



NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2010

MANAGEMENT'S REPORT ON FINANCIAL POSITION AND OPERATING RESULTS

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

GENERAL

The following analysis provides a review of Medicago Inc. ('Medicago' or the 'Company') results of operations, financial condition and cash flows for the three and nine-month periods ended September 30, 2010 and 2009. This analysis should be read in conjunction with the information contained in the consolidated financial statements and related notes for the years ended December 31, 2009 and 2008, appearing in the annual report of the Company, which are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

The 2009 Annual Report of Medicago, the Annual Information Form and additional information regarding the business of the Company are available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to the Company. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. The information contained herein is dated as of November 12, 2010, date of the approval by the Board of the MD&A and the Consolidated Financial Statements.

COMPANY OVERVIEW

Medicago is committed to providing highly effective and competitive vaccines based on proprietary Virus-Like Particles (VLPs) and manufacturing technologies. Medicago is developing VLP vaccines to protect against H5N1 pandemic influenza, using a transient expression system which produces recombinant vaccine antigens in the cells of non-transgenic plants. This technology has potential to offer advantages of speed and cost over competitive technologies. It promises to deliver a vaccine for testing rapidly after the identification and reception of genetic sequences from a pandemic strain. This production time frame has the potential to allow vaccination of the population before the first wave of a pandemic strikes and to supply large volumes of vaccine antigens to the world market.

MARKET AND ECONOMIC SITUATION OVERVIEW

The influenza vaccine market is expected to expand over \$3.7 billion by 2010. We are developing products for a growing market, with a first product (H5N1 pandemic influenza VLP vaccine) expected to be on the market in 2013, if all clinical phases are successfully completed and market approval is granted by the regulatory authorities by such time.

We did not incur any losses on asset-backed commercial paper as we have never invested in such securities. Our main credit facility (BioLevier loan) runs until 2014 and we have met all related requirements thereunder. In 2010, we are of the opinion that we have the financial resources required to work towards the attainment of our objectives (See *Products in development*) for this year, despite current economic conditions.

KEY DEVELOPMENTS

CORPORATE

MEDICAGO AWARDED \$US 21 MILLION FROM THE U.S. DEPARTMENT OF DEFENSE

On August 10, 2010, Medicago announced that Medicago USA Inc, a wholly-owned subsidiary of Medicago, 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 (the “**Technology Investment Agreement**”). 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.

As a result, Medicago will develop a 90,000-square-foot cGMP facility in Research Triangle Park (RTP), North Carolina, including a 30,000 square foot greenhouse. The purpose of this facility will be to scale-up and automate Medicago’s cGMP process to demonstrate its capacity to produce 10 million doses/month of influenza vaccines meeting all FDA requirements for purity, quality and current cGMP regulations.

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 with ARE-NC Region No. 6 LLC (the “**Landlord**”), an affiliate of Alexandria Real Estate Equities Inc., 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.

The yearly base rent obligation for the New Facility shall be approximately US\$1,350,000, subject to a fixed yearly percentage increase. Medicago will be responsible for all operating expenses of the New Facility. The 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 CLOSED \$7.5 MILLION EQUITY OFFERING

On August 19, 2010, Medicago Inc. closed an offering of 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 has 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.

MEDICAGO TO COLLABORATE ON BROAD COVERAGE INFLUENZA VACCINES FOR THE DEVELOPING WORLD WITH PATH

On October 13, 2010, Medicago announced it has received US\$1M in funding by U.S.-based PATH pursuant to a research collaboration agreement. Medicago and PATH will work together on a broad coverage influenza vaccine based on Medicago’s proprietary plant-based Virus-Like Particle (VLP) technologies for the developing world. PATH is an international global health nonprofit organization that collaborates with private and public-sector partners as part of its influenza vaccine project to advance the development of promising new influenza vaccines that can be affordable and accessible for people in low-resource countries.

FILING OF TWO NEW PATENTS APPLICATIONS

On September 22, 2010, Medicago announced it has discovered a breakthrough method of preparing plant derived recombinant proteins and VLPs and filed two international patent applications under the Patent Cooperation Treaty (PCT) that broadly cover new methods of preparing plant-derived recombinant proteins and VLPs. The new method of biochemical degradation releases recombinant proteins and/or VLPs in the extract and eliminates most plant-originating impurities which greatly simplify subsequent purification steps.

