NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

The following is a discussion and analysis of the consolidated financial condition and results of operations of Medicago Inc, ("Medicago" or the "Company") for the three and nine-month periods ended September 30, 2011 and 2010. This discussion and analysis should be read in conjunction with the information contained in the unaudited condensed interim consolidated financial statements and related notes for the nine-month periods ended September 30, 2011 and the financial statements appearing in the 2010 annual report of the Company, which are prepared in accordance with generally accepted accounting principles in Canada ("GAAP"). The 2010 Annual Report of Medicago, the Annual Information Form and additional information regarding the Company are available on SEDAR at www.sedar.com.

The information contained herein is dated as of November 11, 2011, date of the approval by the Board of the MD&A and the Condensed Interim Consolidated Financial Statements.

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

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises must adopt IFRS in place of Canadian generally accepted accounting principles ("GAAP") beginning on January 1, 2011 (for entities with a calendar year-end). As such, our unaudited condensed interim consolidated financial statements as at September 30, 2011 and for the nine months then ended have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. Additionally, our unaudited consolidated statement of financial position as at January 1, 2010 and our comparative condensed interim unaudited consolidated financial statements for 2010 have been adjusted to reflect our adoption of IFRS on a retrospective basis, effective on January 1, 2010 (the "Transition Date"). Consequently, all comparative financial information presented in this MD&A reflects the consistent, retrospective application of IFRS.

IFRS differ in certain respects from Canadian GAAP. A complete description of our conversion to IFRS, including reconciliations of previously reported Canadian GAAP information, is provided in note 19 to our unaudited condensed interim consolidated financial statements as at September 30, 2011 and for the nine-month periods ended September 30, 2011 and 2010, which note is incorporated by reference herein.

FORWARD-LOOKING INFORMATION AND STATEMENTS

This document contains forward-looking information and statements which constitute "forward-looking information" under Canadian securities law and which may be material regarding, among other things, the Company's beliefs, plans, objectives, estimates, intentions and expectations. Forward-looking information and statements are typically identified by words such as "anticipate", "believe", "expect", "estimate", "forecast", "goal", "intend", "plan", "will", "may", "should", "could" and similar expressions. Specific forward-looking information in this document includes, but is not limited to, statements with respect to the Company's future operating and financial results, its research and development activities, its capital expenditure plans and the ability to execute on its future operating, investing and financing strategies.

These forward-looking information and 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.

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 pandemic and seasonal influenza and other indications, 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 in about a month 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.

KEY DEVELOPMENTS

CORPORATE

COMPLETION OF A $25 MILLION PRIVATE PLACEMENT

On September 27, 2011, Medicago Inc. completed a private placement offering of 38,462,600 common shares at a price of 65 cents for gross proceeds of $25-million.

A top-50 global pharmaceutical company was the lead investor of this offering and health-care-focused institutional investors, which include, among others, AgeChem Venture Fund LP, CTI Life Sciences LP, Fonds de solidarite FTQ and Le Fonds d'investissement REA II Natcan Inc..

Net proceeds from the offering will be used for continued clinical development of the corporation's plant-based manufactured influenza VLP vaccines, to finance the development of additional potential product candidates, and for other general corporate and working capital purposes.

Medicago commences operations at its state-of-the-art vaccine facility in North Carolina within eleven months of hosting groundbreaking ceremony

On September 13, 2011 the Company announced it has commenced operations at its 97,000-square-foot plant-based vaccine facility in the Research Triangle Park, North Carolina.

