THREE-MONTH PERIOD ENDED MARCH 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

The following is a discussion and analysis of the consolidated financial condition and results of operations of Medicago Inc, ("Medicago" or the "Company") for the three-month periods ended March 31, 2012 and 2011. This discussion and analysis should be read in conjunction with the information contained in the unaudited condensed interim Consolidated Financial Statements and related notes for the three-month period ended March 31, 2012, which are prepared in accordance with International Financial Reporting Standards ("IFRS") and the Annual Consolidated Financial Statements appearing in the 2011 Annual Report of the Company. 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 May 11, 2012, 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.

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 has 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 US$3.8 billion and is expected to be worth US$7 billion by 2015.

For 2012, Medicago is of the opinion that the Company has the financial resources required to work towards the attainment of its 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

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 has received the 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. The global market for rotavirus vaccines exceeded US$1 billion in 2009.

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.

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.

At the end of March 2012, the Company commenced the vaccine production to demonstrate its capacity to produce 10,000,000 doses of H1N1 vaccines in 30 calendar days. The production lots were completed in April 2012. Animal studies will be performed to confirm the immunogenicity and the number of doses produced. The Company expects to be able to announce the final results in June or July of 2012.

ANDY SHELDON NAMED CEO OF THE YEAR BY VACCINE INDUSTRY EXCELLENCE AWARDS AT THE WORLD VACCINE CONGRESS

On April 11, 2012, Andy Sheldon was named "CEO of the Year" at the recently held World Vaccine Congress in Washington, D.C. The Vaccine Industry Excellence (ViE) Awards recognize the outstanding achievements of vaccine practitioners and stakeholders across the global industry.

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 Top 10 pharma(completed), Mitsubishi Tanabe Pharma), and Europe (Genopole). Alongside internally developed projects such as influenza and rabies, 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

In 2011, Medicago released positive final results from a Phase IIa 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.

SEASONAL AND H1N1 VACCINES

In 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.

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.

In June 2011, Medicago reported positive results from this Phase I clinical trial. 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 continued for six months and nothing more was to signal after this period.

In the US Phase I trial, 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 dosage 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 move 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, 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

Successful completion of a 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 in 2011, the Company announced the successful completion of the first stage of this research collaboration. On April 17, 2012, Medicago announced the successful completion of its research collaboration agreement with a top 10 global pharmaceutical company.

Under the terms of this research collaboration, Medicago applied its transient expression system to develop a vaccine candidate for a non-disclosed target.

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.

Medicago collaboration with Infectious Diseases Research Institute (IDRI)

In January 2011, Medicago announced it was selected to collaborate with 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 avian pandemic flu outbreak.

This significant grant from DARPA is for a Phase I clinical trial with an intradermal H5 vaccine in combination with IDRI's GLA adjuvant. The project combines Medicago's plant made H5 Virus-Like Particle vaccine with IDRI's vaccine adjuvant technology as well as a micro needle delivery device. These three technologies could enhance protection, reduce the amount of product required and simplify vaccine distribution and administration. The clinical trial is conducted by IDRI and based on the information Medicago has it is currently expected that the Phase I clinical trial would be initiated in the second quarter of 2012.

SELECTED CONSOLIDATED INFORMATION

	Three-month ended March 31 2012	Three-month ended March 31 2011
	$	$
CONSOLIDATED STATEMENT OF INCOME		
Revenues	**157,000**	**-**
Loss for the period		
$	8,987,000	5,051,000
Basic and diluted loss per share	0.04	0.04

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	March 31 2012	December 31 2011
	$	$
Cash and short-term investments	36,857,000	40,362,000
Total assets	73,207,000	80,394,000
Long-term debt [(1)]	17,700,000	17,927,000
Finance lease liability[(1)]	16,962,000	17,359,000

(1) Including current portion

COMPARISON OF THE THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011

CONSOLIDATED STATEMENTS OF INCOME

Revenues

For the three-months ended March 31, 2012, the Company recorded revenues of $157,000. $107,000 of the revenues were generated by the amortization of the upfront payment of $3,000,000 received following the execution of a Master Research Collaboration Agreement as part of a strategic alliance with Mitsubishi Tanabe Pharma Corporation (MTPC) for the development of a first product, a Rotavirus Like Particle (RLP) vaccine target. The upfront payment is amortized over 28 months which is the planned duration of the initial research under this collaboration.

