

Medicago Inc.

Interim Consolidated Financial Statements
(unaudited)
June 30, 2010

Medicago Inc.

Consolidated Balance Sheets (unaudited)

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

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

Approved by the Board of Directors

(signed) RANDAL CHASE, PH.D.
Director

(signed) ANDREW J. SHELDON
Director

Medicago Inc.

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

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

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

Medicago Inc.

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

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

(unaudited)

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

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

Medicago Inc.

Interim Consolidated Statements of Cash flows

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

(unaudited)

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

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

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

1 Interim financial information

The financial information for the six-month periods ended June 30, 2010 and 2009 are unaudited. However, in the opinion of management, all adjustments necessary to present fairly the results of these periods have been recorded. The adjustments made were of a normal recurring nature. The results of the interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP), using the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2009. All disclosures required for annual financial statements have not been included in these financial statements. These consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements.

2 New accounting standards

Future accounting changes

In January 2009, the CICA published the following sections of the CICA Handbook that apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

- (a) Section 1582, "Business Combinations", which replaces the former Section 1581 with the same title, establishes accounting standards for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS3 Revised, "Business Combinations".
- (b) Section 1601, "Consolidated Financial Statements", which replaces the former Section 1600 with the same title, establishes standards for the preparation of consolidated financial statements.
- (c) Section 1602, "Non-Controlling Interests". This new section establishes standards on accounting for non-controlling interests in a subsidiary in consolidated financial statements prepared subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27, "Consolidated and Separate Financial Statements".

The Company is currently evaluating the impact of these new standards on its financial statements.

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

3 Short-term investments

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

4 Share capital

- Authorized
 - Unlimited number of shares, without par value, of the following classes:
 - Common shares, voting and participating
 - Preferred shares, with rights, privileges and conditions to be determined by the Board of Directors before issuance.

The share capital issued has varied as follows:

	<u>Six-month period ended</u> <u>June 30</u> <u>2010</u>		<u>Year ended December 31</u> <u>2009</u>	
	Number	\$	Number	\$
Common shares				
Balance – Beginning of period	114,771,690	48,660,207	90,324,940	37,182,667
Issued pursuant to a public offering	-	-	16,100,000	9,980,328
Issued pursuant to the exercise of warrants	3,443,500	1,072,076	8,346,750	2,853,892
Issued pursuant to the exercise of stock options	18,999	6,225	-	-
Issue expenses *	-	-	-	(1,356,680)
Balance – End of period	<u>118,234,189</u>	<u>49,738,508</u>	<u>114,771,690</u>	<u>48,660,207</u>

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

Medicago Inc.

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Equity distribution agreement

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

5 Other equity components

(a) Stock option plan

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

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

* During the six-month period ended June 30, 2010, 50,981 stock options were forfeited (50,833 in 2009). The corresponding credit amounting to \$2,127 (\$7,883 in 2009) has been recorded as contributed surplus.

Medicago Inc.

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

Exercise price	Stock options outstanding			Stock options currently exercisable	
	Number	Weighted average remaining contractual life (months)	Weighted average exercise price \$	Number	Weighted average exercise price \$
\$0.20	2,000,317	42	0.20	665,210	0.20
\$0.355	1,420,000	42	0.355	1,189,999	0.355
\$0.37	223,674	38	0.37	74,558	0.37
\$0.52 to \$0.66	1,244,794	63	0.60	494,886	0.65
\$0.72	1,220,033	114	0.72	-	-
\$1.00 to \$1.11	1,092,372	11	1.04	1,092,372	1.03
\$1.68	152,088	12	1.68	152,088	1.68
	7,353,278	52	0.54	3,669,113	0.63

Assumptions used in determining stock-based compensation costs

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

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

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(b) Warrants

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

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

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

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

Medicago Inc.

Notes to Interim Consolidated Financial Statements

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(unaudited)

6 Financial expenses, net

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

7 Additional information on cash flows

(a) Change in non-cash working capital items

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

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

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

Medicago Inc.

Notes to Interim Consolidated Financial Statements

June 30, 2010

(unaudited)

8 Segment information

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

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

9 Economic dependence

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

10 Loss per share

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

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

For the three and six-month periods ended June 30, 2010 and 2009, the diluted loss per share was the same as the basic net loss per share since the dilutive effect of stock options and warrants was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those periods was calculated using the basic weighted average number of shares outstanding.

Medicago Inc.

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(unaudited)

11 Subsequent events

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

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

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

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

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

Equity offering

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

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