Medicago previously signed a $21-million (U.S.) technology investment agreement with the Defense Advanced Research Projects Agency to develop thisvaccine facility in the Research Triangle Park, North Carolina. This state of-the-art facility is a large, cost-effective and scaled-up facility for Medicago's VLP (virus-like particle) plant-based vaccine technology ultimately for the delivery of current good manufacturing practice-grade vaccine. Medicago intends to demonstrate its capacity to produce 10 million doses per month of influenza vaccines with the potential for further expansion in the future. This DARPA project is part of the Blue Angel influenza vaccine rapid response demonstration project which seeks to identify new ways to produce large amounts of high-quality vaccine-grade protein in less than three months in response to emerging and novel biologic threats. To date, under this agreement Medicago, has successfully completed three milestones and has received $16.3 million (U.S.).

UPDATE ON PARTNERSHIP OPPORTUNITIES

Medicago is pursuing its strategy of partnership with countries and pharmaceutical companies looking at investing in faster and cost-effective technologies to produce pandemic and seasonal flu vaccines. With an agreement now in place in North America (DARPA), Medicago is focusing its efforts in Europe and Asia. Medicago’s strategy in these regions is to enter into memorandum of understandings to explore possible deal structures before committing any resources to a specific opportunity. Medicago 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

On June 30, 2011, Medicago Inc. released positive final results from a phase II human clinical trial with its H5N1 avian influenza VLP vaccine candidate (H5N1 vaccine). The vaccine was found to be safe, well tolerated and also induced a solid immune response.

The phase II study was designed to assess the immunogenicity, safety and tolerability of the company's H5N1 vaccine candidate. The study was conducted in two parts. Part A of the study enrolled 135 healthy volunteers who received Medicago's vaccine at varying dosage levels or the placebo to determine the optimal dose. The volunteers received two doses 21 days apart, and data were analyzed 21 days after the last dose. Part B of the study enrolled 120 additional healthy volunteers who were immunized with Medicago's vaccine at the optimal dose of 20 micrograms (104) or the placebo (16). These volunteers similarly received two doses 21 days apart with the data analyzed 21 days after the last dose.

The H5N1 vaccine has been tested in over 200 healthy volunteers to date. Local site reactions were mild, and the incidence of systemic side effects was comparable with those caused by the placebo.

The phase II Part B confirms the immunogenicity and safety results obtained in phase II Part A for the 20-microgram dose group, and there were no statistical differences between the GMT, seroconversion and seroprotection results of these two groups. In those vaccinated in the 18 to 49 age group with the 20-microgram dose, 77 per cent of immunized subjects developed an immune response against the H5N1 virus after the second immunization, 50 per cent of subjects had a fourfold increase in HI titers from baseline, and 50 per cent of subjects had seroprotective antibody titers. In those vaccinated in the 50 to 60 age group with the 20-microgram dose, 76 per cent of immunized subjects developed an immune response against the H5N1 virus after the second immunization, 50 per cent of subjects had a fourfold increase in HI titers from baseline and 50 per cent of subjects had seroprotective antibody titers. These data show that Medicago's H5N1 vaccine induces a robust hemagglutination inhibition (HAI) antibody response against the H5N1 vaccine strain.

SEASONAL AND H1N1 VACCINES

On June 8, 2011, Medicago Inc. released positive results from a U.S. phase I human clinical trial with its seasonal influenza vaccine candidate (H1N1 vaccine). All vaccine doses were found to be safe, well tolerated and also induced a solid immune response. Based on these results and subject to regulatory approval, Medicago intends to proceed with a U.S. phase IIa trial for its seasonal trivalent vaccine with the recommended H1N1, H3N2 and B influenza strains.

The U.S. phase I study was designed to investigate the safety of the company's H1N1 vaccine candidate and to provide an initial indication of the immune response. A total of 100 healthy volunteers between the ages 18 to 49 received one of the following: a single non-adjuvanted dose of Medicago's H1N1 vaccine at varying doses (5ug, 13ug, 28ug), an injection of the placebo or an H1N1 vaccine from a licensed trivalent vaccine.

No serious adverse events were reported during the trial and the vaccine was found to be well tolerated at all three dosage levels. Local site reactions were mild and the incidence of systemic side effects was comparable between the H1N1 vaccine groups and the placebo. As planned in the initial design, adverse event monitoring will continue for six months.

