



SIX-MONTH PERIOD ENDED JUNE 30, 2010

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 six-month periods ended June 30, 2010 and 2009. 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, 2009 and 2008, appearing in the annual report of the Company, which are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

The 2009 Annual Report of Medicago Inc. ("Medicago"), the Annual Information Form and additional information regarding the business of the Company are available on SEDAR at www.sedar.com.

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 August 12, 2010, 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 thereafter, 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 2010, 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

MEDICAGO AWARDED \$US 21 MILLION FROM THE U.S. DEPARTMENT OF DEFENSE

On August 10, 2010, Medicago announced that Medicago USA Inc, a wholly-owned subsidiary of Medicago, was awarded a US\$21 Million funding award from the Defense Advanced Research Projects Agency (“**DARPA**”), Broad Agency Announcement (BAA), Defense Sciences Research & Technology. Medicago USA and DARPA entered into a technology investment agreement governing the terms and conditions of the funding award (the “**Technology Investment Agreement**”). Pursuant to this technology investment agreement, the funding award is structured as a cost-sharing research program between Medicago USA and DARPA for a proof-of-concept demonstration of Medicago USA’s improved process for the scalable and automated production of purified VLP vaccines in plants.

As a result, Medicago will develop a 60,000-square-foot cGMP facility in Research Triangle Park (RTP), North Carolina, including a 30,000 square foot greenhouse. The purpose of this facility will be to scale-up and automate Medicago’s cGMP process to demonstrate its capacity to produce 10 million doses/month of influenza vaccines meeting all FDA requirements for purity, quality and current cGMP regulations.

The total costs of the research program are estimated at US\$40.3 Million. DARPA will provide approximately US\$21 Million while the balance of the required funds must be provided by Medicago USA. To this effect, on August 10, 2010, Medicago USA, entered into a lease agreement with ARE-NC Region No. 6 LLC (the “**Landlord**”), an affiliate of Alexandria Real Estate Equities Inc., under which the Landlord undertook to provide a construction allowance of approximately US\$13.5 Million with respect to the construction of the New Facility and in consideration of which Medicago USA agreed to lease the New Facility during a term of 15 years. The remaining approximate amount of funding will be provided by Medicago.

The yearly base rent obligation for the New Facility shall be approximately US\$1,350,000, subject to a fixed yearly percentage of increase. Medicago shall also be responsible for all operating expenses of the New Facility.

With respect to the construction, Landlord will grant Medicago USA a construction allowance of US\$13.5 Million, such construction allowance corresponding to the current estimates of the construction costs. Medicago USA will be responsible for any construction costs in excess of US\$13.5 Million

MEDICAGO ANNOUNCES \$7.5 MILLION EQUITY OFFERING

On August 10, 2010, Medicago Inc. entered into an agency agreement to sell up to 18,518,520 units at a price of 40.5 cents per unit, representing gross proceeds of \$7.5 Million. Each Unit is comprised of one common share and three-quarter of one common share purchase warrant. Each full warrant will have an exercise price of \$0.50, exercisable for a period of 5 years following the closing date of the offering.

Medicago intends to use the net proceeds from the offering to fund its participation to the cost-sharing program pursuant to the previously announced Technology Investment Agreement following the award of a \$21 million funding award from the Defense Advanced Research Projects Agency (“DARPA”) and for other general corporate and working capital purposes.

The transaction is expected to close on or about August 19, 2010, subject to the satisfaction of all necessary regulatory approvals, including the conditional listing approval of the Toronto Stock Exchange.

MEDICAGO SIGNS MOU WITH PT BIO FARMA FOR THE DEVELOPMENT OF VACCINES IN THE REPUBLIC OF INDONESIA

On June 14, Medicago Inc. signed a memorandum of understanding (MOU) with PT Bio Farma (Persero) to identify and develop select vaccine targets of mutual interest, with the final goal being to establish a partnership to build a Medicago plant-based manufacturing facility in the Republic of Indonesia. Initially, Medicago and Bio Farma will collaborate in design and conduct a proof-of-concept evaluation on Medicago’s plant-based VLP technology for a selected vaccine target.

PRODUCTS IN DEVELOPMENT

H5N1 PANDEMIC INFLUENZA VLP VACCINE

The Company is working on the regulatory dossier for a phase II clinical trial to be submitted to Health Canada in the coming months. If granted approval, the Company expects to initiate a phase II clinical trial in the second-half of 2010 with initial results available in the fourth quarter of 2010.

SEASONAL AND H1N1 VACCINES

The Company is proceeding with preclinical studies with its H1N1 pandemic vaccine candidate and expects to submit an investigational new drug application (IND) in the fourth quarter of 2010. The strategy is to take advantage of the development work that will be completed for its H1N1 pandemic vaccine candidate to bolster its safety database and apply it to optimize the path of approval for its seasonal vaccine candidate. Interim clinical data from the H1N1 trial, including measurements of safety and tolerability, are expected to be available by early 2011. With these data in hand and if granted approval by relevant regulatory authorities, Medicago could potentially commence a phase 2 clinical study with its seasonal vaccine candidate in 2011.