The patent applications enhance the Company's IP position, and further establish their competitive advantage with respect to the development of VLPs and other recombinant proteins in plants.

APPOINTMENT OF MIKE WANNER AS VICE PRESIDENT OF U.S. OPERATIONS

Mr. Wanner joins Medicago U.S.A. as Vice President of U.S. Operations and will lead the Company's U.S. expansion efforts. He was previously President and CEO of Abeome, a biotechnology company developing therapeutic and diagnostic monoclonal antibodies. Mr. Wanner served for over 11 years as CFO for Merial and Rhone Merieux, Inc. (RMI), one of the world's leading animal health companies, where he was involved in the construction and management of a large scale vaccine production facility in the U.S.

UPDATE ON PARTNERSHIP OPPORTUNITIES

We are pursuing our strategy of partnership with countries and pharmaceutical companies looking at investing in faster and economical technologies to produce pandemic and seasonal flu vaccines. With an agreement in place in North America (DARPA), we are now targeting our efforts in Europe and Asia. Our strategy in these regions is to sign Memorandum of Understanding to explore possible deal structure before committing any resources and rights. We will favor partnerships with significant short term revenue potential in order to support the development of our technology and products and increase shareholder value.

PRODUCTS IN DEVELOPMENT

H5N1 PANDEMIC INFLUENZA VLP VACCINE

Medicago receives regulatory approval and commences Phase II clinical testing of its Avian Influenza Vaccine

On November 1, 2010 announced that an important milestone was reached in the development of Medicago's pandemic influenza VLP vaccines when the Company received clearance from Health Canada to commence its Phase II clinical trial.

The Phase II randomized, placebo controlled clinical trial will evaluate the safety and immunogenicity of different doses of its H5N1 vaccine. Specifically, the vaccine will be studied in approximately 255 healthy adults between the ages of 18 to 60. In the first part of the study 125 healthy adults will receive an injection of either a placebo or the H5N1 vaccine at doses of 20 mcg, 30 mcg or 45 mcg to determine the optimal dose. In the second part of the study, 130 healthy adults will receive an injection of either a placebo or the H5N1 vaccine at the optimal dose. Interim-results of this study are expected in less than three months.

Medicago announces a single low dose of its H5N1 pandemic influenza VLP Vaccine achieves 100% cross-protection in lethal challenge study in ferrets

A single low dose of Medicago Inc.'s pandemic vaccine formulated for the H5N1 Indonesia strain of Avian flu provided 100-percent cross-protection in ferrets against a lethal challenge with the highly virulent Vietnam influenza virus. H5N1 vaccines are known to require repeated administrations to elicit an antibody response. Medicago is believed to be the first company to demonstrate full cross-protection in a heterogeneous challenge with only a single dose of its H5N1 vaccine in the ferret model.

In this study, ferrets were vaccinated with a single 1.9 (ug) dose of the company's clinical-grade VLP vaccine made for the Indonesia H5N1 Avian influenza virus (A/Indonesia/5/05). Animals were then challenged with a lethal dose of the Vietnam influenza virus (A/Vietnam/1203/04). All the vaccinated ferrets survived the lethal challenge while all non-vaccinated ferrets died within seven days. As the influenza virus replicates in a similar way in ferrets and humans, and causes similar symptoms and disease, these protection data are highly significant.

SEASONAL AND H1N1 VACCINES

The Company is completing the preclinical studies for its H1N1 pandemic vaccine candidate and will submit an investigational new drug application (IND). The strategy is to take advantage of the development work that will be completed for its H1N1 pandemic vaccine candidate to bolster its safety database and apply it to optimize the path of approval for Medicago' seasonal vaccine candidate. Interim clinical data from the H1N1 trial, including measurements of safety and tolerability, are expected to be available in the first half of 2011. With these data in hand and if granted approval by relevant regulatory authorities, Medicago could potentially commence a phase II clinical study with its seasonal vaccine candidate in 2011.