A single non-adjuvanted injection of the H1N1 influenza VLP vaccine at doses of 5ug, 13ug and 28ug induced immune responses against the H1N1 viral strain that exceeded immunogenicity criteria for licensure of seasonal inactivated influenza vaccines which are 40-per-cent seroconversion and 70-per-cent seroprotection thresholds (CHMP criteria). Preliminary results showed that 98 per cent of subjects immunized with the plant-made vaccine developed an immune response against the H1N1 virus. In the 5ug group, a four-fold increase in HI titers (seroconversion) was observed in 61 per cent of subjects and HI titers greater than 1:40 (seroprotection) were developed in 83 per cent of the subjects.

Approximately 20 per cent of all subjects had a baseline HAI titer equals 1:40 to H1N1 at day 0, either due to exposure to the continuing pandemic virus, or past exposure. Therefore, a subanalysis was performed in subjects who were H1N1 seronegative at baseline. In this population, the seroconversion and seroprotection rates for the 5ug were 78 per cent.

After finalizing the planning of its phase IIa for the seasonal program the Company now expects to file the IND in the first quarter of 2012 and have interim results at the beginning of the third quarter of 2012. The Company previously said that it could file the

IND before the end of 2011 and have interim results before the end of the first half of 2012. Longer preparation time and duration of the pre-clinical studies explain this change of less than two months in the timeline.

OTHER PRODUCTS

Medicago successfully completed first stage of collaboration agreement with top 10 global pharmaceutical Company for the development of a non-influenza VLP vaccine candidate

On October 12, 2011, Medicago announced the successful completion of the first stage of its research collaboration agreement with a top 10 global pharmaceutical company for the development of a non-influenza VLP vaccine candidate. Medicago's collaboration partner has indicated its intent to proceed to the second stage of the collaboration.

Under the terms of the research collaboration, Medicago is applying its transient expression system to develop a vaccine candidate for a non-disclosed target. Medicago is eligible to receive payments from its collaboration partner on achievement of specified milestones stipulated in the contract.

EVENT AFTER REPORTING DATE

On October 27, 2011, Medicago announced that Philip Morris Investments B.V. ("**Philip Morris**") exercised its pre-emptive right and has entered into a subscription agreement to complete a private placement of $22.5 million through the issuance of an aggregate of 34,550,000 common shares of Medicago at $0.65 per share in two tranches (the "**Private Placement**").

The Private Placement results from the exercise by Philip Morris of its preemptive right under the terms of the representation right and preemptive right agreement dated October 28, 2008 further to the completion by the Corporation of a private placement on September 27, 2011.

The first tranche of the Private Placement was completed on October 27, 2011 by the issuance of 17,350,000 common shares at $0.65 of the Corporation to Philip Morris for gross proceeds of $11,277,500.

The second tranche of the Private Placement is expected to close on or about December 16, 2011. The TSX has given its conditional approval for the second tranche of the Private Placement subject to the Corporation shareholders approval. The Corporation plans to hold a special meeting of its shareholders to consider and vote on the proposed second tranche of the Private Placement on December 15, 2011. The Corporation intends to send the management information circular for the special meeting of shareholders of the Corporation mid-November 2011. The closing of the second tranche of the Private Placement will also be subject to the satisfaction of all necessary regulatory approvals as well as to the satisfaction of customary closing conditions provided for in the subscription agreement.

Net proceeds from the Private Placement will be used for continued clinical development of the Corporation's plant-based manufactured Influenza VLPs vaccines, to fund the development of additional potential product candidates and for other general corporate and working capital purposes.

After the closing of the first tranche of the Private Placement, Philip Morris holds an interest representing 35.5% of the outstanding common shares of the Corporation. After the closing of the second tranche of the Private Placement, it is expected that Philip Morris will hold approximately 40% of the then outstanding common shares of the Corporation.

