



MANDATE OF THE AUDIT COMMITTEE

1. Interpretation

“**Board**” means all of the directors.

“**Chairman**” means the Committee Chairman.

“**Committee**” means the Audit Committee of the Company.

“**Committees**” means the Audit Committee and the Corporate Governance and Human Resources Committee.

“**Company**” means, Medicago inc and its subsidiary, Medicago Europe S.A.S.

“**Financially Literate**” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s consolidated financial statements.

“**Independent Director**” means a director who has no direct or indirect relationship with the Company or with a related entity, which could be reasonably expected to interfere with the exercise of an independent judgment regarding the best interests of the Company. Save exceptions, is not an Independent Director the person who:

- a) is or has been within the last three years, an employee or executive officer of the Company or a related entity;
- b) is a member of the immediate family of an individual who is or has been, within the last three years, an executive officer of the Company or a related entity;
- c) is or has been (or whose immediate family member is or has been), within the last three years, an executive officer, a partner or an employee of a material service provider of the Company or a related entity (including the external auditors unless their engagement has ended);
- d) is or has been (or whose immediate family member is or has been), within the last three years, an executive officer of an entity if any of the current senior management of the Company or a related entity serves or served at the same time on the entity’s Compensation Committee;

- e) has a relationship with the Company or a related entity under which he or she may directly or indirectly accept any consulting, advisory or other fees from the Company or a related entity, except for any compensation as a member of the Board or of a committee of the Company or a related entity;
- f) received (or whose immediate family member received) more than \$75,000 in direct compensation from the Company or a related entity during any 12 month period within the last three years; or
- g) is a natural person who controls the Company or a related entity; or
- h) is a natural person who is both a director and an employee of the Company or a related entity.

2. Objectives

The Committee shall assist the Board in fulfilling its oversight responsibilities regarding the Company's business, more specifically regarding the Company's accounting and financial reporting practices, the audit methods used by the Company and the establishment of internal controls.

The Committee shall also review all of the risks related to the Company's activities, including in the context of its research and development activities, and the mitigation measures undertaken regarding these risks.

In the performance of its duties, the Committee shall maintain a constructive and active relationship with the Board, the Company's senior management and the external auditors.

Although the Committee has the responsibilities and powers set out in this Charter, the Committee does not have the obligation to plan or conduct the audit of the Company's financial statements nor to decide whether the Company's financial statements are complete and accurate. This task is incumbent on the Company's senior management and the external auditors. Nor does the Committee have the obligation to conduct investigations, resolve disputes between the Company's senior management and the external auditors, or ensure compliance with laws and regulations, except if such obligations are expressly stipulated in this Charter.

The Committee Charter set out in this document does not limit the scope of any rights or powers conferred to the Board.

3. Composition

- 3.1 The Committee shall be comprised of not less than 3 Independent Directors.
- 3.2 All Committee members shall be Financially Literate and at least one member shall have financial or accounting experience.

- 3.3 The Board shall appoint the Chairman. If the Chairman is absent from a Committee meeting, the members present shall choose one of their number to act as Chairman for the purposes of this specific meeting.

4. Meetings and Procedures

- 4.1 The meetings shall be held at least once per quarter, prior to the disclosure of the Company's quarterly financial statements.
- 4.2 Special meetings may be called by the Chairman, the external auditors, the chairman of the Board or the Company's Vice-President, Finance.
- 4.3 The quorum of the Committee shall be composed of not less than the majority of the Committee members then in office.
- 4.4 Notice of each meeting shall be given to each Committee member and to the directors, the Company's senior management and the Company's external auditors, who all shall have the right to attend the meetings. However, the Committee may decide to hold a meeting in the absence of any person who is not a Committee member.
- 4.5 The external auditors and the Company's senior management shall periodically have the possibility of meeting separately with the Committee.
- 4.6 The Committee may invite the persons it considers useful to invite, including the Company's senior management, to attend the meetings and participate in the discussions concerning the Committee's business. The engagement of external consultants, in the performance of the duties described in this Charter, shall not be subject to review by the Corporate Governance and Human Resources Committee.
- 4.7 The Committee members, whenever possible, shall take the necessary steps to attend the Committee meetings and to look in advance into the matters and documents discussed thereat.
- 4.8 The Committee shall appoint a secretary. The secretary shall attend the meetings, during which he or she shall take minutes. The minutes shall be made available to the directors for consultation and are approved by the Board before being included in the Company's registers or records.
- 4.9 The Committee shall submit periodically a report to the Board on its activities, including the nature of its deliberations and the related recommendations.
- 4.10 The Committee, in the performance of its duties, may consult any relevant register or record of the Company.

