



November 27, 2008

Dear Shareholders:

Since the beginning of 2008, we have made significant progress in the development of our H5N1 Avian Influenza VLP vaccine that brings us closer towards initiation of our first clinical trial. In short, we have demonstrated the efficacy of our vaccine in several immunogenicity trials in mice and ferrets, the cGMP qualification of our state of the art manufacturing facility and the development of our seasonal vaccine. Philip Morris International ("PMI") values the development work we have completed and have become our first strategic partner for this asset.

Our relationship with PMI, previously identified as our undisclosed partner, or Fortune 100 company, began in December 2007 and resulted in two contracts worth \$2.5 million. After successful completion of these two contracts, our relationship evolved into a \$15,975,000 private placement by PMI completed in November 2008. This transaction represents a major achievement for Medicago and is particularly significant in today's challenging market conditions. This investment allows us to continue to realize the full potential of our technology platform and to advance our pandemic and seasonal flu candidates.

In this quarter, we also raised an additional \$2.21 million in a non-brokered private placement for 11,050,000 units. These funds will be used to advance our vaccine programs.

Our efforts to commercialize our proprietary plant-based technology globally, in our opinion, are beginning to pay dividends. During the quarter, we signed an agreement with Evry Genopole Biopark to evaluate the establishment of a pandemic vaccine production facility in France and a feasibility study in collaboration with Genopole is currently underway. In August 2008, we were invited to join Jean Charest, Premier of Quebec, at the International Conference in China. We met with health officials of the province of Shandong to present Medicago's proprietary plant-based vaccine development and production technologies. Ongoing outbreaks of H5N1 Avian Influenza in Asia pose a significant risk for a pandemic emphasizing the importance of preparedness in this region of the world. Only a few areas of the world currently have access to influenza vaccine-production facilities. The ability to rapidly and cost-effectively deliver large volumes of pandemic vaccines, in our opinion, is a key advantage of our technology and has led to discussion with several countries in Europe, Asia, and Africa for the establishment of domestic vaccine production facilities.

Our innovative vaccine manufacturing technologies continue to be of interest to the leaders in the scientific community. In July, we were selected to deliver a presentation at the Next Generation Vaccines 2008 Conference in National Harbor, Maryland. In August, we delivered a presentation on the development of our H5N1 vaccines generated from plant-made VLPs and unique technology platform at the Targeted Immunotherapeutics and Vaccine Summit, a prominent U.S. vaccine development conference that took place in Cambridge, Massachusetts. In September, we presented at the Third European Influenza conference in Vilamoura, Portugal.

We remain focused on driving our influenza vaccine programs into the clinic. On behalf of the management team and Board of Directors, I would like to thank you for all of your continued support and look forward to sharing Medicago's upcoming developments with you.

Yours truly,

A handwritten signature in black ink that reads "Andrew J. Sheldon".

Andrew J. Sheldon
President and CEO

THIRD QUARTER ENDED SEPTEMBER 30, 2008

MANAGEMENT'S REPORT ON FINANCIAL POSITION AND OPERATING RESULTS

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

General

The following analysis provides a review of the Company's results of operations, financial condition and cash flows for the three and nine-month periods ended September 30, 2008 and 2007. 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, 2007 and 2006, appearing in the annual report of the Company, which are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

The 2007 Annual Report of the Company and additional information regarding the business of the Company are available on SEDAR at the following Internet address: 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 document contains forward-looking statements, which reflect the Company's current expectations regarding future events. The forward-looking statements involve risks and uncertainties, including the early stage development of the Company, history of operating losses, regulation of drug and product approval, regulation of genetically engineered plants and other risks. Many risks are inherent in the biotechnology industry; others are more specific to Medicago. For additional information on risks and uncertainties relating to these forward-looking statements, investors should consult the Annual Report of the Company.

Company Overview

Medicago is committed to provide highly effective and affordable vaccines based on our 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.

Revenues and Expenses

Revenues are generated from licenses as well as contract research and related milestone payments.

Research and development expenses consist primarily of personnel and related costs associated with research activities for development of the Company's portfolio of product candidates.

General and administrative, business development and intellectual property costs consist of personnel and related costs associated with the Company's functions as well as professional fees, office rent and utilities, insurance and other corporate expenses. It also includes intellectual property-related costs associated with the development and maintenance of the Company's intellectual property portfolio.

Critical Accounting Policies and Estimates

There have been no significant changes in Medicago's accounting policies and estimates since December 31, 2007 with exception of the application of new accounting standards as described below. Please refer to the corresponding section in the Company's annual report for a complete description of our critical accounting policies and estimates.

New Accounting Standards and Future Accounting Changes

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ('CICA') Handbook Sections 1535, *Capital Disclosure*; CICA Handbook Section 3862, *Financial Instruments – Disclosure*; CICA Handbook Sections 3863, *Financial Instruments – Presentation*; and CICA Handbook Section 3031, *Inventories*, which replaces Section 3030.

Adoption of these new standards and Future Accounting changes are described in note 2 of our interim consolidated financial statements for the third quarter ended September 30, 2008.

In 2007, the CICA published an update to the Accounting Standards Board of Canada's ('AcSB') '*Implementation Plan for Incorporating International Financial Reporting Standards ('IFRS') into Canadian GAAP*'. The plan outlines the key decisions that the CICA will need to make as it implements the Strategic Plan to converge Canadian GAAP standards with IFRS. While IFRS uses a similar conceptual framework to that of Canadian GAAP, there are still significant accounting policies differences that will need to be resolved. The CICA has confirmed on January 1, 2011 the change from current Canadian GAAP to IFRS for publicly accountable companies. In sequence with these changes, the Company is currently developing its internal implementation plans to meet the guidelines of the future reporting requirements.