All common shares issued and to be issued to Philip Morris as part of the Private Placement are subject to a four month hold period.

SELECTED CONSOLIDATED INFORMATION

	Three-month period ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
	$	$	$	$
CONSOLIDATED STATEMENT OF INCOME				
Revenues	21,000	-	59,000	34,000
Loss for the period	4,407,000	4,140,000	14,341,000	11,881,000
Basic and diluted loss per share	0.03	0.03	0.09	0.10

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30 2011 $	December 31 2010 $
Cash, cash equivalents and short-term investments	28,062,000	8,521,000
Total assets	64,218,000	21,313,000
Total long-term liabilities [(1)]	15,804,000	15,672,000
Total finance lease [(1)]	17,979,000	-

(1) Including current portion

COMPARISON OF THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

INTERIM CONSOLIDATED STATEMENTS OF INCOME

Revenues

For the nine-month period ended September 30, 2011, the Company had revenues of $59,000 that were generated by the research collaboration agreement for the development of a non-influenza vaccine candidate with a top 10 global pharmaceutical company. Revenues in 2010 were generated by the successful completion of the proof of concept contract with the United States Army Research, Development and Engineering Command for $34,000.

Research and development

	Three-month period ended September 30			Nine-month period ended September 30		
	2011	**2010**	**Variation**	**2011**	**2010**	**Variation**
Research and development (R&D) expenses						
Canada	3,441,000	3,335,000	106,000	10,763,000	8,721,000	2,042,000
USA	1,607,000	276,000	1,331,000	2,938,000	276,000	2,662,000
	5,048,000	3,611,000	1,437,000	13,701,000	8,997,000	4,704,000
Research grant and contributions						
Canada	(325,000)	(138,000)	(187,000)	(886,000)	(757,000)	(129,000)
USA	(784,000)	(89,000)	(695,000)	(2,126,000)	(89,000)	(2,037,000)
	(1,109,000)	(227,000)	(882,000)	(3,012,000)	(846,000)	(2,166,000)
Research and development tax credits						
Canada	(381,000)	(732,000)	351,000	(1,377,000)	(1,042,000)	(335,000)
USA	-	-	-	-	-	-
	(381,000)	(732,000)	351,000	(1,377,000)	(1,042,000)	(335,000)
Total						
Canada	**2,735,000**	**2,465,000**	**270,000**	**8,500,000**	**6,922,000**	**1,578,000**
USA	**823,000**	**187,000**	**636,000**	**812,000**	**187,000**	**625,000**
Net R&D expenses	**3,558,000**	**2,652,000**	**906,000**	**9,312,000**	**7,109,000**	**2.203,000**

Net R&D increased by $906,000 to $3,558,000 for the three-month period ended September 30, 2011, compared to the same period in 2010 and by $2,203,000 since the beginning of the year.

For the three-month period ended September 30, 2011 R&D expenses increased by $1,437,000 ($4,704,000 since the beginning of the year) to $5,048,000 ($13,701,000 for the nine-month period) compared to 2010. For the three-month period ended September

30, 2011 Canadian R&D expenses increased by $106,000 mainly explained by an increase of wage and salaries of $241,000. For the nine-month period ended September 30, 2011, Canadian R&D expenses increased by $2,042,000, mainly related to the Phase II study of the H5N1 pandemic influenza VLP vaccine and the phase I study for the seasonal vaccine that were completed in the second quarter . Wage and salaries were higher ($933,000) for the nine-month period ended September 30, 2011 compared to 2010 as a result of the hiring, in the second-half of 2010, of new employees required for the preparation, the production and the quality control of clinical materials for the two clinical studies. A higher level of outsourced contract work ($858,000), were also required to perform these activities during that period. Outsourced contract work increased as the result of the Phase II for the H5N1 pandemic influenza vaccine and Phase I for the seasonal vaccine. US R&D expenses for the three-month period ended September 30, 2011 amounted to $1,607,000 ($2,938,000 since the beginning of the year) and are related to the DARPA project that started in August 2010.

