



THREE-MONTH PERIOD ENDED MARCH 31, 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-month periods ended March 31, 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 Company, 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. At present, 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 May 26, 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) runs until 2014 and we have met all related requirements there under. In 2009, 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 FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2009

CORPORATE

- Appointment of M. Pierre Des Marais II O.C., longstanding board member of numerous companies, to the board of directors. Over the past 40 years, Mr. Des Marais has served on the board of more than 20 companies, most notably: Rothmans Inc., Imperial Oil Ltd., Royal Bank of Canada, Sleeman Breweries Ltd., Canadian National Railways, Goodyear Canada, Carling O'Keefe Ltd., Canadair Ltd. and Air Canada. He was president and chief executive officer of Unimedia for 12 years until July, 1999.
- Formation of a new scientific advisory council (SAC) to provide the company with scientific guidance on its continuing research and development of VLP vaccines. The members of Medicago's SAC are:
 - Dr. Cecil Czerkinsky, Deputy director-general for laboratory sciences at the International Vaccine Institute
 - Dr. Ronald Ellis, Senior vice-president, and chief technological officer of NasVax
 - Dr. Myron Levine, Director of the Center for Vaccine Development at the University of Maryland School of Medicine
 - Dr. Alf A. Lindberg, former Chief scientific officer, and Head of R&D at Wyeth Lederle Vaccines (U.S.), and former executive vice-president of R&D at Aventis Pasteur
 - Dr. Eric Quemeneur, Research director, and head of the biochemistry and nuclear toxicology research unit at CEA, a French government-financed technological research organization, and deputy-director of the Institute of Biotechnology & Environmental Biology
 - Dr. Pierre Tambourin, Chief executive officer of Genopole in Evry since 1998, and is vice-president of the world-class competitiveness cluster Medicen Paris region
 - Dr. Louis P. Vezina, Chief scientific officer of Medicago
 - Dr. Brian Ward, Professor of infectious diseases and microbiology at McGill University and currently serves as the associate director of the Research Institute of the McGill University Health Center (fundamental science)

We are privileged to have this accomplished group of thought leaders in the fields of immunology and vaccines join our scientific advisory council. These advisers will provide valuable expertise and guide us in our strategic initiatives to improve and adapt our proprietary technology platforms for additional applications, such as for the production of antibodies, biosimilars and enzymes for biofuels.

PRODUCTS IN DEVELOPMENT

H5N1 PANDEMIC INFLUENZA VLP VACCINE

In the first quarter of 2009, the Company continued the preclinical development of its H5N1 pandemic influenza VLP vaccine. The company had a preclinical trial application meeting with Health Canada's Biologics and Genetic Therapies Directorate. Based on the outcome of the meeting, the company is finalizing preclinical studies (lethal challenge in ferrets and toxicity study in rats) and preparing to move ahead with the submission of a CTA for its lead H5N1 pandemic VLP vaccine and with final approval will initiate a Phase I clinical trial in the third quarter of 2009.

SEASONAL VACCINE

In the first quarter of 2009, the Company continued its research program initiated in 2008 and expects to commence preclinical work in the second half of the year.

SELECTED CONSOLIDATED INFORMATION

	Three-month period ended March 31, 2009 \$	Three-month period ended March 31, 2008 \$

CONSOLIDATED STATEMENT OF EARNINGS		
Revenues	-	1,665,000
Loss for the period		
\$	2,625,000	326,000
Basic and diluted loss per share	0.03	0.01
CONSOLIDATED BALANCE SHEET DATA	March 31, 2009	December 31, 2008
	\$	\$
Cash, cash equivalents and short-term investments	11,829,000	14,028,000
Total assets	18,701,000	20,604,000
Total long-term liabilities ⁽¹⁾	15,386,000	15,283,000

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

COMPARISON OF THE THREE-MONTH PERIOD ENDED MARCH 31, 2009 AND 2008

Consolidated statements of earnings

For the three-month period ended March 31, 2009, the company had no revenue compared to \$1,665,000 for the three-month period ended March 31, 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 \$361,000 in the first quarter of 2008 and revenues from the second one, a non-exclusive license agreement signed in February 2008, were \$1,500,000. 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.