SELECTED CONSOLIDATED INFORMATION

	Three-month period ended		Nine-month period ended	
	September 30		September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
CONSOLIDATED STATEMENT OF EARNINGS				
Revenues	-	-	34,000	-
Loss for the period				
\$	4,104,000	3,163,000	11,776,000	8,584,000
Basic and diluted loss per share	0.03	0.03	0.09	0.09
CONSOLIDATED BALANCE SHEET DATA				
			As at	As at
			September	December
			30, 2010	31, 2009
			\$	\$
Cash, cash equivalents and short-term investments			14,672,000	14,333,000
Total assets			26,177,000	20,830,000
Total long-term liabilities ⁽¹⁾			15,621,000	15,488,000

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

COMPARISON OF THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

Consolidated statements of earnings

For the nine-month period ended September 30, 2010 revenue were \$34,000 higher than the nine-month period ended September 30, 2009, generated by the successful completion of the proof of concept contract with the United States Army Research, Development and Engineering Command laboratory specifically the Edgewood Chemical Biological Centre Research & Technology Directorate ('ECBC'). Medicago worked with ECBC to investigate the affordable production of industrial enzymes in the field of biofuels. For the three-month period ended September 30, 2010 and 2009, the Company had no revenue.

Research and development (R&D) expenses increased by \$1,474,000 to \$3,533,000 for the three -month period ended September 30, 2010, compared to 2009. The increase in R&D expenses for the three-month period ended September 30, 2010 is mainly related to the Phase II study on its H5N1 pandemic influenza VLP vaccine. Wage and salaries were higher (\$412,000) for the three -month period ended September 30, 2010, compared to 2009 explained by hiring in the second-half of 2009 and since the beginning of 2010 of new employees required for the preparation and the production of clinical materials for the upcoming Phase II clinical study. More laboratory supplies and analysis (\$495,000) and a higher level of outsourced contract work (\$195,000) were also required to perform these activities. Outsourced contract work increased as the result of the final payments related to phase I clinical trial, work for the development of the VLPEXpress and studies for the Phase II. For the nine-month period ended September 30, 2010 R&D expenses increased by \$3,672,000 to \$8,956,000 and this is mainly explained by an increase in outsourced contract work (\$831,000), wage and salaries (\$1,211,000) and more laboratory supplies and analysis (\$1,115,000).

Research grants and contribution increased by \$32,000 and \$ 598,000 for the three and nine-month period ended September 30, 2010. The increase is mainly explained by the grant from Quebec's Consortium for Drug Discovery (CQDM) that was obtained in the second quarter of 2009. Grant from the CQDM totaled \$1,773,000 of which \$842,000 is still available as of September 30, 2010.

Research and development tax credits were \$732,000 and \$1,042,000 for the three and nine-month period ended September 30, 2010, \$612,000 higher than three-month period ended September 30, 2009 and \$648,000 higher than the nine-month period ended September 30, 2009. Since December 2009, the Company is not associated any more with PMI for tax purposes and this has resulted in an increase of the tax credit rate at the provincial level from 17.5% to 37.5% on the first \$3M of eligible R&D expenses.

General and administrative, business development and intellectual property (G&A) expenses decreased by \$95,000 to \$772,000 for the three-month period ended September 30, 2010 compared to 2009. The decrease is related to lower legal fees in 2010. For the nine-month period ended September 30, 2010, G&A expenses increased by \$252,000 to \$2,867,000. This is mainly explained by

the fees paid for the graduation of the company from the TSX-V to the TSX (\$128,000), salaries (\$79,000) and increased business development activities.

Depreciation of property, plant and equipment were \$242,000 and \$623,000 for the three and nine-month period ended September 30, 2010, \$125,000 higher than three-month period ended September 30, 2009 and \$291,000 higher than the nine-month period ended September 30, 2009. This increase is explained by acquisitions of property, plant and equipment in the last quarter of 2009 and the first quarter of 2010. These acquisitions are related to the expansion of the Canadian manufacturing facility in order to optimize manufacturing activities and provide additional space to produce clinical-grade material for human clinical trials.

Amortization of intangible assets amounted to \$23,000 and \$61,000 for the three and nine-month period ended September 30, 2010 comparable with the three and nine-month periods ended September 30, 2009.