Subsequent event

On November 10th 2008, following the approval by the shareholders of the Company, Medicago completed a private placement with an indirect subsidiary of Philip Morris International Inc. ("PMI") of 45,000,000 units (the "Units") at a price of \$0.355 per Unit for net proceeds of \$15,975,000. This money will be used to further fund the development of Medicago's pandemic and seasonal influenza vaccines programs. Following this placement, PMI holds an interest of 49.8% of the issued and outstanding common shares of Medicago.

Each Unit consists of one common share in the share capital of Medicago (a "Common Share") and one common share purchase warrant (a "Warrant"). Each Warrant entitles its holder to purchase one Common Share until October 20, 2010, at a price equal to \$0.375 for the first year following the date of the issuance of the Warrants and \$0.405 for the second year following the date of the issuance of the Warrants.

As part of the private placement, Medicago and PMI have entered into:

- a Research and License Agreement granting Medicago ownership of intellectual property rights developed under the joint pandemic and seasonal influenza program and granting Philip Morris Products, S.A. ("PMP"), a subsidiary of PMI, among other rights, a license on such intellectual property rights;
- a Master Research Services Agreement providing the framework under which Medicago could conduct additional future research on PMP's behalf and on a fee-for-service basis. PMP will be granted ownership of intellectual property rights developed under each of these projects and Medicago will be granted a license on such intellectual property rights allowing Medicago to conduct influenza research and;
- a representation right and preemptive right agreement whereby Medicago has undertaken, as long as PMI and its affiliates holds, jointly, directly or indirectly, a 10% equity interest in Medicago, calculated on a fully diluted basis, to propose for election at each annual shareholders' meeting of Medicago at least one representative selected by PMI (or its affiliates) and has granted a preemptive right to PMI to maintain or increase its equity participation in Medicago.

Consolidated Statements of Earnings

<i>Unaudited</i>	Quarters ended			
	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Revenues	-	\$583,000	\$1,665,000	\$56,000
Loss	(\$2,739,000)	(\$1,577,000)	(\$326,000)	(\$2,054,000)
Basic and diluted net loss per share	(\$0.07)	(\$0.05)	(\$0.01)	(\$0.07)
	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006
Revenues	-	-	\$18,500	\$20,000
Loss	(\$1,023,000)	(\$1,550,000)	(\$1,647,000)	(\$2,274,000)
Basic and diluted net loss per share	(\$0.06)	(\$0.09)	(\$0.10)	(\$0.13)

Comparison of the three and nine-month periods ended September 30, 2008 and 2007

For the nine-month period ended September 30, 2008, revenues from research agreements were \$2,248,000 compared with \$18,500 for the nine-month period ended September 30, 2007. This increase is due to revenues generated by two non-exclusive licensing agreements signed with Philip Morris International Inc. ('PMI'). The first agreement of \$500,000, signed in 2007 generated \$444,000 in the first nine-month of 2008 and revenues from the second one, signed in February 2008 were \$2,000,000. Those revenues were diminished by \$196,000 representing the value of the 2,000,000 common share purchase warrants granted at the signature the second non-exclusive licensing agreement. Each warrant entitles PMI to purchase one common share at a price of \$0.23 for the first year, \$0.25 for the second year and \$0.27 for the third year ending February 7, 2011.

Research and development (R&D) expenses increased by \$537,000 to \$1,119,000 in the third quarter of 2008 compared to 2007. The increase in R&D expenses for the three and nine-month periods ended September 30, 2008 compared to 2007 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. More laboratory supplies and analysis (\$140,000) and a higher level of outsourced contract work (\$39,000) were required to perform those activities. Wage and salaries were higher (\$198,000) in the third quarter of 2008 compared to 2007 explained by the return of maternity leaves that have not been replaced, vacation and hiring of new employees required by the preclinical work and the upcoming Phase I.

For the nine-month period ended September 30, 2008, R&D expenses increased by \$1,154,000 to \$3,351,000 compared to 2007. More laboratory supplies and analysis (\$342,000) and a higher level of outsourced contract work (\$188,000) were required to perform those activities. Wage and salaries were higher (\$550,000) in the nine-month of 2008 compared to 2007 explained by the payment of bonuses when no bonuses were paid in 2007, return of maternity leaves not replaced and hiring of new employees required by preclinical work and by the upcoming Phase I.

Investment tax credits were at \$330,000 for the three-month period ended September 30, 2008, \$138,000 lower than the three-month period ended September 30, 2007. In 2007, the Company amended its 2006 provincial tax returns claiming an additional \$176,000 of tax credits that explained the decrease in this quarter. For the nine-month ended September 30, 2008 investment tax credits increased by \$167,000 to \$1,021,000. It is explained by the increase in R&D expenses and the fact that the Company could not claim federal 35% investment tax credits from its initial public offering in August 2006 until March 31, 2007; 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 and thus maximizing its R&D tax credits.

General and administrative, business development and intellectual property (G&A) expenses increased by \$320,000, to \$785,000 for the three-month period ended September 30, 2008 compared to 2007. The main increases are in salaries (\$206,000), travelling (\$57,000) and stock-based compensation (\$34,000). The increase in salaries is explained by the payment of a bonus following the closing of the private placement in the quarter and the hiring of a CFO in May 2008 while it was outsourced in 2007 and the return of two maternity leaves that were also outsourced in 2007.

