Medicago Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

March 31, 2011 and 2010
(expressed in Canadian dollars)

Medicago Inc.

Interim Consolidated Statements of Financial Position
(Unaudited)

	As at March 31, 2011 $	As at December 31, 2010 $	As at January 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents	1,815,194	3,415,700	228,039
Short-term investments (note 6)	5,133,066	5,105,371	14,105,198
Amounts receivable	452,333	323,554	337,838
Investment tax credits receivable	3,276,938	3,424,937	2,097,274
Prepaid expenses	37,406	265,065	96,848
	10,714,937	12,534,627	16,865,197
Non-current assets			
Security deposits	490,240	385,677	50,000
Property, plant and equipment	6,621,833	6,500,848	4,941,092
Intangible assets	2,128,976	1,891,375	974,045
Total assets	19,955,986	21,312,527	22,830,334
Liabilities			
Current liabilities			
Bank loans (note 7)	908,000	600,000	600,000
Accounts payable and accrued liabilities	2,511,449	3,243,142	2,301,518
Deferred grants on research agreement (note 8)	9,981,307	6,955,589	340,203
Current portion of long-term debt	66,269	72,538	83,862
	13,467,025	10,871,269	3,325,583
Non-current liabilities			
Long-term debt	15,664,400	15,599,743	15,404,017
Total liabilities	29,131,425	26,471,012	18,729,600
Shareholders' Equity (Deficiency)			
Share capital (note 9)	54,341,621	53,605,485	48,660,207
Contributed surplus	8,067,236	8,067,236	1,554,679
Other equity components			
Stock option plan (note 10a)	1,960,141	1,760,148	1,118,258
Unit options	483,125	483,125	399,536
Warrants (note 10b)	3,641,306	3,837,442	8,919,515
Deficit	(78,092,225)	(73,040,873)	(56,557,000)
Accumulated other comprehensive income	423,357	128,952	5,539
Total equity	(9,175,439)	(5,158,485)	4,100,734
Total liabilities and equity	19,955,986	21,312,527	22,830,334

Commitment (note 15)
Event after reporting date (note 16)

Approved by the Board of Directors

(signed) RANDAL CHASE, PH.D. Director

(signed) PIERRE SECCARECCIA, CA Director

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

Medicago Inc.

Interim Consolidated Statement of Changes in Equity
(Unaudited)

	Share capital $	Contributed surplus $	Stock option plan $	Unit options $	Warrants $	Deficit $	Accumulated other comprehensive income $	Total $
Balance – January 1, 2011	53,605,485	8,067,236	1,760,148	483,125	3,837,442	(73,040,873)	128,952	(5,158,485)
Net loss for the period	-	-	-	-	-	(5,051,352)	-	(5,051,352)
Other comprehensive income for the period	-	-	-	-	-	-	294,405	294,405
Total comprehensive income (loss)	-	-	-	-	-	(5,051,352)	294,405	(4,756,947)
Transaction with owners								
Warrants exercised	736,136	-	-	-	(196,136)	-	-	540,000
Stock-based compensation	-	-	199,993	-		-	-	199,993
	736,136	-	199,993	-	(196,136)	-	-	739,993
Balance – March 31, 2011	54,341,621	8,067,236	1,960,141	483,125	3,641,306	(78,092,225)	423,357	(9,175,439)
Balance – January 1, 2010	48,660,207	1,554,679	1,118,258	399,536	8,919,515	(56,557,000)	5,539	4,100,734
Net loss for the period	-	-	-	-	-	(3,742,389)	-	(3,742,389)
Other comprehensive income for the period	-	-	-	-	-	-	922	922
Total comprehensive income (loss)	-	-	-	-	-	(3,742,389)	922	(3,741,467)
Transaction with owners								
Issuance of share capital	1,072,076	-	-	-	-	-	-	1,072,076
Stock-based compensation	-	-	148,168	-	-	-	-	148,168
Stock-based compensation forfeited	-	13,586	(13,586)	-	-	-	-	-
Warrants exerciced	-	-	-	-	(211,201)	-	-	(211,201)
Warrants expired	-	3,971	-	-	(3,971)	-	-	-
	1,072,076	17,557	134,582	-	(215,172)	-	-	1,009,043
Balance – March 31, 2010	49,732,283	1,572,236	1,252,840	399,536	8,704,343	(60,299,389)	6,461	1,368,310

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

Medicago Inc.