SELECTED CONSOLIDATED INFORMATION

| | Three-month period ended | | Six-month period ended | |
|---|--------------------------|-----------------|---------------------------------|-------------------------------|
| | 2010 | June 30 2009 | 2010 | June 30 2009 |
| | \$ | \$ | \$ | \$ |
| CONSOLIDATED STATEMENT OF EARNINGS | | | | |
| Revenues | - | - | 34,000 | - |
| Loss for the period | | | | |
| \$ | 3,963,000 | 2,794,000 | 7,672,000 | 5,419,000 |
| Basic and diluted loss per share | 0.03 | 0.03 | 0.06 | 0.06 |
| CONSOLIDATED BALANCE SHEET DATA | | | | |
| | | | As at As at June 30, 2010 | As at December 31, 2009 |
| | | | \$ | \$ |
| Cash, cash equivalents and short-term investments | | | 6,929,000 | 14,333,000 |
| Total assets | | | 16,612,000 | 20,830,000 |
| Total long-term liabilities ⁽¹⁾ | | | 15,628,000 | 15,488,000 |

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

COMPARISON OF THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009

Consolidated statements of earnings

For the six-month period ended June 30, 2010 revenue were \$34,000 higher than the six-month period ended June 30, 2009, generated by the successful completion of the proof of concept contract with the United States Army Research, Development and Engineering Command laboratory specifically the Edgewood Chemical Biological Centre Research & Technology Directorate ('ECBC'). Medicago worked with ECBC to investigate the affordable production of industrial enzymes in the field of biofuels. For the three-month period ended June 30, 2010 and 2009, the Company had no revenue.

Research and development (R&D) expenses increased by \$1,034,000 to \$2,861,000 for the second quarter of 2010 compared to the second quarter of 2009. The increase in R&D expenses for the three-month period ended June 30, 2010 is mainly related to the upcoming Phase II study. Wage and salaries were higher (\$382,000) in the second quarter of 2010 compared to 2009 explained by hiring in the second-half of 2009 and since the beginning of 2010 of new employees required for the preparation and the production of clinical materials for the upcoming Phase II clinical study. More laboratory supplies and analysis (\$441,000) and a higher level of outsourced contract work (\$110,000) were also required to perform these activities. Outsourced contract

work increased as the result of the final payments related to phase I clinical trial, work for the development of the VLPEXpress and studies for the upcoming Phase II. For the six-month period ended June 30, 2010 R&D expenses increased by \$2,198,000 to \$5,423,000 and this is mainly explained by an increase in outsourced contract work (\$610,000), wage and salaries (\$721,000) and more laboratory supplies and analysis (\$633,000).

Research grants and contribution increased by \$229,000 and \$566,000 for the three and six-month period ended June 30, 2010. The increase is mainly explained by the grant from Quebec's Consortium for Drug Discovery (CQDM) that was obtained in the second quarter of 2009. Grant from the CQDM totaled \$1,773,000 of which \$990,000 is still available as of June 30, 2010.

Research and development tax credits were \$144,000 and \$310,000 for the three and six-month period ended June 30, 2010, \$24,000 lower than three-month period ended June 30, 2009 and \$37,000 higher than the six-month period ended June 30, 2009.

General and administrative, business development and intellectual property (G&A) expenses increased by \$49,000 to \$905,000 for the three-month period ended June 30, 2010 compared to 2009. The increase was mainly due to the fees paid for the graduation of the company from the TSX-V to the TSX. For the six-month period ended June 30, 2010, G&A expenses increased by \$347,000 to \$2,095,000. This is mainly explained by the fees paid for the graduation of the company from the TSX-V to the TSX (\$128,000), increased business development activities, and salaries (\$102,000).

Depreciation of property, plant and equipment were \$210,000 and \$381,000 for the three and six-month period ended June 30, 2010, \$101,000 higher than three-month period ended June 30, 2009 and \$166,000 higher than the six-month period ended June 30, 2009. This increase is explained by acquisitions of property, plant and equipment in the last quarter of 2009 and the first quarter of 2010. These acquisitions are related to the expansion of the manufacturing facility in order to optimize manufacturing activities and provide additional space to produce clinical-grade material for human clinical trials.

Amortization of intangible assets amounted to \$22,000 and \$38,000 for the three and six-month period ended June 30, 2010 comparable with the three and six-month period ended June 30, 2009.

Net financial expenses amounted to \$243,000 for the three-month period ended June 30, 2010, \$67,000 higher compared to the three-month period ended June 30, 2009. This increase is explained by lower interest income (\$83,000) mainly the result of decrease in cash, cash equivalents and short-term investments and lower interest rates in 2010. For the six-month period ended June 30, 2010 net financial expenses increased by \$68,000 to \$489,000 and this is mainly explained by lower interest rate on the Bio-levier loan for \$31,000 and lower interest income for \$115,000.

Consolidated loss for the three-month period ended June 30, 2010 was \$3,963,000, or \$0.03 per basic and diluted share compared to a loss of \$2,794,000, or \$0.03 per basic and diluted share for the three-month period ended June 30, 2009. Since the beginning of the year the consolidated loss was \$7,672,000 or \$0.06 per basic and diluted share compared to a loss of \$5,419,000, or \$0.07 per basic and diluted share.

