards for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS3, "Business Combinations".
- (b) Section 1601, "Consolidated Financial Statements", which replaces the former Section 1600 with the same title, establishes standards for the preparation of consolidated financial statements.
- (c) Section 1602, "Non-Controlling Interests". This new section establishes standards on accounting for non-controlling interests in a subsidiary in consolidated financial statements prepared subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27, "Consolidated and Separate Financial Statements".

The Company is currently evaluating the impact of these new standards on its financial statements.

In June 2009, the Canadian Accounting Standards Board issued amendments to Section 3862, Financial Instruments - Disclosures, to improve disclosure requirements on fair value measurement and liquidity risk. The amendments are effective for the Company's December 31, 2009 annual financial statements. As the amendments only concern disclosure requirements, they will not have a significant impact on results or financial position.

3 Short-term investments

| | September 30, 2009 | December 31, 2008 |
|---|-------------------------------|------------------------------|
| | \$ | \$ |
| | (unaudited) | |
| Term deposits bearing interest at annual rates ranging from 1.20% to 3.55%, maturing from November 2009 to June 2010 | 2,705,000 | 6,000,000 |
| Bonds and discount notes, bearing interest at effective annual rates ranging from 2.50% to 4.32%, maturing from December 2009 to January 2016 | 3,567,701 | 6,557,575 |
| Money market funds | | 379,198 |
| | <hr/> | |
| | 6,272,701 | 12,936,773 |
| | <hr/> | |

Medicago Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2009

(Unaudited)

4 Long-term debt

| | September 30, 2009 \$ (unaudited) | December 31, 2008 \$ |
|--|--|----------------------------|
| Loan from Investissement Québec ("Bio-Levier"), bearing interest at prime rate plus 3%, payable annually at a rate of 25% of net earnings plus depreciation and amortization generated in the preceding year over a period ending no later than December 21, 2014, secured by a senior fixed and floating charge of \$16,000,000 over all property, plant and equipment and intellectual property of the Company (a) | 15,318,648 | 15,318,648 |
| Deferred financing expenses | (615,066) | (703,191) |
| Discounted at a rate of 20%, refundable contribution granted under the Technology Partnerships Canada program | 530,773 | 461,542 |
| Discounted at a rate of 20%, contribution under an innovation program, payable in annual instalments of \$60,000 until September 2013 | 162,802 | 193,742 |
| Discounted at a rate of 20%, contribution under an innovation program, payable in semi-annual instalments of \$6,536, maturing in 2009 | - | 11,848 |
| Loan bearing interest at 8%, payable in monthly payments of \$2,118, including principal and interest, maturing in March 2011 | 35,804 | - |
| | <u>15,432,961</u> | <u>15,282,589</u> |
| Less: Current portion | 96,462 | 73,071 |
| | <u>15,336,499</u> | <u>15,209,518</u> |

(a) Under the terms of the agreement, the Company undertook to meet a current ratio exceeding 1.3:1. As at September 30, 2009, the current ratio was 3.7:1.

5 Share capital

- Authorized
 - Unlimited number of shares, without par value, of the following classes:
 - Common shares, voting and participating
 - Preferred shares, with rights, privileges and conditions to be determined by the Board of Directors before issuance.

Medicago Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2009

(Unaudited)

The share capital issued has varied as follows:

| | Nine-month period ended September 30 2009 | | Year ended December 31 2008 | |
|---|---|------------|--------------------------------|------------|
| | Number | \$ | Number | \$ |
| Common shares | | | | |
| Balance – Beginning of year | 90,324,940 | 37,182,667 | 21,112,440 | 23,465,147 |
| Issued pursuant to private placements | - | - | 69,050,000 | 14,207,918 |
| Issued pursuant to the exercise of warrants | 7,136,750 | 2,477,179 | 162,500 | 50,586 |
| Issue expenses * | - | - | - | (540,984) |
| Balance – End of year | 97,461,690 | 39,659,846 | 90,324,940 | 37,182,667 |

* Issue expenses were shared out between common shares and warrants pro rata to their fair value.

