SIX-MONTH PERIOD ENDED JUNE 30, 2010

MANAGEMENT'S REPORT ON FINANCIAL POSITION AND OPERATING RESULTS

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

GENERAL

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

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

FORWARD-LOOKING STATEMENTS

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

COMPANY OVERVIEW

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

MARKET AND ECONOMIC SITUATION OVERVIEW

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

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

KEY DEVELOPMENTS

CORPORATE

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

On August 10, 2010, Medicago announced that Medicago USA Inc, a wholly-owned subsidiary of Medicago, was awarded a US$21 Million funding award from the Defense Advanced Research Projects Agency ("**DARPA**"), Broad Agency Announcement (BAA), Defense Sciences Research & Technology. Medicago USA and DARPA entered into a technology investment agreement governing the terms and conditions of the funding award (the "**Technology Investment Agreement**"). Pursuant to this technology investment agreement, the funding award is structured as a cost-sharing research program between Medicago USA and DARPA for a proof-of-concept demonstration of Medicago USA's improved process for the scalable and automated production of purified VLP vaccines in plants.

As a result, Medicago will develop a 60,000-square-foot cGMP facility in Research Triangle Park (RTP), North Carolina, including a 30,000 square foot greenhouse. The purpose of this facility will be to scale-up and automate Medicago's cGMP process to demonstrate its capacity to produce 10 million doses/month of influenza vaccines meeting all FDA requirements for purity, quality and current cGMP regulations.

The total costs of the research program are estimated at US$40.3 Million. DARPA will provide approximately US$21 Million while the balance of the required funds must be provided by Medicago USA. To this effect, on August 10, 2010, Medicago USA, entered into a lease agreement with ARE-NC Region No. 6 LLC (the "**Landlord**"), an affiliate of Alexandria Real Estate Equities Inc., under which the Landlord undertook to provide a construction allowance of approximately US$13.5 Million with respect to the construction of the New Facility and in consideration of which Medicago USA agreed to lease the New Facility during a term of 15 years. The remaining approximate amount of funding will be provided by Medicago.

The yearly base rent obligation for the New Facility shall be approximately US$1,350,000, subject to a fixed yearly percentage of increase. Medicago shall also be responsible for all operating expenses of the New Facility.

With respect to the construction, Landlord will grant Medicago USA a construction allowance of US$13.5 Million, such construction allowance corresponding to the current estimates of the construction costs. Medicago USA will be responsible for any construction costs in excess of US$13.5 Million

MEDICAGO ANNOUNCES $7.5 MILLION EQUITY OFFERING

On August 10, 2010, Medicago Inc. entered into an agency agreement to sell up to 18,518,520 units at a price of 40.5 cents per unit, representing gross proceeds of $7.5 Million. Each Unit is comprised of one common share and three-quarter of one common share purchase warrant. Each full warrant will have an exercise price of $0.50, exercisable for a period of 5 years following the closing date of the offering.

Medicago intends to use the net proceeds from the offering to fund its participation to the cost-sharing program pursuant to the previously announced Technology Investment Agreement following the award of a $21 million funding award from the Defense Advanced Research Projects Agency ("DARPA") and for other general corporate and working capital purposes.

The transaction is expected to close on or about August 19, 2010, subject to the satisfaction of all necessary regulatory approvals, including the conditional listing approval of the Toronto Stock Exchange.

MEDICAGO SIGNS MOU WITH PT BIO FARMA FOR THE DEVELOPMENT OF VACCINES IN THE REPUBLIC OF INDONESIA

On June 14, Medicago Inc. signed a memorandum of understanding (MOU) with PT Bio Farma (Persero) to identify and develop select vaccine targets of mutual interest, with the final goal being to establish a partnership to build a Medicago plant-based manufacturing facility in the Republic of Indonesia. Initially, Medicago and Bio Farma will collaborate in design and conduct a proof-of-concept evaluation on Medicago's plant-based VLP technology for a selected vaccine target.

PRODUCTS IN DEVELOPMENT

H5N1 PANDEMIC INFLUENZA VLP VACCINE

The Company is working on the regulatory dossier for a phase II clinical trial to be submitted to Health Canada in the coming months. If granted approval, the Company expects to initiate a phase II clinical trial in the second-half of 2010 with initial results available in the fourth quarter of 2010.

SEASONAL AND H1N1 VACCINES

The Company is proceeding with preclinical studies with its H1N1 pandemic vaccine candidate and expects to submit an investigational new drug application (IND) in the fourth quarter of 2010. The strategy is to take advantage of the development work that will be completed for its H1N1 pandemic vaccine candidate to bolster its safety database and apply it to optimize the path of approval for its seasonal vaccine candidate. Interim clinical data from the H1N1 trial, including measurements of safety and tolerability, are expected to be available by early 2011. With these data in hand and if granted approval by relevant regulatory authorities, Medicago could potentially commence a phase 2 clinical study with its seasonal vaccine candidate in 2011.