Consolidated Balance Sheet

Cash, cash equivalents and short-term investments were of \$6.9 million as at June 30, 2010 a decrease of \$7.4 million from December 31, 2009. This decrease is mainly the result of the loss for the six-month period net of items not affecting cash and cash equivalents for \$6,898,000 that was partly offset by the exercise of 3,443,500 warrants totaling \$861,000 since the beginning of 2010.

Total consolidated assets were of \$16.6 million as at June 30, 2010, a decrease of \$6.2 million since December 31, 2009. The variation is mainly due to a decrease in the total of cash, cash equivalents and short term investments by \$7.4 million.

Long-term debt increased by \$0.1 million to \$15.6 million, mainly the result of the theoretical interest on non-bearing interest loans.

QUARTERLY FINANCIAL DATA

| | Quarters ended | | | |
|--------------------------------------|----------------|----------------|-------------------|--------------------|
| | June 30, 2010 | March 31, 2010 | December 31, 2009 | September 30, 2009 |
| Revenues | - | 34,000 | - | - |
| Total expenses | (\$3,963,000) | (\$3,743,000) | (\$3,891,000) | (\$3,163,000) |
| Loss | (\$3,963,000) | (\$3,709,000) | (\$3,891,000) | (\$3,163,000) |
| Basic and diluted net loss per share | (\$0.03) | (\$0.03) | (\$0.04) | (\$0.03) |
| | June 30, 2009 | March 31, 2009 | December 31, 2008 | September 30, 2008 |
| Revenues | - | - | - | - |
| Total expenses | (\$2,794,000) | (\$2,625,000) | (\$3,007,000) | (\$2,739,000) |
| Loss | (\$2,794,000) | (\$2,625,000) | (\$3,007,000) | (\$2,739,000) |
| Basic and diluted net loss per share | (\$0.03) | (\$0.04) | (\$0.07) | (\$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.

The evolution 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 explain the increase in expenses from the second quarter of 2008 onwards. Wage and salaries increased in 2009 and 2010 compared to 2008 explained by the hiring of new employees in the second half of 2009 and since the beginning of 2010 required by preclinical and clinical work related to the Phase I and now Phase II. 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 \$6.9 million as at June 30, 2010, a decrease of \$7.4 million from December 31, 2009. The Company had working capital of 6.1 million as at June 30, 2010 compared to \$13.6 million as at December 31, 2009. The short-term investments do not include asset-backed commercial papers which are affected by liquidity issues. As at June 30, 2010, the Company's long-term debt amounted to \$15.6 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 June 30, 2010 this ratio stood at 2.72:1.

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 expects expenditures to increase in 2010 as the Company will continue to advance its programs. Management believes that existing capital resources are adequate to fund our plans at least for the next twelve months.

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 the Company's products. (See section *RISK AND UNCERTAINTIES- Additional Financing Requirements and Access to Capital* of the Annual Information Form)

The variation of our liquidity by activities is explained below.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>Cash flows</i> | Three-month ended June 30 | | Six-month ended June 30 | |
|---|----------------------------------|-------------|--------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Operating activities | (3,481,000) | (2,903,000) | (6,705,000) | (4,923,000) |
| Financing activities | 29,000 | 293,000 | 885,000 | 250,000 |
| Investing activities | 4,701,000 | 4,270,000 | 7,143,000 | 5,660,000 |
| Net change in cash and cash equivalents | 1,249,000 | 1,659,000 | 1,323,000 | 986,000 |

Operating Activities

Cash used in operating activities increased by \$578,000 to \$3,481,000 for the three-month period ended June 30, 2010 and by \$1,782,000 to \$6,705,000 for the six-month period ended June 30, 2010 compared to 2009. This increase is mainly explained by the increase in loss, net of items not affecting cash and cash equivalents (or burn rate) for \$990,000 and \$2,012,000 for the three and six-month periods.

Financing Activities

Cash from financing activities increased by \$635,000 to \$885,000 for the first six months of 2010 compared to 2009. The increase is mainly explained by the exercise of 3,443,500 warrants totalling \$861,000 since the beginning of 2010.

Investing Activities

Cash used in investing activities (excluding additions and disposal of short-term investments) increased by \$1,300,000 to \$1,590,000 in the six-month period ended June 30, 2010, related to more additions of property, plant and equipment for \$800,000, and intangible assets for \$500,000.

The Company plans to invest \$1.9 million in 2010 to expand its manufacturing activities and provide additional space to produce clinical-grade material for phase II human clinical trials.

Use of proceeds of the public offering completed in December 2009

The following table provides information concerning the use of proceeds resulting from a public offering completed in December 2009. The use of proceeds was not used in the first quarter 2010.

| USE OF PROCEEDS | From April 1, 2010 through June 30, 2010 | Per Prospectus |
|---|---|-----------------------|
| Clinical development of the Company's H5N1 VLP pandemic vaccines and other vaccines | \$2,625,000 | \$7,072,000 |
| General corporate and working capital puposes | \$1,001,000 | \$3,483,000 |
| Total | <u>\$3,626,000</u> | <u>\$10,555,000</u> |

CONTRACTUAL OBLIGATIONS

There has been no significant change in the contractual obligations of the Company as described in Medicago's 2009 annual report other than a commitment, on August 10 2010, resulting from the signing of a lease agreement for premises amounting to US\$25,109,000. This lease begins in July 2011 and expires in June 2026 with a renewal option of five years. The minimum lease amounts for each of the next five fiscal years are as follows: US\$675,000 in 2011, US\$1,370,000 in 2012, US\$1,441,000 in 2013 and US\$1,454,000 in 2014.