- 4.11 The Committee members shall receive, in this capacity, the compensation that the Board establishes from time to time.

5. Responsibilities and Duties

5.1 Publicly Disclosed Financial Information

5.1.1 The Committee shall review the following information and issue recommendations to the Board regarding it, before such information is presented to the public:

- a) the interim unaudited financial statements;
- b) the audited annual financial statements, in conjunction with the report of the external auditors;
- c) all public disclosure documents containing audited or unaudited financial information, including any prospectus, the Annual Information Form, the Management's Discussion and Analysis of the Company, and any related press release, including any earnings forecast; and
- d) the compliance of certification by the Company's senior management of the financial reports with applicable legislation and certification of the Company's reporting controls and procedures.

5.1.2 The Committee shall review any report which accompanies the published financial statements (to the extent such a report discusses financial condition or operating results) to ensure consistency of disclosure of information with the financial statements themselves.

5.1.3 In its review of financial statements:

- a) the Committee shall obtain explanations from the Company's senior management of all significant variances between comparative reporting periods and explanations from the Company's senior management for each item which vary from expected or budgeted amounts as well as from previous reporting periods;
- b) the Committee shall review unusual or extraordinary items, transactions with related parties (including the related entities), and adequacy of disclosures, asset and liability book values, tax status and related reserves, and any qualifications contained in the letters of representation and business risks, uncertainties, commitments and contingent liabilities;

- c) the Committee shall review the appropriateness of the Company's significant accounting principles and practices, including acceptable alternatives, and the appropriateness of any significant changes in accounting principles and practices.

5.1.4 The Committee shall ensure that all financial information which can be disclosed publicly, but which is not expressly contemplated in this Charter, is subject to sufficient review measures.

5.2 Financial Reporting and Accounting Trends

5.2.1 The Committee shall review and assess the compliance of accounting policies and practices concerning financial reporting based on the standards applicable in this regard.

5.2.2 The Committee shall review with the Company's senior management and with the external auditors any proposed change in major accounting policies, the presentation and impact of significant risks and uncertainties, and estimates and judgments of the Company's senior management, including the reasonableness of the provisions, reserves and estimates that may be material to financial reporting.

5.2.3 The Committee shall question the Company's senior management and the external auditors regarding significant financial reporting issues discussed and the method to solve such issues.

5.2.4 The Committee shall review general accounting trends and issues of accounting policies, standards and practices which affect or may affect the Company.

5.3 Internal Controls

5.3.1 The Committee shall coordinate with the management the implementation and upholding of the Company's internal control procedures, programs and policies and assess the adequacy and effectiveness of internal controls relating to the accounting and financial reporting systems.

5.3.2 The Committee shall review:

- a) the evaluation of internal controls by the external auditors, together with the response of the Company's senior management;
- b) the relationship between the Company's senior management and the external auditors;

- c) jointly with the Corporate Governance and Human Resources Committee, and based on the recommendations of the Company's President and Chief Executive Officer, the appointment of the Vice-President, Finance and the other principal financial executives involved in the financial reporting process;
- d) any decisions related to the need for internal auditing, including whether this function should be outsourced and, in such case, approving the service provider, which shall not be the external auditors' firm; and
- e) internal control procedures to ensure compliance with applicable laws and the avoidance of conflicts of interest.

5.4 External Auditors

- 5.4.1 The Committee shall recommend to the Board the appointment, or the removal, as the case may be, of the external auditors, who shall report directly to the Committee on a priority basis, and shall obtain the approval of the Board and the shareholders in that regard.
- 5.4.2 The Committee shall receive periodic reports from the external auditors regarding the external auditors' independence, discuss such reports with the external auditors and, if so determined by the Committee, recommend that the Board take appropriate actions to ensure the independence of the external auditors. In this regard, the Committee may study the possibility of rotating the lead audit partner or audit partner responsible for reviewing the audit after a number of years. The Committee shall also consider establishing hiring policies for employees or former employees of its external auditors.
- 5.4.3 The Committee shall take appropriate actions to ensure that the external auditors are satisfied with the quality of the Company's accounting principles and that the accounting estimates and appraisals made by the Company's senior management reflect an appropriate application of generally accepted accounting principles.
- 5.4.4 The Committee shall hold private discussions on a regular basis with the external auditors of the Company to review, among other matters, the quality of financial personnel, the level of cooperation received from the Company's senior management, any unresolved material disagreements or disputes and the effectiveness of the work of the internal audit.
- 5.4.5 The Committee shall review the terms of the external auditors' engagement and the appropriateness and reasonableness of the

proposed audit fees as well as the compensation of any advisors whose services are retained by the Committee.

