Annual Report 2011

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.

Mitsubishi Tanabe Pharma Corporation 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 2013
- 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

Medicago Inc.

Consolidated Financial Statements

December 31, 2011 and 2010
(in Canadian dollars)

March 29, 2012

Independent Auditor's Report

To the Shareholders of
Medicago Inc.

We have audited the accompanying consolidated financial statements of Medicago Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of changes in equity, accumulated other comprehensive income (loss), income, comprehensive loss and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., Chartered Accountants
Place de la Cité, Tour Cominar, 2640 Laurier Boulevard, Suite 1700, Québec, Quebec, Canada G1V 5C2
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We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Medicago Inc. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] Chartered accountant auditors permit No. 11070

Medicago Inc.

Consolidated Statements of Financial Position
(in Canadian dollars)

	As at December 31, 2011 $	As at December 31, 2010 $	As at January 1, 2010 $
Assets			
Current assets			
Cash	20,598,103	3,415,700	228,039
Short-term investments (note 6)	19,763,661	5,105,371	14,105,198
Amounts receivable (note 7)	4,494,123	323,554	337,838
Investment tax credits receivable	4,378,905	3,424,937	2,097,274
Prepaid expenses	238,872	265,065	96,848
	49,473,664	12,534,627	16,865,197
Non-current assets			
Security deposits (note 8)	870,681	385,677	50,000
Property, plant and equipment (note 9)	27,583,575	6,500,848	4,941,092
Intangible assets (note 10)	2,466,359	1,891,375	974,045
Total assets	80,394,279	21,312,527	22,830,334
Liabilities			
Current liabilities			
Bank loans (note 11)	1,119,794	600,000	600,000
Accounts payable and accrued liabilities (note 12)	5,965,865	3,243,142	2,301,518
Deferred grants on research agreement (note 13)	268,738	6,955,589	340,203
Current portion of long-term debt and finance lease	1,380,600	72,538	83,862
	8,734,997	10,871,269	3,325,583
Non-current liabilities			
Long-term debt (note 14)	16,837,739	15,599,743	15,404,017
Finance lease liability (note 15)	17,067,639	-	-
Total liabilities	42,640,375	26,471,012	18,729,600
Equity			
Share capital (note 16)	116,326,529	53,605,485	48,660,207
Contributed surplus	9,296,970	8,067,236	1,554,679
Other equity components			
Stock option plan (note 17a)	2,485,623	1,760,148	1,118,258
Unit options (note 17b)	739,456	483,125	399,536
Warrants (note 17c)	3,184,348	3,837,442	8,919,515
Deficit	(94,032,607)	(73,040,873)	(56,557,000)
Accumulated other comprehensive income (loss)	(246,415)	128,952	5,539
Total equity	37,753,904	(5,158,485)	4,100,734
Total liabilities and equity	80,394,279	21,312,527	22,830,334

Event after reporting date (note 30)

Approved by the Board of Directors

(signed) RANDAL CHASE, PH.D. Director

(signed) PIERRE SECCARECCIA, FCA. Director

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

Medicago Inc.

Consolidated Statements of Changes in Equity
(in Canadian dollars)

	Share capital $	Contributed surplus $	Stock option plan $	Unit options $	Warrants $	Deficit $	Accumulated other comprehensive income (loss) $	Total $
Balance – January 1, 2010	48,660,207	1,554,679	1,118,258	399,536	8,919,515	(56,557,000)	5,539	4,100,734
Net loss for the year	-	-	-	-	-	(16,483,873)	-	(16,483,873)
Other comprehensive income for the year	-	-	-	-	-	-	123,413	123,413
Total comprehensive income (loss)	-	-	-	-	-	(16,483,873)	123,413	(16,360,460)
Transactions with owners								
Issuance of share capital	4,869,933	-	-	-	-	-	-	4,869,933
Issuance of units	-	-	-	483,125	-	-	-	483,125
Issuance of warrants	-	-	-	-	2,714,445	-	-	2,714,445
Warrants exercised	1,078,244	-	-	-	(213,069)	-	-	865,175
Stock options exercised	7,864	-	(3,064)	-	-	-	-	4,800
Repricing of warrants	(110,508)	-	-	-	110,508	-	-	-
Unit options expired	-	399,536	-	(399,536)	-	-	-	-
Warrants expired (net of income tax of $1,074,541)	-	6,113,021	-	-	(7,187,562)	-	-	(1,074,541)
Issue expenses	(900,255)	-	-	-	(506,395)	-	-	(1,406,650)
Stock-based compensation	-	-	644,954	-	-	-	-	644,954
	4,945,278	6,512,557	641,890	83,589	(5,082,073)	-	-	7,101,241
Balance – December 31, 2010	53,605,485	8,067,236	1,760,148	483,125	3,837,442	(73,040,873)	128,952	(5,158,485)
Balance – January 1, 2011	53,605,485	8,067,236	1,760,148	483,125	3,837,442	(73,040,873)	128,952	(5,158,485)
Net loss for the year	-	-	-	-	-	(20,991,734)	-	(20,991,734)
Other comprehensive income for the year	-	-	-	-	-	-	(375,367)	(375,367)
Total comprehensive income (loss)	-	-	-	-	-	(20,991,734)	(375,367)	(21,367,101)
Transactions with owners	-	-	-	-	-	-	-	-
Issuance of share capital	63,745,076	-	-	-	-	-	-	63,745,076
Issuance of units	-	-	-	256,331	-	-	-	256,331
Issuance of warrants	-	-	-	-	1,113,084	-	-	1,113,084
Stock options exercised	47,615	-	(19,615)	-	-	-	-	28,000
Warrants exercised	1,062,505	-	-	-	(263,505)	-	-	799,000
Warrants expired (net of income tax of $203,522)	-	1,229,734	-	-	(1,433,256)	-	-	(203,522)
Issue expenses	(2,134,152)	-	-	-	(69,417)	-	-	(2,203,569)
Stock-based compensation	-	-	745,090	-	-	-	-	745,090
	62,721,044	1,229,734	725,475	256,331	(653,094)	-	-	64,279,490
Balance – December 31, 2011	116,326,529	9,296,970	2,485,623	739,456	3,184,348	(94,032,607)	(246,415)	37,753,904

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

Medicago Inc.

