



May 28, 2008

Dear Shareholders:

During the quarter, we made significant progress in the validation of our proprietary plant-based production technology and advanced our lead product, a VLP vaccine candidate for H5N1 Avian Influenza. Highlighting the first quarter was the signing of our second non-exclusive licensing agreement with a Fortune 100 company, which we believe confirms the attractiveness and value of our technology platform. Furthermore, we established that our lead VLP vaccine has the ability to provide 100% protection in mice at low dosage levels, in addition to offering cross-protection against three of the deadliest strains of pandemic influenza.

We continue to build and expand our collaborations with the leading Fortune 100 company, with the signing of a second non-exclusive licensing agreement for the development of our proprietary manufacturing system. Until now, we have already received upfront payments and subsequent milestone payments totaling \$2.5 million and will continue discussions with this partner to explore additional collaboration and funding opportunities for our current and future projects.

We are encouraged with preclinical results which demonstrated that our VLP vaccine generates neutralizing antibody levels in mice three times higher than the minimal level required to obtain protection against an influenza infection, with doses as low as 0.1 microgram (ug). A typical dose for a pandemic flu vaccine is 15-30 ug. If we are able to reproduce these results in human clinical trials, our technology has the potential to significantly increase the world's currently limited vaccine manufacturing capacity. Subsequent studies also confirmed that our VLP vaccine provides cross-protection against the Vietnam strain and Turkey strain which increases our chances of broader spectrum coverage. Our technology has the ability to produce recombinant proteins in the cells of non-transgenic plants, allowing us to deliver a vaccine three weeks following the identification of the genetic sequence of a virus. With current production technologies, the availability of a pandemic vaccine is delayed by four to six months.

To continue our efforts to establish the exciting potential of our H5N1 VLP vaccine to face pandemic and seasonal vaccine supply challenges, we successfully raised \$2.6 million in March 2008. This transaction strengthens our balance sheet and will allow us to perform additional studies throughout 2008.

With the recent appointments of Pierre Labbé as Chief Financial Officer, and Brigitte Barbeau, as VP Manufacturing, we believe we have significantly strengthened our management depth and are well positioned to advance our technology closer to commercialization. Our ability to attract individuals with high levels of experience is a testimony of the value people recognize in Medicago.

We participated in a number of conferences since the beginning of the year, including the Partnering for Global Health Forum in Washington and the International Conference on Avian Influenza in Bangkok, where our technology was well received and has led to additional partnership opportunities that are currently under discussion. These conferences also provide us with an excellent opportunity to increase awareness of the capabilities of our proprietary vaccine development and manufacturing technologies.

Looking ahead, we expect to complete preclinical studies of our H5N1 VLP vaccine with a lethal challenge study in ferrets. We have also started developing a seasonal influenza vaccine and expect to receive first results from our immunogenicity study in the fourth quarter of 2008.

As an early-stage company, we have proven we can pursue our unique technology development programs while respecting the established timeline and solidifying our current partnerships. We believe we are well positioned to continue to achieve a series of highly visible, value-driving milestones in 2008. I would like to thank all of the stakeholders who support our Company, our hardworking employees and directors, and our dedicated shareholders. We look forward to updating you on our progress.

A handwritten signature in black ink that reads "Andrew J. Sheldon".

Andrew J. Sheldon

President and CEO

FIRST QUARTER ENDED MARCH 31, 2008

MANAGEMENT'S REPORT ON FINANCIAL POSITION AND OPERATING RESULTS

General

The following analysis provides a review of the Company's results of operations, financial condition and cash flows for the three-month periods ended March 31, 2008 and 2007. 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, 2007 and 2006, appearing in the annual report of the Company, which are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

The 2007 Annual Report of the Company and additional information regarding the business of the Company are available on SEDAR at the following Internet address: www.sedar.com.

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

The consolidated financial statements and the accompanying notes included in this quarterly report have not been subject to a review engagement by the external auditors of the Company. At present, Medicago believes that the cost related to a review engagement of its interim financial statements exceed the benefits inherent in such a review.

Forward-Looking Statements

This document contains forward-looking statements, which reflect the Company's current expectations regarding future events. The forward-looking statements involve risks and uncertainties, including the early stage development of the Company, history of operating losses, regulation of drug and product approval, regulation of genetically engineered plants and other risks. Many risks are inherent in the biotechnology industry; others are more specific to Medicago. For additional information on risks and uncertainties relating to these forward-looking statements, investors should consult the Annual Report of the Company.

Company Overview

Medicago is committed to provide highly effective and affordable vaccines based on our 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.

Going Concern

While the accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, certain adverse conditions and events cast substantial doubt upon the validity of this assumption. The Company has not yet realized profitable operations and has relied mostly on non-operational sources of financing to fund operations. The Company's ability to continue as a going concern will be dependent on management's ability to successfully execute its business plan, which includes an increase in revenue and product development. The Company seeks additional forms of debt or equity financing, but cannot provide assurance that it will be successful in doing so. These financial statements do not include adjustments or disclosures that may result from the Company's inability to continue as a going concern. If the going concern assumption is not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported losses and balance sheet classifications used.