Research and development (R&D) expenses increased by \$296,000 to \$1,397,000 for the first quarter of 2009 compared to 2008. The increase in R&D expenses for the three-month period ended March 31, 2009 compared to 2008 is mainly related to the shift in the stage of development of the company from R&D to preclinical development for its H5N1 Avian Influenza VLP vaccine and the development of the cGMP process for the production of clinical materials for the upcoming Phase I. Wage and salaries were higher (\$88,000) in the first quarter of 2009 compared to 2008 explained by the hiring in 2008 and since the beginning of 2009 of new employees required for the completion of the preclinical work and the upcoming Phase I. More laboratory supplies and analysis (\$93,000) and a higher level of outsourced contract work (\$74,000) were also required to perform these activities.

Research grants and contribution increased by \$37,000 to \$45,000 for the three-month period ended March 31, 2009, compared to the three-month period ended March 31, 2008. The increase is mainly explained by the grant obtained in 2008 from Canada's National Research Council industrial research assistance program to support the development of the Company's seasonal influenza VLP vaccine program. This grant totaled \$282,000 of which \$187,000 is still available as at March 31, 2009.

Investment tax credits were \$105,000 for the three-month period ended March 31, 2009, \$234,000 lower than the three-month period ended March 31, 2008. Following the completion of the private placement with PMI in 2008, the Company is now associated with PMI for tax purposes and this has resulted 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 which explains the decrease.

General and administrative, business development and intellectual property (G&A) expenses increased by \$233,000 to \$893,000 for the three-month period ended March 31, 2009 compared to 2008. The increase was mainly due to an increase in tradeshow and travelling expenses (\$120,000), licenses and patents costs (\$36,000) and salaries (\$43,000). The increase in travelling expenses is explained by increased investor relations and business development activities. The increase in salaries is explained the hiring of a CFO in May 2008 and the hiring of a director, investor relations and communications in January 2009.

Stock-based compensation increased by \$73,000 following the grant of 3,472,650 stock options in the first quarter of 2009.

Depreciation of property, plant and equipment amounted to \$106,000 for the three-month period ended March 31, 2009, \$16,000 lower than the three-month period ended March 31, 2008. There is no depreciation of leasehold improvements in 2009 (\$21,000 in 2008) as they were completely depreciated at the end of 2008.

Amortization of intangible assets amounted to \$14,000 for the three-month period ended March 31, 2009, \$15,000 lower than the three-month period ended March 31, 2008. A write-off of a license of a carrying value of \$572,000 in the third quarter of 2008 explained this decrease.

Net financial expenses amounted to \$244,000 for the three-month period ended March 31, 2009, \$145,000 lower compared to the

three-month period ended March 31, 2008. This decrease is mainly the result of lower interest rate on the Bio-levier loan for \$93,000 and higher interest income for \$65,000 explained by the increase in cash, cash equivalents and short-term investments.

Consolidated loss for the three-month period ended March 31, 2009 was \$2,625,000, or \$0.03 per basic and diluted share compared to a loss of \$326,000, or \$0.01 per basic and diluted share for the three-month period ended March 31, 2008.

Consolidated Balance sheet

Cash, cash equivalents and short-term investments were \$11.8 million as at March 31, 2009 a decrease of \$2.2 million from December 31, 2008. This decrease is mainly the result of loss of the quarter net of items not affecting cash and cash equivalents.