SELECTED CONSOLIDATED INFORMATION

	Three-month period ended June 30		Six-month period ended June 30	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
CONSOLIDATED STATEMENT OF EARNINGS				
Revenues	-	-	34,000	-
Loss for the period				
$	3,963,000	2,794,000	7,672,000	5,419,000
Basic and diluted loss per share	0.03	0.03	0.06	0.06

CONSOLIDATED BALANCE SHEET DATA		
	As at June 30, 2010	**As at December 31, 2009**
	$	**$**
Cash, cash equivalents and short-term investments	6,929,000	14,333,000
Total assets	16,612,000	20,830,000
Total long-term liabilities [(1)]	15,628,000	15,488,000

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

COMPARISON OF THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009

Consolidated statements of earnings

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

Research and development (R&D) expenses increased by $1,034,000 to $2,861,000 for the second quarter of 2010 compared to the second quarter of 2009. The increase in R&D expenses for the three-month period ended June 30, 2010 is mainly related to the upcoming Phase II study. Wage and salaries were higher ($382,000) in the second quarter of 2010 compared to 2009 explained by hiring in the second-half of 2009 and since the beginning of 2010 of new employees required for the preparation and the production of clinical materials for the upcoming Phase II clinical study. More laboratory supplies and analysis ($441,000) and a higher level of outsourced contract work ($110,000) were also required to perform these activities. Outsourced contract

work increased as the result of the final payments related to phase I clinical trial, work for the development of the VLPExpress and studies for the upcoming Phase II. For the six-month period ended June 30, 2010 R&D expenses increased by $2,198,000 to $5,423,000 and this is mainly explained by an increase in outsourced contract work ($610,000), wage and salaries ($721,000) and more laboratory supplies and analysis ($633,000).

Research grants and contribution increased by $229,000 and $ 566,000 for the three and six-month period ended June 30, 2010. The increase is mainly explained by the grant from Quebec's Consortium for Drug Discovery (CQDM) that was obtained in the second quarter of 2009. Grant from the CQDM totaled $1,773,000 of which $990,000 is still available as of June 30, 2010.

Research and development tax credits were $144,000 and $310,000 for the three and six-month period ended June 30, 2010, $24,000 lower than three-month period ended June 30, 2009 and $37,000 higher than the six-month period ended June 30, 2009.

General and administrative, business development and intellectual property (G&A) expenses increased by $49,000 to $905,000 for the three-month period ended June 30, 2010 compared to 2009. The increase was mainly due to the fees paid for the graduation of the company from the TSX-V to the TSX. For the six-month period ended June 30, 2010, G&A expenses increased by $347,000 to $2,095,000. This is mainly explained by the fees paid for the graduation of the company from the TSX-V to the TSX ($128,000), increased business development activities, and salaries ($102,000).

Depreciation of property, plant and equipment were $210,000 and $381,000 for the three and six-month period ended June 30, 2010, $101,000 higher than three-month period ended June 30, 2009 and $166,000 higher than the six-month period ended June 30, 2009. This increase is explained by acquisitions of property, plant and equipment in the last quarter of 2009 and the first quarter of 2010. These acquisitions are related to the expansion of the manufacturing facility in order to optimize manufacturing activities and provide additional space to produce clinical-grade material for human clinical trials.

Amortization of intangible assets amounted to $22,000 and $38,000 for the three and six-month period ended June 30, 2010 comparable with the three and six-month period ended June 30, 2009.

Net financial expenses amounted to $243,000 for the three-month period ended June 30, 2010, $67,000 higher compared to the three-month period ended June 30, 2009. This increase is explained by lower interest income ($83,000) mainly the result of decrease in cash, cash equivalents and short-term investments and lower interest rates in 2010. For the six-month period ended June 30, 2010 net financial expenses increased by $68,000 to $489,000 and this is mainly explained by lower interest rate on the Bio-levier loan for $31,000 and lower interest income for $115,000.

Consolidated loss for the three-month period ended June 30, 2010 was $3,963,000, or $0.03 per basic and diluted share compared to a loss of $2,794,000, or $0.03 per basic and diluted share for the three-month period ended June 30, 2009. Since the beginning of the year the consolidated loss was $7,672,000 or $0.06 per basic and diluted share compared to a loss of $5,419,000, or $0.07 per basic and diluted share.