OUTLOOK FOR THE REMAINING OF 2010

We expect R&D expenses to increase in 2010 compared to 2009. Following the successful completion of a phase 1 clinical trial with its H5N1 pandemic vaccine candidate, Medicago is preparing a regulatory dossier which will be submitted to Health Canada in the following months. If granted approval, the company will initiate a phase 2 clinical trial in the second-half of 2010 with initial results becoming available in the fourth quarter of 2010.

The Company is also proceeding with preclinical studies with its H1N1 pandemic vaccine candidate and expects to file an investigational new drug application (IND) in the fourth quarter of 2010. The strategy is to optimize the development work that will be completed for its H1N1 pandemic vaccine candidate to bolster its safety database and apply it to potentially shorten the path of approval for its seasonal vaccine candidate. Interim clinical data from the H1N1 trial, including measurements of safety and tolerability, are expected to be available by early 2011. With these data in hand and if granted approval by Health Canada, the U.S. Food and Drug Administration, and Europe, the Middle East and Africa (EMEA), Medicago could potentially commence a phase 2 clinical study with its seasonal candidate in 2011.

Medicago's expectations are that the cash outflow will not proceed linearly through the year due to cost associated with clinical studies and the cost of the expansion of our manufacturing facility.

FINANCIAL INSTRUMENTS

There has been no significant change in the financial instruments of the Company as described in Medicago's 2009 annual report.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

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

OUTSTANDING SHARE DATA

As at August 12th, 2010, there were 118,388,582 common shares issued and outstanding, 7,263,188 stock options outstanding and 59,011,196 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, 2009. Please refer to the appropriate section of the financial statements included in our 2009 Annual Report for a complete description of our accounting policies.

NEW ACCOUNTING STANDARDS AND FUTURE ACCOUNTING CHANGES

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 IFRS3R, "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.

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 and will require the restatement for comparative figures. The Company has decided to switch to IFRS on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures.

During 2008, we proceeded 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.

An implementation plan for the conversion to IFRS has been prepared. The activities planned in stage 2: *Evaluation and Design* include the identification and documentation of existing differences between IFRS and Canadian GAAP in accounting and disclosure requirements, the selection of accounting policies under IFRS, including the consideration of options available under IFRS, the establishment of the effects related to the conversion on internal controls, accounting systems and other solutions and

business processes, and developing a training program to help employees concerned for the transition and the continued compliance with IFRS. Finally, the stage 3, the last stage, is the implementation and the review.

During 2009, we practically completed stage 2 of our conversion to IFRS. The Company evaluated and documented the existing differences between IFRS and Canadian GAAP in accounting and disclosure requirements, the selection of accounting policies under IFRS, including the consideration of options available under IFRS, the integration of the effects related to the conversion on internal controls, accounting systems and other solutions and business processes, and the establishment of training program to help employees concerned for the transition and the continued compliance with IFRS.

While working on stage 2, under IFRS 1 - *First-time adoption of IFRS*, we have chosen to use the prospective application where choices were available for our situation. So far we found no Standard with significant accounting impact for the Company.

During 2010, we will finalize the stage 2 and work on stage 3 for the implementation and review. Since stage 2 is not completed as of June 30, 2010, other accounting impact can be found during the course of 2010. The global implementation plan is on schedule and we are confident that everything will be in place for the conversion planned on January 1, 2011.

RISK FACTORS AND UNCERTAINTIES

There has been no significant change in the risk factors and uncertainties facing the Company as described in Medicago's 2009 Annual Information Form except for the ones described in the supplement prospectus number 2 filed on August 10th, 2010.

On behalf of management,

(signed)
Pierre Labbé, CA
Vice-president and Chief Financial Officer

(signed)
Andrew J. Sheldon
President and Chief Executive Officer

August 12th, 2010

Medicago Inc.

Interim Consolidated Financial Statements
(unaudited)
June 30, 2010

Medicago Inc.

Consolidated Balance Sheets (unaudited)