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)
(in Canadian dollars)

	As at December 31, 2011 $	As at December 31, 2011 $	As at January 1, 2010 $
Unrealized gain on available-for-sale investments	27,053	25,422	5,539
Foreign currency translation adjustments	(273,468)	103,530	-
Accumulated other comprehensive income	(246,415)	128,952	5,539

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

Medicago Inc.

Consolidated Statements of Income
For the years ended December 31, 2011 and 2010
(in Canadian dollars)

	2011 $	2011 $
Revenues		
Revenues from research agreements	186,506	108,940
Operating expenses		
Research and development	11,964,643	11,000,808
General and administrative	6,268,997	5,092,318
Depreciation of property, plant and equipment	1,328,663	406,643
Amortization of intangible assets	152,011	89,746
Financial income (note 20)	(169,479)	(98,768)
Financial costs (note 20)	1,836,927	1,176,607
	21,381,762	17,667,354
Loss for the year before income taxes	21,195,256	17,558,414
Deferred income taxes	(203,522)	(1,074,541)
Net loss for the year	20,991,734	16,483,873
Basic and diluted loss per share (note 21)	(0.12)	(0.13)

Consolidated Statements of Comprehensive Loss
For the years ended March 31, 2011and 2010
(in Canadian dollars)

	2011 $	2010 $
Loss for the year	20,991,734	16,483,873
Other comprehensive loss (income)		
Unrealized gain on available-for-sale investments	(35,542)	(26,573)
Reclassification of gain on available-for-sale investments realized upon sale to loss for the year	33,911	6,690
Foreign currency translation adjustments	376,998	(103,530)
Total other comprehensive loss (income)	375,367	(123,413)
Comprehensive loss for the year	21,367,101	16,360,460

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

Medicago Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010
(in Canadian dollars)

	2011 $	2010 $
Cash flows from operating activities		
Loss for the year	(20,991,734)	(16,483,873)
Items not affecting cash		
Stock-based compensation costs	745,090	644,954
Depreciation and amortization	1,480,674	496,389
Amortization of deferred charges	117,499	117,499
Gain on sale of available-for-sale investments	(33,911)	(6,690)
Deferred income taxes	(203,522)	(1,074,541)
Interest capitalized on long-term debt	153,915	121,959
	(18,731,989)	(16,184,303)
Change in non-cash working capital items (note 23a)	(6,202,404)	5,741,692
Net cash used for operating activities	(24,934,393)	(10,442,611)
Cash flows from financing activities		
Bank loans contracted	1,119,794	-
Payments on bank loans	(600,000)	-
Long-term debt contracted	2,034,000	-
Payments on financial lease	(231,235)	-
Payments on long-term debt	(91,882)	(88,664)
Issuance of units	17,399,970	7,500,000
Issuance of shares	47,458,190	-
Exercise of options	28,000	4,800
Exercise of warrants	799,000	865,175
Issue expenses	(1,947,237)	(839,147)
Net cash generated from financing activities	65,968,600	7,442,164
Cash flows from investing activities		
Acquisitions of short-term investments	(33,154,326)	(11,845,211)
Dispositions of short-term investments	18,497,667	20,871,611
Security deposit	(469,131)	(335,677)
Additions to property, plant and equipment	(16,557,132)	(1,850,262)
Grants related to capital expenditures	9,341,129	-
Additions to intangible assets	(1,138,634)	(603,427)
Net cash generated from (used for) investing activities	(23,480,427)	6,237,034
Effect of changes in foreign exchange rate on cash	(371,377)	(48,926)
Net change in cash	17,182,403	3,187,661
Cash – Beginning of year	3,415,700	228,039
Cash – End of year	20,598,103	3,415,700
Interest paid	1,565,514	936,597

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

1 General information

Medicago Inc. (The "Company") is governed by the Québec Business Corporations Act (Québec). Since the beginning of its operations, most of the Company's activities have been devoted to research and development. The Company is a clinical-stage biotechnology company focused on the development of vaccines in order to commercialize them in the future using its proprietary Virus-Like Particules and manufacturing technologies.

The Company is listed on the Toronto Stock Exchange (MDG-T) and is incorporated and domiciled in Canada. The address of its registered office is 1020, Route de l'Église, suite 600, Québec City, Québec.

2 Basis of preparation and adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The consolidated financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in note 29, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position as at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 29 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, 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 prepared under Canadian GAAP.

These financial statements were approved by the board of directors for issue on March 29, 2012.

3 Summary of significant accounting policies

Basis of measurement

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention, except for financial instruments categorized as available-for-sale.

Basis of consolidation

The consolidated financial statements of the Company include the accounts of all of its subsidiaries, which are Medicago R&D Inc., 9177-4083 Québec Inc., 9177-4265 Québec Inc., Fiducie Financière Medicago and Medicago USA Inc. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Company.

Subsidiaries are thoses entities (including special purpose entities) over which the Company is having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The financial statements of entities that have a functional currency different from that of the Company (“foreign operations”) are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income, expenses and cash flows – at the average rate of the period (to the extent that this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income (loss) as foreign currency translation adjustments.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation’s functional currency are recognized in the statement of income.

Segment reporting

The Company manages its business on the basis of one reportable segment. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

Financial assets

Classification under IAS 39

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading. They are included in current assets, except for those with maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. Loans and receivables comprise cash, term deposits within the short term investments, grants receivable, interest and other receivable, and security deposits.

(b) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in the other category. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale comprises short-term investments excluding term deposits in the form of actively traded securities.

Recognition and measurement under IAS 39

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income.

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase or sell the asset.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other gains and losses when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the statement of income and included in other gains and losses.

Financial liabilities

Financial liabilities at amortized cost include bank loans, accounts payable and accrued liabilities, long-term debt and finance lease, they are initially recognized at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the debt using the effective interest method.

Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(a) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(b) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income (loss) that is reclassified to net loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

The major categories of property, plant and equipment are depreciated over their estimated useful lives, on a straight-line basis as follows:

	Period and rates
Production unit	20 years
Production unit under finance lease	15 years
Leasehold improvements	Term of lease
Computer equipment	3 years
Production and laboratory equipment	8 years
Office furniture	8 years

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income.