For the nine-month ended September 30, 2008 G&A expenses increased by \$569,000, to \$2,220,000 compared to 2007. The main variations are an increase in salaries (\$307,000), consultant fees (\$94,000) and stock-based compensation (\$99,000). The increase in salaries is related to the payment of bonuses in 2008 when no bonuses were paid in 2007, the hiring of a CFO in May 2008 when it was outsourced in 2007 and the return of two maternity leaves. The increase in consultant fees is related to fees paid for the recovery of new tax credits from previous years and represent 50% of the tax credits received.

Depreciation of property, plant and equipment amounted to \$114,000 for the three-month period ended September 30, 2008 (\$358,000 since the beginning of the year), \$16,000 lower than the corresponding period in 2007 (\$64,000 lower since the beginning of the year). Lesser acquisitions in 2007 explained this decrease.

Amortization of intangible assets stood at \$27,000 during the three-month period ended September 30, 2008 and \$83,000 since the beginning of the year, comparable with the corresponding periods in 2007.

A write-off of intangible assets of \$572,000 occurred in the quarter and corresponds to the carrying value of a license acquired in 2001 in relation with molecular farming in alfalfa since the Company does not use the know-how related to that license anymore.

Other net financial expenses amounted to \$449,000 for the three-month period ended September 30, 2008, \$180,000 higher compared to the same period in 2007. This increase is the result of higher interest on bank loans for \$13,000, higher amortization of deferred financing expenses for \$86,000 and no grants in 2008 compared to \$89,000 in 2007. The increase in amortization of deferred financing expenses is related to the agreement that the Company reached with Investissement Québec (IQ) where they agreed to capitalize 50% of the interests of 2008. In consideration for this, in May 2008, the company granted 643,877 warrants to purchase an equivalent number of common shares, at a price of \$0.70 per share, for a period of three years. The fair value of these warrants amounts to \$258,000 and is amortized in 2008. For the three-month period ended September 30, 2008, \$150,000 were capitalized to the principal compared to \$328,000 in 2007 when 100% of the interests were capitalized.

Since the beginning of the year other net financial expenses increased by \$617,000 to \$1,345,000. This increase is the result of higher interests on bank loans for \$80,000, higher amortization of deferred financing expenses for \$172,000 and no grants in 2008 compared to \$341,000 in 2007. For the nine-month period ended September 30, 2008, \$462,000 were capitalized to the principal compared to \$940,000 in 2007 when 100% of the interests were capitalized.

Consolidated loss for the three-month period ended September 30, 2008 was \$2,739,000, or \$0.07 per basic and diluted share compared to a loss of \$1,023,000, or \$0.06 per basic and diluted share for the same period in 2007. For the nine-month period ended September 30, 2008, consolidated loss amounted to \$4,641,000 or \$0.15 per basic and diluted share compared to a loss of \$4,220,000, or \$0.24 per basic and diluted share in the first nine months of 2007.

Consolidated balance sheet data

	As at September 30, 2008 (unaudited)	As at December 31, 2007 (audited)
Total assets	\$7,445,000	\$6,662,000
Long-term debt	(\$14,987,000)	(\$14,451,000)

Total consolidated assets were \$7.5 million as at September 30, 2008, an increase of \$0.8 million from \$6.7 million as at December 31, 2007. The variation is mainly due to an increase in the total of cash and cash equivalents for \$0.8 million. Long-term debt increased by \$0.5 million to \$15.0 million, mainly the result of the capitalized interest on the Bio-Levier loan.

Liquidity, cash flows and Capital resources

The Company's primary capital needs are the funds required to support its scientific research and development activities including preclinical and clinical trials and capital expenditures for development of its pilot plant facilities and working capital. Since its inception, the Company has financed its cash requirements primarily through issuances of securities, investment tax credits, government funding, cost recoveries, contract research revenues, long-term debt and short-term debt guaranteed by its investment tax credits.

The Company had cash and cash equivalents totaling \$1.0 million as at September 30, 2008, an increase of \$0.8 million from December 31, 2007. The Company had working capital of \$1.0 million as at September 30, 2008. The investment activities are subject to the guidelines contained in the Company's investment policy.

As at September 30, 2008, the Company's long-term debt amounted to \$15.0 million. Under the terms of the Bio-Levier loan agreement, the Company needs to maintain its current ratio at 1.3/1 or higher. As at September 30, 2008 this ratio stood at 1.52/1 (0.64/1 as at December 31, 2007 the Company had a waiver from IQ).

The Company believes that, with the financial resources currently at its disposal, including the private placement completed with PMI in November 2008 (see Subsequent event), it has sufficient cash and cash equivalents to fund planned expenditures and execute its strategy for at least the next 12 months.

Based on our current plans, we 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' in the 2007 Annual Report.

<i>Unaudited cash flow</i>	Three-month period ending September 30, 2008	Three-month Period ending September 30, 2007		Nine-month period ending September 30, 2008	Nine-month period ending September 30, 2007
Operating activities	(\$1,917,000)	(\$979,000)		(\$3,491,000)	(\$3,207,000)
Financing activities	\$2,078,000	\$226,000		\$4,473,000	\$1,773,000
Investing activities	(\$126,000)	\$6,000		(\$227,000)	\$1,118,000
Net change in cash	\$35,000	(\$747,000)		\$755,000	\$316,000

Operating Activities

Cash used in operating activities increased by \$938,000 to \$1,917,000 for the quarter ended September 30, 2008 compared to the same period in 2007. This increase is explained by the increase of the loss net of items not affecting cash and cash equivalents for \$977,000. Since the beginning of the year, cash used in operating activities increased by \$284,000 to \$3,491,000.