Total consolidated assets were \$18.7 million as at March 31, 2009, a decrease of \$1.9 million since December 31, 2008. The variation is mainly due to a decrease in the total of cash, cash equivalents and short term investments of \$2.2 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			
	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Revenues	-	-	-	\$583,000
Total expenses	(\$2,564,000)	(\$3,007,000)	(\$2,739,000)	(\$2,160,000)
Loss	(\$2,564,000)	(\$3,007,000)	(\$2,739,000)	(\$1,577,000)
Basic and diluted net loss per share	(\$0.03)	(\$0.04)	(\$0.07)	(\$0.05)
	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Revenues	\$1,665,000	\$55,000	-	-
Total expenses	(\$1,991,000)	(\$2,109,000)	(\$1,023,000)	(\$1,550,000)
Loss	(\$326,000)	(\$2,053,000)	(\$1,023,000)	(\$1,550,000)
Basic and diluted net loss per share	(\$0.01)	(\$0.07)	(\$0.06)	(\$0.09)

Revenues from quarter to quarter may vary significantly. They are non-recurring by nature and are generated from licenses agreement 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 activity 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.

Expenses for Q2 and Q3 of 2007 were kept at the minimum level due to the financial condition of the Company at that time. The improvement of the financial condition but mainly the shift in the stage of development of the company from R&D to preclinical development for its H5N1 Avian Influenza VLP vaccine and the development of the cGMP process for the production of clinical materials for the upcoming Phase I explained the increase in expenses from the fourth quarter of 2007 through today. Wage and salaries increased in 2008 compared to 2007 explained by the hiring of new employees in the second half of 2008 required by

preclinical work and by the upcoming Phase I and also by payment of bonuses when no bonuses were paid in 2007. 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 \$11.8 million as at March 31, 2009, a decrease of \$2.2 million from December 31, 2008. The Company had working capital of 11.3 million as at March 31, 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 March 31, 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 March 31, 2009 this ratio stood at 5.6:1.

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. We expect our expenditures to increase in the remaining of 2009 as we continue to advance our programs. We believe our 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, investment tax credits, government funding, cost recoveries, license agreement, contract research agreements, long-term debt and short-term debt guaranteed by its investment tax credits. 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. We anticipate 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 March 31, 2009	Three-month ended March 31, 2008
Operating activities	(\$2,021,000)	(\$48,000)
Financing activities	(\$43,000)	\$2,524,000
Investing activities ⁽¹⁾	\$1,390,000	(\$25,000)
Net change in cash	(\$674,000)	\$2,451,000

(1) Cash flows used in investing activities net of acquisitions or sale of short-term investments were (\$275,000) in 2009 and (\$25,000) in 2008.

Operating Activities

Cash used in operating activities increased by \$1,973,000 to \$2,021,000 for the three-month period ended March 31, 2009 compared to 2008. This increase is explained by the increase in loss, net of items not affecting cash and cash equivalents (or burn rate) for \$2,551,000 that was partly offset by the change in non-working capital for \$578,000.

The Company expects net cash used in operating activities to increase in the remaining of 2009, as it will begin 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*).

Financing Activities

Cash from financing activities decreased by \$2.5 million in the first quarter of 2009 compared to the first quarter of 2008. The decrease is explained by the fact that, in the first quarter of 2008, the Company completed a private placement of 13,000,000 units at a price of \$0.20 per unit for total gross proceeds of \$2,600,000.

Investing Activities

Cash used in investing activities (excluding acquisitions sales of short-term investments) increased by \$250,000 to \$275,000 in 2009 related to more additions of property, plant and equipment for \$200,000.

The Company plans to invest \$1.25 million in 2009 to expand its manufacturing facility 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

The Company expects R&D expenses to increase in the remaining of 2009, primarily due to the beginning of the Phase 1 clinical program with its H5N1 pandemic influenza vaccine and will further advance its seasonal influenza vaccine in preclinical program.