Consolidated Balance Sheet

Cash, cash equivalents and short-term investments were of $6.9 million as at June 30, 2010 a decrease of $7.4 million from December 31, 2009. This decrease is mainly the result of the loss for the six-month period net of items not affecting cash and cash equivalents for $6,898,000 that was partly offset by the exercise of 3,443,500 warrants totaling $861,000 since the beginning of 2010.

Total consolidated assets were of $16.6 million as at June 30, 2010, a decrease of $6.2 million since December 31, 2009. The variation is mainly due to a decrease in the total of cash, cash equivalents and short term investments by $7.4 million.

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

QUARTERLY FINANCIAL DATA

	Quarters ended			
	June 30, 2010	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**
Revenues	-	34,000	-	-
Total expenses	($3,963,000)	($3,743,000)	($3,891,000)	($3,163,000)
Loss	($3,963,000)	($3,709,000)	($3,891,000)	($3,163,000)
Basic and diluted net loss per share	($0.03)	($0.03)	($0.04)	($0.03)
	June 30, 2009	**March 31, 2009**	**December 31, 2008**	**September 30, 2008**
Revenues	-	-	-	-
Total expenses	($2,794,000)	($2,625,000)	($3,007,000)	($2,739,000)
Loss	($2,794,000)	($2,625,000)	($3,007,000)	($2,739,000)
Basic and diluted net loss per share	($0.03)	($0.04)	($0.07)	($0.07)

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

The evolution in the stage of development of the Company from research to preclinical and clinical development for its H5N1 Avian Influenza VLP vaccine, the development of the cGMP process and the production of clinical materials for the Phase I explaine the increase in expenses from the second quarter of 2008 onwards. Wage and salaries increased in 2009 and 2010 compared to 2008 explained by the hiring of new employees in the second half of 2009 and since the beginning of 2010 required by preclinical and clinical work related to the Phase I and now Phase II. More laboratory supplies and analysis and a higher level of outsourced contract work were also required to perform those activities.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company had cash, cash equivalents and short-term investments totaling $6.9 million as at June 30, 2010, a decrease of $7.4 million from December 31, 2009. The Company had working capital of 6.1 million as at June 30, 2010 compared to $13.6 million as at December 31, 2009. The short-term investments do not include asset-backed commercial papers which are affected by liquidity issues. As at June 30, 2010, the Company's long-term debt amounted to $15.6 million. Under the terms of the Bio-Levier loan agreement, the Company needs to maintain its current ratio at 1.3/1 or higher. As at June 30, 2010 this ratio stood at 2.72:1.

The Company’s primary capital needs are the funds required to support its scientific research and development activities including preclinical and clinical trials, capital expenditures for the expansion of its pilot plant facilities and working capital. Medicago expects expenditures to increase in 2010 as the Company will continue to advance its programs. Management believes that existing capital resources are adequate to fund our plans at least for the next twelve months.

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

The variation of our liquidity by activities is explained below.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash flows	**Three-month ended June 30**		**Six-month ended June 30**	
	2010	2009	**2010**	2009
Operating activities	**(3,481,000)**	(2,903,000)	**(6,705,000)**	(4,923,000)
Financing activities	**29,000**	293,000	**885,000**	250,000
Investing activities	**4,701,000**	4,270,000	**7,143,000**	5,660,000
Net change in cash and cash equivalents	**1,249,000**	1,659,000	**1,323,000**	986,000

Operating Activities

Cash used in operating activities increased by $578,000 to $3,481,000 for the three-month period ended June 30, 2010 and by $1,782,000 to $6,705,000 for the six-month period ended June 30, 2010 compared to 2009. This increase is mainly explained by the increase in loss, net of items not affecting cash and cash equivalents (or burn rate) for $990,000 and $2,012,000 for the three and six-month periods.

Financing Activities

Cash from financing activities increased by $635,000 to $885,000 for the first six months of 2010 compared to 2009. The increase is mainly explained by the exercise of 3,443,500 warrants totalling $861,000 since the beginning of 2010.

Investing Activities

Cash used in investing activities (excluding additions and disposal of short-term investments) increased by $1,300,000 to $1,590,000 in the six-month period ended June 30, 2010, related to more additions of property, plant and equipment for $800,000, and intangible assets for $500,000.

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

Use of proceeds of the public offering completed in December 2009

The following table provides information concerning the use of proceeds resulting from a public offering completed in December 2009. The use of proceeds was not used in the first quarter 2010.