Net financial expenses amounted to \$284,000 for the three-month period ended September 30, 2010, \$23,000 higher compared to the three-month period ended September 30, 2009. This increase is mainly explained by lower interest income (\$15,000) result of a decrease in cash, cash equivalents and short-term investments and lower interest rates in 2010. For the nine-month period ended September 30, 2010 net financial expenses increased by \$91,000 to \$773,000 and this is mainly explained by lower interest rate on the Bio-levier loan for \$13,000, lower interest and bank charges for \$16,000 and lower interest income for \$132,000.

Consolidated loss for the three-month period ended September 30, 2010 was \$4,104,000, or \$0.03 per basic and diluted share compared to a loss of \$3,165,000, or \$0.03 per basic and diluted share for the three-month period ended September 30, 2009. Since the beginning of the year the consolidated loss was \$11,776,000 or \$0.09 per basic and diluted share compared to a loss of \$8,584,000, or \$0.09 per basic and diluted share.

Consolidated Balance Sheet

Cash, cash equivalents and short-term investments were of \$14.7 million as at September 30, 2010 an increase of \$339,000 from December 31, 2009. This increase is mainly the result of the loss for the nine-month period net of items not affecting cash and cash equivalents for \$10,548,000 and investing activities (\$3,860,000) that was offset by the issuance of 18,518,520 units totaling \$7,500,000 and the first DARPA's milestone payment (\$6,872,000).

Total consolidated assets were of \$26.2 million as at September 30, 2010, an increase of \$3.3 million since December 31, 2009. The variation is mainly due to an increase in the total of investment tax credits receivable (\$1,000,000), Property, Plant and Equipment (\$1,031,000) and Intangible assets (\$608,000).

Long-term debt increased by \$0.1 million to \$15.6 million, mainly the result of the theoretical interest on non-bearing interest loans.

QUARTERLY FINANCIAL DATA

	Quarters ended			
	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
Revenues	-	-	34,000	-
Total expenses	(\$4,104,000)	(\$3,963,000)	(\$3,743,000)	(\$3,891,000)
Loss	(\$4,104,000)	(\$3,963,000)	(\$3,709,000)	(\$3,891,000)
Basic and diluted net loss per share	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.04)
	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Revenues	-	-	-	-
Total expenses	(\$3,165,000)	(\$2,794,000)	(\$2,625,000)	(\$3,007,000)
Loss	(\$3,165,000)	(\$2,794,000)	(\$2,625,000)	(\$3,007,000)
Basic and diluted net loss per share	(\$0.03)	(\$0.03)	(\$0.04)	(\$0.07)

Revenues from quarter to quarter may vary significantly. They are non-recurring by nature and are generated by license agreements as well as contract research agreements. It is also important to note that historical patterns of expenses cannot be taken as an indication of future expenses. The amount and timing of expenses and availability of capital resources vary substantially from quarter to quarter, depending on the level of R&D activities being undertaken at any one time and the availability of funding from investors and/or partners.

The evolution in the stage of development of the Company from research to preclinical and clinical development for its H5N1 Avian Influenza VLP vaccine, the development of the cGMP process and the production of clinical materials for the Phase I in 2009 and Phase II in 2010 explain the increase in expenses. Wage and salaries increased in 2009 and 2010 explained by the hiring of new employees in the second half of 2009 and since the beginning of 2010 required by preclinical and clinical work related to the Phase I and now Phase II. More laboratory supplies and analysis and a higher level of outsourced contract work were also required to perform those activities.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company had cash, cash equivalents and short-term investments totaling \$14.7 million as at September 30, 2010, an increase of \$339,000 from December 31, 2009. The Company had working capital of 7.9 million as at September 30, 2010 compared to \$13.6 million as at December 31, 2009. The short-term investments do not include asset-backed commercial papers which are affected by liquidity issues. As at September 30, 2010, the Company's long-term debt amounted to \$15.6 million. Under the terms of the Bio-Levier loan agreement, the Company needs to maintain its current ratio at 1.3/1 or higher. As at September 30, 2010 this ratio was at 1.76:1.