Interim Consolidated Statements of Income
For the three-month periods ended March 31, 2011 and 2010
(Unaudited)

	2011 $	2010 $
Revenues		
Revenues from research agreements	-	34,345
Operating expenses		
Research and development	2,898,994	2,015,214
General and administrative	1,548,194	1,331,845
Depreciation of property, plant and equipment	224,589	170,372
Amortization of intangible assets	30,336	16,219
Financial income (note 11)	(3,041)	(33,696)
Financial costs (note 11)	352,280	276,780
	5,051,352	3,776,734
Loss for the period	(5,051,352)	(3,742,389)
Basic and diluted loss per share (note 13)	(0.04)	(0.03)

Interim Consolidated Statements of Comprehensive Income
For the the three month period ended March 31, 2011 and 2010
(Unaudited)

	2011 $	2010 $
Loss for the period	(5,051,352)	(3,742,389)
Other comprehensive income		
Unrealized gain on available-for-sale investments	28,175	3,377
Reclassification of gain on available-for-sale investments realized upon sale to loss for the year	(1,372)	(2,455)
Foreign currency translation adjustments	267,602	-
Total other comprehensive income	294,405	922
Comprehensive loss for the period	(4,756,947)	(3,741,467)

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

Medicago Inc.

Interim Consolidated Statements of Cash Flows
For the three-month periods ended March 31, 2011 and 2010
(Unaudited)

	2011 $	2010 $
Cash flows from operating activities		
Loss for the period	(5,051,352)	(3,742,389)
Items not affecting cash and cash equivalents		
Stock-based compensation costs	199,993	148,168
Depreciation and amortization	254,925	186,591
Amortization of deferred charges	29,375	29,375
Realized gain on available-for-sale investments	(1,372)	(2,455)
Interest capitalized on long-term debt	38,890	30,832
	(4,529,541)	(3,349,878)
Change in non-cash working capital items (note 14a)	3,018,317	125,865
Net cash used for operating activities	(1,511,224)	(3,224,013)
Cash flows from financing activities		
Bank loans contracted	908,000	-
Payments on bank loans	(600,000)	-
Payments on long-term debt	(9,877)	(5,787)
Exercise of warrants	540,000	860,875
Net cash generated from financing activities	838,123	855,088
Cash flows from investing activities		
Additions to short-term investments	(118,520)	(2,745,745)
Disposal of short-term investments	119,000	5,841,777
Security deposit	(113,000)	-
Additions to property, plant and equipment	(379,211)	(537,188)
Additions to intangible assets	(523,676)	(116,102)
Net cash generated from (used for) investing activities	(1,015,407)	2,442,742
Effect of changes in foreign exchange rate on cash	88,002	-
Net change in cash and cash equivalents	(1,600,506)	73,817
Cash and cash equivalents – Beginning of period	3,415,700	228,039
Cash and cash equivalents – End of period	1,815,194	301,856
Interest paid	284,012	215,805

Additional information (note 14b)

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

1 General information

Medicago Inc. (The "Company") is govern by the Québec Business Corporations Act (Québec). Since the beginning of its operations, most of the Company's activities have been devoted to research and development. The Company is a clinical-stage biotechnology company focused on the development of vaccines in order to commercialize them in the future using its proprietary Virus-Like Particules and manufacturing technologies.

The Company is listed on the Toronto Stock Exchange (MDG-T) and is incorporated and domiciled in Canada.