Based on current estimates, net cash outflow for 2009 is projected to be around \$10.5 million. Expectations are that the cash outflow will not proceed linearly through the year but will be higher in the second half of the year due to cost associated with clinical studies and the cost of the expansion of the manufacturing facility.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

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

OUTSTANDING SHARE DATA

As at May 26, 2009, there were 90,337,440 common shares issued and outstanding, 5,817,245 stock options outstanding, 64,920,696 warrants outstanding, and 280,000 unit options 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.

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.

CAPITAL MANAGEMENT

The Company views capital as the sum of Long-term debt and Shareholders' Equity.

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide an adequate return to shareholders and maintain a sufficient level of funds to finance its research and development activities, general and administrative expenses, working capital and overall capital expenditures, including those associated with patents and trademarks.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets all subject to market conditions and the terms of the underlying third party agreements.

The Company is not subject to any capital requirements imposed by a regulator.

The total capital as at March 31, 2009 and December 31, 2008 is calculated as follows:

	March 31, 2009	December 31, 2008
	\$	\$
Long-term debt including current portion	15,385,574	15,282,589
Shareholders' Equity	949,397	3,278,991
	<u>16,334,971</u>	<u>18,561,580</u>

FINANCIAL INSTRUMENTS RISK FACTORS

Financial risk

The Company is exposed to various types of risks owing the nature of the business activities it carries on, including those related to the use of financial instruments. The Company does not use financial derivatives.

Market risk

Market risk corresponds to the financial losses that the Company could incur because of unfavourable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates and exchange rates. The exposure to variation to interest rates is described hereunder.

Foreign Currency Risk

Regarding the exposure to foreign exchange rates, the Company operate internationally and a portion of our expenses are incurred in US dollars and Euros but these exposures are not material.

Interest rate risk

As at March 31, 2009, the company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable interest rate
Short term investments	Fixed interest rate
Accounts receivable	Non-interest bearing
Financing receivable	Non-interest bearing
Grants receivable	Non-interest bearing
Bank loans	Variable interest rate
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	As described in note 10

Bank loans (note 8) bear interest at variable rate and as at March 31, 2009, everything else being equal a 1% increase in interest rate on the bank loans would have had an unfavourable impact of \$7,280 on loss and comprehensive loss. A 1% decrease in interest rate would have had the opposite impact on loss and comprehensive loss.

The Biolevier loan (note 10) bears interest at variable rate and as at March 31, 2009, everything else being equal a 1% increase in interest rate on the debt would have had an unfavourable impact of \$153,186 on loss and comprehensive loss. A 1% decrease in interest rate would have had the opposite impact on loss and comprehensive loss.

Credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable. Cash and cash equivalents are maintained with high-credit quality financial institutions. Short-term investments consist primarily of term deposits, bonds and residuals issued by high-credit quality institutions. Consequently, management considers the risk of non-performance related to cash and cash equivalents and short-term investments to be minimal.

Liquidity risk

Liquidity risk represents the possibility that the Company may not be able to gather sufficient cash resources, when required and under reasonable conditions, to meet its financial obligations.

The Company believes that, with the financial resources currently at its disposal, it has sufficient cash and cash equivalents to meet its contractual liabilities for at least the next 12 months. 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 we will be successful in doing so. See 'Risk Factors' hereunder.

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

May 26, 2009

Medicago Inc.

Interim Consolidated Financial Statements
(unaudited)
March 31, 2009

Medicago Inc.