Financing Activities

Since the beginning of the year, cash from financing activities increased by \$2.7 million to \$4.5 million compared to the same period in 2007. The increase is mainly the result of two private placements. The first one of 13,000,000 units at a price of \$0.20 per unit for total gross proceeds of \$2,600,000 completed in March 2008 and the second one completed in August 2008 of 11,050,000 units at a price of \$0.20 per unit for total gross proceeds of \$2,210,000 compared to a private placement of \$2,000,000 in 2007. For the first private placement of 2008, each unit consists of one common share of the company and one-half common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one of common share at a price of \$0.25 for two years. For the second private placement of 2008, each unit consists of one common share of the company and one-half common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one of common share at a price of \$0.30 for twelve months.

Investing Activities

Cash used in investing activities (excluding variation in term deposit) increased by \$120,000 in the second quarter of 2008 (\$137,000 since the beginning of the year) related to more additions of property, plant and equipment.

Contractual Obligations

There has been no significant change in contractual obligations and commercial commitments facing Medicago, as described in the Company's 2007 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 November 27, 2008, there were 90,324,940 common shares issued and outstanding, 2,378,260 stock options outstanding, 67,213,196 warrants outstanding and 280,000 compensation options outstanding.

Outlook for the Remaining of 2008 and 2009

Medicago is currently conducting all the necessary preclinical work for its H5N1 VLP pandemic vaccine to enable it to file a CTA with Health Canada in 2009 which would then, pending feedback from Health Canada, allow it to proceed into human clinical trials. Upcoming milestones include:

- Submission of a CTA to Health Canada for Medicago's H5N1 pandemic vaccine
- Production of clinical grade vaccine supply for use in Phase I human clinical trials
- Initiation of a Phase I clinical trial for its pandemic vaccine
- Continuation of business development activities with potential partners
- Completion of immunogenicity study in mice for seasonal vaccine candidate

Financial Instruments risk factors

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

Credit risk

Credit risk exposure represents the risk of financial loss arising from a counterparty's inability or refusal to fully honor its contractual obligations. Our cash is held with a major bank. Amounts receivable are mainly commodity taxes receivables and financing from governments and the risk is minimal.

Interest rate risk

As at September 30, 2008, the company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable 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 3 of the financial statements

The Bio-levier loan (note 3 of the financial statements) bears interest at variable rate and for the third quarter of 2008, everything else being equal a 1% increase in interest rate on that debt would have had an unfavorable impact of \$150,000 on loss and comprehensive loss. A 1% decrease in interest rate would have had the opposite impact on loss and comprehensive loss.

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 our contractual liabilities subsequent to the next twelve

months, we 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' in the 2007 Annual Report.

Contractual liabilities as at September 30, 2008

	Carrying Amount \$	Less than 1 year \$	1 to 3 years \$	Over 3 years \$
Bank loan	803,000	803,000	-	-
Accounts payable and accrued liabilities	1,175,000	1,175,000	-	-
Operating leases	911,000	161,000	359,000	391,000
Licenses	687,000	102,000	269,000	316,000
Long term debt	15,818,000	13,000	320,000	15,485,000

Risk factors and Uncertainties

There has been no significant change in the risk factors and uncertainties facing the Company as described in Medicago's 2007 annual report.

Changes in Internal Controls over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

On behalf of management,

(signed)

Pierre Labbé, CA

Vice-president and Chief Financial Officer

November 27, 2008

Medicago Inc.

Interim Consolidated Financial Statements
(unaudited)
September 30, 2008

Medicago Inc.

Consolidated Balance Sheets

	As at September 30, 2008 \$ (unaudited)	As at December 31, 2007 \$ (audited)
Assets		
Current assets		
Cash and cash equivalents	979,166	223,711
Accounts receivable	121,813	69,745
Financing receivable	-	71,641
Investment tax credits receivable	1,670,129	844,245
Grants receivable	3,058	9,308
Prepaid expenses	69,543	92,963
	<hr/> 2,843,709	<hr/> 1,311,613
Property, plant and equipment	3,944,307	4,060,918
Intangible assets	657,110	1,289,052
	<hr/> 7,445,126	<hr/> 6,661,583
Liabilities		
Current liabilities		
Bank loans	803,000	750,000
Accounts payable and accrued liabilities	1,054,097	983,849
Deferred revenues on research agreements	-	294,400
Current portion of long-term debt	13,072	13,072
	<hr/> 1,870,169	<hr/> 2,041,321
Long-term debt (note 3)	14,986,558	14,451,147
	<hr/> 16,856,727	<hr/> 16,492,468
Shareholders' Deficiency		
Share capital (note 4)	27,192,148	23,465,147
Contributed surplus	1,078,966	802,219
Other equity components (note 4)		
Stock Options	436,409	263,821
Unit Options	66,640	122,135
Warrants	2,727,400	1,787,553
Deficit	<hr/> (40,913,164)	<hr/> (36,271,760)
	<hr/> (9,411,601)	<hr/> (9,830,885)
	<hr/> 7,445,126	<hr/> 6,661,583

Subsequent Event (note 10)

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 (unaudited)