The Company's primary capital needs are the funds required to support its scientific research and development activities including preclinical and clinical trials, capital expenditures for the expansion of its pilot plant facilities and working capital. Medicago expects expenditures to increase in 2010 as the Company will continue to advance its programs. Management believes that existing capital resources combined with the Equity line of credit of \$10,000,000 (see note 4 of the financial statements) in place are adequate to fund our plans at least for the next twelve months.

Since its inception, the Company has financed its cash requirements primarily through issuances of securities, Research and development tax credits, government funding, cost recoveries, license agreement, contract research agreements, long-term debt and short-term debt guaranteed by its Research and development tax credits. The strategy of the Company for future funding is to find additional capital after a successful completion of the Phase II trial for its H5N1 pandemic influenza VLP vaccine. The amount of additional capital needed will depend on the cash on hand at that time and funds necessary to conduct its clinical programs for the vaccines in development. Management anticipates funding additional capital requirements primarily through additional issuance of securities and/or the potential monetization of the Company's products. (See section *RISK AND UNCERTAINTIES- Additional Financing Requirements and Access to Capital* of the Annual Information Form)

The variation of our liquidity by activities is explained below.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Cash flows</i>	Three-month ended September 30		Nine-month ended September 30	
	2010	2009	2010	2009
Operating activities	2,277,000	(2,892,000)	(4,428,000)	(7,817,000)
Financing activities	6,653,000	1,947,000	7,537,000	2,198,000
Investing activities	(3,283,000)	564,000	3,860,000	6,224,000
Net change in cash and cash equivalents	5,646,000	(381,000)	6,969,000	605,000

Operating Activities

Cash used in operating activities decreased by \$5,169,000 to \$2,277,000 for the three-month period ended September 30, 2010 and by \$3,389,000 to \$4,428,000 for the nine-month period ended September 30, 2010 compared to 2009. This decrease is mainly explained by the change in non-cash working capital items described in note 7a) of the financial statements. This was partly offset by the increase in loss, net of items not affecting cash and cash equivalents (or burn rate) for \$782,000 and \$2,793,000 for the three and nine-month periods.

Financing Activities

Cash from financing activities increased by \$5,339,000 to \$7,537,000 for the first nine months of 2010 compared to 2009. The increase is mainly explained by the issuance of 18,518,520 units at a price of 40.5 cents per unit, representing gross proceeds of \$7.5 million and by the exercise of 3,443,500 warrants totalling \$861,000 since the beginning of 2010.

Investing Activities

Cash used in investing activities (excluding additions and disposal of short-term investments) increased by \$1,792,000 to \$2,439,000 in the nine-month period ended September 30, 2010, related to more additions of property, plant and equipment for \$1,059,000, and intangible assets for \$733,000.

The Company plans to invest \$1.9 million in Property, plant and equipment in 2010 to expand its Canadian manufacturing activities and provide additional space to produce clinical-grade material for phase II human clinical trials.

Use of proceeds of the public offering completed in December 2009

The following table provides information concerning the use of proceeds resulting from the public offering completed in December 2009.

USE OF PROCEEDS	From April 1, 2010 through September 30, 2010	Per Prospectus
Clinical development of the Company's H5N1 VLP pandemic vaccines and other vaccines	\$6,009,000	\$7,072,000
General corporate and working capital puposes	\$2,552,000,	\$3,483,000
Total	\$8,561,000	\$10,555,000

Use of proceeds of the public offering completed in August 2010

The Company completed a public offering with net proceeds of \$ 6,787,500 in August 2010 and the following table provides information concerning the use of proceeds resulting from this offering.

USE OF PROCEEDS	From August 19, 2010 through September 30, 2010	Per Prospectus
Cost sharing program with DARPA	\$841,000	\$5,500,000
General corporate and working capital puposes	-	\$1,287,500
Total	\$841,000	\$6,787,500

CONTRACTUAL OBLIGATIONS

There has been no significant change in the contractual obligations of the Company as described in Medicago's 2009 annual report other than a commitment, on August 10 2010, resulting from the execution of a lease agreement for premises amounting to US\$25,109,000. This lease begins in July 2011 and expires in September 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.

OUTLOOK FOR THE REMAINING OF 2010

We expect R&D expenses to increase in 2010 compared to 2009. Following the successful completion of a phase I clinical trial with its H5N1 pandemic vaccine candidate and the approval by Health Canada, in November the Company initiated a phase 2 clinical trial with initial results becoming available in less than three months after the beginning of the trial.