USE OF PROCEEDS	From April 1, 2010 through June 30, 2010	Per Prospectus
Clinical development of the Company's H5N1 VLP pandemic vaccines and other vaccines	$2,625,000	$7,072,000
General corporate and working capital puposes	$1,001,000	$3,483,000
Total	$3,626,000	$10,555,000

CONTRACTUAL OBLIGATIONS

There has been no significant change in the contractual obligations of the Company as described in Medicago's 2009 annual report other than a commitment, on August 10 2010, resulting from the signing of a lease agreement for premises amounting to US$25,109,000. This lease begins in July 2011 and expires in June 2026 with a renewal option of five years. The minimum lease amounts for each of the next five fiscal years are as follows: US$675,000 in 2011, US$1,370,000 in 2012, US$1,441,000 in 2013 and US$1,454,000 in 2014.

OUTLOOK FOR THE REMAINING OF 2010

We expect R&D expenses to increase in 2010 compared to 2009. Following the successful completion of a phase 1 clinical trial with its H5N1 pandemic vaccine candidate, Medicago is preparing a regulatory dossier which will be submitted to Health Canada in the following months. If granted approval, the company will initiate a phase 2 clinical trial in the second-half of 2010 with initial results becoming available in the fourth quarter of 2010.

The Company is also proceeding with preclinical studies with its H1N1 pandemic vaccine candidate and expects to file an investigational new drug application (IND) in the fourth quarter of 2010. The strategy is to optimize the development work that will be completed for its H1N1 pandemic vaccine candidate to bolster its safety database and apply it to potentially shorten the path of approval for its seasonal vaccine candidate. Interim clinical data from the H1N1 trial, including measurements of safety and tolerability, are expected to be available by early 2011. With these data in hand and if granted approval by Health Canada, the U.S. Food and Drug Administration, and Europe, the Middle East and Africa (EMEA), Medicago could potentially commence a phase 2 clinical study with its seasonal candidate in 2011.

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

FINANCIAL INSTRUMENTS

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

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

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

OUTSTANDING SHARE DATA

As at August 12th, 2010, there were 118,388,582 common shares issued and outstanding, 7,263,188 stock options outstanding and 59,011,196 warrants outstanding.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

NEW ACCOUNTING STANDARDS AND FUTURE ACCOUNTING CHANGES

Future accounting changes

In January 2009, the CICA published the following sections of the CICA Handbook that apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

(a) Section 1582, "Business Combinations", which replaces the former Section 1581 with the same title, establishes accounting standards for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS3R, "Business Combinations".

(b) Section 1601, "Consolidated Financial Statements", which replaces the former Section 1600 with the same title, establishes standards for the preparation of consolidated financial statements.

(c) Section 1602, "Non-Controlling Interests". This new section establishes standards on accounting for non-controlling interests in a subsidiary in consolidated financial statements prepared subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27, "Consolidated and Separate Financial Statements".

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

International Financial Reporting Standards

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required for the Company, for interim and annual financial statements beginning on January 1, 2011 and will require the restatement for comparative figures. The Company has decided to switch to IFRS on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures.

During 2008, we proceeded to establish a stage 1: *Diagnosis for the adoption of IFRS*. This diagnosis has identified the main differences between the accounting treatments applied by the Company under Canadian GAAP and the IFRS as well as the practical implications related to the measure. The differences were further classified according to their degree of complexity and by the amount of work to implement with respect to the measure.

An implementation plan for the conversion to IFRS has been prepared. The activities planned in stage 2: *Evaluation and Design* include the identification and documentation of existing differences between IFRS and Canadian GAAP in accounting and disclosure requirements, the selection of accounting policies under IFRS, including the consideration of options available under IFRS, the establishment of the effects related to the conversion on internal controls, accounting systems and other solutions and

business processes, and developing a training program to help employees concerned for the transition and the continued compliance with IFRS. Finally, the stage 3, the last stage, is the implementation and the review.

During 2009, we practically completed stage 2 of our conversion to IFRS. The Company evaluated and documented the existing differences between IFRS and Canadian GAAP in accounting and disclosure requirements, the selection of accounting policies under IFRS, including the consideration of options available under IFRS, the integration of the effects related to the conversion on internal controls, accounting systems and other solutions and business processes, and the establishment of training program to help employees concerned for the transition and the continued compliance with IFRS.

While working on stage 2, under IFRS 1 - *First-time adoption of IFRS*, we have chosen to use the prospective application where choices were available for our situation. So far we found no Standard with significant accounting impact for the Company.

During 2010, we will finalize the stage 2 and work on stage 3 for the implementation and review. Since stage 2 is not completed as of June 30, 2010, other accounting impact can be found during the course of 2010. The global implementation plan is on schedule and we are confident that everything will be in place for the conversion planned on January 1, 2011.

RISK FACTORS AND UNCERTAINTIES

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

On behalf of management,

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

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

August 12th, 2010