The remaining $50,000 of revenues results of the successful completion of its research collaboration agreement with a top 10 global pharmaceutical company.

Research and development

	Three-month period ended March 31		
	2012	**2011**	**Variation**
	$	$	$
Research and development (R&D) expenses			
Canada	3,938,000	3,460,000	478,000
USA	1,817,000	708,000	1,109,000
	5,755,000	4,168,000	1,587,000
Research grants and contributions			
Canada	(164,000)	(333,000)	169,000
USA	-	(439,000)	439,000
	(164,000)	(772,000)	608,000
Research and development tax credits			
Canada	(268,000)	(497,000)	229,000
USA	-	-	-
	(268,000)	(497,000)	229,000
Total			
Canada	**3,506,000**	**2,630,000**	**876,000**
USA	**1,817,000**	**269,000**	**1,548,000**
Net R&D expenses	**5,323,000**	**2,899,000**	**2,424,000**

Net R&D expenses increased by $2,424,000 to $5,323,000 for the three-month period ended March 31, 2012, compared to 2011. For the three-month period ended March 31, 2012, R&D expenses increased by $1,587,000 to $5,755,000 compared to 2011. For that period Canadian R&D expenses increased by $478,000, explained by the preparation for the phase IIa of the influenza seasonal vaccine, the production of H5N1 pandemic vaccine quantities for our collaboration with IDRI, and work on our new rabies vaccine. USA R&D expenses for the three-month period ended March 31, 2012, amounted to $1,817,000, an increase of $1,109,000 compared to the same period in 2011, and are related to the DARPA project that started in August 2010. In the first quarter of 2012, the Company completed the engineering runs and, at the end of March, started the vaccine production with the goal to produce 10,000,000 doses of H1N1 vaccine in 30 calendar days.

Research grants and contributions decreased by $608,000 for the three-month period ended March 31, 2012 to $164,000 compared to the three-month period ended March 31, 2011. The decrease in the three-month period ended March 31, 2012, is mainly explained by the fact that we did not recognize any amount as grant revenue from DARPA compared to $439,000 in 2011.

Research and development tax credits were $268,000 for the three-month period ended March 31, 2012, $229,000 lower than for the three-month period ended March 31, 2011. The decrease in 2012 is explained by the decrease of the tax credit on the Canadian R&D expenses for three-month period ended March 31, 2012. The tax credit rate on eligible salaries was 37.5% in the first quarter of 2011 and is now at 17.5% as the Company had more than $75,000,000 of assets as of December 31, 2011.

General and administrative

	Three-month period ended March 31		
	2012	**2011**	**Variation**
	$	**$**	**$**
General and administrative, business development and intellectual property			
Canada	1,452,000	1,068,000	384,000
USA	255,000	135,000	120,000
	1,707,000	1,203,000	504,000
Share-based compensation	235,000	200,000	35,000
Exchange (gain) loss	411,000	145,000	266,000
	2,353,000	**1,548,000**	**805,000**

General and administrative (G&A) expenses increased by $805,000 for the three-month period ended March 31, 2012, compared to the same period in 2011. Canadian G&A expenses increased by $384,000 in the first quarter of 2012, mainly explained by an increase in license and patent fees of $162,000 and consultants fees of $224,000. USA G&A expenses increased by $120,000 explained by the fact that the facility is operational in 2012, which was not the case in 2011. The share-based compensation increase of $35,000 in the first quarter of 2012 is related to the issuance of stock-options at the end of 2011. The increase foreign exchange loss in the first quarter of 2012 is explained by the increase in value of the Canadian dollar in comparison with the US dollar.