The Company is also proceeding with preclinical studies with its H1N1 pandemic vaccine candidate and expects to file an investigational new drug application (IND) in the fourth quarter of 2010. The strategy is to optimize the development work that will be completed for its H1N1 pandemic vaccine candidate to bolster its safety database and apply it to potentially shorten the path of approval for its seasonal vaccine candidate. Interim clinical data from the H1N1 trial, including measurements of safety and tolerability, are expected to be available in the first half of 2011. With these data in hand and if granted approval by Health Canada, the U.S. Food and Drug Administration, and Europe, the Middle East and Africa (EMEA), Medicago could potentially commence a phase II clinical study with its seasonal candidate in 2011.

Medicago's expectations are that the cash outflow will not proceed linearly through the year due to cost associated with clinical studies and the cost of the expansion of our Canadian manufacturing facility.

FINANCIAL INSTRUMENTS

There has been no significant change in the financial instruments of the Company as described in Medicago's 2009 annual report.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

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

OUTSTANDING SHARE DATA

On October 21, 2010, the Company announced a reduction of the exercise price of the 8,050,000 warrants issued as part of the units offering by way of prospectus completed on November 27, 2009 from \$1.00 to \$0.43. On October 20, 2010, 45,000,000 common share purchase warrants issued in October 2008 expired without being exercised.

As at November 12th, 2010, there were 136,912,102 common shares issued and outstanding, 7,105,047 stock options outstanding, 3,796,982 compensation options and 26,209,586 warrants outstanding.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates are generally made in connection with the calculation of revenues, research and development expenses, stock-based compensation expense, as well as in determining future income tax assets and liabilities, the useful lives of property, plant and equipment and intangible assets with finite lives and the valuation of intangible assets, the fair value of stock options granted, and certain accrued liabilities. Estimates are based on historical experience, where relevant, and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

There have been no significant changes in the Company accounting policies and estimates since December 31, 2009. Please refer to the appropriate section of the financial statements included in our 2009 Annual Report for a complete description of our accounting policies.

NEW ACCOUNTING STANDARDS AND FUTURE ACCOUNTING CHANGES

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 IFRS3R, "Business Combinations".
- (b) Section 1601, "Consolidated Financial Statements", which replaces the former Section 1600 with the same title, establishes standards for the preparation of consolidated financial statements.
- (c) Section 1602, "Non-Controlling Interests". This new section establishes standards on accounting for non-controlling interests in a subsidiary in consolidated financial statements prepared subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27, "Consolidated and Separate Financial Statements".

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

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced that Canadian public issuers will be required to report under IFRS, which will replace the Canadian GAAP for years beginning on or after January 1, 2011. The conversion to IFRS will be required for the Company, for interim and annual financial statements beginning on January 1, 2011 and will require the restatement for comparative figures. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures.

The Company has developed a changeover plan which includes the following three phases and sets out activities to be performed in each phase over the life of the project:

- *Phase 1 - Diagnosis phase:* In 2009, the Company completed the diagnosis phase for the adoption of IFRS. The diagnosis has identified the main differences between the accounting treatments applied by the Company under Canadian GAAP and the IFRS as well as the practical implications related to the measure. The differences were further classified according to their degree of complexity and by the amount of work to implement with respect to the measure;
- *Phase 2 - Evaluation and design phase:* In the last quarter, the Company almost completed the evaluation and design phase. The Company evaluated and documented the existing differences between IFRS and Canadian GAAP in accounting and disclosure requirements, the selection of accounting policies under IFRS, including the consideration of options available under IFRS, the integration of the effects related to the conversion on internal controls, accounting systems and other business processes, and the planning of training programs to help employees concerned for the transition and the continued compliance with IFRS;
- *Phase 3 - Implementation phase:* This phase will involve the implementation of all changes approved in the evaluation and design phase and will culminate in the preparation of the Company's financial reporting under IFRS.