The Company's registered head office is located at 1020 Route de l'Église, Suite 600, Québec, Québec Canada, G1V 3V9.

2 Basis of presentation and adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the company has commenced reporting on this basis in these condensed interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of international Financial Reporting Standards". Subject to certain transition elections disclosed in note 17, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 17 discloses the impact of the transition to IFRS on the company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 26, 2011, which is the date of approval of the financial statements by the board of director. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the company's Canadian GAAP annual financial statements for the year ended December 31, 2010, an which are considered material in understanding these condensed interim consolidated financial

statement. Note 18 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements.

3 Significant accounting policies

Basis of measurement

These condensed interim consolidated financial statements have been prepared under the historical cost convention, except for financial instruments categorized as available-for-sale.

Basis of consolidation

The consolidated financial statements of the company include the accounts of all of its subsidiaries, which are Medicago R&D Inc., 9177-4083 Québec Inc., 9177-4265 Québec Inc., Fiducie Financière Medicago and Medicago USA Inc. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries accounting policies have been changed where necessary to ensure consistency with the policies adopted by the company.

Subsidiaries are thoses entities (including special purpose entities) over which the Company is having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, the Company's functional and presentation currency.

The financial statements of entities that have a functional currency different from that of the Company (“foreign operations”) are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions, and from the translation at the year-end exchange rates of

monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

Segment reporting

The Company manages its business on the basis of one reportable segment. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

Financial assets

Classification under IAS 39

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition:

a) Loans and receivables

   Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise cash, term deposits, grants receivable, interest and other receivable, and security deposit.

b) Available-for-sale

   Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale comprises instruments cash equivalents and short-term investments in the form of actively traded securities.

Recognition and measurement under IAS 39

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income.

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase or sell the asset.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other gains and losses when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of earnings and included in other gains and losses.

Financial liabilities

Financial liabilities at amortized cost include bank loans, accounts payable and accrued liabilities and long-term debt, they are initially recognized at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the debt using the effective interest method.

Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

a) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the

asset is reduced by this amount either directly or indirectly through the use of an allowance account.

b) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

The major categories of property, plant and equipment are depreciated over their estimated useful lives, on a straight-line basis as follows:

	Period and rates
Production unit	20 years
Leasehold improvements	Term of lease
Computer equipment	3 years
Laboratory equipment	8 years
Office furniture	8 years

The company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income.

Assets under capital lease obligations

Leases that transfer substantially all of the benefits and risks of ownership of the assets to the Company are accounted for as capital lease obligations. At the time a capital lease obligation is entered into, an asset is recorded together with the related obligation. Assets under capital lease obligations are depreciated over their estimated useful lives at the same rates as other similar assets.

Intangible assets

The Company's intangible assets include licenses, patents and software with finite useful lives. These assets are capitalized and amortized on a straight-line basis in the statement of income over the period of their expected useful lives as follows:

	Periods
Licenses	20 years
Patents	20 years
Software	3 years

All expenses related to development activities which do not meet generally accepted criteria for deferral, and research activities are expensed as incurred. Development expenses which meet generally accepted criteria for deferral are capitalized and amortized against income over the estimated period of benefit. As at March 31, 2011, December 31 2010 and January 1st, 2010, no development costs have been deferred.

Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and values in use (being the present value of the expected future cash flows of the relevant assets of the CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances require such consideration.

Government grants

Grants are accounted for using the cost reduction method. Accordingly, grants are recorded as a reduction of the related expenses or capital expenditures in the year in which those expenses are incurred, provided there is reasonable assurance that the grants will be realized.

If a grant is received and expenses related to this grant are not yet incurred, the grant is recorded as a deferred grant until expenses are incurred.

Research and development tax credits and receivables

The Company is entitled to scientific research and experimental development ("SR&ED") tax credits granted by the Canadian federal government and the government of the Province of Quebec.