Depreciation of property, plant and equipment

	Three-month period ended March 31		
	2012	**2011**	**Variation**
	$	$	$
Canada	238,000	224,000	14,000
USA	439,000	1,000	438,000
	677,000	**225,000**	**452,000**

Depreciation of property, plant and equipment was $677,000 for the three-month period ended March 31, 2012, $452,000 higher than the three-month period ended March 31, 2011. The increase in the depreciation for the USA is mainly explained by the net amortization of the production equipment of $127,000 and the production unit (US facility) under a finance lease of $295,000.

Amortization of intangible assets

Amortization of intangible assets amounted to $47,000 for the three-month period ended March 31, 2012, an increase of $17,000 compared to the first quarter of 2011, mainly explained by more capitalized costs for patents in 2011 and since the beginning of 2012.

Financial income

Financial income amounted to $102,000 for the three-month period ended March 31, 2012, $99,000 higher than the three-month period ended March 31, 2011. 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 $846,000 for the three-month period ended March 31, 2012, which was $494,000 higher compared to the three-month period ended March 31, 2011. This increase is mainly explained by the interest on the finance lease for the US facility of $456,000.

Net consolidated loss for the three-month period ended March 31, 2012, was $8,987,000 or $0.04 per basic and diluted share, compared to a net loss of $5,051,000 or $0.04 per basic and diluted share for the three-month period ended March 31, 2011.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Cash and short-term investments
Cash and short-term investments were $36.9 million as at March 31, 2012, a decrease of $3.5 million from December 31, 2011. The detail of the variation in cash and short-term investments is explained in the consolidated statements of cash flows.

Total consolidated assets
Total consolidated assets were $73.2 million as at March 31, 2012, a decrease of $7.2 million since December 31, 2011. The

decrease is mainly explained by the decrease in cash and short-term investments of $3.5 million and in amounts receivable of $3.6 million resulting from the grant of $3.6 million received from DARPA in the first quarter of 2012.

Long-term debt
Long-term debt was $17.7 million as at March 31, 2012, $0.2 million lower compared to December 31, 2011.

Finance lease liability
The finance lease liability was $17.0 million as at March 31, 2012, compared to $17.4 million as of December 31, 2011. The decrease is explained by payments made in the quarter.

QUARTERLY FINANCIAL DATA

	Quarters ended			
	March 31, 2012	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**
Revenues	$157,000	$128,000	$21,000	$38,000
Total expenses including deferred income taxes	($9,144,000)	($6,778,000)	($4,428,000)	($4,921,000)
Loss	($8,987,000)	($6,650,000)	($4,407,000)	($4,883,000)
Basic and diluted net loss per share	($0.04)	($0.03)	($0.03)	($0.03)
	March 31, 2011	**December 31, 2010**	**September 30, 2010**	**June 30, 2010**
Revenues	-	$75,000	-	-
Total expenses including deferred income taxes	($5,051,000)	($4,679,000)	($4,139,000)	($3,998,000)
Loss	($5,051,000)	($4,604,000)	($4,139,000)	($3,998,000)
Basic and diluted net loss per share	($0.04)	($0.04)	($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.

In the last four quarters, the Company has completed a phase II clinical trial for its H5N1 VLP vaccine, a phase I clinical trial for its H1N1/seasonal vaccine, added a rabies vaccine to its portfolio, completed the construction of its US facility, commissioned the US facility and did engineering runs for the DARPA project. All those activities have resulted in increased expenses during the last two quarters. The increase in operating expense of $4,093,000 between the first quarter of 2012 and the first quarter of 2011 is mainly explained by the increase in R&D costs, G&A expenses, depreciation of property, plant and equipment related to assets in the US acquired in 2011 in relation with the DARPA project, and financial costs related to the interest on the finance lease for the US facility.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company had cash and short-term investments totaling $36.9 million as at March 31, 2012, a decrease of $3.5 million from December 31, 2011. The Company had working capital of $33.6 million as at March 31, 2012, compared to $40.7 million as at December 31, 2011. As at March 31, 2012, the Company's long-term debt amounted to $17.7 million and the finance lease amounted to $17.0 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 revenue on research agreement are excluded from the calculation of the current ratio. As at March 31, 2012. this ratio was at 5.7:1 (5.8:1 as December 31, 2011).