The Company's adoption of IFRS will require the application of IFRS-1 *First-time adoption of International Financial Reporting Standard* ("IFRS 1") which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively, with specific mandatory exemptions and a limited number of optional exemptions. The following are IFRS 1 exemptions that the Company will elect on transition date:

- Fixed assets: The adopter has the option to elect fair value at the date of the transition as the deemed cost for its fixed assets. The Company is evaluating the possibility to use this exemption for some of its property, plant and equipment categories
- Financial instruments: The adopter has the option to change the designation of previously recognized financial instruments if certain conditions are met. The Company will keep the same classification of its financial instruments.

The adoption of IFRS will result in some changes to the Company's accounting policies. The following provides a summary of the Company's evaluation to date of potential changes to accounting policies in key areas based on the current standards and guidance within IFRS. This is not intended to be a complete list of areas where the adoption of IFRS will require a change in accounting policies, but to highlight the areas that the Company has identified as having the most potential for a significant change.

➤ **IFRS 2, Share-based Payments (IFRS 2)**

Under IFRS, when stock option awards vest gradually, each tranche is to be considered as a separate award, while under Canadian GAAP, companies can make a policy choice to consider gradually vested tranches as a single award. Similarly, the IFRS standard requires that forfeiture estimates be established at the time of the initial fair value assessment of share-based payments rather than to account for the forfeitures as they occur. Therefore, the compensation expense will have to be recognized over the expected term of each tranche and take into account the impact of the differences in accounting for forfeitures. The Company is in the process of reevaluating all of its policies.

➤ **Property, plant and equipment (IAS 16)**

Under IFRS, the Company can elect to measure fixed assets using either the cost model or the revaluation model. Canadian GAAP only accepts the cost model. The Company is in the process of reevaluating all of its depreciation policies. Net book value and depreciation expenses may therefore be different under IFRS. The Company could avoid retrospective application of depreciation for property, plant and equipment initially measured at fair value by using the exemption provided under IFRS 1.

➤ **Impairment of assets (IAS 36)**

IFRS, like Canadian GAAP, requires an assessment at each reporting date as to whether there are indicators of impairment of assets. The factors considered under IFRS are quite similar to Canadian GAAP, but there are some differences. IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than their carrying value.

The Company's accounting policies related to impairment of assets will be changed to reflect these differences; however, the Company does not expect these changes to have an immediate impact on the carrying value of its assets.

➤ **IAS 1, Presentation of Financial Statement (IAS 1)**

Financial statement presentation is addressed in conjunction with the related IFRS standards. Certain additional disclosures will be required in the notes to the financial statements and the statement of operations will be modified to reflect either a presentation by nature or by function. The Company is currently working on preliminary IFRS financial statements in accordance with IAS 1, Presentation of Financial Statements which will be completed in the last quarter of 2010.

➤ **Other Standards**

Based on the results of the comparative analysis of the current IFRS with Canadian GAAP, the Company has also completed its assessment of the following standards and determined that, other than enhanced disclosures, no material adjustments would result regarding:

- Provisions, contingent liabilities and contingent assets
- Intangible assets
- Leases
- Income taxes
- Revenue recognition

In the current year, the Company will finalize phase 2 and work on phase 3. Since phase 2 has not been completed as of September 30, 2010, other accounting impacts may be found.

The Company will also continue to monitor standards, which may affect the Company's financial statements in future years.

RISK FACTORS AND UNCERTAINTIES

There has been no significant change in the risk factors and uncertainties facing the Company as described in Medicago's 2009 Annual Information Form except for the ones described in the supplement prospectus number 2 filed on August 10th, 2010.

CONTROL AND PROCEDURES

Disclosure controls and procedures

For the first time this quarter, following the graduation of the Company to the Toronto Stock Exchange ('TSX') in May 2010, the Company's Chief Executive Officer and Chief Financial Officer will certify on the design of the disclosure controls and internal controls over financial reporting. The Company maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in its various reports are recorded, processed, summarized and reported accurately.

Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were changes to its ICFR during the quarter ended September 30, 2010 that have materially affected, or that are reasonably likely to materially affect its ICFR. No such changes were identified through their evaluation.

On behalf of management,

(signed)
Pierre Labbé, CA
Vice-president and Chief Financial Officer

(signed)
Andrew J. Sheldon
President and Chief Executive Officer

November 12, 2010