YEAR ENDED DECEMBER 31, 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 years ended December 31, 2011 and 2010. This discussion and analysis should be read in conjunction with the information contained in the Consolidated Financial Statements and related notes for the year ended December 31, 2011, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). The 2011 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 March 29, 2011, date of the approval by the Board of the Management's Discussion and Analysis and the 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 Consolidated Financial Statements as at December 31, 2011, and for the year then ended have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. Additionally, our consolidated statement of financial position as at January 1, 2010, and our comparative 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 29 to our Consolidated Financial Statements as at December 31, 2011, and for the year ended December 31, 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 a clinical-stage biopharmaceutical company developing novel vaccines and therapeutic proteins to address a broad range of infectious diseases worldwide. The Company is committed to providing highly effective and competitive vaccines and therapeutic proteins based on its proprietary Virus Like Particles ("VLP") and manufacturing technologies. Medicago is a worldwide leader in the development of VLP vaccines using a transient expression system which produces recombinant vaccine antigens in plants. This technology has the potential to offer more potent vaccines with speed and cost advantages over competitive technologies, enabling the development of a vaccine for testing in approximately one month after the identification and reception of genetic sequences of a pandemic strain. This production time frame has the potential to allow vaccination of the population before the first wave of a pandemic, and supply large volumes of vaccine antigens to the market. Medicago also intends to expand development into other areas such as biosimilars and biodefense products where our technologies can make a significant difference.

MARKET AND ECONOMICS CONDITIONS OVERVIEW

Vaccine Industry – Market Overview

World vaccines sales went from US$ 10.1 billion in 2005 to US$ 23 billion in 2009. The world vaccines market is expected to be $US 40 billion by 2015.

Growth in the vaccine market accelerated in the last few years and many mergers and acquisitions have taken place. As examples, Pfizer acquired Wyeth, Merck acquired Schering Plough, Sanofi acquired Shantha Biotechnics and Johnson & Johnson acquired Crucell.

Influenza market

In 2010, the global market for seasonal influenza vaccines was estimated to have reached worth US$ 3.8 billion and is expected to be US$ 7 billion by 2015.

For 2012, we are of the opinion that we have the financial resources required to work towards the attainment of our objectives (See Products in development).

KEY DEVELOPMENTS

CORPORATE

MEDICAGO INC. AND MITSUBISHI TANABE PHARMA CORPORATION ENTER INTO A STRATEGIC ALLIANCE TO DEVELOP NEW VACCINES

Medicago to Receive up to $33 Million in Upfront and Milestone Payments as well as Royalties under a First Agreement to Develop a Rotavirus Vaccine

After year-end, on March 6, 2012, Medicago announced the establishment of a strategic alliance with Mitsubishi Tanabe Pharma Corporation (MTPC) through the execution of a Master Research Collaboration Agreement. The objectives are to develop and commercialize at least three new vaccines with MTPC who will provide funding for all research and development costs. In exchange for granting licensing rights, Medicago will be entitled to receive upfront and milestone payments as well as royalties for each product to be developed under this master agreement.

Under this first agreement to develop a Rotavirus Like Particle (RLP) vaccine target, MTPC will have the option to license the RLP vaccine target and assume global development, regulatory and commercialization responsibilities while Medicago will be eligible to receive up to a total of C$33 million in upfront and milestone payments as well as royalties on future sales of the RLP product. Medicago will receive an upfront payment of C$3 million to begin the initial research on rotavirus. Work on an RLP vaccine target will begin immediately, and additional targets under this master agreement are to be selected by the parties at a later date.

Rotavirus is the most common cause of severe diarrhea in infants and young children globally. The worldwide incidence of rotavirus is estimated at 125 million cases each year, and is responsible for more than 500,000 deaths annually. More than 85% of these deaths occur in Africa and Asia, and over two million are hospitalized each year with pronounced dehydration. Children under five years of age, especially those between six months and two years, are most vulnerable to the disease. While vaccines against rotavirus gastroenteritis are currently available and are the single prevention and control measure with the most significant impact on reducing severe disease incidence, economic barriers to access remain an issue in many developing countries. Market for rotavirus vaccines has crossed US$1 billion in 2009.

FINANCING

Completion of a $17.4 million equity offering

On April 5, 2011, the Company completed an offering of 34,117,600 units at a price of $0.51 per unit, representing gross proceeds of $17,399,976. Philip Morris Investments BV ("**Philip Morris**"), an insider of the company, participated in the offering and acquired 17,058,800 units. Each unit is comprised of one common share and one quarter of one common share purchase warrant. Each full warrant has an exercise price of $0.75, exercisable for a period of 24 months following the closing date of the offering. The warrants are subject to an accelerated expiry if, at any time after the closing of the offering, the published closing trade price of the Common Shares on the TSX is equal or superior to $1.00 for any 30 consecutive trading days, in which event the Company may give the holders a written notice that the warrants will expire at 5:00 p.m. (Montréal time) on the 30th day from the receipt of such notice.

Net proceeds from this offering will be used for continued clinical development of the Company'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.

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 $0.65 for gross proceeds of $25 million.

A top-50 global pharmaceutical company was the lead investor of this private placement, which also included health-care-focused institutional investors, 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 this 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.

Philip Morris exercised its pre-emptive right and invested an additional $22.5 million

On October 27, 2011, Medicago announced that Philip Morris exercised its pre-emptive right and 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.

This 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 with Philip Morris on September 27, 2011.

The first tranche of this 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. Following disinterested shareholders' approval, the second tranche was completed on December 16, 2011, by the issuance of 17,200,000 common shares at $0.65 for gross proceeds of $11,180,000.

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

After the closing of the second tranche of this private placement, Philip Morris held 40% of the then outstanding common shares of the Corporation.

US FACILITY AND GRANT FROM THE DEFENSE ADVANCED RESEARCH PROJECTS AGENCY ('DARPA')

In August 2010, Medicago signed a US$21 million technology investment agreement with the Defense Advanced Research Projects Agency to develop this vaccine 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.

In 2011, Medicago USA Inc., a wholly owned subsidiary of Medicago Inc., received the second and third milestone payment totalling US$9.4 million from the DARPA. This is part of the US$21 million DARPA grant awarded to Medicago to demonstrate the scalable manufacturing of its plant-expressed virus-like particle vaccines in the United States under a technology investment agreement. At the end of 2011 Medicago has received US$16.3 million under this agreement.

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.

On February 13, 2012, Medicago USA Inc. received the fourth milestone payment of US$3.56 million from the DARPA. Medicago has now received US$19.8 million to date from DARPA for this project, with two milestones remaining.

In the first half of 2012, the Company expects to complete the fifth and sixth milestones related to this project. The value of these milestones total US$1.2 million.

MEDICAGO SELECTED TO COLLABORATE WITH IDRI ON A MULTIMILLION DOLLAR GRANT AWARDED TO IDRI FROM THE US DEPARTMENT OF DEFENSE

Medicago was selected to collaborate with the Infectious Disease Research Institute (IDRI) on a multimillion-dollar grant awarded to IDRI by the US Department of Defense's Defense Advanced Research Projects Agency (DARPA) for the proposed development of a single-dose H5N1 influenza vaccine which could be rapidly and widely administered in the case of an avian pandemic flu outbreak.

This grant from DARPA is for a Phase I clinical trial with an intradermal H5 vaccine in combination with IDRI's Glycopyranosyl Lipid Adjuvant (GLA) adjuvant. The project combines Medicago's plant-made H5 virus-like particle vaccine with IDRI's vaccine adjuvant technology, as well as a microneedle delivery device. These three technologies could enhance protection, reduce the amount of product required, and simplify vaccine distribution and administration. The Phase I clinical trial is expected to be completed in the second half of 2012.