Leases

Leases that transfer substantially all of the benefits and risks of ownership of the assets to the Company are accounted for as finance lease obligations. At the time a finance lease obligation is entered into, an asset is recorded together with the related obligation. Assets under finance lease obligations are depreciated over their estimated useful lives.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

Intangible assets

The Company's intangible assets include licenses, patents and software with finite useful lives. These assets are capitalized and amortized on a straight-line basis in the statement of income over the period of their expected useful lives as follows:

	Periods
Licenses	20 years
Patents	20 years
Software	3 years

All expenses related to development activities which do not meet generally accepted criteria for deferral, and research activities are expensed as incurred. Development expenses which meet generally accepted criteria for deferral are capitalized and amortized against income over the estimated period of benefit. As at December 31, 2011, December 31 2010 and January 1, 2010, no development costs have been deferred.

Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant assets of the CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances require such consideration.

Government grants

Grants are accounted for using the cost reduction method. Accordingly, grants are recorded as a reduction of the related expenses or capital expenditures in the period in which those expenses are incurred, provided there is reasonable assurance that the grants will be realized.

If a grant is received and expenses related to this grant are not yet incurred, the grant is recorded as a deferred grant until expenses are incurred.

The cash flows related to grants received are classified as operating activities unless they are related to capital expenditures in which case they are classified as investing activities.

Research and development tax credits and receivables

The Company is entitled to scientific research and experimental development ("SR&ED") tax credits granted by the Canadian federal government and the government of the Province of Quebec.

SR&ED tax credits are accounted for using the cost reduction method. Accordingly, tax credits are recorded as a reduction of the related expenses or capital expenditures in the year in which those expenses are incurred, provided there is reasonable assurance that the credits will be realized.

Cash

Cash consist of cash on hand and balances with banks.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares or options are shown in equity as a deduction net of tax from the proceeds.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognized for future operating losses.

If the effect of time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Revenue recognition

In general, revenues are recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount can be measured reliably. Revenues comprise the fair value of the consideration received or receivable for services in the ordinary course of the group's activities.

Revenues related to research agreements are bound to milestone agreements and are recorded as the milestones are reached and upon customer acceptance. Under these agreements, the payments received in advance are recognized as deferred revenue in the statement of financial position and then, as revenue when milestones are reached and upon customer acceptance. Revenues from research agreements are recognized using the percentage-of-completion method.

The existing licensing agreements usually foresee one-time payment (upfront payment) and milestone payments. Revenues associated with those multiple-element arrangements are allocated to the various elements based on their relative fair value. The consideration received is allocated among the separate units based on each unit's fair value or using the residual method, and the applicable revenue recognition criteria are applied to each of the separate units.

License fees representing non-refundable payments received upon the execution of license agreements are recognized as revenue upon execution of the license agreements when the Company has no significant future performance obligations and collectability of the fees is assured. Upfront payments received at the beginning of licensing agreements are not recorded as revenue when received but are amortized based on the progress of the related research and development work. This progress is based on estimates of total expected time or duration to complete the work which is compared to the period of time incurred to date in order to obtain at an estimate of the percentage of revenue earned to date.

Share-based payments

The Company grants stock options to certain employees. Stock options usually vest over three years (33 1/3% per year) and usually expire after ten years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

The impact of any service condition is excluded from the fair value calculation. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the statement of income, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited, together with the related compensation costs, to share capital (nominal value), net of any directly attributable transaction costs.

Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the issuance date, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the Company at the average market value of the participating shares during the year.

4 Accounting standards issued but not yet applied

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.

5 Critical accounting estimates and judgments

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 benefit only 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 a 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 carryforward 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.

(in Canadian dollars)

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

6 Short-term investments

Short-term investments include the following:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Money market fund	3,002,141	1,001,866	1,256,713
Bonds and discount notes, maturing until April 2019	10,276,520	3,703,505	3,248,485
Term deposit bearing interest at annual rates ranging from 1.51% to 1.60%, maturing until May 2013	6,485,000	400,000	9,600,000
	19,763,661	5,105,371	14,105,198

7 Amounts receivable

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Commodity taxes receivable	207,767	215,998	272,207
Interest receivable	72,503	10,416	8,359
Accounts receivable	-	77,808	-
Grants receivable	3,878,756	2,250	37,272
Other receivables	335,097	17,082	20,000
	4,494,123	323,554	337,838

(in Canadian dollars)

8 Security deposits

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Term deposit, 1.10%, maturing in June 2012 (note 24)	50,000	50,000	50,000
Term deposit, 2.00%, maturing in August 2012 (note 11)	113,000	-	-
Term deposit ($US695,852, $US337,500 in 2011 and 2010, respectively), 0.30%, maturing in April 2012 (note 15)	707,681	335,677	-
	870,681	385,677	50,000

(in Canadian dollars)

9 Property, plant and equipment

	Land $	Production unit $	Leasehold improvements $	Computer equipment $	Production and laboratory equipment $	Office furniture $	Production unit under finance lease $	Grants related to capital expenditures $	Total $
As at January 1, 2010									
Cost	491,840	3,765,160	321,306	186,783	2,668,489	218,970	-	(123,038)	7,529,510
Accumulated depreciation	-	827,564	302,506	80,136	1,346,213	155,037	-	(123,038)	2,588,418
Net book amount	491,840	2,937,596	18,800	106,647	1,322,276	63,933	-	-	4,941,092
Year ended December 31, 2010									
Additions	-	40,191	521,000	73,002	1,196,241	135,965	-	-	1,966,399
Depreciation	-	(183,814)	(63,268)	(61,206)	(76,056)	(22,299)	-	-	(406,643)
Closing net book amount	491,840	2,793,973	476,532	118,443	2,442,461	177,599	-	-	6,500,848
As at December 31, 2010									
Cost	491,840	3,805,351	842,306	259,785	3,864,730	354,935	-	(123,038)	9,495,909
Write-off	-	-	(302,506)	(56,363)	-	(120,303)	-	123,038	(356,134)
	491,840	3,805,351	539,800	203,422	3,864,730	234,632	-	-	9,139,775
Accumulated depreciation	-	1,011,378	365,774	141,342	1,422,269	177,336	-	(122,038)	2,995,061
Write-off	-	-	(302,506)	(56,363)	-	(120,303)	-	123,038	(356,134)
	-	1,011,378	63,268	84,979	1,422,269	57,033	-	-	2,638,927
Net book amount (forward)	491,840	2,793,973	476,532	118,443	2,442,461	177,599	-	-	6,500,848