	Three-Months Ended September 30		Nine-Months Ended September 30	
	2008 \$	2007 \$	2008 \$	2007 \$
Revenues from research agreements	-	-	2,248,264	18,500
Expenses				
Research and development	1,118,852	581,597	3,350,728	2,196,508
Research grants and contributions	-	-	(13,750)	-
Research and development tax credits	(330,000)	(468,347)	(1,021,248)	(854,347)
General and administrative, business development and intellectual property	785,315	464,742	2,219,799	1,651,023
Exchange loss (gain)	2,403	802	(4,152)	445
Depreciation of property, plant and equipment	113,695	129,971	357,861	422,105
Amortization of intangible assets	27,059	45,117	82,853	94,350
Write-off of intangible assets	572,439	-	572,439	-
Other financial expenses, net (note 5)	449,210	268,956	1,345,138	728,076
	<u>2,738,973</u>	<u>1,022,838</u>	<u>6,889,668</u>	<u>4,238,160</u>
Loss and comprehensive loss for the period	<u>(2,738,973)</u>	<u>(1,022,838)</u>	<u>(4,641,404)</u>	<u>(4,219,660)</u>
Basic and diluted loss per share (note 9)	<u>(0.07)</u>	<u>(0.06)</u>	<u>(0.15)</u>	<u>(0.24)</u>

Medicago Inc.

Interim Consolidated Statements of Deficit (unaudited)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance at the beginning of the period	38,174,191	33,195,401	36,271,760	30,269,947
Adjustment related to the implementation of new accounting standards	-	-	-	(271,368)
Loss and comprehensive loss for the period	2,738,973	1,022,838	4,641,404	4,219,660
Balance at the end of the period	40,913,164	34,218,239	40,913,164	34,218,239

Interim Consolidated Statements of Contributed Surplus (unaudited)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance at the beginning of the period	802,514	798,034	802,219	798,034
Stock options forfeited	515	-	810	-
Unit options forfeited	55,495	-	55,495	-
Warrants forfeited	220,442	-	220,442	-
Balance at the end of the period	1,078,966	798,034	1,078,966	798,034

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

Medicago Inc.

Interim Consolidated Statements of Cash Flows (unaudited)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2008 \$	2007 \$	2008 \$	2007 \$
Cash flows from operating activities				
Loss and comprehensive loss for the period	(2,738,973)	(1,022,839)	(4,641,404)	(4,219,660)
Items not affecting cash and cash equivalents				
Stock-based compensation costs	68,827	34,663	173,398	73,524
Depreciation and amortization	256,217	204,464	701,012	604,580
Interest capitalized on long-term debt	178,499	336,635	546,444	1,000,447
Grants	-	(239,220)	-	(239,220)
Writeoff of intangible assets	572,439	-	572,439	-
Warrants issued pursuant a licensing agreement	-	-	196,136	-
	(1,662,991)	(686,297)	(2,451,975)	(2,780,329)
Change in non-cash working capital items (note 6)	(253,577)	(292,536)	(1,038,725)	(426,946)
	(1,916,568)	(978,833)	(3,490,700)	(3,207,275)
Cash flows from financing activities				
Bank loan contracted (repaid)	(3,745)	-	53,000	(300,000)
Non-interest-bearing long-debt contracted	-	232,297	-	310,346
Payments on long-term debt	(6,536)	(6,536)	(13,072)	(13,072)
Issuance of units	2,250,625	-	4,850,625	2,000,000
Issue expenses	(162,819)	-	(417,733)	(223,969)
	2,077,525	225,761	4,472,820	1,773,305
Cash flows investing activities				
Term deposit	-	-	-	1,230,088
Additions to property, plant and equipment	(125,893)	(11,732)	(23,350)	(82,447)
Additions to intangible assets	-	18,185	(203,315)	(29,645)
	(125,893)	6,453	(226,665)	1,117,996
Net change in cash and cash equivalents	35,064	(746,619)	755,455	(315,974)
Cash and cash equivalents at the beginning of the period	944,102	873,574	223,711	442,929
Cash and cash equivalents at the end of the period	979,166	126,955	979,166	126,955
Additional information				
Interest paid	154,670	2,374	540,819	7,210

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

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2008

1 Interim financial information

The financial information for the three-month and nine-month periods ended September 30, 2008 and 2007 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, 2007 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

The Company believes that, with the financial resources currently at its disposal, including the private placement completed with PMI in November 2008 (see Subsequent event - note 10), it has sufficient cash and cash equivalents to fund planned expenditures and execute its strategy for at least the next 12 months.

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., 9177-4299 Québec Inc., Fiducie Financière Medicago and SAS Medicago Europa.

2 New accounting standards

Adopted in 2008

On January 1, 2008 the Company adopted the following new sections:

- Section 3862, "Financial Instruments – Disclosures". This section describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks, see note 8.
- Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation", see note 8.

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2008

- Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to determine if the entity has complied with capital requirements and if not, the consequences of such non-compliance, see note 5.
- Section 3031, "Inventories". This section prescribes the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any writedown to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The Company has adopted this standard and there has been no impact on the financial statements.

The CICA amended Section 1400, "General Standards of Financial Statement Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern (going concern assumption).

Future accounting changes

Section 3064, "Goodwill and Intangible Assets" replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company has not yet determined that the impact of the adoption of this section on its consolidated financial statements.