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 develop vaccines and other biopharmaceutical proteins. Medicago has several agreements in place with Governments and pharmaceutical companies in North America (DARPA, IDRI, USAMRIID, undisclosed pharma, Mitsubishi Tanabe Pharma), and Europe (Genopole). Medicago favors strategic partnerships with significant 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 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 geometric mean titer (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.

In 2012, the Company does not expect to conduct further clinical trials with this product. The Company intends to try to seek approval for emergency use of this product in certain countries.

SEASONAL AND H1N1 VACCINES

On June 8, 2011, Medicago released positive results from a US 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 US Phase IIa trial for its seasonal trivalent vaccine with the recommended H1N1, H3N2 and B influenza strains.

The US 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.

On February 28, 2012, the US FDA Advisory Committee on Vaccines and Related Products met and agreed to follow the World Health Organization (WHO) recommendations to change two influenza virus strains for the 2012-2013 seasonal trivalent influenza vaccine. Other health authorities are expected to adopt the WHO recommendations in due course. Specifically, the WHO recommendation includes a change in both the H3N2 A strain and the B strain. The new H3N2 A strain is the A/Victoria361/2011, previously the A/Perth/16/2009 H3N2 strain, and the new B strain is B/Wisconsin/1/2010 from the Yamagata lineage, previously the B/Brisbane/60/2008 strain from the Victoria lineage.

At the same FDA Advisory meeting, there were discussions related to the consideration of the development of quadrivalent seasonal influenza vaccines. While final no recommendation was made, there was agreement that moving to a quadrivalent

seasonal influenza vaccine, which would include two B influenza strains instead of one, would be a preferable approach given the difficulty in selecting the appropriate B strain each year. In particular, the two B strains mentioned above were seen in similar proportions in different countries and are antigenically different.

Consistent with Medicago's goal to deliver state-of-the-art vaccines, the Company has now decided to include the two new strains as recommended by the WHO and to moveswitch from a trivalent to a quadrivalent seasonal vaccine formulation containing the two B influenza strains of the Yamagata and Victoria lineages. The Company believes that this will ensure the development of the most relevant and effective seasonal flu vaccine candidate for the Phase IIa clinical trial. As a result, the Company will now begin initial production of these VLP vaccine strains, and additional preclinical studies and formulation work will be required. Therefore, we now expect interim results of the US Phase IIa quadrivalent seasonal influenza vaccine clinical trial in the first quarter of 2013.

The decision by the Company to work towards a quadrivalent vaccine included careful consideration related to the outlook for the seasonal influenza vaccine market. Current manufacturers are working towards the approval and sale of quadrivalent vaccines and, one company in particular, has recently obtained FDA approval for a quadrivalent vaccine. By expanding Medicago's development to include a fourth strain at this time, the we expect the Company to save time and costs in the future, and create more interest for potential partners.

RABIES VACCINE

In January 2012, the Company announced it had successfully completed initial studies toward the development of a new VLP vaccine candidate for rabies. Over the past 12 months, as part of the Company's strategy to further develop a pipeline of products, Medicago has been working diligently to expand the application of its VLP technology to new vaccine targets.

Results with the rabies VLP vaccine demonstrated that two doses of one or four micrograms induced protective levels of neutralizing antibodies in a mouse model. Medicago expects to move ahead with GMP process development and a GLP toxicology study in 2012 and, following this, a Phase I clinical trial.

Rabies is a significant worldwide problem and, according to the World Health Organization, is responsible for approximately 55,000 deaths per year, primarily in Asia and Africa. While rabies vaccines produced in cell culture are currently available, there is limited access in many geographic areas and cost can be prohibitive. More than 15 million people are vaccinated annually following exposure to the rabies virus, many through a regimen requiring four to five intramuscular doses over three to four weeks. In addition, pre-exposure vaccination is recommended for high-risk groups such as veterinarians, animal handlers and certain laboratory workers.

OTHER PRODUCTS

Research collaboration for the development of a non-influenza VLP vaccine candidate with a top 10 global pharmaceutical company

In April 2011, Medicago entered into a research collaboration agreement for the development of a non-influenza VLP vaccine candidate with a top 10 global pharmaceutical company and, on October 12, 2011, the Company announced the successful completion of the first stage of this research collaboration. Medicago's collaboration partner has indicated its intent to proceed to the second stage of the collaboration which should be completed in the first half of 2012.

Under the terms of this 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.

Medicago announces research collaboration for the development of a VLP vaccine candidate for the prevention of Ebola with the US Army Medical Research Institute of Infectious Diseases (USAMRIID)

In May 2011, Medicago entered into a research collaboration agreement with the US Army Medical Research Institute of Infectious Diseases (USAMRIID) for the development of a plant-based virus-like particle vaccine candidate for the prevention of ebola. Ebola is a very serious hemorrhagic fever virus for which no licensed treatment or vaccine exists.

SELECTED ANNUAL CONSOLIDATED INFORMATION

	2011 $	2010 $	2009[1] $
CONSOLIDATED STATEMENTS OF INCOME			
Revenues	**187,000**	109,000	**-**
Loss for the period			
$	**20,992,000**	16,484,000	12,475,000
Basic and diluted loss per share	**0.12**	0.13	0.13
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION			
Cash and short-term investments	**40,362,000**	8,521,000	14,333,000
Total assets	**80,394,000**	21,313,000	22,830,000
Long-term debt [2]	**17,927,000**	15,672,000	15,488,000
Finance lease liability[2]	**17,359,000**	**-**	**-**

(1) 2009 financial information has not been adjusted to reflect the new standards IFRS. Only 2010 financial information was adjusted.
(2) Including current portion

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2011 AND 2010

CONSOLIDATED STATEMENTS OF INCOME

Revenues

For the year ended December 31, 2011, the Company recorded revenues of $187,000 that were generated mainly by the research collaboration agreement for the development of a non-influenza VLP vaccine candidate with a top 10 global pharmaceutical company. Revenues of $109,000 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 and from a contract signed with IDRI for $75,000.

Research and development

	Year ended December 31		
	2011	**2010**	**Variation**
Research and development (R&D) expenses			
Canada	15,409,000	13,269,000	2,140,000
USA	5,226,000	438,000	4,788,000
	20,635,000	13,707,000	6,928,000
Research grant and contributions			
Canada	(1,369,000)	(984,000)	(385,000)
USA	(5,702,000)	(394,000)	(5,308,000)
	(7,071,000)	(1,378,000)	(5,693,000)
Research and development tax credits			
Canada	(1,599,000)	(1,328,000)	(271,000)
USA	-	-	-
	(1,599,000)	(1,328,000)	(271,000)
Total			
Canada	**12,441,000**	**10,957,000**	**1,484,000**
USA	**(476,000)**	**44,000**	**(520,000)**
Net R&D expenses	**11,965,000**	**11,001,000**	**964,000**

Net R&D expenses increased by $964,000 to $11,965,000 for the year ended December 31, 2011, compared to 2010. For the year ended December 31, 2011, R&D expenses increased by $6,928,000 to $20,635,000 compared to 2010. For the year ended December 31, 2011, Canadian R&D expenses increased by $2,140,000, 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 of 2011. Wage and salaries were higher ($1,163,000) for the year ended December 31, 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 ($556,000), was 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 year ended December 31, 2011, amounted to $5,226,000 and are related to the DARPA project that started in August 2010.

Research grants and contributions increased by $5,693,000 for the year ended December 31, 2011 to $7,071,000 compared to the year ended December 31, 2010. The increase in the year ended December 31, 2011 is mainly explained by the recognition in the consolidated statements of income of $5,702,000 under the grant from DARPA.

Research and development tax credits were of $1,599,000 for the year ended December 31, 2011, $271,000 higher than for the year ended December 31, 2010. The increase in 2011 is explained by the increase of the Canadian R&D expenses for year ended December 31, 2011. The tax credit rate on eligible salaries is 37.5% on the first $3,000,000 and 17.5% thereafter.