SR&ED tax credits and grants are accounted for using the cost reduction method. Accordingly, tax credits and grants are recorded as a reduction of the related expenses or capital expenditures in the year in which those expenses are incurred, provided there is reasonable assurance that the credits and grants will be realized.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and as well as all highly liquid short-term investments having a term of less than three months at the acquisition date.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares or options are shown in equity as a deduction net of tax from the proceeds.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognized for future operating losses.

If the effect of time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Revenue recognition

In general, revenues are recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount can be measured reliably. Revenues comprise the fair value of the consideration received or receivable for services in the ordinary course of the group's activities.

Revenues related to research agreements are bound to milestone agreements and are recorded as the milestones are reached and upon customer acceptance. Under these agreements, the payments received in advance are recognized as deferred revenue in the balance sheet and then, as revenue when milestones are reached and upon customer acceptance. Revenues from research agreements are recognized using the percentage-of-completion method.

The existing licensing agreements usually foresee one-time payment (upfront payment) and milestone payments. Revenues associated with those multiple-element arrangements are allocated to the various elements based on their relative fair value. The consideration received is allocated among the separate units based on each unit's fair value or using the residual method, and the applicable revenue recognition criteria are applied to each of the separate units.

License fees representing non-refundable payments received upon the execution of license agreements are recognized as revenue upon execution of the license agreements when the Company has no significant future performance obligations and collectability of the fees is assured. Upfront payments received at the beginning of licensing agreements are not recorded as revenue when received but are amortized based on the progress of the related research and development work. This progress is based on estimates of total expected time or duration to complete the work which is compared to the period of time incurred to date in order to arrive at an estimate of the percentage of revenue earned to date.

Share-based payments

The Company grants stock options to certain employees. Stock options vest over three years (33 1/3% per year) and expire after ten years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

The impact of any service condition is excluded from the fair value calculation. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the statement of income, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited, together with the related compensation costs, to share capital (nominal value), net of any directly attributable transaction costs.

4 Accounting standards issued but not yet applied

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

In May 2011, the IASB issued a group of five new standards that address the scope of the reporting entity: IFRS 10, Consolidated financial statements, IFRS 11, Joint arrangements, IFRS 12, Disclosure of interests in other entities, IAS 27, Separate financial statements and IAS 28, Investments in associates.

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, Consolidated and separate financial statements and SIC-12, Consolidation – special purpose entities. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control focusing on the need to have both power and variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. The renamed IAS 27 continues to be a standard dealing solely with separate financial statements and its guidance is unchanged.

IFRS 11 has changed the definitions of joint arrangements reducing the types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today.

IFRS 12 sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11 replacing the disclosure requirements currently found in IAS 28. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

These standards are required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of these standards or determined whether it will adopt the standards early.

5 Critical accounting estimates and judgments

The Company makes estimates and judgments concerning the future. The resulting accounting estimates and judgments will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

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, impairment of property, plant and equipment and intangible assets. 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.

Revenue recognition

The nature of the Company's business is such that many revenue transactions do not have a simple structure. Revenue agreements may consist of multiple components occurring at different times. The Company is also party to agreements which can involve upfront and milestone payments that may occur over several periods. These agreements may also involve certain future obligations. Revenue is only recognized when, in management's judgment, the significant risks and rewards of ownership have been transferred or when the obligation has been fulfilled. For some transactions this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement.

The Company uses the percentage-of-completion method in accounting for its research agreements and licensing agreements. Reviewing these agreements requires due care and a degree of management's judgment. For some agreements, this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the milestones if they are substantive.

Research and development expenses

Research and development expenditures consist of direct and indirect expenses. The Company accounts for clinical trial expenses on the basis of work completed which relies on estimates of total costs incurred based on completion of studies. Expenses recorded are reviewed for capitalization purposes as the trial advances until its final phase.