(in Canadian dollars)

	Land $	Production units $	Leasehold improvements $	Computer equipment $	Production and laboratory equipment $	Office furniture $	Production unit under finance lease $	Grants related to capital expenditures $	Total $
(brought forward)	491,840	2,793,973	476,532	118,443	2,442,461	177,599	-	-	6,500,848
Year ended December 31, 2011									
Additions	-	8,080	54,490	131,434	17,779,259	318,377	17,253,188	(13,788,484)	21,756,344
Depreciation	-	(178,771)	(135,127)	(94,629)	(902,950)	(35,896)	(329,133)	347,843	(1,328,663)
Exchange differences	-	-	-	2,164	550,142	1,442	701,318	(600,018)	655,046
Closing net book amount	491,840	2,623,282	395,895	157,412	19,868,912	461,520	17,625,373	(14,040,659)	27,583,575
As at December 31, 2011									
Cost	491,840	3,813,431	594,290	337,631	22,242,107	555,725	17,968,456	(14,404,545)	31,598,935
Accumulated depreciation	-	1,190,149	198,395	180,219	2,373,195	94,205	343,083	(363,886)	4,015,360
Net book amount	491,840	2,623,282	395,895	157,412	19,868,912	461,520	17,625,373	(14,040,659)	27,583,575

(in Canadian dollars)

10 Intangible assets

	License $	Patents $	Software $	Total $
As at January 1, 2010				
Cost	68,966	1,220,360	57,659	1,346,985
Accumulated amortization	11,873	303,510	57,557	372,940
Net book amount	57,093	916,850	102	974,045
Year ended December 31, 2010				
Opening net book amount	57,093	916,850	102	974,045
Additions – Internally developed	-	1,007,076	-	1,007,076
Amortization charge	(3,449)	(86,195)	(102)	(89,746)
Closing net book amount	53,644	1,837,731	-	1,891,375
As at December 31, 2010				
Cost	68,966	2,227,436	57,659	2,354,061
Accumulated amortization	15,322	389,705	57,659	462,686
	53,644	1,837,731	-	1,891,375
Year ended December 31, 2011				
Opening net book amount	53,644	1,837,731	-	1,891,375
Additions	-	612,864	114,131	726,995
Amortization charge	(3,448)	(128,110)	(20,453)	(152,011)
Closing net book amount	50,196	2,322,485	93,678	2,466,359
As at December 31, 2011				
Cost	68,966	2,840,300	171,790	3,081,056
Accumulated amortization	18,770	517,815	78,112	614,697
	50,196	2,322,485	93,678	2,466,359

11 Bank loans

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Bearing interest at prime rate plus 1.00% annually. A term deposit has been given as security (note 8)	1,119,794	600,000	600,000

Under the terms of the agreement, the Company undertook to meet a current ratio exceeding 1.3:1. At December 31, 2011, the current ratio is 5.8:1 (3.1:1 in 2010). Current ratio is calculated excluding deferred grants on research agreements.

(in Canadian dollars)

12 Accounts payable and accrued liabilities

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Accounts payable	2,188,103	1,801,333	1,382,987
Salaries and fringe benefits	1,006,924	822,738	601,417
Accrued liabilities	2,740,955	589,188	159,358
Other payables	29,883	29,883	157,756
	5,965,865	3,243,142	2,301,518

13 Deferred grants on research agreements

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
CQDM (i)	-	245,812	340,203
PVS (ii)	268,738	268,970	-
DARPA (iii)	-	6,440,807	-
	268,738	6,955,589	340,203

(i) The Company is entitled to a contribution from Québec's Consortium for Drug Discovery ("CQDM") of up to $1.77M. For the year ended December 31, 2011, the Company received $335,237 ($889,230 in 2010). An amount of $620,402 ($983,621 in 2010) is recorded in the statement of income and an amount of $39,353 as grants receivable (note 7).

(ii) On October 13, 2010, the Company is entitled to a contribution from PATH Vaccine Solutions (PVS) of up to $940,892 (US$946,000). For the year ended December 31, 2011, the Company received an amount of $483,976 (US$500,000) ($308,700 (US$300,000) in 2010), of which an amount of $484,208 ($39,730 in 2010) is recorded in the statement of income.

(iii) On August 10, 2010, the Company was awarded a US$21M funding award from the Defense Advanced Research Projects Agency (DARPA). For the year ended December 31, 2011, the Company received an amount of $8.910M (US$9.388M) ($6.843M (US$6.871M) in 2010) of which an amount of $5.617M (US$5.687M) ($402,151 (US$395,892) in 2010) is recorded in the statement of income and an amount of $13.357M (US$13.740M) (0$ in 2010) is recorded as a reduction of capital expenditures. An amount of $3.624M (US$3.563M) is recorded as grants receivable (note 7).

(in Canadian dollars)

14 Long-term debt

		December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Loan from Investissement Québec ("Bio-Levier"), bearing interest at 6.75% (6.75% in 2010), payable annually at a rate of 25% of net earnings plus depreciation and amortization generated in the preceding year over a period ending no later than December 21, 2014, secured by a senior fixed and floating charge of $16,000,000 over all property, plant and equipment and intellectual property of the Company in Canada	(a)	15,318,648	15,318,648	15,318,648
Deferred financing expenses		(350,694)	(468,193)	(585,692)
Discounted at a rate of 20%, refundable contribution granted under the Technology Partnerships Canada program	(b)	770,930	644,620	553,850
Loan (US$2M) from Alexandria Real Estate (« ARE »), bearing interest at 10.00%, payable in monthly instalments of US$83,333, maturing in 2013	(c)	2,034,000	-	-
Discounted at a rate of 20%, contribution under an innovation program, payable in annual instalments of $60,000 until September 2013		107,558	142,131	170,942
Obligation under office furniture leases, 9.29%, payable in monthly instalments of $697, maturing in 2015		22,873	28,806	-
Obligation under laboratory equipment, 13.95%, payable in monthly instalments of $855, maturing in 2015		23,686	-	-
Reimbursed during the year		-	6,269	30,131
		17,927,001	15,672,281	15,487,879
Less: Current portion		1,089,262	72,538	83,862
		16,837,739	15,599,743	15,404,017

(a) On July 28, 2003, the Company signed a loan agreement of $12,000,000 with Investissement Québec ("IQ") under the Bio-Levier Program. As at December 31, 2011, the Company has used $12,000,000 plus capitalized interest of $3,318,648.