General and administrative

	2011	2010	Variation
General and administrative, business development and intellectual property			
Canada	4,828,000	4,340,000	488,000
USA	999,000	-	999,000
	5,827,000	4,340,000	1,487,000
Share-based compensation	745,000	645,000	100,000
Exchange (gain) loss	(303,000)	107,000	(410,000)
	6,269,000	**5,092,000**	**1,177,000**

General and administrative (G&A) expenses increased by $1,177,000 for the year ended December 31, 2011, compared to 2010. The increase is mainly explained by the general and administrative expenses of $999,000 of the US subsidiary. Canadian G&A expenses increases by $488,000 in 2011 explained by an increase in wage and salaries of $177,000 and travelling expenses of $128,000. The increase of share-based compensation of $100,000 is partly offset by an increase in foreign exchange gain of $410,000. The Share-based compensation increase of $100,000 in 2011 is related to the issuance of stock-options at the end of 2010. The foreign exchange gain in 2011 is explained by the decrease in value of the Canadian dollar in comparison with the US dollar.

Depreciation of property, plant and equipment

	2011	2010	Variation
Canada	908,000	406,000	502,000
USA	421,000	-	421,000
	1,329,000	**406,000**	**923,000**

Depreciation of property, plant and equipment was $1,329,000 for the year ended December 31, 2011, $923,000 higher than the year ended December 31, 2010. The increase of depreciation in Canada is explained by the fact that in the fourth quarter of 2010, the Company reviewed its accounting estimates as to the useful lives of certain classes of assets. This review led to changes in the depreciation methods used as they relate to the consumption pattern and the useful lives of assets. The changes were made to better reflect the useful lives of assets taking into account the experience gained by the Company in operating and using same, plant and equipment. This change in accounting estimates reduced the depreciation by a total amount of $487,000 in 2010. The depreciation for the US is explained by the new amortization of the production unit (US facility) under a finance lease for $329,000.

Amortization of intangible assets

Amortization of intangible assets amounted to $152,000 for the year ended December 31, 2011, an increase of $62,000 compared to 2010 mainly explained by more capitalized costs for patents in 2010 and since the beginning of 2011.

Financial income

Financial income amounted to $169,000 for the year ended December 31, 2011, $71,000 higher than the year ended December 31, 2010. This increase is mainly explained by higher interest income resulting from an increase in cash and short-term investments following the completion of equity financings in 2011.

Financial costs

Financial costs amounted to $1,837,000 for the year ended December 31, 2011, which was $661,000 higher compared to the year ended December 31, 2010. This increase is mainly explained by a higher interest rate on the long-term debt in 2011 compared to 2010 by $183,000 and interest on the finance lease for the US facility of $405,000.

Deferred income taxes

Deferred income taxes amounted to $204,000 for the year ended December 31, 2011, compared to $1,075,000 in 2010. The expiration of warrants created a capital gain for the Company. Taxable capital gains were applied against accumulated losses and deferred income taxes, and were recognized in the consolidated statements of income. The taxes related to capital gains are presented in the contributed surplus. The decrease in deferred income taxes in 2011 is explained by the fact that less warrants expired in 2011 compared to 2010.

Net consolidated loss for the year ended December 31, 2011, was $20,992,000 or $0.12 per basic and diluted share, compared to a net loss of $16,484,000 or $0.13 per basic and diluted share for the year ended December 31, 2010.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Cash and short-term investments
Cash and short-term investments were $40.4 million as at December 31, 2011 an increase of $31.8 million from December 31, 2010.

Total consolidated assets
Total consolidated assets were $80.4 million as at December 31, 2011, an increase of $59.1 million since December 31, 2010. The increase is mainly explained by the increase in cash and short-term investments of $31.8 million and in property, plant and equipment of $21.1 million resulting from the acquisition of property, plant and equipment for the DARPA project.

Long-term debt
Long-term debt was $17.9 million as at December 31, 2011, $2.2 million higher compared to December 31, 2010. The increase corresponds to a loan of $2 million from Alexandria Real Estate for the payment, over a period of 24 months, of tenant improvements to the US facility.

Finance lease liability
On August 10, 2010, Medicago USA Inc., a wholly owned subsidiary of the Company, entered into a lease agreement, which was amended on March 31, 2011. This lease commenced in September 2011 and expires in September 2026, with a renewal option for an additional 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 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 9 of the consolidated financial statements) as Production unit under

finance lease and amounted to $17.6M as of December 31, 2011.

The finance lease liability is presented in the Consolidated Statements of Financial Position as finance lease with a complete description in note 15 of the consolidated financial statements. As of December 31, 2011, the finance lease amounted to $17.4 million.

QUARTERLY FINANCIAL DATA

	Quarters ended			
	December 31, 2011	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**
Revenues	$128,000	$21,000	$38,000	-
Total expenses including deferred income taxes	($6,778,000)	($4,428,000)	($4,921,000)	($5,051,000)
Loss	($6,650,000)	($4,407,000)	($4,883,000)	($5,051,000)
Basic and diluted net loss per share	($0.03)	($0.03)	($0.03)	($0.04)
	December 31, 2010	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**
Revenues	$75,000	-	-	$34,000
Total expenses including deferred income taxes	($4,679,000)	($4,139,000)	($3,998,000)	($3,777,000)
Loss	($4,604,000)	($4,139,000)	($3,998,000)	($3,743,000)
Basic and diluted net loss per share	($0.04)	($0.03)	($0.03)	($0.03)

Revenues from quarter to quarter may vary significantly. Revenues 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 collaboration 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 preclinical studies for its H1N1/seasonal vaccine and the production of Phase I materials in the 2010 explained the increase in expenses. Wages and salaries increased in 2010 and 2011 as a result of 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 Medicago USA Inc. in the second half of 2010 for the DARPA project also explained the increase in expenses since the beginning of 2011.

FOURTH QUARTER RESULTS

FOURTH QUARTER RESULTS	2011 $	2010 $
Revenues from research agreements	128,000	75,000
Operating expenses		
Research and development	2,653,000	3,892,000
General and administrative	2,815,000	1,738,000
Depreciation of property, plant and equipment	593,000	(216,000)
Amortization of intangible assets	43,000	29,000
Financial income	(88,000)	(18,000)
Financial costs	762,000	329,000
	6,778,000	5,754,000
Loss before income tax	6,650,000	5,679,000
Deferred income taxes	-	(1,075,000)
Net loss for the quarter	6,650,000	4,604,000
Basic and diluted loss per share	(0,03)	(0,04)

For the quarter ended December 31, 2011, the Company had revenues of $128,000 that were generated mainly by the research collaboration agreement for the development of a non-influenza VLP vaccine candidate with a top 10 global pharmaceutical company. Revenues of $75,000 in 2010 were generated by a contract signed with IDRI for $75,000.

R&D expenses for the quarter ended December 31, 2011, decreased by $1,239,000 compared to the same quarter in 2010. The decreased is explained by the fact that the net R&D expenses in the US were $1,381,000 lower in 2011 compared to 2010. This is explained by the grant from DARPA.

For the quarter ended December 31, 2011, G&A expenses increased by $1,078,000 compared to the three-month period ended December 31, 2010. This increase is mainly explained by the G&A expenses for the US subsidiary of $411,000 in 2011 when there were no expenses in 2010. The increase in the exchange loss of $443,000 in the fourth quarter of 2011, following the increase in the value of the Canadian dollar compared to the US dollar in the quarter, explains the remaining of the increase.