Research grants and contributions increased by $882,000 and $2,166,000 for the three and nine-month periods ended September 30, 2011 to $1,109,000 for the three-month period and $3,012,000 for the nine-month period compared to the corresponding periods in 2010. The increase in the three-month period ended September 30, 2011 is mainly explained by the recognition in the interim consolidated statements of income of $784,000 ($2,126,000 for the nine-month period) under the grant from DARPA in the US.

Research and development tax credits were of $1,377,000 for the nine-month period ended September 30, $335,000 higher than for the nine-month period ended September 30, 2010. The increase in 2011 is explained by the 23% increase of the Canadian R&D expenses for nine-month period ended September 30, 2011. The tax credit rate on eligible salaries is 37.5% on the first $3M and 17.5% thereafter.

General and administrative

	Three-month period ended September 30			Nine-month period ended September 30		
	2011	**2010**	**Variation**	**2011**	**2010**	**Variation**
General and administrative, business development and intellectual property						
Canada	962,000	778,000	184,000	3,165,000	2,864,000	301,000
USA	257,000	-	257,000	585,000	-	585,000
	1,219,000	778,000	441,000	3,750,000	2,864,000	886,000
Share-based compensation	181,000	164,000	17,000	543,000	474,000	69,000
Exchange (gain) loss	(1,026,000)	(4,000)	(1,022,000)	(838,000)	17,000	(855,000)
	374,000	**938,000**	**(564,000)**	**3,455,000**	**3,355,000**	**100,000**

General and administrative (G&A) expenses decreased by $564,000 for the three-month period ended September 30, 2011 compared to 2010 and increased by $100,000 for nine-month period ended September 30, 2011. The decrease in the three-month period is mainly explained by the exchange gain of $1,026,000 resulting from the value decrease of the Canadian dollar in comparison with the US dollar in the quarter that was partly offset by the general and administrative expenses of $257,000 of the US subsidiary established for the DARPA project and outsourced contract work in Canada for $96,000. Since the beginning of 2011, the increase is mainly explained by the general and administrative expenses of $585,000 of the US subsidiary, the increase of share-based compensation for $69,000 and partly offset by an exchange gain for $855,000. Share-based compensation increase is related to the issuance of stock-options at the end of 2010 and in August 2011.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment were $280,000 and $736,000 for the three and nine-month periods ended September 30, 2011, $38,000 and $113,000 higher than the three and nine-month period ended September 30, 2010. The increase of the three-month period is mainly explained by the new amortization in this quarter of the production unit under finance lease (US facility) for $47,000. Since the beginning of the year, the increase is explained by the amortization of the US facility for $47,000 and the leasehold improvements for $73,000 following the completion of the improvements to the downstream facility at the end of 2010 in Quebec City.

Amortization of intangible assets

Amortization of intangible assets amounted to $41,000 and $108,000 for the three and nine-month periods ended September 30, 2011 an increase of $18,000 and $47,000 over the same period in 2010 explained by more capitalized costs for patents in 2010 since the beginning of 2011.

Financial income

Financial income amounted to $25,000 for the three-month period ended September 30, 2011, $4,000 higher than the three-month period ended September 30, 2010. This increase is mainly explained by higher interest income resulting from an increase in cash and cash equivalents and short-term investments following the closing of the financing in April 2011. Since the beginning of 2011, financial income amounted to $81,000, comparable with 2010.

Financial costs

Financial costs amounted to $367,000 and $1,075,000 for the three and nine-month periods ended September 30, 2011, $62,000 and $228,000 higher compared to the three and nine-month period ended September 30, 2010. This increase is mainly explained by higher interest rate on the long-term debt in 2011 compared to 2010.