In 2007 the CICA published an update to the Accounting Standards Board of Canada's ("AcSB") "Implementation Plan for Incorporating International Financial Reporting Standards ("IFRS") into Canadian GAAP". The plan outlines the key decisions that the CICA will need to make as it implement the Strategic Plan to converge Canadian GAAP standards with IRFS. While IFRS uses a similar conceptual framework to that of Canadian GAAP, there are still significant accounting policies differences that will need to be resolved. The CICA has confirmed January 1, 2011 as the change over from current Canadian GAAP to IFRS for publicly accountable companies. In sequence with these changes, the Company is currently developing its internal implementation plans to meet the guidelines of the future reporting requirements.

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)
September 30, 2008

3 Long-term debt

	As at September 30, 2008 \$	As at December 31, 2007 \$ (audited)
Loan from Investissement Québec ("IQ"), bearing interest at prime rate plus 3%, payable annually from March 2008 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)	15,178,726	14,717,187
Contribution under an innovation program, payable in semi-annual instalments of \$6,536 since April 2005, non-interest bearing	11,284	21,653
Refundable contribution granted under the Technology Partnerships Canada program, non-interest bearing (b)	442,603	384,618
Contribution under an innovation program, payable in annual instalments of \$28,458 from January 2009, non-interest bearing (c)	185,670	161,452
Deferred financing expenses	(818,653)	(820,691)
	<u>14,999,630</u>	<u>14,464,219</u>
Less: Current portion	<u>13,072</u>	<u>13,072</u>
	<u>14,986,558</u>	<u>14,451,147</u>

- (a) On July 28, 2003, the Company signed a loan agreement of \$12,000,000 with IQ under the Bio-Levier Program. As at September 30, 2008, the Company has used \$12,000,000 plus capitalized interest of \$3,178,726.

The terms and conditions of the loan agreement are as follows:

- (i) For the first three years, the Company may defer the principal instalments and may capitalize interest. Afterwards, interest is payable on a monthly basis from December 21, 2007.
- (ii) In April 2008, IQ agreed to capitalize 50% of the interest for 2008. In consideration for this, Medicago issued 643,877 warrants to purchase an equivalent number of common shares, at a price of \$0.70 per share, for a period of three years.
- (iii) At the Company's request, and under certain conditions, IQ may release the fixed and floating senior charge on any selected intellectual property in the event the Company executes a license agreement, a commercialization agreement or an operating agreement.
- (iv) Under the terms of the agreement, the Company undertook to meet a current ratio exceeding 1.3:1. As at September 30, 2008, the current ratio was 1.52.

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2008

- (b) Under the federal contribution program called Technology Partnerships Canada ("TPC"), the Company is entitled to receive a refundable contribution equivalent to 33% of the eligible expenses incurred by the Company in the optimization and scale-up of its production unit up to a maximum of \$848,200. Royalties of 2% on gross cash proceeds of any kind will be payable from January 1, 2009 based on gross cash proceeds of the prior year. These royalties will be payable at the earlier of the complete repayment of the contribution or by January 1, 2019; subsequent to this date, no further payments will be required. Under this program, the Company undertook to meet a current ratio exceeding 1.3:1.
- (c) Under a federal innovation program, the Company received a refundable contribution of \$300,000 equivalent to 47.1% of the eligible expenses incurred by the Company for business development and intellectual property. This contribution is refundable in annual instalments, beginning after a two-year period following the end of the project, which ended September 1, 2007.

The principal instalments for each of the next five years, excluding IQ loan, are as follows:

	\$
2009	173,069
2010	160,000
2011	160,000
2012	160,000
2013	160,000

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>Nine-Months Ended September 30, 2008</u>		<u>Twelve-Months Ended December 31, 2007</u>	
	Number	\$	Number	\$
Common shares				
Balance – Beginning of period	21,112,440	23,465,147	17,112,440	22,152,413
Issued pursuant private placements (i,ii,iii)	24,050,000	4,024,533	4,000,000	1,540,000
Issued pursuant to the exercise of warrants	162,500	51,626	-	-
Issue expenses *	-	(349,158)	-	(227,266)
Balance – End of period	45,324,940	27,192,148	21,112,440	23,465,147

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2008

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

- (i) On August 29, 2008, the Company issued 11,050,000 units at a price of \$0.20 per unit for total gross proceeds of \$2,210,000 ("the Private Placement"). Each unit consists of one common share of the Company and one-half common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.30.

The gross proceeds of the Private Placement of \$2,210,000 is shared out between the 11,050,000 common shares for a gross amount of \$1,866,533 and the 5,525,000 warrants attached to each unit for a gross amount of \$343,467 (c). In connection with this investment, the Company paid a cash compensation of \$122,050.

- (ii) On March 14, 2008, the Company issued 13,000,000 units at a price of \$0.20 per unit for total gross proceeds of \$2,600,000 ("the Private Placement"). Each unit consists of one common share of the Company and one-half common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.25.

The gross proceeds of the Private Placement of \$2,600,000 is shared out between the 13,000,000 common shares for a gross amount of \$2,158,000 and the 6,500,000 warrants attached to each unit for a gross amount of \$442,000 (c). In connection with this investment, the Company paid a cash compensation of \$215,070.

- (iii) On May 29, 2007, the Company issued 4,000,000 units at a price of \$0.50 per unit for total gross proceeds of \$2,000,000 ("the Private Placement"). Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.75.

The gross proceeds of the Private Placement of \$2,000,000 is shared out between the 4,000,000 common shares for a gross amount of \$1,540,000 and the 4,000,000 warrants attached to each unit for a gross amount of \$460,000 (c). In connection with this investment, the Company paid a cash compensation equivalent to 7% of the gross proceeds from the investment, being \$140,000. The Company has also granted a non-transferable unit option to the agent entitling to subscribe, before May 29, 2009, for 280,000 options at a price of \$0.50 per share as financing expenses (b). Each option entitles the holder thereof to purchase one common share at a price of \$0.50.