(in Canadian dollars)

The terms and conditions of the loan agreement are as follows:

(i) For the first three years, the Company deferred the principal instalments and capitalized interest and now interest is payable on a monthly basis.

(ii) At the Company's request, and under certain conditions, IQ may release the fixed and floating senior charge on any selected intellectual property in the event of the execution by the Company, of a license agreement, a commercialization agreement or an operating agreement.

(iii) Under the terms of the agreement, the Company undertook to meet a current ratio exceeding 1.3:1. As at December 31, 2011, the current ratio is 5.8:1 (3.2:1 in 2010). Current ratio is calculated excluding deferred grant on research agreement.

(b) Under the federal contribution program called Technology Partnerships Canada ("TPC"), the Company received a refundable contribution equivalent to 33% of the eligible expenses incurred by the Company in the optimization and scale-up of its production unit in Quebec City for a total amount of $834,635 as at December 31, 2011 ($834,635 as at December 31, 2010). Royalties of 2% on gross cash proceeds of any kind are payable as from January 1, 2010 based on gross cash proceeds of the prior year. These royalties will be payable at the earlier of the complete repayment of the contribution or by January 1, 2020; subsequent to this date, no further payments will be required.

(c) On December 30, 2011, ARE provided an additional tenant improvement funds ($US 2M) to Medicago USA Inc. related to the production unit under a finance lease and operating lease. Medicago is not required to pay the interest as long as the Company does not exercise its termination right under an operating lease agreement. This termination right expires on December 31, 2012.

15 Finance lease liability

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Obligation related to production units, 8.64%, payable in monthly instalments of US$144,135 increasing 3% every year, maturing in 2026. A term deposit has been given as security (note 8)	17,358,977	-	-
Less: Current portion	291,338	-	-
	17,067,639	-	-

(in Canadian dollars)

Gross finance lease liabilities – Minimum lease payment:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Within one year (US$ 1,751,240)	1,781,010	-	-
Between 2 and 5 years (US$ 7,546,341)	7,674,646	-	-
After 5 years (US$ 22,150,840)	22,527,415	-	-
	31,983,071	-	-
Future finance charges on finance lease (US$ 14,379,611)	14,624,094	-	-
Present value of finance lease liabilities (US$ 17,068,810)	17,358,977	-	-
The present value of finance lease liabilities is repayable as follows:			
Within one year	291,338	-	-
Between 2 and 5 years	2,077,864	-	-
After 5 years	14,989,775	-	-
	17,358,977	-	-

16 Share capital

The authorized share capital of the Company is as follows:

Unlimited number of shares, without par value, of the following classes:

Common shares, voting and participating

Preferred shares, with rights, privileges and conditions to be determined by the Board of Directors before issuance

(in Canadian dollars)

The share capital issued has varied as follows:

	For the year ended December 31, 2011		For the year ended December 31, 2010	
	Number	**$**	**Number**	**$**
Common shares				
Balance – Beginning of year	136,922,102	53,605,485	114,771,690	48,660,207
Issued pursuant to the payment of a commitment fee (v)	-	-	154,393	67,162
Issued pursuant to offerings (i), (ii),(iii),(iv)	107,130,200	63,745,076	18,518,520	4,802,771
Issued pursuant to the exercise of warrants	2,518,000	1,062,505	3,453,500	1,078,244
Issued pursuant to the exercise of stock options	60,000	47,615	23,999	7,864
Repricing of warrants	-	-	-	(110,508)
Issue expenses *	-	(2,134,152)	-	(900,255)
Balance – End of year	246,630,302	116,326,529	136,922,102	53,605,485

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

(i) On October 27, 2011, the Company closed a private placement of $22,457,500 through the issuance of an aggregate of 34,550,000 common shares of Medicago at a price of $0.65 per share in two tranches. The first tranche of the Private Placement has been completed on October 27, 2011 by the issuance of 17,350,000 common shares for gross proceeds of $11,277,500. On December 16, 2011, the Company closed the second tranche of the private placement by the issuance of 17,200,000 for gross proceeds of $11,180,000. As of December 31, 2011, 17,200,000 shares held by Philip Morris Investments B.V. are subject to a four-month hold period which is scheduled to expire on April 16, 2012.

(ii) On September 27, 2011, the Company closed a private placement offering of 38,462,600 common shares at a price $0.65 per common share for gross proceeds of $25,000,690.

(iii) On April 5, 2011, the Company closed an offering of 34,117,600 units at a price of $0.51 per unit, representing gross proceeds of $17,399,976. Each unit is comprised of one common share and one quarter of one common share purchase warrant. Each full warrant will have an exercise price of $0.75, exercisable for a period of 24 months following the closing date of the offering.

(iv) On August 19, 2010, the Company issued 18,518,520 units at a price of $0.405 per unit for total gross proceeds of $7,500,000 ("the 2010 Public Offering"). Each unit consists of one common share of the Company and 0.75 common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $0.50 for five years following the issuance of the warrant.

(v) On August 6, 2010, the Company issued 154,393 shares for the payment of a commitment fee of $75,000 following the execution on May 13, 2010, of a standby equity distribution agreement.

The Company granted 200,000 non-transferable warrants to an agent entitling the holders to subscribe, before August 6, 2011, 200,000 shares at a price of $0.50. (note 17c).