Consolidated Balance Sheets

	March 31, 2009	December 31, 2008
	\$	\$
Assets	(unaudited)	(audited)
Current assets		
Cash and cash equivalents	417,983	1,091,347
Short-term investments (note 3)	11,411,103	12,936,773
Accounts receivable	215,455	181,587
Investment tax credits receivable	1,533,289	1,428,289
Grants receivable	48,020	44,750
Prepaid expenses	138,942	76,962
	<hr/>	<hr/>
	13,764,792	15,759,708
Property, plant and equipment	4,171,752	4,065,399
Intangible assets	764,853	778,512
	<hr/>	<hr/>
	18,701,397	20,603,619
Liabilities		
Current liabilities		
Bank loans	727,950	727,950
Accounts payable and accrued liabilities	1,679,726	1,314,089
Current portion of long-term debt	83,225	73,071
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	2,490,901	2,115,110
Long-term debt (note 4)	15,302,349	15,209,518
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	17,793,250	17,324,628
Shareholders' Equity (Deficiency)		
Share capital (note 5)	37,182,667	37,182,667
Contributed surplus	1,095,491	1,087,608
Other equity components (note 6)		
Stock options plan (note 6a)	607,140	500,081
Unit options	66,640	66,640
Warrants (note 6b)	8,410,743	8,410,743
Deficit	(46,545,360)	(43,920,364)
Accumulated other comprehensive income (loss)	90,826	(48,384)
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	908,147	3,278,991
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	18,701,397	20,603,619

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 three-month period ended March 31, 2009 and 2008 (unaudited)

Statements of Earnings	2009	2008
	\$	\$
Revenues		
Revenues from license agreement	-	1,500,000
Revenues from research agreements	-	361,067
Less: Warrants issued under a licensing agreement	-	(196,136)
	-	1,664,931
Expenses		
Research and development	1,397,372	1,100,756
Research grants and contributions	(44,962)	(7,500)
Research and development tax credits	(105,000)	(339,000)
General and administrative, business development and intellectual property	892,596	659,684
Stock-based compensation	114,942	42,232
Exchange (gain) loss	5,820	(4,552)
Depreciation of property, plant and equipment	106,187	121,787
Amortization of intangible assets	13,659	28,567
Financial expenses, net (note 7)	244,382	388,636
	2,624,996	1,990,610
Loss for the period	(2,624,996)	(325,679)
Basic and diluted loss per share (note 11)	0.03	0.01
Comprehensive Loss	2009	2008
	\$	\$
Loss for the period	(2,624,996)	(325,679)
Unrealized gain on available-for-sale investments	139,210	-
Comprehensive loss for the period	(2,485,786)	(325,679)

Medicago Inc.

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

For the three-month period ended March 31, 2009 and 2008

(unaudited)

Deficit	2009	2008
	\$	\$
Balance – Beginning of period	43,920,364	36,271,760
Loss for the period	2,624,996	325,679
Balance – End of period	<u>46,545,360</u>	<u>36,597,439</u>
Accumulated Other Comprehensive Loss	2009	2008
	\$	\$
Balance – Beginning of period	48,384	-
Unrealized gain on available-for-sale investments	(139,210)	-
Balance – End of period	<u>(90,826)</u>	<u>-</u>
Total deficit and accumulated other comprehensive loss	<u>46,454,534</u>	<u>36,597,439</u>
Contributed Surplus	2009	2008
	\$	\$
Balance – Beginning of period	1,087,608	802,219
Stock options forfeited	7,883	-
Balance – End of period	<u>1,095,491</u>	<u>802,219</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-month periods ended March 31, 2009 and 2008

(unaudited)

	2009	2008
	\$	\$
Cash flows from operating activities		
Loss for the period	(2,624,996)	(325,679)
Items not affecting cash and cash equivalents		
Warrants issued pursuant to licensing agreement and as financing fees	-	196,136
Stock-based compensation costs	114,942	42,232
Depreciation and amortization	119,846	150,351
Amortization of deferred charges	29,375	29,375
Interest capitalized on long-term debt	33,326	172,093
	(2,327,507)	264,508
Change in non-cash working capital items (note 8a)	306,863	(312,570)
	(2,020,644)	(48,062)
Cash flows from financing activities		
Bank loans contracted (reimbursed)	-	185,000
Long-term debt contracted	46,820	-
Payments on long-term debt	(6,536)	(6,536)
Issuance of units	-	2,600,000
Issue expenses	(83,290)	(254,914)
	(43,006)	2,523,550
Cash flows from investing activities		
Sales of short-term investments	1,664,880	-
Additions to property, plant and equipment	(223,016)	(25,221)
Additions to intangible assets	(51,578)	-
	1,390,286	(25,221)
Net change in cash and cash equivalents	(673,364)	2,450,267
Cash and cash equivalents – Beginning of year	1,091,347	223,711
Cash and cash equivalents – End of year	417,983	2,673,978
Additional information		
Interest paid	247,256	26,567