Depreciation of property, plant and equipment was $593,000 for the three-month period ended December 31, 2011, $809,000 higher than the three-month period ended December 31, 2010. The increase of depreciation in 2011 is explained by the fact that in the fourth quarter of 2010 the Company reviewed its accounting estimates as to the useful lives of certain classes of assets. This review led to changes in the depreciation methods used as they relate to the consumption pattern and the useful lives of assets. The changes were made to better reflect the useful lives of assets taking into account the experience gained by the Company in operating and using same. This change in accounting estimates reduced the depreciation by a total amount of $487,000 in 2010. The increase in depreciation for the quarter is also explained by the new amortization of the production unit under finance lease (US facility) of $282,000.

Amortization of intangible assets amounted to $43,000 for the fourth quarter of 2011, an increase of $14,000 compared to 2010 mainly explained by more capitalized costs for patents in 2010 since the beginning of 2011.

Financial income amounted to $88,000 for the quarter ended December 31, 2011, which was $70,000 higher than the quarter ended December 31, 2010. This increase is mainly explained by higher interest income resulting from an increase in cash and short-term investments following the closing of the financings completed in 2011.

Financial costs amounted to $762,000 for the three-month period ended December 31, 2011, which was $433,000 higher compared to the three-month period ended December 31, 2010. This increase is mainly explained by the interest on the finance lease of the US facility for $405,000.

Deferred income taxes decreased by $1,075,000 for the three-month period ended December 31, 2011. The expiration of warrants in the fourth quarter of 2010 created a capital gain for the Company. Taxable capital gains were applied against accumulated losses, and deferred income taxes resulting from it were recognized in the consolidated statements of income. The taxes related to capital gains are presented in the contributed surplus.

Net consolidated loss for the three-month period ended December 31, 2011, was $6,650,000 or $0.03 per basic and diluted share compared to a net loss of $4,604,000, or $0.04 per basic and diluted share for the three-month period ended December 31, 2010.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company had cash and short-term investments totaling $40.4 million as at December 31, 2011, an increase of $31.9 million from December 31, 2010. The Company had working capital of $40.7 million as at December 31, 2011 compared to $1.7 million as at December 31, 2010. As at December 31, 2011, the Company's long-term debt amounted to $17.9 million and the finance lease amounted to $17.4 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 December 31, 2011 this ratio was at 5.8:1 (3.2:1 as December 31, 2010).

The Company's primary capital needs are the funds required to support its research and development activities including preclinical and clinical trials, capital expenditures for the US facility and working capital. Medicago expects expenses to increase in 2012 compared to 2011 as the Company will continue to advance its research and development programs. Management believes that existing capital resources excluding the existing equity line of credit of up to $10,000,000 (see note 16 of the financial statements) which has 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*)

The variation of our liquidity by activities is explained below:

CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash flows	**Year ended December 31**	
	2011	2010
Operating activities	**($24,934,000)**	($10,442,000)
Financing activities	**$65,969,000**	$7,442,000
Investing activities	**($23,480,000)**	$6,237,000
Effect of changes in foreign exchange rates	**($372,000)**	($49,000)
Net change in cash	**$17,182,000**	$3,188,000

Operating Activities

Net cash used in operating activities increased by $14,492,000 to $24,934,000 for the year ended December 31, 2011, compared to 2010. This increase is explained by the increase in loss, net of items not affecting cash (or "burn rate") for $2,548,000, and by the variation of change in non-cash working capital items for $11,944,000 described in note 23a) of the financial statements.

Financing Activities

Net cash generated from financing activities were $65,969,000 for year ended December 31, 2011, compared to $7,442,000 in 2010. The increase mainly resulted from the three financings completed in 2011, with total gross proceeds of $64.9M compared to one financing completed in 2010 with gross proceeds of $7.5M.

Investing Activities

Net cash used in investing activities (excluding acquisitions and dispositions of short-term investments and security deposit) increased by $5,901,000 to $8,355,000 for the year ended December 31, 2011, related mainly to more additions to property, plant and equipment for $14,507,000 related to the DARPA project, that were partly offset by the grant from DARPA for $9,341,000.

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 December 31, 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 December 31, 2011	Per Prospectus
Clinical development of the Corporations's plant-based Influenza VLP vaccines	$6,784,000	$10,560,000
Development of additional potential therapeutic candidates	$129,000	$1,000,000
General corporate and working capital purposes	$4,679,000	$5,005,000
Total	$11,592,000	$16,565,000

CONTRACTUAL OBLIGATIONS

The Company has certain contractual obligations and commercial commitments. The following table indicates the Company's cash requirements to comply with these obligations:

Minimum payments under the Company's contractual obligations are as follows as at December 31, 2011:

$	2012	2013	2014	2015	2016	Thereafter	Total
Accounts payable, excluding statutory liabilities	5,965,865						5,965,865
Bank loans	1,119,794						1,119,794
Long-term debt	2,128,054	2,127,666	16,369,251	5,949	-	834,635	21,465,555
Finance lease liability	1,781,010	1,834,446	1,889,481	1,946,166	2,004,553	22,527,415	31,983,071
Licenses	147,500	147,500	157,500	182,500	177,500	-	812,500
Operating leases	322,554	413,621	295,467	222,269	228,937	235,805	1,718,654

OUTLOOK FOR 2012

We expect our R&D expenses to increase in 2012 compared to 2011 to support the following activities:

- Preparation for US Phase IIa clinical trial with trivalent seasonal with interim results in the first quarter of 2012
- Completion of the DARPA program
- 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 the cost associated with clinical studies.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

As at December 31, 2011, there were no related party transactions or off-balance sheet agreements.

OUTSTANDING SHARE DATA

As at March 29, 2012, there were 246,670,302 common shares issued and outstanding as well as 10,010,426 stock options outstanding, warrants outstanding and unit options outstanding as at March 29, 2012 are in the aggregate of 27,644,236.

FINANCIAL RISK MANAGEMENT

Financial risk
The Company is exposed to various types of risks due to the nature of the business activities it carries on, including those related to the use of financial instruments. The Company does not use financial derivatives.

Market risk
Market risk corresponds to the financial losses that the Company could incur because of unfavourable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates and exchange rates.

Foreign exchange risk
Since the Company operates internationally, it is exposed to currency risks as a result of potential exchange rate fluctuations related to non-intragroup transactions. Fluctuations in the Canadian dollar ($C) and the US dollar ($US) exchange rates could have a potentially significant impact on the Company's results of operations. The following variations are reasonably possible over a 12-month period:

Foreign exchange rate variation of -5% (depreciation of the $US) and +5% (appreciation of the $US) against the $C, from a period-end rate of $US1.00 = C$1.0170.

If these variations were to occur, the impact on the Company's consolidated net loss for each category of financial instruments held at December 31, 2011 would be as follows:

	Carrying amount $US	**+ 5% $US**
Cash	9,738	487
Amounts receivable	19,932,688	991,634
Accounts payable and accrued liabilities	(445,560)	(22,278)
Total impact on net loss – decrease/(increase)	19,396,866	969,843

An assumed 5% weakening of the US dollar would have had an equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

Interest rate risk
As at December 31, 2011, the Company's exposure to interest rate risk is summarized as follows:

Cash	Variable interest rate
Short-term investments	Fixed interest rate
Amounts receivable	Non-interest bearing
Bank loans	Variable interest rate
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	As described in note 14 of the financial statements
Finance lease	As described in note 15 of the financial statements

Based on the average value of variable interest bearing cash and bank loans, as at December 31, 2011, fluctuations of 1% in interest rates would have a positive or negative impact of $189,338 ($11,198 in 2010) on loss and comprehensive loss for the period ended December 31, 2011.

Due to their short-term maturity, the Company's short-term investments are not subject to a significant fair value interest risk. Accordingly, change in fair value has been nominal to the degree that amortized cost has historically approximated the fair value. Any change in fair value of the Company's short-term investments, all of which are classified as available for sale, is recorded in other comprehensive income.

Credit risk
Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, short-term investments (note 6) and amounts receivable (note 7). Cash is maintained with high-credit quality financial institutions. Short-term investments consist primarily of term deposits, bonds and residuals issued by high-credit quality Canadian institutions. Consequently, management considers the risk of non-performance related to cash and short-term investments to be minimal.