All expenses related to development activities which do not meet generally accepted criteria for deferral, and research activities are expensed as incurred. Development expenses which meet generally accepted criteria for deferral are capitalized and amortized against earnings over the estimated period of benefit.

As at March 31, 2011, December 31 2010 and January 1 2010, no development costs have been deferred.

Stock-based compensation and other stock-based payments

The Company has a stock option plan which is described in note 10 to the condensed interim consolidated financial statements. As regards stock options granted, the Company uses the fair value based method of accounting. The fair value of stock options is determined using the Black-Scholes option pricing model, which requires the use of certain assumptions, including future stock price volatility and expected life of the instruments.

The expected life is estimated using the contractual life of the instrument. The expected volatility is estimated using the historical volatility of the Company's stock over the same period as the contractual life.

Income taxes, government assistance and tax credits

Income taxes are accounted for using the asset and liability method. Future income tax assets and liabilities are recognized in the balance sheet to account for the future tax consequences attributable to temporary differences between the respective accounting and taxable value of balance sheet assets and liabilities. Future income tax assets and income tax liabilities are measured using the income tax rates that are most likely to apply when the asset is realized or the liability is settled. The effect of changes in income tax rates is recognized in the year during which these rates change. As appropriate, a valuation allowance is recognized to decrease the value of tax assets to an amount that is more likely than not to be realized. In estimating the realization of future income tax assets, management considers whether a portion or all future tax assets are more likely than not to be realized. Realization is subject to future taxable income.

In the event the Company determines that it can realize its tax assets, it will readjust them for the amount and adjust the income in the period for which such determination is made.

Moreover, the Company is entitled to government assistance in the form of research tax credits and grants. These are applied against related expenses and the cost of the asset acquired. Tax credits are available based on eligible research and development expenses consisting of direct and indirect expenditures and including a reasonable allocation of overhead expenses. Grants are subject to compliance with terms and conditions of the related agreements. Government assistance is recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program or, with regard to tax credits, when there is reasonable assurance that they will be realized.

As at January 1, 2010, December 31, 2010 and March 31, 2011 the Company did not recognize any non-refundable tax credits.

Impairment of assets with definite useful lives

Assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated. Factors such as changes in the planned use of production unit, laboratory equipment, or the presence or absence of technical obsolescence could result in shortened useful lives or impairment. An impairment loss is recognized, if any, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

As of January 1, 2010, December 31, 2010, and March 31, 2011, management determined that there was no need for impairment.

6 Short-term investments

Short-term investments include the following:

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Money market fund	1,004,973	1,001,866	1,256,713
Bonds and discount notes, maturing within one year	3,728,093	3,703,505	3,248,485
Term deposit bearing interest at annual rates ranging from 1.55% to 1.71%, maturing within one year	400,000	400,000	9,600,000
	5,133,066	5,105,371	14,105,198

7 Bank loans

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Bearing interest at prime rate plus 0.75% annually. A term deposit of 113,000 $ has been given as security.	908,000	600,000	600,000

Under the terms of the agreement, the Company undertook to meet a current ratio exceeding 1.3:1. at March 31, 2011, the current ratio is 3.1:1. Current ratio is calculated excluding deferred grant on research agreement.

8 Deferred grants on research agreements

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
CQDM (i)	20,992	245,812	340,203
PVS (ii)	416,900	268,970	-
DARPA (iii)	9,543,415	6,440,807	-
	9,981,307	6,955,589	340,203

(i) The Company is entitled to a contribution from Québec's Consortium for Drug Discovery ("CQDM") of up to $1.77M. For the period ended March 31, 2011, the Company received no sum ($243,374 in 2010). An amount of $224,820 ($370,736 in 2010) is presented as research grants and contributions.

(ii) On October 13, 2010, the Company is entitled to a contribution from PATH Vaccine Solutions (PVS) of up to $940,892 (US$946,000). For the period ended March 31, 2011, the Company received a sum of $242,850 (US$250,000), of which an amount of $94,920 is presented as research grants and contributions.