| | June 30, 2010 \$ | December 31, 2009 \$ |
|---|------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 1,550,630 | 228,039 |
| Short-term investments (note 3) | 5,378,018 | 14,105,198 |
| Accounts receivable | 225,390 | 300,566 |
| Investment tax credits receivable | 2,406,969 | 2,097,274 |
| Grants receivable | - | 37,272 |
| Prepaid expenses | 30,189 | 96,848 |
| | <u>9,591,196</u> | <u>16,865,197</u> |
| Security deposit on a lease agreement, 1.10%, maturing on June 1, 2011 | 50,000 | 50,000 |
| Property, plant and equipment | 5,598,386 | 4,941,092 |
| Intangible assets | 1,372,260 | 974,045 |
| | <u>16,611,842</u> | <u>22,830,334</u> |
| Liabilities | | |
| Current liabilities | | |
| Bank loans | 600,000 | 600,000 |
| Accounts payable and accrued liabilities | 2,634,097 | 2,301,518 |
| Deferred grant on research agreement | 214,651 | 340,203 |
| Current portion of long-term debt | 78,438 | 83,862 |
| | <u>3,527,186</u> | <u>3,325,583</u> |
| Long-term debt | 15,549,737 | 15,404,017 |
| | <u>19,076,923</u> | <u>18,729,600</u> |
| Shareholders' Equity (Deficiency) | | |
| Share capital (note 4) | 49,738,508 | 48,660,207 |
| Contributed surplus | 1,560,777 | 1,554,679 |
| Other equity components (note 5) | | |
| Stock option plan (note 5a) | 1,193,953 | 956,444 |
| Unit options | 399,536 | 399,536 |
| Warrants (note 5b) | 8,704,343 | 8,919,515 |
| Deficit | (64,067,286) | (56,395,186) |
| Accumulated other comprehensive income | 5,088 | 5,539 |
| | <u>(2,465,081)</u> | <u>4,100,734</u> |
| Subsequent events (note 11) | <u>16,611,842</u> | <u>22,830,334</u> |

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

Approved by the Board of Directors

(signed) RANDAL CHASE, PH.D.
Director

(signed) ANDREW J. SHELDON
Director

Medicago Inc.

Interim Consolidated Statements of Earnings and Comprehensive loss For the six-month period ended June 30, 2010 and 2009 (unaudited)

| | Three-month period ended | | Six-month period ended | |
|--|--------------------------|--------------------|------------------------|--------------------|
| | 2010 | June 30 2009 | 2010 | June 30 2009 |
| | \$ | \$ | \$ | \$ |
| Revenues | | | | |
| Revenues from research agreements | - | - | 34,345 | - |
| | - | - | 34,345 | - |
| Expenses | | | | |
| Research and development | 2,860,936 | 1,827,151 | 5,422,909 | 3,224,523 |
| Research grants and contributions | (274,386) | (44,962) | (655,904) | (89,924) |
| Research and development tax credits | (144,454) | (168,000) | (309,695) | (273,000) |
| General and administrative, business development and intellectual property | 904,990 | 855,822 | 2,095,409 | 1,748,418 |
| Stock-based compensation | 127,583 | 124,365 | 242,063 | 239,307 |
| Exchange (gain) loss | 17,975 | (25,758) | 11,233 | (19,938) |
| Depreciation of property, plant and equipment | 210,387 | 108,945 | 380,759 | 215,132 |
| Amortization of intangible assets | 21,567 | 13,296 | 37,786 | 26,955 |
| Gain on sale of available-for-sale investments | (4,235) | (72,695) | (6,690) | (72,695) |
| Financial expenses, net (note 6) | 243,036 | 176,291 | 488,575 | 420,673 |
| | 3,963,399 | 2,794,455 | 7,706,445 | 5,419,451 |
| Loss for period | (3,963,399) | (2,794,455) | (7,672,100) | (5,419,451) |
| Basic and diluted loss per share (note 10) | (0.03) | (0.03) | (0.06) | (0.07) |
| Comprehensive Income (loss) | | | | |
| Loss for period | (3,963,399) | (2,794,455) | (7,672,100) | (5,419,451) |
| Unrealized gain on available-for-sale investments | 2,862 | 36,376 | 6,239 | 175,586 |
| Reclassification of gain on available-for-sale investments realized upon sale to loss for the period | (4,235) | (72,695) | (6,690) | (72,695) |
| | (1,373) | (36,319) | (451) | 102,891 |
| Comprehensive loss for period | (3,964,772) | (2,830,774) | (7,672,551) | (5,316,560) |

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 six-month period ended June 30, 2010 and 2009

(unaudited)

| | Six-month period ended June 30 | |
|---|-----------------------------------|---------------------|
| | 2010 | 2009 |
| | \$ | \$ |
| Deficit | | |
| Balance – Beginning of period | (56,395,186) | (43,920,364) |
| Loss for period | (7,672,100) | (5,419,451) |
| Balance – End of period | <u>(64,067,286)</u> | <u>(49,339,815)</u> |
| Accumulated other comprehensive income (loss) | | |
| Balance – Beginning of period | 5,539 | (48,384) |
| Other comprehensive income (loss) | (451) | 102,891 |
| Balance – End of period | <u>5,088</u> | <u>54,507</u> |
| Total deficit and accumulated other comprehensive loss | <u>(64,062,198)</u> | <u>(49,285,308)</u> |
| Contributed Surplus | | |
| Balance – Beginning of period | 1,554,679 | 1,087,608 |
| Stock options forfeited | 2,127 | 7,883 |
| Unit options forfeited | - | 66,640 |
| Warrants forfeited | 3,971 | 392,116 |
| Balance – End of period | <u>1,560,777</u> | <u>1,554,247</u> |

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

Medicago Inc.