Accounts receivable, such as interest receivable from Canadian chartered banks and amounts due from employees, are low-risk items.

Liquidity risk
Liquidity risk represents the possibility that the Company may not be able to gather sufficient cash resources when required and under reasonable conditions to meet its financial obligations. The Company believes that, with the financial resources currently at its disposal, it has sufficient cash to meet its contractual liabilities at least for the next twelve months. To meet all its contractual liabilities, the Company will need to raise additional funds in the future and could seek additional forms of debt or equity financing, but cannot provide assurance that it will be successful in doing so.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements. These are the Company's first 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 29 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 29 of the consolidated financial statements 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.

The full description of significant accounting policies and estimates are presented in note 3 of the consolidated financial statements.

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

Significant estimates are generally made in connection with the calculation of revenues, research and development expenses, stock-based compensation expense, as well as in determining deferred income tax assets and liabilities, impairment of property, plant and equipment and intangible assets. Estimates are based on historical experience, where relevant, and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

Revenue recognition

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

recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement.

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

Research and development expenses

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

All expenses related to development activities which do not meet generally accepted criteria for deferral, and research activities are expensed as incurred. Development expenses are capitalized and amortized against earnings over the estimated period of benefits if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria are usually met when regulatory filing has been made in a major market and approval is considered highly probable. As at December 31, 2011, December 31, 2010, and January 1, 2010, no development costs have been deferred.

Stock-based compensation and other stock-based payments

The Company has a stock option plan which is described in note 17 to the consolidated financial statements. As regards stock options granted, the Company uses the fair value based method of accounting. The fair value of stock options is determined using the Black-Scholes option pricing model, which requires the use of certain assumptions, including future stock price volatility and expected life of the instruments.

The expected life is estimated using historical data and current expectations. The expected volatility is estimated using the historical volatility of the Company's stock over the same period as the expected life.

Income taxes, government assistance and tax credits

Income tax expenses comprise current and deferred income taxes. Income taxes is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income taxes are also recognized directly in other comprehensive income or equity, respectively.

The current income taxes expenses are calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The company provides for deferred income taxes using the liability method. Under this method, deferred income taxes assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities as well as the carry forward of unused tax losses and deductions, using enacted or substantively enacted income tax rates expected to be in effect for the years in which the assets are expected to be realized or the liabilities to be settled.

Deferred income taxes assets are recognized only to the extent that it is probable that they will be recovered.

Deferred taxes liabilities are generally recognized for all taxable temporary differences and for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary differences can be controlled and it is probable that the differences will not reverse in the foreseeable future. However, deferred taxes are not recognized if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred income taxes assets and liabilities are offset when there is a legally enforceable right to offset current taxes assets against current taxes liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation

authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

Moreover, the Company is entitled to government assistance in the form of research tax credits and grants. These are applied against related expenses and the cost of the asset acquired. Tax credits are available based on eligible research and development expenses consisting of direct and indirect expenditures and including a reasonable allocation of overhead expenses. Grants are subject to compliance with terms and conditions of the related agreements. Government assistance is recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program or, with regard to tax credits, when there is reasonable assurance that they will be realized. As at January 1, 2010, December 31, 2010 and December 31, 2011, the Company did not recognize any non-refundable tax credits.

Impairment of assets with definite useful lives

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

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

FUTURE ACCOUNTING CHANGES

Unless otherwise noted, the following revised standards and amendments, which are relevant but have not yet been adopted by the Company, are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

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

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

IFRS 9 is applicable for annual periods beginning on or after January 1, 2015.

(ii) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, 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.

(iii) IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with,

an entity's interests in other entities.

(iv) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure 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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(v) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

CAPITAL MANAGEMENT

The Company views capital as the sum of long-term debt and Shareholders' Equity.

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide an adequate return to shareholders and maintain a sufficient level of funds to finance its research and development activities, general and administrative expenses, working capital and overall capital expenditures, including those associated with patents and trademarks.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, all of which are subject to market conditions and the terms of the underlying third party agreements. The Company is not subject to any capital requirements imposed by a regulator.

The total capital as at December 31, 2011 and 2010 is calculated as follows:

	2011	2010
	$	$
Long-term debt	16,837,739	15,599,743
Finance lease liability (as described in note 15 of the financial statements)	17,067,639	-
Current portion of long-term debt and finance lease	1,380,600	72,538
	35,285,978	15,672,281
Equity (as described in note 16 and 17 of the financial statements)	37,753,904	(5,158,485)
Total capital	73,039,882	10,513,796

RISK FACTORS AND UNCERTAINTIES

There are a number of risks that prospective investors should consider before investing in the securities of Medicago, including, but not necessarily limited to, those risks highlighted in this Company's management's discussion and analysis of the financial condition and results of operations and in the Annual Information Form. When securities of Medicago are in the course of distribution pursuant to a prospectus or similar public disclosure document, such document will also contain a description of the risks associated with investing in the securities of Medicago which may complement or supersede the disclosure contained herein.

Additional Financing Requirements and Access to Capital

The Company requires significant additional funds for further research and development, planned clinical trials, regulatory approvals, establishment of pilot scale and commercial manufacturing capabilities and the marketing of its products and product candidates. Medicago has no committed sources of capital. An attempt may be made to raise additional funds for the aforementioned purposes through public or private equity or debt financing, and collaborations with other companies, or financing from other sources may be undertaken. There can be no assurance that additional funding will be available at reasonable terms or at all. Any future equity financing may be dilutive to existing shareholders. If Medicago cannot obtain adequate funding on reasonable terms, it may need to terminate or delay clinical trials for its product candidates; delay its establishment of sales or marketing capabilities; curtail significant product development programs that are designed to identify new product candidates; and sell or assign rights to its technologies, products or product candidates. The Company's ability to sell or monetize its technologies or products or the terms at which it could do so could be limited by the terms of existing agreements, including the right of first refusal of PMP on the Company's technology platform.

Obligations under the New Facility Agreement not Contingent upon Successful Completion of Research Program with DARPA

There is no guarantee that Medicago USA will successfully achieve all of the milestones under the Technology Investment Agreement, including the final report confirming proof of concept, or, if all of them are achieved, that we will generate additional revenues. We have no commitments from DARPA relating to further funding awards or from any person regarding the purchase of our vaccine candidates. Moreover, Medicago USA's obligations under the New Facility Lease Agreement are not contingent upon the successful completion of the research program with DARPA. Accordingly, Medicago USA will remain bound by such obligations, including payment of the rent during the term of the lease, and by the obligations Medicago USA will incur to operate and maintain the New Facility.

Rights of DARPA with respect to Subject Invention

Under the Technology Investment Agreement, DARPA benefits from certain march-in rights with in certain circumstances, including if DARPA determines that such action is necessary to alleviate health or safety needs or meet requirements for public use if such needs or requirements are not reasonably satisfied by Medicago USA. In addition, Medicago USA has granted a non-exclusive paid-up license to DARPA to practice or have practiced on behalf of the United States throughout the world any Subject Invention. Should DARPA exercise its march-in rights, Medicago USA shall have the obligation to grant a non-exclusive license to a responsible applicant upon terms that are reasonable in the circumstances. There can be no assurance that the terms of this license will be satisfactory to us or that they will protect adequately our commercial interests. Medicago USA has no control over the decision of DARPA to exercise its rights under any aforementioned licenses nor the practical usage made thereunder. To the extent that the use includes the production of vaccines on a large scale, it may adversely impact the competitive environment in our market and could materially adversely affect our competitiveness or have a material adverse effect on our ability to generate revenues.

Recent market events and conditions

There are still ongoing challenges as a result of economic conditions and uncertainties stemming from the impact of international events such as the European sovereign debt situation. National growth rates (actual and expected) continue to be low in most countries with unemployment remaining high and volatile market conditions continue into 2012.