6 Other equity components

(a) Stock option plan

The following table summarizes the stock option activity since January 1, 2008:

| | Nine-month period ended September 30 2009 | | | Year ended December 31 2008 | | |
|-------------------------------------|---|----------------------|---------------------------------------|--------------------------------|----------------------|---------------------------------------|
| | Number | Carrying value \$ | Weighted average exercise price \$ | Number | Carrying value \$ | Weighted average exercise price \$ |
| Outstanding – Beginning of period | 2,344,595 | 500,081 | 0.89 | 1,415,958 | 263,821 | 1.10 |
| Granted | 3,522,650 | - | 0.27 | 965,968 | - | 0.59 |
| Exercised | - | - | - | - | - | - |
| Forfeited and expired | (50,833) | (7,883) | 0.83 | (37,331) | (9,452) * | 1.00 |
| Compensation costs for the period | - | 350,648 | - | - | 245,712 | - |
| Outstanding – End of period | 5,816,412 | 842,846 | 0.51 | 2,344,595 | 500,081 | 0.89 |
| Options exercisable – End of period | 1,634,094 | - | 1.01 | 1,046,954 | - | 1.12 |

Medicago Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2009

(Unaudited)

- * During the nine-month period ended September 30, 2009, 50,833 stock options were forfeited (37,331 in 2008). The corresponding credit amounting to \$7,883 (\$9,452 in 2008) has been recorded as contributed surplus.

The following table summarizes information about outstanding and exercisable stock options as at September 30, 2009:

| Exercise price | Stock options outstanding | | | Stock options currently exercisable | |
|-------------------|---------------------------|--|------------------------------------|-------------------------------------|------------------------------------|
| | Number | Weighted average remaining contractual life (months) | Weighted average exercise price \$ | Number | Weighted average exercise price \$ |
| \$0.20 | 2,052,650 | 51 | 0.20 | - | - |
| \$0.355 to \$0.37 | 1,643,674 | 51 | 0.36 | 74,558 | 0.37 |
| \$0.52 to \$0.66 | 792,294 | 41 | 0.65 | 255,742 | 0.65 |
| \$1.00 to \$1.11 | 1,175,706 | 20 | 1.03 | 1,151,706 | 1.04 |
| \$1.68 | 152,088 | 21 | 1.68 | 152,088 | 1.68 |
| | <u>5,816,412</u> | <u>43</u> | <u>0.51</u> | <u>1,634,094</u> | <u>1.00</u> |

Assumptions used in determining stock-based compensation costs

The table below shows the assumptions used in determining stock-based compensation costs under the Black-Scholes option pricing model:

| | Nine-Month Ended September 30, 2009 | Year Ended December 31, 2008 |
|--|-------------------------------------|------------------------------|
| Dividend yield | Nil | Nil |
| Expected volatility | 96% | 95% |
| Risk-free interest rate | 1.74% | 3.06% |
| Expected life (years) | 4.96 | 5.00 |
| Number of stock options granted | 3,522,650 | 965,968 |
| Weighted average fair value of options granted at market price at the date of the grant (\$) | 0.12 | 0.40 |
| Weighted average fair value of options granted at a price higher than the market price at the date of the grant (\$) | 0.37 | 0.42 |
| Stock-based compensation costs | 350,648 | 245,712 |

Medicago Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2009

(Unaudited)

(b) Warrants

The following table summarizes the warrant activity since January 1, 2008:

| | Nine-month period ended September 30 2009 | | | Year ended December 31 2008 | | |
|--|---|-------------------------|--|--------------------------------|-------------------------|--|
| | Number | Carrying value \$ | Weighted average exercise price \$ | Number | Carrying value \$ | Weighted average exercise price \$ |
| Outstanding and exercisable – Beginning of year | 64,933,196 | 8,410,743 | 0.39 | 7,430,653 | 1,787,553 | 1.05 |
| Granted at the signing of a non-exclusive license agreement | - | - | - | 2,000,000 | 196,136 | 0.23 |
| Granted to the subscribers in connection with private placements | - | - | - | 57,025,000 | 6,577,082 | 0.35 |
| Granted to Investissement Québec | - | - | - | 643,877 | 258,260 | 0.70 |
| Exercised | (7,135,760) | (417,116) | 0.29 | (162,500) | (9,961) | 0.25 |
| Forfeited | (4,007,500) | (392,548) | 0.75 | (2,003,834) | (220,442) | 1.10 |
| Warrant issue expenses | - | - | - | - | (177,885) | - |
| Outstanding and exercisable – End of period | 53,788,946 | 7,601,079 | 0.38 | 64,933,196 | 8,410,743 | 0.39 |

The following table summarizes the information relating to warrants outstanding and exercisable as at September 30, 2009:

| Exercise price | Number | Weighted average remaining contractual life (years) |
|----------------|------------|--|
| \$0.250 | 6,718,250 | 0.92 |
| \$0.375 | 45,000,000 | 1.06 |
| \$0.700 | 643,877 | 1.60 |
| \$1.120 | 1,426,819 | 1.92 |
| | 53,788,946 | 1.04 |