(iii) On August 10, 2010, the Company was awarded a US$21M funding award from the Defense Advanced Research Projects Agency (DARPA). For the period ended March 31, 2011, the Company received a sum of $3.541M (US$3.812M), of which an amount of $438,504 (US$444,967) is presented presented as research grants and contributions.

9 Share capital

The authorized share capital of the Company is as follows:
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:

	For the three-month period ended March 31, 2011		For the year ended December 31, 2010	
	Number	**$**	**Number**	**$**
Common shares				
Balance – Beginning of year	136,922,102	53,605,485	114,771,690	48,660,207
Issued pursuant to the payment of a commitment fee	-	-	154,393	67,162
Issued pursuant to a public offering	-	-	18,518,520	4,802,771
Issued pursuant to the exercise of warrants	2,000,000	736,136	3,453,500	1,078,244
Issued pursuant to the exercise of stock options	-	-	23,999	7,864
Repricing of warrants	-	-	-	(110,508)
Issue expenses *	-	-	-	(900,255)
Balance – End of year	138,922,102	54,341,621	136,922,102	53,605,485

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

Equity distribution agreement

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

10 Other equity components

a) Stock option plan

The following table summarizes the stock option activity since January 1, 2010:

	For the three-month period ended March 31, 2011		For the year ended December 31, 2010	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding – Beginning of period	8,757,693	0.51	7,091,592	0.55
Granted	37,500	0.53	2,067,646	0.47
Exercised	-	-	(23,999)	0.20
Forfeited	-	-	(68,987)	0.39
Expired	(70,147)	1.11	(308,559)	1.11
Outstanding – End of period	8,725,046	0.51	8,757,693	0.51
Options exercisable – End of period	4,913,700	0.53	3,963,860	0.60

The following table summarizes information about outstanding and exercisable stock options as at March 31, 2011:

	Stock options outstanding			Stock options currently exercisable	
Exercise price	Number	Weighted average remaining contractual life (months)	Weighted average exercise price $	Number	Weighted average exercise price $
$0.20	1,985,317	33	0.20	1,322,774	0.20
$0.355	1,420,000	33	0.355	1,305,001	0.355
$0.37 to $0.47	1,876,320	106	0.45	149,116	0.37
$0.52 to $0.66	1,281,128	54	0.60	783,320	0.62
$0.72	1,213,193	105	0.72	404,401	0.72
$1.00 to $1.11	797,000	5	1.00	797,000	1.00
$1.68	152,088	3	1.68	152,088	1.68
	8,725,046	58	0.51	4,913,700	0.53

Assumptions used in determining stock-based compensation costs

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

	Three-month period ended March 31, 2011	For the year ended December 31, 2010
Dividend yield	Nil	Nil
Expected volatility	111.1%	116.42%
Risk-free interest rate	2.86%	2.49%
Expected life (years)	5	5
Weighted average fair value of options granted at market price at the date of the grant ($)	0.53	0.39
Weighted average fair value of options granted at a price higher than the market price at the date of the grant ($)	-	0.34

For the period ended March 31, 2011, the stock-based compensation costs was 199,993 $ (148,108 $ in 2010).

b) Warrants

The following table summarizes the warrant activity since January 1, 2010:

	For the three-month period ended March 31, 2011		For the year ended December 31, 2010	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding and exercisable – Beginning of period	18,159,586	0.53	60,628,946	0.49
Granted to the subscribers in connection with public offering	-	-	13,888,890	0.50
Agent's fee in connection with Equity Distribution Agreement	-	-	200,000	0.50
Exercised	(2,000,000)	0.27	(3,453,500)	0.25
Expired	-	-	(53,104,750)	0.41
Outstanding and exercisable – End of period	16,159,586	0.56	18,159,586	0.53

The following table summarizes the information relating to warrants outstanding and exercisable as at March 31, 2011:

Exercise price	Number	Weighted average remaining contractual life (years)
$0.50	14,088,890	4.33
$0.70	643,877	0.10
$1.12	1,426,819	0.42
	16,159,586	3.82

11 Financial income and costs

	Three-month period ended March 31, 2011 $	Three-month period ended March 31, 2010 $
Financial income		
Gain on sale of available for sale investments	(1,372)	(2,455)
Interest income	(1,669)	(31,241)
	(3,041)	(33,696)
Financial costs		
Interest on long-term debt	294,597	229,700
Interest and bank charges	28,308	17,705
Amortization of deferred financing expenses	29,375	29,375
	352,280	276,780

12 Segment information

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

All revenues of the period have been allocated based on the location in which the sale originated. All of them have been generated in Canada. 100% of the revenues for the three-month period ended March 31, 2010 were with one customer.

13 Loss per share

Basic loss per common share is calculated by dividing the net loss for the period attributable to equity holders of the Company by the weighted average number of common shares outstanding during the period.

	Three-month period ended March 31, 2011 $	Three-month period ended March 31, 2010 $
Loss attributable to equity holders of the Company	5,051,352	3,742,389
Weighted average number of common shares outstanding	138,144,324	115,742,201
Basic net loss per common share	0.04	0.03

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 loss per share calculations:

	Three-month period ended March 31, 2011 $	Three-month period ended March 31, 2010 $
Basic and diluted weighted average number of shares outstanding	138,144,324	115,742,201
Dilutive effect of stock options	1,979,405	1,386,313
Dilutive effect of warrants	365,715	11,480,649
Diluted weighted average number of shares outstanding	140,489,444	128,609,613

Excluded from the table above are 3,811,346 stock options (2010- 3,327,621) and 2,070,696 warrants (2010 – 10,120,696) since the exercise prices were greater than the average market price of the common shares for the year.

For the three-month period ended March 31, 2011 and 2010, 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.

14 Financial information included in consolidated statements of cash flows

(a) Changes in non-cash working capital items

	Three-month period ended March 31, 2011 $	Three-month period ended March 31, 2010 $
Amounts receivable	(128,783)	(16,753)
Investment tax credits receivable	147,999	(165,241)
Prepaid expenses	224,390	46,586
Accounts payable and accrued liabilities	(436,470)	388,635
Deferred grants on research agreement	3,211,181	(127,362)
	3,018,317	125,865

(b) Supplemental information on items not affecting cash and cash equivalents

	Three-month period ended March 31, 2011 $	Three-month period ended March 31, 2010 $
Acquisition of property, plant and equipment in accounts payable and accrued liabilities	33,637	-
Acquisition of intangible assets in accounts payable and accrued liabilities	255,739	-

15 Commitment

On March 31 2011, Medicago USA Inc. amended a lease agreement signed on August 10, 2010. Increase in premises amounts to US$ 7,060,000. This lease begins in July 2011 and expires in June 2026 with a renewal option of five years. The increase in minimum lease amounted for each of the next five fiscal years is as follows: US$190,000 in 2011, US$385,000 in 2012, US$397,000 in 2013, US$408,000 in 2014 and US$421,000 in 2015. Following the signing of the amendment, the Company increased its letter of credit in favour of the lessor from US$337,500 to US$ 696,000.

In this amendment the Company committed to pay US$8.4 Million for equipment to be installed in its US facility. Such amount shall be payable by Medicago in five monthly equal instalments of US$1.674 Million, commencing in April 2011.

16 Event after reporting date

On April 5, 2011 the Company closed an offering of 34,117,600 units at a price of $0.51 per Unit, representing gross proceeds of $17,399,976. Each Unit is comprised of one common share and one quarter of one common share purchase warrant. Each full Warrant will have an exercise price of $0.75, exercisable for a period of 24 months following the closing date of the Offering.