Equity distribution agreement

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

(in Canadian dollars)

17 Other equity components

(a) Stock option plan

The following table summarizes the stock option activity since January 1, 2010:

	For the year ended December 31, 2011		For the year ended December 31, 2010	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding – Beginning of year	8,757,693	0.51	7,091,592	0.55
Granted	2,363,107	0.61	2,067,646	0.47
Exercised	(60,000)	0.47	(23,999)	0.20
Forfeited	(31,139)	0.46	(68,987)	0.39
Expired	(947,235)	1.12	(308,559)	1.11
Outstanding – End of year	10,082,426	0.48	8,757,693	0.51
Options exercisable – End of year	5,171,533	0.44	3,963,860	0.60

The following table summarizes information about outstanding and exercisable stock options as at December 31, 2011:

	Stock options outstanding			Stock options currently exercisable	
Exercise price	Number	Weighted average remaining contractual life (months)	Weighted average exercise price $	Number	Weighted average exercise price $
$0.20	1,968,317	24	0.20	1,308,107	0.20
$0.35 to $0.41	1,882,674	34	0.36	1,608,340	0.36
$0.47 to $0.58	2,302,841	106	0.50	613,000	0.48
$0.59 to $0.66	2,643,401	89	0.63	761,294	0.65
$0.72	1,213,193	96	0.72	808,792	0.72
$1.00	72,000	2	1.00	72,000	1.00
	10,082,426	70	0.48	5,171,533	0.44

(in Canadian dollars)

Assumptions used in determining stock-based compensation costs

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

	For the year ended December 31, 2011	For the year ended December 31, 2010
Dividend yield	Nil	Nil
Expected volatility	99%	116%
Risk-free interest rate	1.33%	2.49%
Expected life (years)	5	5
Weighted average fair value of options granted at market price at the date of the grant ($)	0.43	0.39
Weighted average fair value of options granted at a price higher than the market price at the date of the grant ($)	0.48	0.34

For the year ended December 31, 2011, the stock-based compensation costs were $745,090 ($644,954 in 2010).

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the options is indicative of future trends, which may also not necessarily be the actual outcome.

There have been no modifications to the Plan during the years presented in the consolidated financial statements.

(b) Unit options

The following table summarizes the unit options activity since January 1, 2010:

	For the year ended December 31, 2011		For the year ended December 31, 2010	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding and exercisable – Beginning of exercise	1,203,704	0.405	1,127,000	0.720
Granted to the agent pursuant to a public offering	1,194,116	0.510	1,203,704	0.405
Expired	-	-	(1,127,000)	0.720
Outstanding and exercisable – End of year	2,397,820	0.457	1,203,704	0.405

(in Canadian dollars)

The following table summarizes the information relating to unit options outstanding, all of which are exercisable as at December 31, 2011:

Exercise price	Number	Weighted average remaining contractual life (years)
$0.405	1,203,704	0.63
$0.510	1,194,116	1.26
	2,397,820	0.95

The fair value of unit options was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

	For the year ended December 31, 2011	For the year ended December 31, 2010
Dividend yield	Nil	Nil
Expected volatility	76 %	115%
Risk-free interest rate	1.86%	1.39%
Expected life (years)	2	2
Fair value of unit options granted ($)	0.215	0.401

(c) Warrants

The following table summarizes the warrant activity since January 1, 2010:

	For the year ended December 31, 2011		For the year ended December 31, 2010	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding and exercisable – Beginning of year	18,159,586	0.53	60,628,946	0.49
Granted to the subscribers in connection with public offering	8,529,400	0.75	13,888,890	0.50
Agent's fee in connection with Equity Distribution Agreement	-	-	200,000	0.50
Exercised	(2,518,000)	0.32	(3,453,500)	0.25
Expired	(2,070,696)	0.99	(53,104,750)	0.41
Outstanding and exercisable – End of year	22,100,290	0.60	18,159,586	0.53

(in Canadian dollars)

The following table summarizes the information relating to warrants outstanding and exercisable as at December 31, 2011:

Exercise price	Number	Weighted average remaining contractual life (years)
$0.50	13,570,890	3.64
$0.75	8,529,400	1.26
	22,100,290	2.72

The fair value of warrants was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

	2011	2010
Dividend yield	Nil	Nil
Expected volatility	76%	115%
Risk-free interest rate	1.86%	2.15%
Expected life (years)	2.00	4.94
Fair value of warrants granted ($)	0.13	0.19

18 Expenses by nature

	2011 $	2010 $
Research grants and contribution	(7,071,297)	(1,377,680)
Research and development tax credits	(1,598,502)	(1,327,663)
Other Research and development costs	12,155,502	8,324,552
Employee benefit expenses (note 19)	11,742,128	7,898,986
General administrative, business development and intellectual property	3,005,809	2,574,930
Depreciation of property, plant and equipment	1,328,663	406,643
Amortization of intangible assets	152,011	89,746
Financial expenses	1,667,448	1,077,840
	21,381,762	17,667,354

(in Canadian dollars)

19 Employee benefits expenses

	2011 $	2010 $
Salaries and wages	10,997,038	7,254,032
Stock-based compensation granted to directors and employees	745,090	644,954
	11,742,128	7,898,986

Compensation of key management

Compensation awarded to key management included:

	2011 $	2010 $
Salaries and short-term employee benefits	2,238,325	2,002,185
Stock-based payments	369,887	371,487
	2,608,212	2,373,672

20 Financial income and costs

	2011 $	2010 $
Financial income		
Interest income	(135,569)	(92,078)
Gain on sale of available for sale investments	(33,910)	(6,690)
	(169,479)	(98,768)
Financial costs		
Interest on long-term debt	1,190,725	1,007,336
Interest on finance lease	405,319	-
Interest and bank charges	123,384	51,772
Amortization of deferred financing expenses	117,499	117,499
	1, 836,927	1, 176,607

(in Canadian dollars)

21 Loss per share

Basic loss per share is calculated by dividing the net loss for the period attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year.

	2011	2010
Net loss attributable to equity holders of the Company	$ 20,991,734	$ 16,483,873
Weighted average number of common shares outstanding	177,982,806	124,480,570
Basic net loss per share	$ 0.12	$ 0.13

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

	2011	2010
Basic weighted average number of shares outstanding	177,982,806	124,480,570
Dilutive effect of stock options	2,277,184	1,469,390
Dilutive effect of units	453,046	46,122
Dilutive effect of warrants	1,748,733	805,447
Diluted weighted average number of shares outstanding	182,461,769	126,801,529
Excluded from the calculation where exercise price are greater than average market price		
Stock options	4,337,926	4,793,833
Warrants	8,529,400	16,159,586

For the years ended December 31, 2011 and 2010, the diluted loss per share was the same as the basic net loss per share since the dilutive effect of stock options and warrants was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those periods was calculated using the basic weighted average number of shares outstanding.