Medicago Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2009

(Unaudited)

7 Financial expenses, net

| | Three-month period ended September 30 | | Nine-month period ended September 30 | |
|---|--|----------------|---|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Interest on long-term debt | 236,628 | 321,940 | 735,879 | 993,972 |
| Interest and bank charges | 28,794 | 13,637 | 64,282 | 93,502 |
| Amortization of deferred financing expenses | 29,375 | 29,375 | 88,125 | 88,125 |
| Warrants issued as financing fees | - | 86,087 | - | 172,174 |
| Interest income | (35,760) | (1,829) | (206,756) | (2,635) |
| | <u>259,037</u> | <u>449,210</u> | <u>681,530</u> | <u>1,345,138</u> |

8 Additional information on cash flows

(a) Change in non-cash working capital items

| | Three-month period ended September 30 | | Nine-month period ended September 30 | |
|---|--|------------------|---|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Accounts receivable, grants and financing receivable | (113,211) | 61,271 | (117,705) | 25,823 |
| Investment tax credits receivable | (120,284) | (259,825) | (393,284) | (825,884) |
| Prepaid expenses | (45,233) | 10,987 | (63,090) | 23,420 |
| Accounts payable and accrued liabilities | 87,459 | (66,010) | 344,994 | 32,316 |
| Deferred revenues | 166,946 | - | 166,946 | (294,400) |
| | <u>(24,323)</u> | <u>(253,577)</u> | <u>(62,139)</u> | <u>(1,038,725)</u> |

9 Economic dependence

100% of the revenues for the nine-month period ended September 30, 2008 were with one customer.

Medicago Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2009

(Unaudited)

10 Financial instruments

The following table summarizes the fair value of financial instruments as at September 30, 2009 and December 31, 2008:

| | As at September 30, 2009 | | | | | |
|--|---------------------------------|---------------------------|------------------------------|------------------------------------|-----------------------|-------------------|
| | Held for trading | Available for sale | Loans and receivables | Other financial liabilities | Carrying value | Fair value |
| | | | | | Total | Total |
| | \$ | \$ | \$ | \$ | \$ | |
| Financial assets | | | | | | |
| Cash | 29,191 | - | - | - | 29,191 | 29,191 |
| Cash equivalents | - | 1,666,809 | - | - | 1,666,809 | 1,666,809 |
| Short-term investments | - | 6,272,701 | - | - | 6,272,701 | 6,272,701 |
| Accounts receivable | - | - | 109,688 | - | 109,688 | 109,688 |
| Grants receivable | - | - | 56,940 | - | 56,940 | 56,940 |
| | 29,191 | 7,939,510 | 166,628 | - | 8,135,329 | 8,135,329 |
| Financial liabilities | | | | | | |
| Bank loans | - | - | - | 985,000 | 985,000 | 985,000 |
| Accounts payable and accrued liabilities | - | - | - | 1,355,984 | 1,355,984 | 1,355,984 |
| Long-term debt | - | - | - | 15,432,961 | 15,432,961 | 15,432,961 |
| | - | - | - | 17,773,945 | 17,773,945 | 17,773,945 |
| As at December 31, 2008 | | | | | | |
| | Held for trading | Available for sale | Loans and receivables | Other financial liabilities | Carrying value | Fair value |
| | | | | | Total | Total |
| | \$ | \$ | \$ | \$ | \$ | |
| Financial assets | | | | | | |
| Cash | 18,574 | 22,773 | - | - | 41,347 | 41,347 |
| Cash equivalents | - | 1,050,000 | - | - | 1,050,000 | 1,050,000 |
| Short-term investments | - | 12,936,773 | - | - | 12,936,773 | 12,936,773 |
| Accounts receivable | - | - | 83,321 | - | 83,321 | 83,321 |
| Grants receivable | - | - | 44,750 | - | 44,750 | 44,750 |
| | 18,574 | 14,009,546 | 128,071 | - | 14,156,191 | 14,156,191 |

Medicago Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2009

(Unaudited)

| | | | | | | |
|--|---|---|---|------------|------------|------------|
| Financial liabilities | | | | | | |
| Bank loans | - | - | - | 727,950 | 727,950 | 727,950 |
| Accounts payable and accrued liabilities | - | - | - | 1,156,333 | 1,156,333 | 1,156,333 |
| Long-term debt | - | - | - | 15,282,589 | 15,282,589 | 15,985,780 |
| | - | - | - | 17,166,872 | 17,166,872 | 17,870,063 |

Cash and cash equivalents and short-term investments are recorded at fair value. The fair value of other financial instruments, except long-term, debt approximates their carrying value due to their short-term maturity or to current market rates.