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

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2009

(Unaudited)

1 Interim financial information

The financial information for the three-month periods ended March 31, 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, 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.

Consolidated financial statements

On April 1, 2007, the Company completed a corporate reorganization resulting in the creation of new entities to perform all of its research and development activities. Consequently, the consolidated financial statements include the accounts of Medicago Inc. and those of Medicago R&D Inc., 9177-4083 Québec Inc., 9157-4265 Québec Inc., Fiducie Financière Medicago and SAS Medicago Europa.

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 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

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2009

(Unaudited)

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.

On February 13, 2008, the Accounting Standards Board confirmed the date of changeover from Canadian GAAP to International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has developed a plan for the conversion of its consolidated financial statements to IFRS. An analysis of the differences between IFRS and the Company's accounting standards is underway. This analysis is being conducted by taking into account the potential impacts, among others, on accounting policies, financial reporting and information technologies

3 Short-term investments

	March 31, 2009	December 31, 2008
	\$	\$
	(unaudited)	(audited)
Term deposits bearing interest at annual rates ranging from 2.75% to 3.55%, maturing in November and December 2009	3,990,000	6,000,000
Bonds and discount notes, bearing interest at effective annual rates ranging from 2.50% to 4.91%, maturing from December 2009 to January 2016	7,050,948	6,557,575
Money market funds	370,905	379,198
	<hr/>	<hr/>
	11,411,103	12,936,773
	<hr/>	<hr/>

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2009

(Unaudited)

4 Long-term debt

	2009 \$ (unaudited)	2008 \$ (audited)
Loan from Investissement Québec ("IQ"), 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	(673,816)	(703,191)
Discounted at a rate of 20%, refundable contribution granted under the Technology Partnerships Canada program	484,618	461,542
Discounted at a rate of 20%, contribution under an innovation program, payable in annual instalments of \$60,000 until September 2013	203,428	193,742
Discounted at a rate of 20%, contribution under an innovation program, payable in semi-annual instalments of \$6,536 until October 2009	5,876	11,848
Loan bearing interest at 8%, payable in monthly payments of \$2,118, including principal and interest, maturing in March 2011	46,820	-
	<u>15,385,574</u>	<u>15,282,589</u>
Less: Current portion	<u>83,225</u>	<u>73,071</u>
	<u>15,302,349</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 March 31, 2009, the current ratio was 5.64:1.

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

March 31, 2009

(Unaudited)

The share capital issued has varied as follows:

	Three-month period ended March 31 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	-	-	162,500	50,586
Issue expenses *	-	-	-	(540,984)
Balance – End of year	90,324,940	37,182,667	90,324,940	37,182,667

* Issue expenses were share 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:

	For the three-month period ended March 31 2009			For the 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	3,472,650	-	0.26	965,968	-	0.59
Exercised	-	-	-	-	-	-
Forfeited	(50,000)	(7,883) *	0.83	(37,331)	(9,452) *	1.00
Compensation costs for the period	-	114,942	-	-	245,712	-
Outstanding – End of period	5,767,245	607,140	0.51	2,344,595	500,081	0.89
Options exercisable – End of period	1,150,900	-	1.10	1,046,954	-	1.12

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2009

(Unaudited)