Future income tax

Future income taxes amounted to $167,000 for the three-month period and $204,000 for the nine-month periods ended September 30, 2011. The expiration of warrants created a capital gain for the Company. Taxable capital gains were applied against accumulated losses and future income taxes resulting from it were recognized in the interim consolidated statements of income. The taxes related to capital gains are presented in the contributed surplus.

Net consolidated loss for the three and nine-month period ended September 30, 2011 were $4,407,000 and $14,342,000, or $0.03 and $0.09 per basic and diluted share compared to a loss of $4,140,000 and $11,881,000, or $0.03 and $0.10 per basic and diluted share for the three and nine-month period ended September 30, 2010.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Cash and cash equivalents and short-term investments were $28.1 Million as at September 30, 2011 an increase of $19.6 Million from December 31, 2010.

Total consolidated assets were $64.2 Million as at September 30, 2011, an increase of $42.9 Million since December 31, 2010. The increase is mainly explained by the increase in short-term investments of $22.6M and property, plant and equipment for $21.3M acquired for the DARPA project.

Long-term debt was $15.8 Million as at September 30, 2011, comparable to December 31, 2010.

On August 10, 2010, Medicago USA Inc. a wholly owned subsidiary of the Company, signed a lease agreement that was amended on March 31, 2011. This lease commenced in September 2011 and expires in September 2026 with a renewal option of five years.

Under International Accounting Standard 17 – Lease, the substance of the transaction rather than the form of the contract will decide if a lease is going to be classified as a finance lease or an operating lease. In Medicago's case, as at the inception of the lease the present value of the minimum lease payments amounted to the fair value of the leased asset and the leased asset is of such a specialised nature that only the lessee can use them without major modifications then the lease is classified as a finance lease. An asset is recorded together with the related obligation at the time the finance lease obligation is recorded.

The asset is presented in Property, plant and equipment (note 7 of the financial statements) as Production unit under finance lease and amounted to $16.8M as of September 30, 2011.

The finance lease is presented in the Interim Consolidated Statements of Financial Position as Finance lease with a complete description in note 10. As of September 30, 2011 the finance lease amounted to $18M.

QUARTERLY FINANCIAL DATA

	Quarters ended			
	September 30, 2011	**June 30, 2011**	**March 31, 2011**	**December 31, 2010**
Revenues	$21,000	$38,000	-	$75,000
Total expenses including future income taxes	($4,428,000)	($4,921,000)	($5,051,000)	($4,679,000)
Loss	($4,407,000)	($4,883,000)	($5,051,000)	($4,604,000)
Basic and diluted net loss per share	($0.03)	($0.03)	($0.04)	($0.04)
	September 30, 2010	**June 30, 2010**	**March 31, 2010**	**December 31, 2009[(1)]**
Revenues	-	-	$34,000	-
Total expenses including future income taxes	($4,139,000)	($3,998,000)	($3,777,000)	($3,893,000)
Loss	($4,139,000)	($3,998,000)	($3,743,000)	($3,893,000)
Basic and diluted net loss per share	($0.03)	($0.03)	($0.03)	($0.04)

(1): 2009 data have not been adjusted to reflect the new standards IFRS. Only 2010 data were adjusted.

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 time and the availability of funding from investors or partners.

The evolution in the stage of development of the Company from preclinical to 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, the pre-clinical studies for its H1N1/seasonal vaccine and the production of Phase I materials in the 2010 explain the increase in expenses. Wage and salaries increased in 2009 and 2010 as a result of by the hiring of new employees since the second half of 2009 required by preclinical and clinical work related to the clinical development of both vaccines (H5N1 Avian Influenza VLP vaccine and H1N1/seasonal vaccine). More laboratory supplies and analysis and additional outsourced contract work were also required to perform these activities.