(in Canadian dollars)

22 Income Taxes

The major components of income tax provision are as follows:

	2011 $	2010 $
Current income tax expense	-	-
Deferred income tax recovery:		
Realization of unrecognized deferred tax assets	(203,522)	(1,074,541)
Total income tax recovery	(203,522)	(1,074,541)

The reconciliation of the combined Canadian federal and Quebec provincial income tax rate to the income tax provision is as follows:

	2011 $	2010 $
Income tax recovery at the combined statutory tax rate of 28.4% (29.9% in 2010)	(6,019,452)	(5,171,029)
Foreign tax rate differences	(415,470)	(1,082,712)
Non-deductible expenses	224,864	155,514
Non-taxable items	(195,501)	(163,082)
Difference between statutory and future tax rates	428,024	92,217
Change in unrecognized deferred tax assets	6,331,350	5,326,051
Items not affecting earnings	(553,014)	(250,904)
Prior years' adjustments	13,048	21,582
Others	(17,371)	(2,178)
	(203,522)	(1,074,541)

(in Canadian dollars)

The significant components of the deferred tax assets and liabilities are as follows:

Recognized deferred tax assets and liabilities:

	2011 $	2010 $
Deferred tax assets		
Non-capital losses	1,953,952	447,405
Deferred tax liabilities		
Property, plant and equipment	(1,323,825)	(180,431)
Intangible asset	(626,780)	(205,674)
Long-term debt	(3,347)	(61,300)
	(1,953,952)	(447,405)
Deferred tax, net	-	-

Unrecognized deferred tax assets:

	2011 $	2010 $
License	-	1,851,617
Deferred revenue	-	2,576,323
Property, plant and equipment	731,309	-
Research and development expenses	9,360,631	6,606,640
Non-capital losses	17,119,643	8,487,564
Financing expenses	646,995	381,150
Federal contribution	225,915	225,915
Others	74,008	56,659
Unrecognized deferred tax assets	28,158,501	20,185,868

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income.

Given the company's past losses, management does not believe that it is more probable than not that the Company can realize the deferred tax assets and therefore it has not recognized any amount in the statement of financial position.

(in Canadian dollars)

At December 31, 2011, the amounts and expiry dates of tax attributes for which no deferred tax assets is recognized are as follows:

	2011			
	Canada		United States	
	Federal $	Provincial $	Federal $	State $
Research and development expenses, without limitation	23,338,083	45,126,628	-	-
Losses carried forward:				
2015	1,607,877	-	-	-
2025	-	-	-	17,543
2026	6,965,991	4,388,704	-	4,022,025
2027	3,721,735	3,190,989	-	-
2028	4,496,464	2,078,926	-	-
2029	8,674,677	8,636,442	-	-
2030	4,649,966	4,596,102	21,230	-
2031	11,896,841	10,599,225	19,666,629	-
	42,013,551	33,490,388	19,687,859	4,039,568

The Company is entitled to a non-refundable federal tax credit of approximately $4,028,724. This credit can be applied against future years' taxable income and will expire at the latest in 2031.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2011 $	2010 $
Deferred tax assets:		
Deferred tax assets to be realized after more than 12 months	1,953,952	447,405
Deferred tax assets to be realized within 12 months	-	-
	1,953,952	447,405
Deferred tax liabilities:		
Deferred tax liabilities to be realized after more than 12 months	(1,953,952)	(447,405)
Deferred tax liabilities to be realized within 12 months	-	-
	(1,953,952)	(447,405)
Deferred tax assets (liabilities) net	-	-

(in Canadian dollars)

23 Financial information included in consolidated statements of cash flow

(a) Changes in non-cash working capital items

	2011 $	2010 $
Amounts receivable	(4,264,076)	14,284
Investment tax credits receivable	(953,968)	(1,327,663)
Prepaid expenses	22,302	(172,447)
Accounts payable and accrued liabilities	1,232,834	461,234
Deferred grants on research agreement	(2,239,496)	6,766,284
	(6,202,404)	5,741,692

(b) Supplemental information on items not affecting cash

	2011 $	2010 $
Share issue expenses included in accounts payable and accrued liabilities	-	84,378
Grants related to capital expenditures	4,447,355	-
Acquisition of property, plant and equipment included in accounts payable and accrued liabilities	2,156,614	82,529
Acquisition of intangible assets in accounts included in payable and accrued liabilities	108,112	519,751
Acquisition of property, plant and equipment under finance lease	16,913,610	33,608

24 Commitments

As at December 31, 2011, contractual obligations for three operating leases amounted to approximately $1,718,654. The leases extend over various periods up to the year 2017. The basic annual rent, exclusive of contingent rentals, for the next five years and thereafter is as follows:

	$
No later than 1 year	322,554
Later than 1 year and no later than 5 years	1,160,295
Later than 5 years	235,805

In order to secure the payment of the rent of one of the leases and in compliance with the terms and conditions of the lease agreement for the premises, the Company's financial institution signed a letter of credit for an amount of $50,000 in favour of the lessor. A term deposit of $50,000 has been given as security for this letter (note 8).

(in Canadian dollars)

Under licenses, the Company is committed to pay royalties. The minimum obligations relating to royalties amount to $147,500 in 2012 and 2013, $157,500 in 2014, $182,500 in 2015 and $177,500 in 2016.

25 Segment information

The Company is organized under one single business segment, being the research and development of vaccines.

The Company's property, plant and equipment and intangible assets by location are as follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Canada	8,151,450	8,255,942	5,915,137
United States	21,898,484	136,281	-
	30,049,934	8,392,223	5,915,137

All revenues of the periods have been allocated based on the location in which the sale originated. All of them have been generated in Canada. The revenues for the year ended December 31, 2011 were with two customers and 2010 with only one customer.