The fair value of long-term debt approximates its carrying value due to the current market rate for the Bio-Levier loan and due to the use of the effective interest rate method for the other loans comprised in the long-term debt.

Bank loans bear interest at variable rate. As at September 30, 2009, fluctuations of 1% in bank loans' interest rate would have a positive or negative impact of \$9,850 on loss and comprehensive loss.

The Bio-Levier loan (note 4) bears interest at variable rate. As at September 30, 2009, fluctuations of 1% in debt interest rate would have a positive or negative impact of \$153,186 on loss and comprehensive loss.

The Company believes that, with the financial resources currently at its disposal, it has sufficient cash and cash equivalents to meet its contractual liabilities until the first quarter of 2011. To meet all its contractual liabilities, the Company will need to raise additional funds in the future and will seek additional forms of debt or equity financing, but cannot provide assurance that it will be successful in doing so.

11 Earnings per share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted earnings per share calculations:

| | Three-month period ended September 30 | | Nine-month period ended September 30 | |
|---|--|------------|---|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Basic and diluted weighted average number of shares outstanding | 92,369,576 | 38,059,858 | 91,022,673 | 31,966,515 |
| Dilutive effect of stock options | 1,710,999 | - | 706,144 | 3,754 |
| Dilutive effect of warrants | 14,784,998 | 1,586,441 | 1,353,868 | 3,033,551 |
| Diluted weighted average number of shares outstanding | 108,865,573 | 39,646,299 | 93,082,685 | 35,003,820 |

Medicago Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2009

(Unaudited)

Excluded from the calculation where
exercise price are greater than average
market price

| | | | | |
|---------------|-----------|-----------|------------|-----------|
| Stock options | 2,120,088 | 2,378,260 | 3,763,762 | 2,154,586 |
| Warrants | 2,070,696 | 6,070,696 | 47,070,696 | 6,070,696 |

For the three and nine-month periods ended September 30, 2009 and 2008, the diluted loss per share was the same as the basic net loss per share since the dilutive effect of stock options and warrants was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those periods was calculated using the basic weighted average number of shares outstanding.

12 Comparative figures

Certain comparative figures have been reclassified to conform to current year's presentation.

13 Subsequent event

On November 27, 2009, the Company announced the closing of a bought deal financing of subscription receipts (the "Offering"). The underwriters have exercised their over-allotment option in full bringing the total gross proceeds from \$10,080,000 to \$11,592,000. The proceeds from the Offering will be used to support the implementation of the Company's business plan, namely the continued clinical development of the Company's plant manufactured Influenza VLP vaccines and for general corporate and working capital purposes.

A total of 16,100,000 subscription receipts (the "Subscription Receipts") were issued at a price of C\$0.72 per Subscription Receipt. Each Subscription Receipt represents the right to receive one unit (a "Unit") of Medicago, without any additional consideration, upon the earlier of: (i) the date on which Philip Morris Participations B.V. ("PMP") refuses to exercise the Preemptive Right (as defined below), (ii) the date on which PMP subscribes to Units of Medicago pursuant to its Preemptive Right, or (iii) December 15, 2009. Each Unit consists of one common share in the share capital of Medicago (a "Common Share") and one half of one Common Share purchase warrant (each, a "Warrant"). Each whole Warrant will be exercisable at a price of C\$1.00 until 5:00 p.m. on November 26, 2010.

The Company is a party to a Representation Right and Preemptive Right Agreement made as of October 21, 2008, with Philip Morris Participations B.V. ("PMP"), and available on SEDAR (the "Preemptive Right Agreement"), under which Medicago cannot issue Common Shares without offering PMP or its affiliates the right to subscribe to a number of Common Shares which would preserve PMP's proportionate entitlement in the Company. On November 6, 2009, Medicago notified PMP of the Offering and offered PMP to subscribe to Units pursuant to the Preemptive Right Agreement. In accordance with the Preemptive Right Agreement, PMP has until December 14, 2009, being 25 business days from the date of Medicago's notice, to accept the offer, failing which PMP shall be deemed to have waived its preemptive right.

In addition, the Company has granted the Underwriters 1,127,000 compensation options (the "Compensation Option") to purchase a number of units (the "Compensation Option Units") representing 7% of the total number of Units sold under this Offering.