

Medicago Inc.

Interim Consolidated Financial Statements
(unaudited)
March 31, 2010

Medicago Inc.

Consolidated Balance Sheets

	March 31, 2010 \$ (unaudited)	December 31, 2009 \$
Assets		
Current assets		
Cash and cash equivalents	301,856	228,039
Short-term investments (note 3)	11,012,543	14,105,198
Accounts receivable	343,809	300,566
Investment tax credits receivable	2,262,515	2,097,274
Grants receivable	10,782	37,272
Prepaid expenses	50,262	96,848
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	13,981,767	16,865,197
Security deposit on a lease agreement, 1.20%, maturing on June 1, 2010	50,000	50,000
Property, plant and equipment	5,307,908	4,941,092
Intangible assets	957,826	974,045
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	20,297,501	22,830,334
Liabilities		
Current liabilities		
Bank loans	600,000	600,000
Accounts payable and accrued liabilities	2,574,051	2,301,518
Deferred grant on research agreement	212,841	340,203
Current portion of long-term debt	84,343	83,862
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	3,471,235	3,325,583
Long-term debt (note 4)	15,457,956	15,404,017
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	18,929,191	18,729,600
Shareholders' Equity		
Share capital (note 5)	49,732,283	48,660,207
Contributed surplus	1,572,236	1,554,679
Other equity components (note 6)		
Stock option plan (note 6a)	1,057,338	956,444
Unit options (note 6b)	399,536	399,536
Warrants (note 6c)	8,704,343	8,919,515
Deficit	(60,103,887)	(56,395,186)
Accumulated other comprehensive income	6,461	5,539
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	1,368,310	4,100,734
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	20,297,501	22,830,334

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 Deficit, Accumulated Other Comprehensive Loss and Contributed Surplus

For the three-month period ended March 31, 2010 and 2009

(unaudited)

Deficit	2010	2009
	\$	\$
Balance – Beginning of period	(56,395,186)	(43,920,364)
Loss for period	(3,708,701)	(2,624,996)
Balance – End of period	<u>(60,103,887)</u>	<u>(46,545,360)</u>
Accumulated Other Comprehensive Income (Loss)	2010	2009
	\$	\$
Balance – Beginning of period	5,539	(48,384)
Other comprehensive income	922	139,210
Balance – End of period	<u>6,461</u>	<u>90,826</u>
Total deficit and accumulated other comprehensive loss	<u>(60,097,426)</u>	<u>(46,454,534)</u>
Contributed Surplus	2010	2009
	\$	\$
Balance – Beginning of period	1,554,679	1,087,608
Warrants expired	3,971	-
Stock options forfeited	13,586	7,883
Balance – End of period	<u>1,572,236</u>	<u>1,095,491</u>

Medicago Inc.

Statements of Earnings and Comprehensive loss

For the three-month period ended March 31, 2010 and 2009

(unaudited)

Statements of Earnings

	2010 \$	2009 \$
Revenues		
Revenues from research agreements	34,345	-
	<u>34,345</u>	<u>-</u>
Expenses		
Research and development	2,561,973	1,397,372
Research grants and contributions	(381,518)	(44,962)
Research and development tax credits	(165,241)	(105,000)
General and administrative, business development and intellectual property	1,190,419	892,596
Stock-based compensation	114,480	114,942
Exchange (gain) loss	(6,742)	5,820
Depreciation of property, plant and equipment	170,372	106,187
Amortization of intangible assets	16,219	13,659
Realized gain on available-for-sale investments	(2,455)	-
Financial expenses, net (note 7)	245,539	244,382
	<u>3,743,046</u>	<u>2,624,996</u>
Loss for period	<u>(3,708,701)</u>	<u>(2,624,996)</u>
Basic and diluted loss per share (note 12)	<u>(0.03)</u>	<u>(0.03)</u>

Comprehensive Income (Loss)

	2010 \$	2009 \$
Loss for period	<u>(3,709,701)</u>	<u>(2,624,996)</u>
Unrealized gain on available-for-sale investments	3,377	139,210
Reclassification of gain on available-for-sale investments realized upon sale to loss for the year	(2,455)	-
	<u>922</u>	<u>139,210</u>
Comprehensive loss for period	<u>(3,707,779)</u>	<u>(2,485,786)</u>

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

Medicago Inc.