These disruptions have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for the Company to obtain, or increase its cost of obtaining, capital and financing for its operations. The Company's access to additional capital may not be available on terms acceptable to it or at all.

Stage of Development

Medicago is still in development and still has a short operating history. The Company's product candidates or third-party products will require additional development and investments to move through commercialization and it is not certain that these products will be produced at reasonable cost and quality or be successfully marketed. It is not known whether the Company's investment in such products or product candidates will be recovered through sales or royalties.

Since the Company's more advanced products are in clinical development, the Company still has not fully demonstrated efficacy in humans for any of the Company's produced proteins or received any regulatory market approval. It is not known whether the Company will meet applicable health regulatory standards and obtain the required regulatory approvals for its actual products or product candidates.

Currently, the Company's ability to produce a commercial quantity of its products and product candidates has not been tested and additional investments could be required. Scale-up operations may change the Company's cost structure that may affect some of its platform benefits or lower capital costs and lower the cost of goods sold.

The Company is still several years away from commercialization and it may encounter unforeseen difficulties or delays in its operations and it is possible that competitors may develop alternative products and/or production methods which could reduce the Company's competitive advantages.

History of Operating Losses

As at the present date, the Company has not recorded any revenues from the sale of products or product candidates. The Company has an accumulated deficit, since its inception through December 31, 2011, of $94,032,607. Losses could increase in the near term as the Company continues its product development and, in the case of pharmaceutical proteins, seeks regulatory approval for the sale of its product candidates. Operating losses are expected to be incurred until such time as product sales and royalty payments are sufficient to generate revenues to fund its continuing operations. Quarter-to-quarter fluctuations in revenues, expenses and losses are also expected. Medicago may never achieve profitability. Even if it achieves profitability, it may not be able to maintain profitability on an annual or quarterly basis. Medicago's failure to become and remain profitable would depress the market price of its common shares and could impair its ability to raise capital, expand its business, expand its product pipeline or continue its operations.

Regulation of Drug and Product Approval

Potential purchasers should be aware of the risks, problems, delays, expenses and difficulties which the Company may encounter in light of the extensive regulatory environment in which its business is carried on. Numerous statutes and regulations govern the manufacture and sale of human therapeutic products in Canada, the United States and other countries, the intended markets for the Company's products and product candidates. Such legislation and regulation bears upon the approval of manufacturing facilities, testing procedures and controlled research, pre-clinical and clinical data prior to marketing approval, including adherence to cGMP standards during production and storage, as well as regulation of marketing activities, including advertising and labelling. For example, the conditions of the FDA on the manufacture of the Company's seasonal vaccine candidate include compliance with cGMP standards. While the Company believes it is compliant with such cGMP standards, this will have to be ascertained to the FDA's satisfaction as part of the regulatory approval process. To the extent additional work is required in this connection, the estimated timing and costs for the development of its products may be adversely impacted.

Many of the products, product candidates and processes that the Company is currently developing require significant development, testing and the investment of significant funds prior to their commercialization. There can be no assurance that any of such products, product candidates or processes will actually be developed to a commercial level.

Before obtaining regulatory clearance for the commercial sale of any of the Company's pharmaceutical product candidates, the Company must demonstrate through pre-clinical studies and clinical trials that the potential product candidate is safe and efficacious for use in humans for each target indication. The results from pre-clinical studies and early clinical trials may not be predictive of results that will be obtained in large-scale testing, and there can be no assurance that the Company's clinical trials will demonstrate sufficient safety for an Investigational New Drug Application (the documentation submitted to the Food and Drug Administration (the "FDA") to obtain approval to test drug on patients) or subsequent phases or steps in human trials even after pre-clinical testing and/or human data is submitted. The failure to adequately demonstrate the safety and efficacy of a

product candidate under development could delay or prevent regulatory clearance of the potential product candidate and would have a material adverse effect on the Company's success.

Any drug is likely to produce some toxicity or undesirable side effects in animals and in humans when administered as a monotherapy or in combination with other drugs. There can be no assurance that unacceptable toxicity, adverse events or side effects will not occur at any dose level at any time in the course of toxicological studies or of human clinical trials of the Company's potential product candidates as a monotherapy or in combination with other drugs. The appearance of any such unacceptable toxicity, adverse events or side effects in toxicology studies or in clinical trials could cause the Company or regulatory authorities to interrupt, limit, delay or abort the development of any of the Company's product candidates and could ultimately prevent their clearance by Health Canada, the FDA or other regulatory authorities, for any or all targeted indications. There can be no assurance that a phase, component or step of a trial will be successful or safely completed allowing a subsequent phase, step or component of a trial or a trial's design to commence. There is no assurance that Health Canada, the FDA or other regulatory authorities will accept a specific protocol or protocol design regardless of phase, steps or components of a phase. Furthermore, after a trial or phase of a trial has commenced, Health Canada, the FDA or other regulatory authorities could place the trial on clinical hold if Health Canada, the FDA or other regulatory authorities determine a trial or its design may be unsafe or require clarifications regarding protocol design. If the Company is placed on clinical hold, there is no assurance the objections or issues will be overcome or resolved and such trial could be postponed and/or terminated. Even after being cleared by Health Canada, FDA or other regulatory authorities, a product candidate may later be shown to be unsafe or not to have its purported effect, thereby preventing its widespread use or requiring withdrawal from the market. There can be no assurance that any product candidates the Company has developed or will develop will be safe when administered to patients.

The rate of completion of clinical trials in relation to the Company's products will be dependent upon, among other factors, the rate of patient enrolment. Patient enrolment is a function of many factors, including the size of the patient population, the nature of the protocol, competing trials for the same patient population, the proximity of parties to clinical sites, the eligibility criteria for the study and interest of clinical investigators. Delays in planned patient enrolment may result in increased costs, delays or termination of clinical trials, which could have a material adverse effect on the Company's success. In addition, the Company's staff has limited clinical experience and, as a result, will rely on third parties to assist the Company in overseeing and monitoring the clinical trials, which may result in delays in completing clinical trials, or them not being completed at all, if such third parties fail to perform under their agreements with the Company or fail to meet regulatory standards in the performance of their obligations under such agreements. There can be no assurance that the Company will be able to submit a new drug application as scheduled if clinical trials are completed or that any such applications will be reviewed and cleared by Health Canada or FDA in a timely manner or at all.

Also, the statutes, regulations, or policies of Canada, the United States or other countries may change and additional statutes or government regulations or policies may be enacted which could prevent, or impose additional restrictions on the continued marketing of drug products.

Limits and challenges after a regulatory approval

Even if regulatory approval of a product is granted, such approval may be subject to limitations on the uses for which the product may be marketed or to conditions of approval, which could affect the marketability of the product. Moreover, additional work on a product after regulatory approval at a certain development stage may be required to access the next development stage. This additional work could require significant costs and delay the advancement of the product.

In addition, the terms of approval may contain requirements for costly post-market follow-up studies or post-market surveillance to monitor the safety or efficacy of the product, which could reduce revenues, increase expenses or render the approved product not commercially viable. For example, Health Canada or the FDA could require implementation of a risk management program in order to monitor the potential abuse, misuse, diversion, or other risks associated with the utilization of a product. Also, regulatory submission is required to contain adequate data to assess the safety and efficacy of the drug for the claimed indication in all relevant pediatric subpopulations. Regulatory authorities may grant waivers and deferrals requests of this requirement or require various post-approval commitments.