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)
September 30, 2008

(a) Stock option plan

The following table summarizes the stock option activity since January 1, 2007:

	Nine-Months Ended September 30, 2008			Twelve-Months Ended December 31, 2007		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding – Beginning of period	1,415,958	263,821	1.10	1,628,978	110,926	1.12
Granted	965,968	-	0.59	97,000	-	0.91
Exercised	-	-	-	-	-	-
Forfeited *	(3,666)	(810)	1.00	(310,020)	(4,185)	1.17
Compensation costs for the period	-	173,398	-	-	157,080	-
Outstanding – End of period	2,378,260	436,409	0.89	1,415,958	263,821	1.10
Options exercisable – End of period	1,080,619	-	1.12	751,258	-	1.13

* During the nine-month period ended September 30, 2008, 3,666 stock options were forfeited (310,020 in 2007). The corresponding credit amounting to \$810 (\$4,185 in 2007) has been recorded as contributed surplus.

The following table summarizes information about outstanding and exercisable stock options as at September 30, 2008:

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 \$
\$0.37	223,674	59	0.37	-	-
\$0.62 to \$0.66	767,294	54	0.65	8,333	0.65
\$1.00	856,498	34	1.00	558,499	1.00
\$1.11	378,706	24	1.11	378,706	1.11
\$1.68	152,088	36	1.68	135,081	1.68
	2,378,260	41	0.89	1,080,619	1.12

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)
September 30, 2008

Assumptions used in determining stock-based compensation costs

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

	Nine-Months Ended September 30, 2008	For the year Ended December 31, 2007
Dividend yield	Nil	Nil
Expected volatility	95%	82.73%
Risk-free interest rate	3.06%	4.12%
Expected life (years)	5.00	5.00
Number of stock options granted	965,968	97,000
Weighted average fair value of options granted (\$)	0.41	0.58

(b) Unit options

The following table summarizes information about unit options outstanding and exercisable as at January 1, 2007:

	For the nine-month period Ending September 30, 2008			For the year ended December 31, 2007		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable						
– Beginning of period	420,268	122,135	0.83	140,268	55,495	1.00
Forfeited *	(140,000)	(55,495)	1.00	-	-	-
Granted to the agent pursuant to a private placement	-	-	-	280,000	66,640	0.75
Outstanding and exercisable - End of period	280,000	66,640	0.75	420,268	122,135	0.83

* During the nine-month period ended September 30, 2008, 140,000 unit options were forfeited. The corresponding credit amounting to \$55,495 has been recorded as contributed surplus.

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2008

The following table summarizes information about unit options outstanding and exercisable as at September 30, 2008:

Exercise price	Number	Weighted average remaining (years)
\$0.75	280,000	0.66

(c) Warrants

The following table summarizes the information relating to warrants outstanding as at January 1, 2007:

	For the nine-month period Ending September 30, 2008			To the year ended December 31, 2007		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable						
– Beginning of period	7,430,653	1,787,553	1.05	3,872,321	1,395,437	1.11
Granted at the signing of a non-exclusive licensing agreement*	2,000,000	196,136	0.23	-	-	-
Granted to the subscribers in connection with private placements	12,025,000	785,467	0.25	4,000,000	460,000	0.75
Granted to Investissement Québec (see note 3a ii))	643,877	258,260	0.70	-	-	-
Exercised	(162,500)	(11,001)	0.25	-	-	-
Forfeited	(2,003,834)	(220,442)	1.10	-	-	-
Cancelled **	-	-	-	(441,668)	-	-
Warrant issue expenses	-	(68,573)	-	-	(67,884)	-
Outstanding and exercisable						
- End of period	19,933,196	2,727,400	0.44	7,430,653	1,787,553	0.92

* Under the terms of a non exclusive licensing agreement, the Company issued 2,000,000 warrants. Each warrants entitles the holder thereof to purchase one common share at a price of \$0.23 for the first year, \$0.25 for the second year and \$0.27 for the third year ending February 7, 2011.

** No carrying value has been allocated to these warrants since they were granted before January 1, 2003.

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2008

The following table summarizes the information relating to warrants outstanding and exercisable as at September 30, 2008:

Exercise price	Number	Weighted average remaining (years)
\$0.23	2,000,000	2.35
\$0.25	6,337,500	1.45
\$0.30	5,525,000	0.92
\$0.70	643,877	2.59
\$0.75	4,000,000	0.66
\$1.12	1,426,819	2.92
	19,933,196	1.38

The fair value of warrants was estimated using the Black-Scholes valuation model with the following assumptions:

	Nine-Months Ended September 30, 2008	Year ended December 31, 2007
Dividend yield	Nil	Nil
Expected volatility	109%	85%
Risk-free interest rate	2.64%	4.53%
Expected life (years)	1.80	2
Fair value of warrants granted (\$)	0.084	0.115

5 Financial expenses, net

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Interest on long-term debt	321,940	336,635	993,972	1,000,448
Interest and bank charges	13,637	844	93,502	7,209
Amortization of deferred financing expenses	115,462	29,375	260,299	88,125
Interest income	(1,829)	(8,776)	(2,635)	(26,490)
Grants	-	(89,122)	-	(341,216)
	449,210	268,956	1,345,138	728,076

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)
September 30, 2008

6 Additional information on cash flows

(a) Change in non-cash working capital items

	<u>Three-Months Ended</u> <u>September 30,</u>		<u>Nine-Months Ended</u> <u>September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$	\$
Accounts receivable, grants and financing receivable	61,271	141,880	25,823	68,683
Investment tax credits receivable	(259,825)	(468,347)	(825,884)	(204,030)
Prepaid expenses	10,987	(30,275)	23,420	(61,643)
Accounts payable and accrued liabilities	(66,010)	64,206	32,316	(229,956)
Deferred revenues on research agreements	-	-	(294,400)	-
	<u>(253,577)</u>	<u>(292,536)</u>	<u>(1,038,725)</u>	<u>(426,946)</u>

7 Capital management

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. The Company makes every effort to manage its fund to minimize dilution to its shareholders.