Interim Consolidated Statements of Cash flows

For the six-month period ended June 30, 2010 and 2009

(unaudited)

| | Three-month period ended | | Six-month period ended | |
|--|--------------------------|-----------------|------------------------|-----------------|
| | 2010 | June 30 2009 | 2010 | June 30 2009 |
| | \$ | \$ | \$ | \$ |
| Cash flows from operating activities | | | | |
| Loss for the period | (3,963,399) | (2,794,455) | (7,672,100) | (5,419,451) |
| Items not affecting cash and cash equivalents | | | | |
| Stock-based compensation costs | 127,583 | 124,365 | 242,063 | 239,307 |
| Depreciation and amortization | 231,954 | 122,241 | 418,545 | 242,087 |
| Amortization of deferred charges | 29,375 | 29,375 | 58,750 | 58,750 |
| Gain on sale of available-for-sale investments | (4,235) | (72,695) | (6,690) | (72,695) |
| Interest capitalized on long-term debt | 30,833 | 33,060 | 61,665 | 66,386 |
| | (3,547,889) | (2,558,109) | (6,897,767) | (4,885,616) |
| Change in non-cash working capital items (note 7a) | 66,677 | (344,679) | 192,542 | (37,816) |
| | (3,481,212) | (2,902,788) | (6,705,225) | (4,923,432) |
| Cash flows from financing activities | | | | |
| Bank loans contracted (reimbursed) | - | 257,050 | - | 257,050 |
| Long-term debt contracted | 33,608 | - | 33,608 | 46,820 |
| Payments on long-term debt | (7,940) | (5,454) | (13,727) | (11,990) |
| Exercise of options | 3,800 | - | 3,800 | - |
| Exercise of warrants | - | 41,125 | 860,875 | 41,125 |
| Issue expenses | - | - | - | (83,290) |
| | 29,468 | 292,721 | 884,556 | 249,715 |
| Cash flows from investing activities | | | | |
| Acquisitions of short-term investments | - | - | (2,741,513) | - |
| Dispositions of short-term investments | 5,637,384 | 4,284,293 | 11,474,929 | 5,949,173 |
| Additions to property, plant and equipment | (500,865) | (14,765) | (1,038,053) | (237,781) |
| Additions to intangible assets | (436,001) | - | (552,103) | (51,578) |
| | 4,700,518 | 4,269,528 | 7,143,260 | 5,659,814 |
| Net change in cash and cash equivalents | 1,248,774 | 1,659,461 | 1,322,591 | 986,097 |
| Cash and cash equivalents – Beginning of period | 301,856 | 417,983 | 228,039 | 1,091,347 |
| Cash and cash equivalents – End of period | 1,550,630 | 2,077,444 | 1,550,630 | 2,077,444 |
| Additional information | | | | |
| Interest paid | 206,405 | 219,277 | 422,209 | 466,533 |

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

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

1 Interim financial information

The financial information for the six-month periods ended June 30, 2010 and 2009 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 periods 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, 2009. 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.

2 New accounting standards

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 Revised, "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.

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

3 Short-term investments

| | June 30, 2010 \$ (unaudited) | December 31, 2009 \$ |
|---|---------------------------------------|----------------------------|
| Term deposits bearing interest at annual rates ranging from 0.75% to 1.40%, maturing in December 2010 | 1,943,450 | 9,600,000 |
| Bonds and discount notes, bearing interest at effective annual rates ranging 3.70% to 4.00%, maturing until June 2015 | 3,272,967 | 3,248,485 |
| Money market funds | 161,601 | 1,256,713 |
| | <u>5,378,018</u> | <u>14,105,198</u> |

4 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.

The share capital issued has varied as follows:

| | <u>Six-month period ended</u> | | <u>Year ended December 31</u> | |
|--|-------------------------------|------------|-------------------------------|-------------|
| | <u>June 30</u> | | <u>2009</u> | |
| | <u>Number</u> | <u>\$</u> | <u>Number</u> | <u>\$</u> |
| Common shares | | | | |
| Balance – Beginning of period | 114,771,690 | 48,660,207 | 90,324,940 | 37,182,667 |
| Issued pursuant to a public offering | - | - | 16,100,000 | 9,980,328 |
| Issued pursuant to the exercise of warrants | 3,443,500 | 1,072,076 | 8,346,750 | 2,853,892 |
| Issued pursuant to the exercise of stock options | 18,999 | 6,225 | - | - |
| Issue expenses * | - | - | - | (1,356,680) |
| | <u>118,234,189</u> | | <u>114,771,690</u> | |
| Balance – End of period | 118,234,189 | 49,738,508 | 114,771,690 | 48,660,207 |

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

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

Equity distribution agreement

On May 13, 2010, Medicago has entered into a standby equity distribution agreement (SEDA) with YA Global Master SPV Ltd., a fund managed by Yorkville Advisors, LLC. In accordance with the terms of the SEDA, Medicago will have the right, from time to time during a period of up to 36 months from the date of the SEDA, to issue and sell to YA Global, and YA Global undertakes to acquire from Medicago, common shares for a maximum total consideration of \$10-million upon exercise by Medicago of a drawdown. The maximum amount of a drawdown will be the lesser of \$500,000 or the remaining portion of the commitment amount. The purchase price of the common shares issued under the SEDA will be: (i) 95 per cent of the relevant daily volume-weighted average price per common share for the applicable day if such average daily price is equal to or greater than 20 cents; (ii) 92.5 per cent of the relevant average daily price of the common shares if such average daily price is equal or greater than 15 cents but less than 20 cents; and (iii) 90 per cent of the relevant average daily price of the common shares if such average daily price is equal to or greater than 10 cents but less than 15 cents.