17 Transition to IFRS

The Company's condensed consolidated interim financial statements have been prepared in accordance with IFRS. This is the Company's first consolidated financial statements prepared under IAS 34 and IFRS 1, *"First-time Adoption of IFRS"*, has been applied. The Company's transition date is January 1, 2010, (“transition date”). The Company prepared its opening IFRS statement of financial position at that date.

The effect of the Company’s transition to IFRS is summarized in this note as follows:

a) Exemptions and exceptions from full retrospective application elected by the Company;

b) Reconciliation between IFRS and previous GAAP;

c) Explanatory notes of significant difference in accounting policy between Canadian GAAP and IFRS.

(a) Exemptions and exceptions from full retrospective application elected by the Company

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

	As described in note 17c)
Exemptions	
Share-based payments	i

(b) Reconciliation between IFRS and previous GAAP

The following reconciliations provide a quantification of the effect of the transition from Canadian GAAP to IFRS for the respective periods noted for equity, loss and comprehensive loss:

1. Reconciliation of equity

	Note 17c)	March 31 2010 $	December 31 2010 $	January 1, 2010 $
Total equity under Canadian GAAP		1,368,310	(5,158,485)	4,100,734
Share-based compensation				
Deficit	ii	(195,502)	(302,024)	(161,814)
Stock option plan	ii	195,502	302,024	161,814
Total equity under IFRS		1,368,310	(5,158,485)	100,734

2. Reconciliation of statement of comprehensive loss

	Note 17c)	For the year ended December 31, 2010		
		Net loss $	Other comprehensive loss (income) $	Comprehensive loss $
Under Canadian GAAP		16,343,663	(123,413)	16,220,250
Share-based compensation expense	ii	140,210	-	140,210
Under IFRS		16,483,873	(123,413)	16,360,460

	Note 17c)	For the three-month period ended March 31, 2010		
		Net loss $	Other ımprehensive loss (income) $	Comprehensive loss $
Under Canadian GAAP		3,708,701	(922)	3,707,779
Share-based compensation expense	ii	33,688	-	33,688
Under IFRS		3,742,389	(922)	3,741,467

3. *Reconciliation of statement of cash flows*

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company.

(c) Explanatory notes of significant difference in accounting policy between Canadian GAAP and IFRS

IFRS 1 exemptions

(i) IFRS 2, "Share-based Payments", encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the transition date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after January 1, 2006 that had not vested by its transition date.

Measurement

(ii) Under IFRS, an estimate is required of the number of grants which are expected to vest, which is revised if subsequent information indicates that actual forfeitures are to differ from estimates. Under Canadian GAAP, forfeitures are recognized as they occur. Moreover, under IFRS 2, each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. As a result, the Company adjusted its expense for share-based awards to reflect this difference in recognition.

Other changes in accounting policies

(iii) Financial instruments

The term deposit and security deposit are no longer classified as available-for-sale financial instruments but reclassified as loans and receivables. Accordingly, they are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. The reclassification has no significant impact on the financial statement.

Cash and cash equivalents are classified as loans and receivables, while under Canadian GAAP they were classified as held-for-trading financial instruments. The reclassification has no impact on the financial statements.

18 Additional IFRS information for the year ended December 31, 2010

a) Compensation of key management

Compensation awarded to key management included:

	Year ended December 31, 2010 $
Salaries and short-term employee benefits	1,604,548
Share-based payments	371,487
	1,976,035

b) Expense by nature

	Year ended December 31, 2010 $
Research grants and contribution	(1,036,384)
Research and development tax credits	(1,327,663)
Other research and development costs	7,983,256
Employee benefit expenses (note 18c)	7,720,986
General administrative, business development and intellectual property	2,752,930
Depreciation of property, plant and equipment	406,643
Amortization of intangible assets	89,746
Financial expenses	1,077,840
	17,667,354

c) Employee benefits

	Year ended December 31, 2010 $
Salaries and wages	7,076,032
Stock-based compensation granted to directors and employees	644,954
	7,720,986