(in Canadian dollars)

26 Financial instruments

(a) Financial instruments by category

	Loans and receivables $	Available for sale $	Other financial liabilities at amortized cost $	Total $
December 31, 2011				
Assets				
Cash	20,598,103	-	-	20,598,103
Short-term investments	6,485,000	13,278,661	-	19,763,661
Amounts receivable, excluding commodity taxes receivable	4,286,356	-	-	4,286,356
Security deposits	870,681	-	-	870,681
	32,240,140	13,278,661	-	45,518,801
Liabilities				
Bank loans	-	-	1,119,794	1,119,794
Accounts payable and accrued liabilities, excluding statutory liabilities	-	-	5,965,865	5,965,865
Long-term debt	-	-	17,927,001	17,927,001
Finance lease	-	-	17,358,977	17,358,977
Total	-	-	42,371,637	42,371,637

(in Canadian dollars)

	Loans and receivables $	Available for sale $	Other financial liabilities at amortized cost $	Total $
December 31, 2010				
Assets				
Cash	3,415,700	-	-	3,415,700
Short-term investments	400,000	4,705,371	-	5,105,371
Amounts receivable, excluding commodity taxes receivable	107,556	-	-	107,556
Security deposits	385,677	-	-	385,677
	4,308,933	4,705,371	-	9,014,304
Liabilities				
Bank loans	-	-	600,000	600,000
Accounts payable and accrued liabilities, excluding statutory liabilities	-	-	3,243,142	3,243,142
Long-term debt	-	-	15,672,281	15,672,281
Total	-	-	19,515,423	19,515,423

(in Canadian dollars)

	Loans and receivables $	Available for sale $	Other financial liabilities at amortized cost $	Total $
January 1, 2011				
Assets				
Cash	228,039	-	-	228,039
Short-term investments	9,600,000	4,505,198	-	14,105,198
Amounts receivable, excluding commodity taxes receivable	65,631	-	-	65,631
Security deposit	50,000	-	-	50,000
	9,943,670	4,505,198	-	14,448,868
Liabilities				
Bank loans	-	-	600,000	600,000
Accounts payable and accrued liabilities, excluding statutory liabilities	-	-	2,301,518	2,301,518
Long-term debt	-	-	15,487,879	15,487,879
Total	-	-	18,389,397	18,389,397

(b) Fair value measurement

A fair value hierarchy was established which requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company primarily applies the market approach for recurring fair value measurements. There are three input levels that may be used to measure fair value:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(in Canadian dollars)

The following table provides information about the Company's financial assets measured at fair value as of December 31, 2011, December 31, 2010 and January 1, 2010 in accordance with the fair value hierarchy and the valuation techniques used by the Company to determine such fair value.

Level 1

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets			
Short-term investments	13,278,661	4,705,371	4,505,198

For the fiscal year ended December 31, 2011, 2010 and January 1, 2010, the Company had no Level 2 and Level 3 financial instruments.

27 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 US$1.00 = $C1.0170.

(in Canadian dollars)

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 from subsidiary	19,832,688	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
Finance lease liability	As described in note 15

Based on the average value of variable interest bearing cash and bank loans, 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 rate 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 are 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.

(in Canadian dollars)

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 meets 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.

The following table summarizes contractual obligations as at December 31, 2011:

	Net value $	Cash flows $	0-12 Months $	12-24 Months $	Thereafter $
Bank loans	1,119,794	1,119,794	1,119,794	-	-
Accounts payable (excluding statutory liabilities)	5,935,981	5,935,981	5,935,981	-	-
Long-term debt	18,277,695	21,465,555	2,128,054	2,127,666	17,209,835
Finance lease	17,358,977	31,983,071	1,781,010	1,834,446	28,367,615
	42,692,447	60,504,401	10,964,839	3,962,112	45,577,450

28 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.

(in Canadian dollars)

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 (note 15)	17,067,639	-
Current portion of long-term debt and finance lease	1,380,600	72,538
	35,285,978	15,672,281
Equity (notes 16 and 17)	37,753,904	(5,158,485)
Total capital	73,039,882	10,513,796

29 Transition to IFRS

The Company's consolidated financial statements have been prepared in accordance with IFRS and IFRS 1, *"First-time Adoption of IFRS"*. The Company's transition date is January 1, 2010, ("transition date"). The Company prepared its opening IFRS statement of financial position at that date.

The effect of the Company's transition to IFRS is summarized in this note as follows:

(a) Exemptions and exceptions from full retrospective application elected by the Company;

(b) Reconciliation between IFRS and previous GAAP; and

(c) Explanatory notes on significant differences in accounting policies between Canadian GAAP and IFRS.

(a) Exemptions and exceptions from full retrospective application elected by the Company

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

	As described in note 29c)
Exemptions	
Share-based payments	i

(in Canadian dollars)

(b) Reconciliation between IFRS and previous GAAP

The following reconciliations provide a quantification of the effect of the transition from Canadian GAAP to IFRS for the respective periods noted for equity, loss and comprehensive loss:

1. Reconciliation of equity

	Note 29c)	December 31 2010 $	January 1, 2010 $
Total equity under Canadian GAAP		(5,158,485)	4,100,734
Share-based compensation			
Deficit	ii	(302,024)	(161,814)
Stock option plan	ii	302,024	161,814
Total equity under IFRS		(5,158,485)	4,100,734

2. Reconciliation of statements of comprehensive loss

		For the year ended December 31, 2010		
	Note 29c)	Net loss $	Other comprehensive loss (income) $	Comprehensive loss $
Under Canadian GAAP		16,343,663	(123,413)	16,220,250
Share-based compensation expense	ii	140,210	-	140,210
Under IFRS		16,483,873	(123,413)	16,360,460

3. Reconciliation of statements of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company.

(c) Explanatory notes on significant difference in accounting policies between Canadian GAAP and IFRS

IFRS 1 exemptions

(i) IFRS 2, "Share-based Payments", encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the transition date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after January 1, 2006.

Measurement

(ii) Under IFRS, an estimate is required of the number of grants which are expected to vest, which is revised if subsequent information indicates that actual forfeitures are to differ from estimates. Under Canadian GAAP, forfeitures were recognized as they occur. Moreover, under IFRS 2, each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. As a result, the Company adjusted its expense for share-based awards to reflect these differences in recognition.

Other changes in accounting policies

(iii) Financial instruments

The term deposits and security deposits are no longer classified as available-for-sale financial instruments but reclassified as loans and receivables. Accordingly, they are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. The reclassification has no significant impact on the financial statements.

Cash is classified as loans and receivables, while under Canadian GAAP it was classified as held-for-trading financial instruments. The reclassification has no impact on the financial statements.

30 Event after reporting date

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 including commercialization. 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.