The establishment of a US subsidiary in the second half of 2010 for the DARPA project also explained the increase in expenses since the beginning of 2011.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company had cash and short-term investments totaling $28.1 Million as at September 30, 2011, an increase of $19.6 Million from December 31, 2010. The Company had a working capital of $22.2 Million as at September 30, 2011 compared to $1.7 Million as at December 31, 2010. As at September 30, 2011, the Company's long-term debt amounted to $15.8 Million and the finance lease amounted to $17.7 Million. Under the terms of the Bio-Levier loan agreement, the Company needs to maintain its current ratio at 1.3/1 or higher. Deferred grants on research agreements are excluded from the calculation of the current ratio. As

at September 30, 2011 this ratio was at 7.00:1 (3.2:1 as December 31, 2010).

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 US facility and working capital. Medicago expects expenses to increase in 2011 as the Company will continue to advance its programs. Management believes that existing capital resources, the DARPA grant and the existing equity line of credit of up to $10,000,000 (see note 11 of the financial statements) which as not been used to date are adequate to fund our planned activities 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. Management anticipates funding additional capital requirements primarily either through additional issuance of securities or the potential monetization of the Company's technology and 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

Cash flows	**Three-month period ended September 30**		**Nine-month period ended September 30**	
	2011	2010	**2011**	2010
Operating activities	**(8,908,000)**	2,277,000	**(15,469,000)**	(4,428,000)
Financing activities	**24,112,000**	6,653,000	**41,732,000**	7,537,000
Investing activities	**(15,823,000)**	(3,283,000)	**(28,362,000)**	3,860,000
Effect of changes in foreign exchange rates	**(1,143,000)**	-	**(934,000)**	-
Net change in cash	**(1,762,000)**	5,647,000	**(3,033,000)**	6,969,000

Operating Activities

Net cash used in operating activities increased by $11,185,000 to $8,908,000 for the three-month period ended September 30, 2011 compared to 2010. This increase is explained by the increase in loss, net of items not affecting cash and cash equivalents (or 'burn rate') for $353,000 and by the change in non-cash working capital items for $10,832,000 described in note 16a) of the financial statements.

Net cash used in operating activities increased by $11,041,000 to $15,469,000 for the nine-month period ended September 30, 2011 compared to 2010. This increase is mainly explained by the increase in loss net of items not affecting cash and cash equivalents (or 'burn rate') of $2,416,000 and by the change in non-cash working capital items of $8,625,000 described in note 16a) of the financial statements.

Financing Activities

Net cash generated from financing activities were $41,732,000 for the nine-month period ended September 30, 2011 compared to $7,537,000 in 2010. The increase mainly resulted from the two financing completed since the beginning of 2011 with total gross proceeds of $42.4M compared to one financing completed in 2010 with gross proceeds of $7.5M.

Investing Activities

Net cash used in investing activities (excluding additions and disposal of short-term investments and security deposit) increased by $1,694,000 to $2,543,000 for the three-month period ended September 30, 2011, related mainly to more additions to property, plant and equipment for $5,600,000 related to the DARPA project that were partly offset by the grant from DARPA for $3,247,000.

Since the beginning of 2011, net cash used in investing activities (excluding additions and disposal of short-term investments and security deposit) increased by $2,920,000 to $5,359,000 for the nine-month period ended September 30, 2011, related mainly to the increase in additions to property, plant and equipment of $12,904,000 that were partly offset by the grant from DARPA for $8,106,000 and another grant of $431,000.

The Company had planned to invest $0.6 Million in property, plant and equipment in 2011 at its Canadian manufacturing activities and $13.3M at its US facility pursuant to the DARPA contract. Most of the funding required for the US facility is covered by the DARPA grant.

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, 2011	Per Prospectus
Cost sharing program with DARPA	$5,500,000	$5,500,000
General corporate and working capital purposes	1,287,500	$1,287,500
Total	$6,787,500	$6,787,500

Use of proceeds of the public offering completed in April 2011

The Company completed a public offering for net proceeds of $16,565,000 in April 2011 and the following table provides information concerning the use of proceeds resulting from this offering.