If Medicago eventually receives regulatory approval to market a particular product, it will be subject to extensive ongoing regulatory requirements, including requirements relating to registration, manufacturing, labeling, advertising, promotion, adverse event reporting, packaging, distribution, storage, and record keeping. In addition, the manufacturing facilities for such product will be subject to continual review and periodic inspections by regulatory authorities. If Medicago fails to comply with the regulatory requirements of Health Canada, the FDA and other applicable domestic and foreign regulatory authorities, or if previously

unknown problems with any approved commercial products, manufacturers or manufacturing processes are discovered, it could be subject to administrative or judicially imposed sanctions or other setbacks.

Potential inability to achieve projected development goals in the time frames announced and expected

Medicago sets goals for and make public statements regarding its expected timing of meeting the objectives material to its success, such as the commencement and completion of clinical trials, anticipated regulatory approval and product launch dates. The actual timing of these forward looking events can vary dramatically due to factors such as delays or failures in its clinical trials, the need to develop additional data required by regulators as a condition of approval, the uncertainties inherent in the regulatory approval process, delays in achieving manufacturing or marketing arrangements necessary to commercialize its product candidates and failure by its collaborators, marketing and distribution partners, suppliers and other third parties with whom Medicago has contractual arrangements, to fulfill, in whole or in part, their contractual obligations towards it.

Regulation of Genetically Engineered Plants

The Company must comply with regulations of the United States Department of Agriculture (the "USDA"), the Canadian Food Inspection Agency (the "CFIA") and other regulatory authorities for outdoor releases of genetically engineered organisms as well as other products designed for use on or with agricultural products. The USDA and the CFIA prohibit growing and transporting genetically modified plants except pursuant to an exemption or under special permits. In order to obtain the required permits, the Company will be required to demonstrate that the Company has satisfactory procedures for the growth of its genetically modified plants and for the control of seed stocks, harvested material, processing facilities, and waste material from such plants. There can be no assurance that permits will be granted to the Company in a timely fashion, if at all. In addition, the conditions to the grant of such permits may be time consuming or expensive for the Company to fulfill. Furthermore, changes in regulations or policies of the USDA, the CFIA and other regulatory authorities regarding the growth and movement or field release of genetically modified plant hosts could adversely affect the Company's business by increasing the cost of its products and technologies or decreasing consumer demand for those products and technologies or causing governments to prohibit their sale or use. If the Company fails to comply with such rules or policies, it may be subject to financial loss or be liable for costs incurred as a result of non-compliance. To the knowledge of the Company, no regulatory requirement for the outdoor commercial growth of transgenic plants producing pharmaceutical proteins has been promulgated in Canada, the United States or elsewhere.

Rapid Technological Change

Considering the rapid evolution and the substantial technological change of the industry, there can be no assurance that developments by others will not render the Company's technologies non-competitive or that the Company will be able to keep pace with technological developments. The Company's competitors may also have developed or may be developing technologies which could become the basis for competitive products and product candidates. Some of these products and product candidates may prove to be more effective and less costly than the products and product candidates developed or that are being developed by the Company.

Dependence on Key Personnel

The Company depends on certain members of its management and scientific staff and the loss of services of one or more of said persons could adversely affect the Company. It is necessary for the Company to continue to implement and improve its management systems and to continue to recruit and train new employees in order to manage its growth effectively. In particular, the Company will need to recruit personnel with experience in cGMP manufacturing, drug development and quality control. While the Company has been able to attract and retain skilled and experienced personnel in the past, no assurance can be given that it will be able to do so in the future.

Competition

Technological competition is intense in the industry in which the Company operates. Competition comes from pharmaceutical companies, biotechnology companies and universities as well as companies that participate in each of the non-pharmaceuticals markets the Company is attempting to address with its products and product candidates. Many of the Company's competitors have substantially more financial and technical resources, more extensive research and development capabilities and greater marketing, distribution, production and human resources than the Company. Moreover, competitors may develop products before the Company develops its own products and product candidates and may obtain regulatory approval for such products and product candidates more rapidly than the Company. Products and product candidates and processes which are more effective than those

that the Company intends to develop may be developed by the Company's competitors. Research and development by others may render the Company's technology, products and product candidates or processes non-competitive or obsolete.

Negative Public Reaction to Genetically Engineered Technology

Future commercial success of some of the Company's products and product candidates and of the products of some of its partners will depend in part on public acceptance of the use of genetically engineered products and product candidates, including drugs, plants and plant products. Claims that genetically engineered products and product candidates are unsafe for consumption or pose a danger to the environment may influence public attitudes, regardless of their veracity. Negative public reaction to genetically modified organisms and products and product candidates could result in greater government regulation of genetic research and resultant products and product candidates, including stricter labelling requirements, and could cause a decrease in the demand for the Company's products and product candidates, even if such products and product candidates do not result from genetically modified organisms.

Patents and Proprietary Rights

The Company's success depends, in part, on its ability to secure and protect its intellectual property rights and to operate without infringing on the proprietary rights of others or having third parties circumvent the rights owned or licensed by the Company. Applications for patents in Canada, the United States and in other jurisdictions have been filed and the Company is actively pursuing them. The patent positions of pharmaceutical and biotechnology firms, including the Company, are uncertain and involve complex questions of law and fact for which important legal issues remain unresolved. Therefore, it is not clear whether the Company's pending patent applications will result in the issuance of patents or whether the Company will develop additional proprietary products and product candidates which are patentable. Part of the Company's strategy resides on its ability to secure a patent position around the production of a recombinant protein using its Proficia™ technology platform. There is no assurance that the Company will be successful in this approach and failure to secure patent protection may have a material adverse effect upon the Company and its financial condition. Also, the Company may fail in its attempt to commercialize products and product candidates without having to license additional patents, such as patents relating to plant transformation or the use of certain plant specific genetic elements. Moreover, it is not clear whether the patents issued or to be issued to the Company will provide it with any competitive advantages or if any such patents will be the target of challenges by third parties, whether the patents of others will interfere with its ability to market its products and product candidates or whether third parties will circumvent its patents by means of alternate processes. Furthermore, it is possible for others to develop products and product candidates which have the same effect as the Company's products and product candidates or production technologies on an independent basis or to design around technologies patented by the Company.

Patent applications relating to or affecting the Company's business have been filed by a number of pharmaceutical and biotechnology companies and academic institutions. A number of these technologies, applications or patents may conflict with the Company's technologies or patent applications and such conflict could reduce the scope of patent protection which the Company could otherwise obtain or even lead to refusal of its patent applications.

If third parties engage in activities that infringe the Company's proprietary rights, management's focus will be diverted and the Company may incur significant costs in asserting its rights. The Company may not be successful in asserting its proprietary rights, which could result in its patents being held invalid or a court holding that the third party is not infringing the Company's proprietary rights, either or which would harm the Company's competitive position. In addition, there is no assurance that others will not design around the Company's patented technology. Moreover, the Company may have to participate in interference proceedings declared by the US Patent and Trademark Office, European opposition proceedings, or other analogous proceedings in other parts of the world to determine priority of invention and the validity of patent rights granted or applied for, which could result in substantial cost and delay, even if the eventual outcome is favourable to the Company.

There is no assurance that the Company will be able to enter into licensing arrangements on reasonable commercial terms, or develop or obtain alternative technology in respect of patents issued to third parties that incidentally cover its products or production technologies. Any inability to secure licenses or alternative technology could result in delays in the introduction of some of the Company's products or product candidates or even lead to prohibition of the development, manufacture or sale of certain products by the Company. Moreover, the Company could potentially incur substantial legal costs in defending legal actions which allege patent infringement, or by instituting patent infringement suits against others.

It is not possible for the Company to be certain that it is the creator of inventions covered by pending patent applications or that the Company was the first to file patent applications for any such inventions. No assurance can be given that the Company's patents,

once issued, would be upheld by a court, or that a competitor's technology or product would be found to infringe on the Company's patents.

In addition, the Company's technology, products and products candidate may include intellectual property of third parties used under license, such as is currently the case with the Company's current vaccine candidates. The same risks and uncertainties described herein apply to such third parties' intellectual property, and could adversely affect the Company's ability to develop, manufacture or sell products or value its technologies.