5 Other equity components

(a) Stock option plan

The following table summarizes the stock option activity since January 1, 2009:

| | For the six-month period ended June 30, 2010 | | | For the year ended December 31 2009 | | |
|--|--|-------------------------|--|--|-------------------------|--|
| | Number | Carrying value \$ | Weighted average exercise price \$ | Number | Carrying value \$ | Weighted average exercise price \$ |
| Outstanding – Beginning of period | 7,091,592 | 956,444 | 0.55 | 2,344,595 | 500,081 | 0.89 |
| Granted | 415,000 | - | 0.52 | 4,797,830 | - | 0.39 |
| Exercised | (18,999) | (2,427) | 0.20 | - | - | - |
| Forfeited | (50,981) | (2,127) * | 0.38 | (50,833) | (7,883) * | 0.83 |
| Expired | (83,334) | - | 1.11 | - | - | - |
| Compensation costs for the period | - | 242,063 | - | - | 464,246 | - |
| Outstanding – End of period | 7,353,278 | 1,193,953 | 0.54 | 7,091,592 | 956,444 | 0.55 |
| Options exercisable – End of period | 3,669,113 | | 0.62 | 2,709,094 | | 0.75 |

* During the six-month period ended June 30, 2010, 50,981 stock options were forfeited (50,883 in 2009). The corresponding credit amounting to \$2,127 (\$7,883 in 2009) has been recorded as contributed surplus.

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

The following table summarizes information about outstanding and exercisable stock options as at June 30, 2010:

| 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 | 2,000,317 | 42 | 0.20 | 665,210 | 0.20 |
| \$0.355 | 1,420,000 | 42 | 0.355 | 1,189,999 | 0.355 |
| \$0.37 | 223,674 | 38 | 0.37 | 74,558 | 0.37 |
| \$0.52 to \$0.66 | 1,244,794 | 63 | 0.60 | 494,886 | 0.65 |
| \$0.72 | 1,220,033 | 114 | 0.72 | - | - |
| \$1.00 to \$1.11 | 1,092,372 | 11 | 1.04 | 1,092,372 | 1.03 |
| \$1.68 | 152,088 | 12 | 1.68 | 152,088 | 1.68 |
| | 7,353,278 | 52 | 0.54 | 3,669,113 | 0.63 |

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:

| | Six-Month Ended June 30, 2010 | For the year Ended December 31, 2009 |
|--|-------------------------------|--------------------------------------|
| Dividend yield | Nil | Nil |
| Expected volatility | 121.5% | 98.74% |
| Risk-free interest rate | 2.86% | 2.01% |
| Expected life (years) | 5.00 | 4.97 |
| Weighted average fair value of options granted at market price at the date of the grant (\$) | 0.44 | 0.41 |
| Weighted average fair value of options granted at a price higher than the market price at the date of the grant (\$) | - | 0.23 |
| Stock-based compensation costs (\$) | 242,063 | 464,246 |

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

(b) Warrants

The following table summarizes the warrant activity since January 1, 2009:

| | For the six-month period ended June 30 2010 | | | For the year ended December 31 2009 | | |
|---|---|-------------------------|--|--|-------------------------|--|
| | Number | Carrying value \$ | Weighted average exercise price \$ | Number | Carrying value \$ | Weighted average exercise price \$ |
| Outstanding and exercisable – Beginning of period | 60,628,946 | 8,919,515 | 0.49 | 64,933,196 | 8,410,743 | 0.39 |
| Granted to the subscribers in connection with public offering | - | - | - | 8,050,000 | 1,611,672 | 1.00 |
| Exercised | (3,443,500) | (211,201) | 0.25 | (8,346,750) | (491,329) | 0.28 |
| Forfeited | (64,750) | (3,971) | 0.25 | (4,007,500) | (392,548) | 0.75 |
| Warrant issue expenses | - | - | - | - | (219,023) | - |
| Outstanding and exercisable – End of period | 57,120,696 | 8,704,343 | 0.50 | 60,628,946 | 8,919,515 | 0.49 |

The following table summarizes the information relating to warrants outstanding and exercisable as at June 30, 2010:

| Exercise price | Number | Weighted average remaining contractual life (years) |
|----------------|------------|---|
| \$0.250 | 2,000,000 | 0.61 |
| \$0.405 | 45,000,000 | 0.31 |
| \$0.700 | 643,877 | 0.85 |
| \$1.000 | 8,050,000 | 0.41 |
| \$1.120 | 1,426,819 | 1.17 |
| | 57,120,696 | 0.36 |

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

6 Financial expenses, net

| | Three-month period ended | | Six-month period ended | |
|---|--------------------------|-----------------|------------------------|-----------------|
| | 2010 | June 30 2009 | 2010 | June 30 2009 |
| | \$ | \$ | \$ | \$ |
| Interest on long-term debt | 235,059 | 237,612 | 464,759 | 499,251 |
| Interest and bank charges | 828 | 14,723 | 18,532 | 33,668 |
| Amortization of deferred financing expenses | 29,375 | 29,375 | 58,750 | 58,750 |
| Interest income | (22,226) | (105,419) | (53,466) | (170,996) |
| | <u>243,036</u> | <u>176,291</u> | <u>488,575</u> | <u>420,673</u> |