- * During the three-month period ended March 31, 2009, 50,000 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 March 31, 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	57	0.20	-	-
\$0.355 to \$0.37	1,643,674	57	0.36	-	-
\$0.62 to \$0.66	742,294	48	0.65	87,939	0.65
\$1.00 to \$1.11	1,176,539	24	1.00	910,873	1.05
\$1.68	152,088	27	1.68	152,088	1.68
	5,767,245	48	0.51	1,150,900	1.10

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:

	Three-Month Ended March 31, 2009	For the year Ended December 31, 2008
Dividend yield	Nil	Nil
Expected volatility	95%	95%
Risk-free interest rate	1.75%	3.06%
Expected life (years)	5.00	5.00
Number of stock options granted	3,472,650	965,968
Weighted average fair value of options granted at market price at the date of the grant (\$)	-	0.40
Weighted average fair value of options granted at a price higher than the market price at the date of the grant (\$)	0.12	0.42
Stock-based compensation costs	114,972	245,712

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2009

(Unaudited)

(b) Warrants

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

	For the three-month period ended March 31 2009			For the 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	-	-	-	(162,500)	(9,961)	0.25
Forfeited	-	-	-	(2,003,834)	(220,442)	1.10
Warrant issue expenses	-	-	-	-	(177,885)	-
Outstanding and exercisable – End of period	64,933,196	8,410,743	0.39	64,933,196	8,410,743	0.39

The following table summarizes the information relating to warrants outstanding and exercisable as at March 31, 2009:

Exercise price	Number	Weighted average remaining contractual life (years)
\$0.230	2,000,000	1.85
\$0.250	6,337,500	0.95
\$0.300	5,525,000	0.41
\$0.375	45,000,000	1.56
\$0.700	643,877	2.10
\$0.750	4,000,000	0.16
\$1.120	1,426,819	2.42
	64,933,196	1.35

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2009

(Unaudited)

7 Financial expenses, net

	2009	2008
	\$	\$
Interest on long-term debt	261,639	332,694
Interest and bank charges	18,945	26,914
Amortization of deferred financing expenses	29,375	29,375
Interest income	(65,577)	(347)
	<hr/>	<hr/>
	244,382	388,636
	<hr/>	<hr/>

8 Additional information on cash flows

(a) Change in non-cash working capital items

	2009	2008
	\$	\$
Accounts receivable, grants and financing receivable	(37,139)	36,149
Investment tax credits receivable	(105,000)	(339,000)
Prepaid expenses	(61,980)	(45,735)
Accounts payable and accrued liabilities	510,982	247,083
Deferred revenues on research agreements	-	(211,067)
	<hr/>	<hr/>
	306,863	(312,570)
	<hr/>	<hr/>

9 Economic dependence

100% of the revenues for the three-month period ended March 31, 2008 were with one customer.

10 Capital management

The Company views capital as the sum of long-term debt and Shareholders' Equity.

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide an adequate return to shareholders and maintain a sufficient level of funds to finance its research and development activities, general and administrative expenses, working capital and overall capital expenditures, including those associated with patents and trademarks.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, all of which are subject to market conditions and the terms of the underlying third party agreements.

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2009

(Unaudited)

The Company is not subject to any capital requirements imposed by a regulator.

The total capital as at March 31, 2009 and December 31, 2008 is calculated as follows:

	March 31, 2009	December 31, 2008
	\$	\$
Long-term debt including current portion	15,385,574	15,282,589
Shareholders' Equity	949,397	3,278,991
Total capital	<u>16,334,971</u>	<u>18,561,580</u>