USE OF PROCEEDS	From April 5, 2011 through September 30, 2011	Per Prospectus
Clinical development of the Corporations's plant-based Influenza VLP vaccines	$2,722,000	$10,560,000
Development of additional potential therapeutic candidates	$13,000	$1,000,000
General corporate and working capital purposes	$1,190,000	$5,005,000
Total	$3,925,000	$16,565,000

CONTRACTUAL OBLIGATIONS

Other than the changes described in the MD&A for the six-month period ended June 30, 2011 there has been no significant change in the contractual obligations of the Company as described in Medicago's 2010 audited financial statements.

OUTLOOK FOR THE REMAINDER OF 2011

We expect R&D expenses to increase in 2011 compared to 2010 to support the following activities:

- Completion of the construction of the U.S. commercial grade facility
- Initiate U.S. Phase II clinical trial with trivalent seasonal vaccine in the first half of 2012
- Potential contracts (government, pharmaceutical companies)
- Addition of new pipeline candidates

Our expectations are that the cash outflow will not proceed linearly through the year but will be higher in the second half of the year due to cost associated with clinical studies and the performance under the DARPA project.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

As at September 30, 2011 there were no related party transactions or off-balance sheet agreements.

OUTSTANDING SHARE DATA

As at November 11, 2011, there were 229,410,302 common shares issued and outstanding as well as 8,212,819 stock options outstanding. Warrants outstanding and Unit options outstanding as at November 11, 2011 represented a total of 25,719,417.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, IAS 34, "Interim Financial Reporting". These are the Company's second quarter consolidated financial statements prepared in accordance with IFRS; in consequence the Company explains its choices related to IFRS 1, "First-time Adoption of International Financial Reporting Standards", in note 19 of the financial statements.

The Company has consistently applied the same accounting policies in its opening IFRS consolidated statement of financial position at January 1, 2010 and throughout all periods presented, as if these accounting policies had always been in effect. Note 19 of the financial statements for the quarter ended September 30, 2011 discloses the impact of the transition to IFRS on the Company's reported consolidated equity, consolidated statement of comprehensive loss, 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. 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 changeover to IFRS.

The full description of accounting policies and estimates are presented in the relevant section of the Company's financial statements for the quarter ended September 30, 2011.

Estimates, assumptions and judgements are continually evaluated by the Company and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates, assumptions and judgments concerning the future. The estimates, assumptions and judgments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. Actual results could differ from these estimates.

FUTURE ACCOUNTING CHANGES

The IASB issued the following standards which are relevant but have not yet been adopted by the Company: IFRS 9, Financial instruments, IFRS 10, Consolidated Financial Statement, IFRS 13, Fair Value Measurement and amended IAS 1 Presentation of Financial Statements. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted except for the amendment to IAS 1 which is effective for annual periods beginning on or after July 1, 2012. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards and amendment:

IFRS 9 - Financial instruments

IFRS 9 was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement, for debt instruments with a new mixed measurement model with 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, 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, 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.

IFRS 10 – Consolidation

IFRS 10 was issued in May 2011. It requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 13 - Fair Value Measurement

IFRS 13 was issued in May 2011. It is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

IAS 1 - Presentation of Financial Statements

Amendment to IAS 1 - Presentation of Items of other comprehensive Income: IAS 1 has been amended to change the disclosure of items presented in Other Comprehensive Income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.

RISK FACTORS AND UNCERTAINTIES

There has been no significant change in the risk factors and uncertainties facing Medicago as described in the Company's 2010 annual MD&A.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its financial statements. The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls over financial reporting to the issuers. They established the internal control over financial reporting or had it established under their supervision in order to obtain reasonable assurance about the reliability of the financial reporting and to make sure that the financial statements were being prepared accordingly with IFRS.

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were changes to its ICFR during the quarter ended September 30, 2011 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 11, 2011