Moreover, much of the Company's know-how technology which is not patentable may constitute trade secrets. Therefore, the Company requires its employees, consultants, advisors and collaborators to enter into confidentiality agreements. However, no assurance can be given that such agreements will provide for a meaningful protection of the Company's trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure of information.

Potential Product Liability

A risk of product liability claims and related negative publicity is inherent in the development of human therapeutic and other products. Product liability insurance is expensive, its availability is limited, and may not be on terms acceptable to the Company, if at all. The commercialization of the Company's potential products and product candidates could be inhibited or prevented by an inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims. A product liability claim against the Company or the withdrawal of a product or product candidates from the market could have a material adverse effect upon the Company and its financial condition.

Unproven Market

Much of the Company's strategy is based on the belief that the application of its technologies to develop products and product candidates for the markets it is addressing will result in the creation of new, commercially viable products. Notwithstanding the Company's estimated market potential for its products and product candidates, no assurance can be given that these beliefs will prove to be correct owing to, in particular, competition from existing or new products and the yet to be established commercial viability of its products and product candidates.

Market Acceptance

Even if the Company develops safe and effective products and obtains the necessary regulatory approvals, the process will take years, and by the time this occurs, because of the competitive and dynamic nature of the drug development industry, there is a risk that at such time, any such product:

- will not be economical to market, reimbursable by third party payers, or marketable at prices that will allow the Company to achieve profitability;
- will not be successfully marketed or achieve market acceptance;
- will not be preferable to existing or newly developed products marketed by third parties; or,
- will infringe proprietary rights held by third parties now or in the future that would preclude Medicago from marketing any such product.

The degree of market acceptance of products developed by Medicago, if any, will depend on a number of factors, including the establishment and demonstration in the medical community of the clinical efficacy and safety of the Company's products and their potential advantage over alternative treatment methods. There is no assurance that physicians, patients or the medical community in general will accept and utilize any products that may be developed by the Company.

In addition, by the time the Company's products, if any, are ready to be commercialized, what the Company believes to be the market for these products may have changed. Any estimates referenced herein of the number of patients who have received or might have been candidates to use a specific product may not accurately reflect the true market or market prices for such products or the extent to which such products, if successfully developed, will actually be used by patients.

The Company's failure to successfully introduce and market its products that are under development would have a material adverse effect on its business, financial condition and results of operations.

Sales, Marketing and Distribution Capabilities

The Company currently has no sales, marketing or distribution capability. The Company intends to rely primarily on its partners to market its product candidates, if and when approved; however, there can be no assurance that such partners or collaborators have effective marketing, sales and distribution capabilities.

If the Company or its partners are unable to establish or maintain relationships with partners with sales, marketing or distribution capabilities and the Company or its partners are required to market any of the Company's products directly, the Company or its partners will have to develop a marketing and sales force with technical expertise and with supporting distribution capabilities. There can be no assurance that the Company or its partners will be able to establish or maintain such relationships with third parties or develop in-house marketing, sales and distribution capabilities.

Commercial Manufacturing

The experience of the Company at manufacturing commercial quantities of its products is limited. Accordingly, if the Company becomes successful in developing any product with commercial potential, the Company could either be required to expand its actual facility or secure a contract manufacturer or enter into another arrangement with third parties to manufacture such products. If the Company is unable to develop such capabilities or enter into any such arrangement on favourable terms, the Company may be unable to compete effectively in the marketplace. If the Company is unable to manufacture or contract for a sufficient supply of product on acceptable terms, or if the Company encounters delays or difficulties in its relationships with manufacturers or collaborators, its pre-clinical, clinical testing and/or product sales could be delayed, thereby delaying the submission of products for regulatory approval and/or market introduction and subsequent sales of such products.

Dependence on Collaborative Partners

The Company's strategy is to enter into various arrangements for clinical testing, and eventual manufacturing, marketing and commercialization of its products and product candidates. The Company also expects to enter into collaborations for the potential development and commercialization of its products and product candidates with other firms, pursuant to which the Company may receive additional funding, including milestone payments. The Company also intends to enter into additional corporate partnership agreements to develop and commercialize products and product candidates based upon its core technology. However, the conclusion of any such agreements may be delayed or limited by the terms of other existing agreements to which the Company is a party, including the right of first refusal under the existing agreements with PMP on the Company's technology platform. There can be no assurance that the Company will be able to establish such additional collaborations on favourable terms, if at all, or that its current or future collaborative arrangements will be successful.

Should any collaborative partner fail to successfully develop or commercialize any product or product candidate to which it has rights, or any of the partners' products or product candidates to which the Company has rights, its business may be adversely affected. In addition, while the Company believes that its actual and eventual collaborative partners will have sufficient economic motivation to continue their funding, there can be no assurance that any of these collaborations will be continued or will result in successfully commercialized products or product candidates. Failure of a collaborative partner to continue funding any particular program could delay or halt the development or commercialization of any products or product candidates arising out of such program. In addition, there can be no assurance that the collaborative partners will not pursue alternative technologies or develop alternative products or product candidates either on their own or in collaboration with others, including the Company's competitors.

Hazardous Materials: Environmental Matters

The Company's discovery and development processes involve the controlled use of hazardous and radioactive materials. The Company is subject to federal, provincial and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by such laws and regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result and any such liability could exceed its financial capabilities. The Company is not specifically insured with respect to this liability. Although the Company believes that it is in compliance with applicable environmental laws and regulations in all material respects and currently does not expect to make material capital expenditures for environmental control facilities in the near-term, there can be no assurance that the Company will not be required to incur

significant costs to comply with environmental laws and regulations in the future, or that current or future environmental laws or regulations will not have a material adverse affect on its operations, business or assets.

Income Tax Matters

The Company has determined that it was eligible for investment tax credits on expenditures incurred on scientific research and experimental development. There is a risk that the governmental agency could conclude that: (i) some or all of the expenditures were not incurred on scientific research and experimental development activities, and (ii) the rate applicable to such credit is different from the rate claimed by the Company, and, therefore the governmental agency could reduce or disallow claims for such credits, including refundable credits.

Growth Management

Rapid growth in any area of the Company's business could place a significant strain on its managerial, operational and technical resources. The Company expects operating expenses and staffing levels to continue to increase in the future. To manage its growth, the Company must expand its operational and technical capabilities and manage its employee base while effectively administering multiple relationships with various third parties. There can be no assurance that the Company will be able to manage its expanding operations effectively. Any failure to implement cohesive management and operating systems, add resources on a cost-effective basis or properly manage the Company's expansion could have a material adverse effect on its business and results of operations.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

As at December 31, 2011, an evaluation of the design and operating effectiveness of our disclosure controls and procedures, as defined in the rules of Canadian Securities Administrators, was carried out. Based on that evaluation, the President and Chief Executive Officer and the Vice-President and Chief Financial Officer concluded that the design and operating effectiveness of those disclosure controls and procedures were effective.

Also as at December 31, 2011, an evaluation of the design and operating effectiveness of internal controls over financial reporting, as defined in the rules of the Canadian Securities Administrators, was carried out to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with GAAP. Based on that evaluation, the President and Chief Executive Officer and the Vice-President and Chief Financial Officer concluded that the design and operating effectiveness of internal controls over financial reporting were effective.

These evaluations were based on the framework established in *Internal Control over Financial Reporting – Guidance for Smaller Public Companies* issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of Multilateral Instrument 52-109 of the Canadian Securities Administrators.

All control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that our disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud. There were no changes in our internal controls over financial reporting that occurred during the year ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

On behalf of management,

(signed)

Pierre Labbé, CA
Vice-President and Chief Financial Officer

(signed)

Andrew J. Sheldon
President and Chief Executive Officer

March 29, 2012