7 Additional information on cash flows

(a) Change in non-cash working capital items

| | Three-month period ended | | Six-month period ended | |
|--|--------------------------|------------------|------------------------|-----------------|
| | 2010 | June 30 2009 | 2010 | June 30 2009 |
| | \$ | \$ | \$ | \$ |
| Accounts receivable, grants and financing receivable | 129,201 | 32,645 | 112,448 | (4,494) |
| Investment tax credits receivable | (144,454) | (168,000) | (309,695) | (273,000) |
| Prepaid expenses | 20,073 | 44,123 | 66,659 | (17,857) |
| Accounts payable and accrued liabilities | 60,047 | (253,447) | 448,682 | 257,535 |
| Deferred revenues on research agreements | 1,810 | - | (125,552) | - |
| | <u>66,677</u> | <u>(344,679)</u> | <u>192,542</u> | <u>(37,816)</u> |

(b) Items not affecting cash related to financing and investing activities

| | Six-Month Ended June 30, 2010 | For the year Ended December 31, 2009 |
|--|--|---|
| | \$ | \$ |
| Acquisition of intangible assets in accounts payable and accrued liabilities | - | 116,102 |

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

8 Segment information

The Company is organized under one single business segment, being the research and development of vaccines. Substantially all of the Company's property, plant and equipment and intangible assets are located in Canada.

All revenues of the year have been allocated based on the location in which the sale originated. All of them have been generated in Canada.

9 Economic dependence

100% of the revenues for the six-month period ended June 30, 2010 were with one customer.

10 Loss 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 June 30 | | Six-month period ended June 30 | |
|--|-------------------------------------|-------------------|-----------------------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Basic and diluted weighted average number of shares outstanding | 118,224,146 | 90,351,033 | 116,990,030 | 90,338,059 |
| Dilutive effect of stock options | 1,119,394 | 618,259 | 1,665,714 | 526,848 |
| Dilutive effect of warrants | 6,544,753 | 1,053,242 | 9,153,367 | 796,469 |
| Diluted weighted average number of shares outstanding | <u>125,888,293</u> | <u>92,022,534</u> | <u>127,809,111</u> | <u>91,661,376</u> |
| Excluded from the calculation where exercise price are greater than average market price | | | | |
| Stock options | 6,233,883 | 5,148,196 | 5,687,564 | 5,238,397 |
| Warrants | 10,120,696 | 52,468,196 | 10,120,696 | 52,468,196 |

For the three and six-month periods ended June 30, 2010 and 2009, 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.

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

11 Subsequent events

Medicago awarded \$US 21 million from the U.S. Department of Defense

On August 10, 2010, Medicago announced that Medicago USA Inc. was awarded a US\$21 Million funding award from the Defense Advanced Research Projects Agency (“DARPA”), Broad Agency Announcement (BAA), Defense Sciences Research & Technology. Medicago USA and DARPA entered into a technology investment agreement governing the terms and conditions of the funding award. Pursuant to this technology investment agreement, the funding award is structured as a cost-sharing research program between Medicago USA and DARPA for a proof-of-concept demonstration of Medicago USA’s improved process for the scalable and automated production of purified VLP vaccines in plants.

The total costs of the research program are estimated at US\$40.3 Million. DARPA will provide approximately US\$21 Million while the balance of the required funds must be provided by Medicago USA. To this effect, on August 10, 2010, Medicago USA, entered into a lease agreement, under which the Landlord undertook to provide a construction allowance of approximately US\$13.5 Million with respect to the construction of the New Facility and in consideration of which Medicago USA agreed to lease the New Facility during a term of 15 years. The remaining approximate amount of funding will be provided by Medicago.

On August 10, 2010, with respect to the construction, Landlord will grant Medicago USA a construction allowance of US\$13.5 Million, such construction allowance corresponding to the current estimates of the construction costs. Medicago USA will be responsible for any construction costs in excess of US\$13.5 Million

On August 10 2010, a commitment resulting from the signing of a lease agreement for premises amounting to \$US 25,109,000. This lease begins in July 2011 and expires in June 2026 with a renewal option of five years. The minimum lease amounts for each of the next five fiscal years are as follows: \$US 675,000 in 2011, \$US 1,370,000 in 2012, \$US 1,441,000 in 2013 and \$US 1,454,000 in 2014. Medicago shall also be responsible for all operating expenses of the New Facility.

Equity offering

On August 10 2010, Medicago Inc. has entered into an agency agreement to sell up to 18,518,520 units at a price of 40.5 cents per unit, representing gross proceeds of \$7.5 million. Each Unit is comprised of one common share and three-quarter of one common share purchase warrant. Each full warrant will have an exercise price of \$0.50, exercisable for a period of 5 years following the closing date of the offering.

Medicago intends to use the net proceeds from the offering to fund its participation to the cost-sharing program pursuant to the previously announced Technology Investment Agreement following the award of a \$21 million funding award from DARPA and for other general corporate and working capital purposes. The transaction is expected to close on or about August 19, 2010, subject to the satisfaction of all necessary regulatory approvals, including the conditional listing approval of the Toronto Stock Exchange.