11 Financial instruments

Fair value

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

	As at March 31, 2009						
		Held for trading	Available for sale	Loans and receivables	Other financial liabilities	Carrying	Fair value
						Total	Total
	\$	\$	\$	\$	\$	\$	
Financial assets							
Cash	134,193	83,790	-	-	217,983	217,983	
Cash equivalents	-	200,000	-	-	200,000	200,000	
Short-term investments	-	11,411,103	-	-	11,411,103	11,411,103	
Accounts receivable	-	-	69,051	-	69,051	69,051	
Grants receivable	-	-	48,020	-	48,020	48,020	
	<u>134,193</u>	<u>11,694,893</u>	<u>117,071</u>	<u>-</u>	<u>11,946,157</u>	<u>11,946,157</u>	
Financial liabilities							
Bank loans	-	-	-	727,950	727,950	727,950	
Accounts payable and accrued liabilities	-	-	-	1,480,720	1,480,720	1,480,720	
Long-term debt	-	-	-	15,385,574	15,385,574	16,059,390	
	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,594,244</u>	<u>17,594,244</u>	<u>18,268,060</u>	

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2009

(Unaudited)

	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
	<u>18,574</u>	<u>14,009,546</u>	<u>128,071</u>	<u>-</u>	<u>14,156,191</u>	<u>14,156,191</u>
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
	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,166,872</u>	<u>17,166,872</u>	<u>17,870,063</u>

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.

Financial risk

The Company is exposed to various types of risks due to the nature of the business activities it carries on, including those related to the use of financial instruments. The Company does not use financial derivatives.

Market risk

Market risk corresponds to the financial losses that the Company could incur because of unfavourable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates and exchange rates.

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2009

(Unaudited)

Foreign exchange risk

The exposure to variation of interest rates is described hereunder. Regarding the exposure to foreign exchange rates, the Company operates internationally and a portion of its expenses are incurred in US dollars and Euros but these exposures are not material.

Interest rate risk

As at March 31, 2009, the Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable interest rate
Short-term investments	Fixed interest rate
Accounts receivable	Non-interest bearing
Financing receivable	Non-interest bearing
Grants receivable	Non-interest bearing
Bank loans	Variable interest rate
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	As described in note 4

Bank loans bear interest at variable rate. As at March 31, 2009, fluctuations of 1% in bank loans' interest rate would have a positive or negative impact of \$7,280 on loss and comprehensive loss.

The Bio-Levier loan (note 4) bears interest at variable rate. As at March 31, 2009, fluctuations of 1% in debt interest rate would have a positive or negative impact of \$153,186 on loss and comprehensive loss.

Credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments (note 3) and accounts receivable. Cash and cash equivalents are maintained with high-credit quality financial institutions. Short-term investments consist primarily of term deposits, bonds and residuals issued by high-credit quality institutions. Consequently, management considers the risk of non-performance related to cash and cash equivalents and short-term investments to be minimal.

Liquidity risk

Liquidity risk represents the possibility that the Company may not be able to gather sufficient cash resources, when required and under reasonable conditions, to meet its financial obligations.

The Company believes that, with the financial resources currently at its disposal, it has sufficient cash and cash equivalents to meet its contractual liabilities for at least the next 12 months. 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. The following table summarizes contractual obligations as at March 31, 2009:

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2009

(Unaudited)

	Net value \$	Cash flows \$	0-12 months \$	12-24 months \$	Thereafter \$
Bank loans	727,950	727,950	727,950	-	-
Accounts payable	1,638,476	1,638,476	1,638,476	-	-
Long-term debt	16,059,390	16,506,638	83,225	83,862	16,339,551
	<u>18,425,816</u>	<u>18,873,064</u>	<u>2,449,651</u>	<u>83,862</u>	<u>16,339,551</u>

12 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:

	2009	2008
Basic and diluted weighted average number of shares outstanding	90,324,940	23,541,011
Dilutive effect of stock options	-	-
Dilutive effect of warrants	-	3,500,587
Diluted weighted average number of shares outstanding	<u>90,324,940</u>	<u>27,041,598</u>

For the three-month periods ended March 31, 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.

Excluded from the 2009 calculation of diluted earnings per share were 5,767,245 stock options (1,679,808 in 2007) and 64,933,196 warrants (7,430,653 in 2007) where the exercise prices were greater than the average market price of the common shares for the year.

13 Comparative figures

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