- 5.4.6 The Committee shall approve any engagements for material non-audit services provided by the external auditors or their affiliates, together with the fees for such services, and consider the impact of these engagements on the independence of the external auditors. Finally, the Committee shall determine which non-audit services the external auditors are prohibited from providing.
- 5.4.7 The Committee may delegate to one of its members the power to approve a non-audit engagement of the external auditors. The Committee member to which such power is delegated shall report to the Committee any engagement he or she has approved at the Committee meeting that follows the awarding of the engagement.
- 5.4.8 The Committee shall review all issues related to the change of external auditors, including the information required to be disclosed under regulations and the planned steps for an orderly transition.
- 5.4.9 The Committee shall review all reportable events, including disagreements, unresolved issues and consultations on a routine basis whether or not a change of auditors is contemplated.
- 5.4.10 The Committee shall ensure that the auditors are liable to the Committee and to the Board.

5.5 Audit Procedures

- 5.5.1 The Committee shall review the Company's audit plan and shall inquire as to the extent to which the planned audit scope can allow to detect weaknesses in internal control or fraud or other illegal acts. The audit plan should be reviewed with the external auditors and with the Company's senior management, and the Committee should recommend to the Board the scope of the external audit as stated in the audit plan.
- 5.5.2 The Committee shall review any problems experienced by the external auditors in performing the audit, including any restrictions imposed by the Company's senior management or significant accounting issues on which there was a disagreement with the Company's senior management.
- 5.5.3 The Committee shall review the post-audit letter or the letter from the Company's senior management containing the recommendations of the external auditors and the response of the Company's senior management, and the subsequent follow-up to any identified weakness.

5.6 Complaints and Denunciations

5.6.1 The Committee shall put in place procedures to receive and process complaints or concerns communicated to the Company or the directors about accounting or auditing matters including the anonymous submission by employees of concerns respecting accounting or auditing matters.

5.6.2 The Committee shall review such litigations, claims, transactions or other contingencies as the external auditors or any executive officer of the Company may bring to its attention.

5.7 Risk Management

5.7.1 The Committee shall review the principal risks faced by the Company, weighted according to their probability of occurrence and the materiality of the consequences of their occurrence, and shall ensure that appropriate mitigation measures are in place.

5.7.2 The Committee shall review the Company's risk assessment and risk management policies and the detailed recovery plans in the event of emergency situations. This review shall include a review of the Company's insurance coverage and ensuring such coverage is adequate

5.7.3 The Committee shall review business and research and development risks that could affect the ability of the Company to achieve its strategic plan.

5.8 Other Responsibilities

5.8.1 The Committee shall review uncertainties, commitments, and contingent liabilities material to financial reporting.

5.8.2 The Committee shall review the effectiveness of control and control systems used by the Company in connection with financial reporting and other identified business risks.

5.8.3 The Committee shall review incidents of fraud, illegal acts, conflicts of interest and related entity or other party transactions. The Company's senior management shall warn the Committee promptly of any incident of fraud brought to their attention concerning the Company, regardless of the amounts involved.

5.8.4 The Committee shall review the quality and accuracy of computerized accounting systems, the adequacy of the protections against damage and disruption, and the security of confidential information disclosed through accounting reporting systems.

5.8.5 The Committee shall review cases where the Company's senior management have sought accounting advices on a specific issue

from an accounting firm other than the one appointed as external auditors.

5.8.6 The Committee shall review any legal matters that could have a significant impact on the financial statements.

5.8.7 The Committee shall review any assignment or lease of property, as well as the significant expenses or the operations that could affect the Company's structure or financial situation.

5.8.8 The Committee shall ensure that the Company complies with its financial commitments and the relevant legal and regulatory requirements, including with regard to its research and development activities.

5.8.9 The Committee shall consider other matters of a financial nature it feels are important to its mandate or as directed by the Board.

5.9 Review of the Mandate

5.9.1 The Board shall review the Committee Mandate and reassess its sufficiency and the necessity of updating it on an annual basis.

Adopted by the Board on July 31, 2006