Interim Consolidated Statements of Cash Flows

For the three-month periods ended March 31, 2010 and 2009

(unaudited)

	2010	2009
	\$	\$
Cash flows from operating activities		
Loss for the period	(3,708,701)	(2,624,996)
Items not affecting cash and cash equivalents		
Stock-based compensation costs	114,480	114,942
Depreciation and amortization	186,591	119,846
Amortization of deferred charges	29,375	29,375
Realized gain on available-for-sale investments	(2,455)	-
Interest capitalized on long-term debt	30,832	33,326
	<u>(3,349,878)</u>	<u>(2,327,507)</u>
Change in non-cash working capital items (note 8a)	<u>125,865</u>	<u>306,863</u>
	<u>(3,224,013)</u>	<u>(2,020,644)</u>
Cash flows from financing activities		
Long-term debt contracted	-	46,820
Payments on long-term debt	(5,787)	(6,536)
Exercise of warrants	860,875	-
Issue expenses	-	(83,290)
	<u>855,088</u>	<u>(43,006)</u>
Cash flows from investing activities		
Additions to short-term investments	(2,745,745)	-
Disposal to short-term investments	5,841,777	1,664,880
Additions to property, plant and equipment	(537,188)	(223,016)
Additions to intangible assets	(116,102)	(51,578)
	<u>2,442,742</u>	<u>1,390,286</u>
Net change in cash and cash equivalents	73,817	(673,364)
Cash and cash equivalents – Beginning of period	<u>228,039</u>	<u>1,091,347</u>
Cash and cash equivalents – End of period	<u>301,856</u>	<u>417,983</u>
Additional information		
Interest paid	215,805	247,256

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

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2010

(Unaudited)

1 Interim financial information

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

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3 Short-term investments

	March 31, 2010 \$ (unaudited)	December 31, 2009 \$
Term deposits bearing interest at annual rates ranging from 0.75% to 1.40%, maturing in December 2010	6,490,000	9,600,000
Bonds and discount notes, bearing interest at effective annual rates ranging 3.70% to 4.00%, maturing until June 2015	4,361,309	3,248,485
Money market funds	161,234	1,256,713
	<u>11,012,543</u>	<u>14,105,198</u>

4 Long-term debt

	March 31, 2010 \$ (unaudited)	December 31, 2009 \$
Loan from Investissement Québec ("Bio-Levier"), bearing interest at prime rate plus 3%, payable annually at a rate of 25% of net earnings plus depreciation and amortization generated in the preceding year over a period ending no later than December 21, 2014, secured by a senior fixed and floating charge of \$16,000,000 over all property, plant and equipment and intellectual property of the Company	(a) 15,318,648	15,318,648
Deferred financing expenses	(556,317)	(585,692)
Discounted at a rate of 20%, refundable contribution granted under the Technology Partnerships Canada program	576,543	553,850
Discounted at a rate of 20%, contribution under an innovation program, payable in annual instalments of \$60,000 until September 2013	179,082	170,942
Loan bearing interest at 8%, payable in monthly payments of \$2,118, including principal and interest, maturing in March 2011	24,343	30,131
	<u>15,542,299</u>	<u>15,487,879</u>
Less: Current portion	<u>84,343</u>	<u>83,862</u>
	<u>15,457,956</u>	<u>15,404,017</u>

- (a) Under the terms of the agreement, the Company undertook to meet a current ratio exceeding 1.3:1. As at March 31, 2010, the current ratio was 4.03:1.

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Notes to Interim Consolidated Financial Statements

March 31, 2010

(Unaudited)

5 Share capital

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

The share capital issued has varied as follows:

	Three-month period ended March 31 2010		Year ended December 31 2009	
	Number	\$	Number	\$
Common shares				
Balance – Beginning of year	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
Issue expenses *	-	-	-	(1,356,680)
Balance – End of year	118,215,190	49,732,283	114,771,690	48,660,207

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

6 Other equity components

(a) Stock option plan

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

	For the three-month period ended March 31 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	-	-	-	-	-	-

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Notes to Interim Consolidated Financial Statements

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Forfeited Compensation costs for the period	(50,980)	(13,586) *	0.38	(50,833)	(7,883) *	0.83
	-	114,480	-	-	464,246	-
Outstanding – End of period	7,455,612	1,057,338	0.55	7,091,592	956,444	0.55
Options exercisable – End of period	3,611,941		0.63	2,709,094		0.75

* During the three-month period ended March 31, 2010, 50,980 stock options were forfeited (50,883 in 2009). The corresponding credit amounting to \$13,586 (\$7,883 in 2009) has been recorded as contributed surplus.

The following table summarizes information about outstanding and exercisable stock options as at March 31, 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	2,019,317	45	0.20	684,210	0.20
\$0.355	1,420,000	45	0.355	1,189,999	0.355
\$0.37	223,674	41	0.37	74,558	0.37
\$0.52 to \$0.66	1,244,794	66	0.60	335,380	0.65
\$0.72	1,220,033	117	0.72	-	-
\$1.00 to \$1.11	1,175,706	14	1.04	1,175,706	1.04
\$1.68	152,088	15	1.68	152,088	1.68
	7,455,612	55	0.55	3,611,941	0.63

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Assumptions used in determining stock-based compensation costs

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

	Three-Month Ended March 31, 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	114,480	464,246

(b) Warrants

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

	For the three-month period ended March 31 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 year	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

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The following table summarizes the information relating to warrants outstanding and exercisable as at March 31, 2010:

Exercise price	Number	Weighted average remaining contractual life (years)
\$0.270	2,000,000	0.85
\$0.405	45,000,000	0.56
\$0.700	643,877	1.10
\$1.000	8,050,000	0.66
\$1.120	1,426,819	1.42
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	57,120,696	0.61

7 Financial expenses, net

	2010 \$	2009 \$
Interest on long-term debt	229,700	261,639
Interest and bank charges	17,705	18,945
Amortization of deferred financing expenses	29,375	29,375
Interest income	(31,241)	(65,577)
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	245,539	244,382

8 Additional information on cash flows

(a) Change in non-cash working capital items

	2010 \$	2009 \$
Accounts receivable, grants and financing receivable	(16,753)	(37,139)
Investment tax credits receivable	(165,241)	(105,000)
Prepaid expenses	46,586	(61,980)
Accounts payable and accrued liabilities	388,635	510,982
Deferred grant on research agreements	(127,362)	-
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	125,865	306,863

Medicago Inc.

Notes to Interim Consolidated Financial Statements

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9 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.

10 Economic dependence

100% of the revenues for the three-month period ended March 31, 2010 were with one customer.

11 Financial instruments

Fair value

The following table summarizes the fair value of financial instruments as at March 31, 2010 and December 31, 2009:

	Held for trading	Available for sale	Loans and receivables	Other financial liabilities	As at March 31, 2010	
					Carrying value	Fair value
	\$	\$	\$	\$	Total	Total
Financial assets						
Cash	301,856	-	-	-	301,856	301,856
Short-term investments	-	11,012,543	-	-	11,012,543	11,012,543
Accounts receivable	-	-	75,535	-	75,535	75,535
Security deposit	-	50,000	-	-	50,000	50,000
Grants receivable	-	-	10,782	-	10,782	10,782
	301,856	11,062,543	86,317	-	11,450,716	11,450,716
Financial liabilities						
Bank loans	-	-	-	600,000	600,000	600,000
Accounts payable and accrued liabilities	-	-	-	2,684,232	2,684,232	2,684,232
Long-term debt	-	-	-	15,542,300	15,542,300	16,098,617
	-	-	-	18,826,532	18,826,532	19,382,849

Medicago Inc.

Notes to Interim Consolidated Financial Statements

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(Unaudited)

	As at December 31, 2009					
	Held for trading \$	Available for sale \$	Loans and receivables \$	Other financial liabilities \$	Carrying value	Fair value
					Total \$	Total \$
Financial assets						
Cash	228,039	-	-	-	228,039	228,039
Short-term investments	-	14,105,198	-	-	14,105,198	14,105,198
Accounts receivable	-	-	28,359	-	28,359	28,359
Grants receivable	-	-	37,272	-	37,272	37,272
Security deposit	-	50,000	-	-	50,000	50,000
	<u>228,039</u>	<u>14,155,198</u>	<u>65,631</u>	<u>-</u>	<u>14,448,868</u>	<u>14,448,868</u>
Financial liabilities						
Bank loans	-	-	-	600,000	600,000	600,000
Accounts payable and accrued liabilities	-	-	-	2,235,849	2,235,849	2,235,849
Long-term debt	-	-	-	15,487,879	15,487,879	16,073,571
	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,323,728</u>	<u>18,323,728</u>	<u>18,909,420</u>

Cash and cash equivalents and short-term investments are recorded at fair value. The fair value of other financial instruments, except long-term, debt approximates their carrying value due to their short-term maturity or to current market rates.

The fair value of long-term debt approximates its carrying value due to the current market rate for the Bio-Levier loan and due to the use of the effective interest rate method for the other loans comprised in the long-term debt.

Bank loans bear interest at variable rate. As at March 31, 2010, fluctuations of 1% in bank loans' interest rate would have a positive or negative impact of \$6,000 on loss and comprehensive loss.

The Bio-Levier loan (note 4) bears interest at variable rate. As at March 31, 2010, fluctuations of 1% in debt interest rate would have a positive or negative impact of \$153,186 on loss and comprehensive loss.

The Company believes that, with the financial resources currently at its disposal, it has sufficient cash and cash equivalents to meet its contractual liabilities until the second quarter of 2011. To meet all its contractual liabilities, the Company will need to raise additional funds in the future and will seek additional forms of debt or equity financing, but cannot provide assurance that it will be successful in doing so.

Medicago Inc.

Notes to Interim Consolidated Financial Statements

March 31, 2010

(Unaudited)

12 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:

	2010	2009
Basic and diluted weighted average number of shares outstanding	115,742,201	90,324,940
Dilutive effect of stock options	1,386,313	-
Dilutive effect of warrants	11,480,649	-
	<hr/>	<hr/>
Diluted weighted average number of shares outstanding	<u>128,609,163</u>	<u>90,324,940</u>

For the three-month periods ended March 31, 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.

Excluded from the 2010 calculation of diluted earnings per share were 3,327,621 stock options (5,767,245 in 2009) and 10,120,696 warrants (64,933,196 in 2009) where the exercise prices were greater than the average market price of the common shares for the year.