The Company manages the capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its activities.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets. There are no assurances that these initiatives will be successful.

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

8 Financial instruments

Fair value

The following table summarizes the fair value of financial instruments as of September 30, 2008 and December 31, 2007

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2008

	As of September 30, 2008				
	Held for trading	Loans and receivables	Other financial liabilities	Carrying value	Fair Value
				Total	Total
Financial assets					
Cash and cash equivalents	979,166	-	-	979,166	979,166
Accounts receivable	-	121,813	-	121,813	121,813
Financing receivable	-	-	-	-	-
Grants receivable	-	3,058	-	3,058	3,058
	<u>979,166</u>	<u>124,871</u>	<u>-</u>	<u>1,104,037</u>	<u>1,104,037</u>

Financial liabilities

Bank loans	-	-	803,000	803,000	803,000
Accounts payable and accrued liabilities	-	-	1,054,097	1,054,097	1,054,097
Long term debt	-	-	15,818,283	15,818,283	15,818,283
	<u>-</u>	<u>-</u>	<u>17,675,380</u>	<u>17,675,380</u>	<u>17,675,380</u>

	As of December 31, 2007				
	Held for trading	Loans and receivables	Other financial liabilities	Carrying value	Fair Value
				Total	Total
Financial assets					
Cash and cash equivalents	223,711	-	-	223,711	223,711
Accounts receivable	-	69,745	-	69,745	69,745
Financing receivable	-	71,641	-	71,641	71,641
Grants receivable	-	9,308	-	9,308	9,308
	<u>223,711</u>	<u>150,694</u>	<u>-</u>	<u>374,405</u>	<u>374,405</u>

Financial liabilities

Bank loans	-	-	750,000	750,000	750,000
Accounts payable and accrued liabilities	-	-	983,849	983,849	983,849
Long term debt	-	-	15,297,982	15,297,982	15,297,982
	<u>-</u>	<u>-</u>	<u>17,031,831</u>	<u>17,031,831</u>	<u>17,031,831</u>

Cash and cash equivalents are recorded at fair value. The fair value of other financial instruments approximates their carrying value due to their short-term maturity or to current market rates except for the long-term debt. The fair value of the long-term debt approximates its carrying value due to the use of the effective interest rate method.

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2008

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

Credit risk

Credit risk exposure represents the risk of financial loss arising from a counterparty's inability or refusal to fully honour its contractual obligations. Our cash is held with a major bank. Amounts receivable are mainly commodity taxes receivable, investment tax credits and financing from governments and the risk is minimal.

Interest rate risk

As at September 30, 2008, the company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable 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 3

The Biolevier loan (note 3) bears interest at variable rate and for the third quarter of 2008, everything else being equal a 1% increase in interest rate on the debt would have had an unfavourable impact of \$150,000 on loss and comprehensive loss. A 1% decrease in interest rate would have had the opposite impact on loss and comprehensive loss.

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 our contractual liabilities, we 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' in the 2007 Annual Report.

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)
September 30, 2008

Contractual liabilities as of September 30, 2008

	Carrying Amount \$	Less than 1 year \$	1 to 3 years \$	Over 3 years \$
Bank loan	803,000	803,000	-	-
Accounts payable and accrued liabilities	1,054,000	1,054,000	-	-
Operating leases	911,000	161,000	359,000	391,000
Licenses	687,000	102,000	269,000	316,000
Long term debt	15,818,000	13,000	320,000	15,485,000

9 Earnings per share

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

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2008 \$	2007 \$	2008 \$	2007 \$
Basic weighted average number of shares outstanding	38,059,858	21,112,440	31,966,515	17,445,773
Dilutive effect of stock options	-	1,134	3,754	517
Dilutive effect of warrants	1,586,441	23,548	3,033,551	-
Diluted weighted average number of shares outstanding	<u>39,646,299</u>	<u>21,137,122</u>	<u>35,003,520</u>	<u>17,446,290</u>

For the three-month and nine-month periods ended September 30, 2008 and 2007, 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.

10 Subsequent Event

On November 10, 2008, following the approval by the shareholders of the Company, Medicago completed a private placement with an indirect subsidiary of Philip Morris International Inc. ("PMI") of 45,000,000 units

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2008

(the "Units") at a price of \$0.355 per Unit for a net proceeds of \$15,975,000 which will be used to further fund the development of Medicago's pandemic and seasonal influenza vaccines.

Each Unit consists of one common share in the share capital of Medicago (a "Common Share") and one common share purchase warrant (a "Warrant"). Each Warrant entitles its holder to purchase one Common Share until October 20, 2010, at a price equal to CAD\$0.375 for the first year following the date of the issuance of the Warrants and CAD\$0.405 for the second year following the date of the issuance of the Warrants.

11 Comparative figures

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