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 that the projected loss for year ending December 31, 2012 should be comparable to the loss incurred in the year ended December 31, 2011. Management believes that existing capital resources, excluding the existing equity line of credit of up to $10,000,000 (see note 6 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 agreements, contract research agreements, and long-term debt and short-term debt guaranteed by its research and development tax credits. Management anticipates funding additional capital requirements primarily either through additional issuance of securities or the potential monetization of the Company's technology and products. (See section *RISK AND UNCERTAINTIES- Additional Financing Requirements and Access to Capital* of the 2011 Annual Information Form)

The variation of our liquidity by activities is explained below:

CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash flows	**Three-month period ended March 31**	
	2012	2011
Operating activities	**($1,197,000)**	($1,511,000)
Financing activities	**($341,000)**	$838,000
Investing activities	**($2,600,000)**	($1,016,000)
Effect of changes in foreign exchange rates	**$551,000**	$88,000
Net change in cash	**($3,587,000)**	($1,601,000)

Operating Activities

Net cash used in operating activities decreased by $314,000 to $1,197,000 for the three-month period ended March 31, 2012, compared to the same period in 2011. This decrease is explained by the increase in loss, net of items not affecting cash (or "burn rate") of $3,346,000, compensated by the change in non-cash working capital items of $3,660,000 described in note 11a) of the financial statements.

Financing Activities

Net cash used for financing activities were $341,000 for three-month period ended March 31, 2012, compared to cash generated by financing activities of $838,000 in the same period in 2011. The decrease is explained by exercise of warrants of $540,000 in 2011 compared to $20,000 in 2012.

Investing Activities

Net cash used in investing activities (excluding acquisitions and dispositions of short-term investments and security deposit) increased by $1,695,000 to $2,598,000 for the three-month period ended March 31, 2012, related mainly to more additions to property, plant and equipment of $2,479,000 related to the DARPA project.

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 March 31, 2012	Per Prospectus
Clinical development of the Corporations's plant-based Influenza VLP vaccines	$10,224,000	$10,560,000
Development of additional potential therapeutic candidates	$195,000	$1,000,000
General corporate and working capital purposes	$4,775,000	$5,005,000
Total	$15,194,000	$16,565,000

CONTRACTUAL OBLIGATIONS

There has been no significant change in the contractual obligations of the Company as described in Medicago's 2011 annual financial statements.

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 quadrivalent seasonal with interim results expected in the first quarter of 2013
- Completion of the DARPA program
- Potential contracts (government, pharmaceutical companies)
- Addition of new pipeline candidates

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

As at March 31, 2012, there were no related party transactions or off-balance sheet agreements.

OUTSTANDING SHARE DATA

As at May 11, 2012, there were 246,670,302 common shares issued and outstanding as well as 10,694,426 stock options outstanding, warrants outstanding and unit options outstanding as at May 11, 2012 are in the aggregate of 27,644,236.

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.

There have been no significant changes in the Company accounting policies and estimates since December 31, 2011. Please refer to the appropriate section of the financial statements included in our 2011 Annual Report for a complete description of our accounting policies.

FUTURE ACCOUNTING CHANGES

There has been no change in future accounting changes as described in the Company's 2011 annual MD&A.

RISK FACTORS AND UNCERTAINTIES

There has been no significant change in the risk factors and uncertainties facing Medicago as described in the Company's 2011 annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were changes to its ICFR during the quarter ended March 31, 2012 that have materially affected, or that are reasonably likely to materially affect its ICFR. No such changes were identified through their evaluation.

On behalf of management,

(signed)

Pierre Labbé, CA
Vice-President and Chief Financial Officer

(signed)

Andrew J. Sheldon
President and Chief Executive Officer

May 11, 2012