Management is of the opinion that additional equity or debt-based financing is required to continue the Company's operations. There is no assurance that management will be successful in this action.

Revenues and Expenses

Revenues are generated from licenses as well as contract research and related milestone payments.

Research and development expenses consist primarily of personnel and related costs associated with research activities for development of the Company's portfolio of product candidates.

General and administrative, business development and intellectual property costs consist of personnel and related costs associated with the Company's functions as well as professional fees, office rent and utilities, insurance and other corporate expenses. It also includes intellectual property-related costs associated with the development and maintenance of the Company's intellectual property portfolio.

Critical Accounting Policies and Estimates

There have been no significant changes in Medicago's accounting policies and estimates since December 31, 2007 with exception of the application of new accounting standards as described below. Please refer to the corresponding section in the Company's annual report for a complete description of our critical accounting policies and estimates.

New Accounting Standards and Future Accounting Changes

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ('CICA') Handbook Sections 1535, *Capital Disclosure*; CICA Handbook Section 3862, *Financial Instruments – Disclosure*; CICA Handbook Sections 3863, *Financial Instruments – Presentation*; and CICA Handbook Section 3031, *Inventories*, which replaces Section 3030.

Adoption of these new standards and Future Accounting changes are described in note 2 of our interim consolidated financial statements for the first quarter ended March 31, 2008.

In 2007, the CICA published an update to the Accounting Standards Board of Canada's ('AcSB') '*Implementation Plan for Incorporating International Financial Reporting Standards ('IFRS') into Canadian GAAP*'. The plan outlines the key decisions that the CICA will need to make as it implements the Strategic Plan to converge Canadian GAAP standards with IFRS. While IFRS uses a similar conceptual framework to that of Canadian GAAP, there are still significant accounting policies differences that will need to be resolved. The CICA has confirmed on January 1, 2011 the change from current Canadian GAAP to IFRS for publicly accountable companies. In sequence with these changes, the Company is currently developing its internal implementation plans to meet the guidelines of the future reporting requirements.

Consolidated Statements of Earnings

<i>Unaudited</i>	Quarters ended			
	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Revenues	\$1,665,000	\$56,000	-	-
Loss	(326,000)	(\$2,054,000)	(\$1,002,838)	(\$1,550,000)
Basic and diluted net loss per share	(\$0.01)	(\$0.07)	(\$0.06)	(\$0.09)
	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006
Revenues	\$18,500	\$20,000	\$14,128	\$77,000
Loss	(\$1,647,000)	(\$2,274,000)	(\$1,784,324)	(\$1,716,000)
Basic and diluted net loss per share	(\$0.10)	(\$0.13)	(\$0.16)	(\$0.20)

Comparison of the three-month periods ended March 31, 2008 and 2007

Revenues from research agreements increased by \$1,646,000 to 1,665,000 for the three-month period ended March 31, 2008 compared to the three-month period ended March 31, 2007. This increase is due to revenues generated by two non-exclusive licensing agreements signed with an undisclosed Fortune 100 company. The first agreement of \$500,000, signed in 2007 generated \$361,000 in the quarter and revenues from the second one, signed in February 2008 and totaling \$2,000,000, were \$1,500,000. This amount represents the upfront payment of the contract. The milestone payment of \$500,000 in relation with the second contract was received in the second quarter of 2008. Revenues of the first quarter of 2008 were diminished by \$196,000 representing the value of the 2,000,000 common share purchase warrants granted at the signature the second non-exclusive licensing agreement. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.23 for the first year, \$0.25 for the second year and \$0.27 for the third year ending February 7, 2011.

Research and development (R&D) expenses increased by \$362,000 to \$1,101,000 in the first quarter of 2008 compared to 2007. R&D expenses were higher mainly a result of the Company's preclinical studies on its H5N1 Avian Influenza VLP vaccine performed in the quarter. More laboratory supplies and analysis (\$100,000) and a higher level of outsourced contract work (\$74,000) were required for the production of pre-clinical materials and the performance of pre-clinical studies. Wage and salaries were higher (\$150,000) in the first quarter of 2008 compared to 2007 explained by the payment of bonuses in the first quarter when no bonuses were paid in 2007.

Investment tax credits were at \$339,000 for the three-month period ended March 31, 2008, \$263,000 higher than the three-month period ended March 31, 2007. The increase in the last quarter is due to the increase in R&D expenses and the fact that the Company could not claim federal 35% investment tax credits from its initial public offering in August 2006 until March 31, 2007; on April 1 2007, the Company completed a corporate reorganization resulting in the creation of new entities to perform all of its research and development activities and thus maximizing its credit rates.

General and administrative, business development and intellectual property expenses increased by \$126,000, to \$702,000 for the three-month period ended March 31, 2008 compared to 2007. The main variations are an increase in salaries (\$60,000) and in outsourced contract work (\$75,000). The increase in salaries is related to the payment of bonuses in the first quarter of 2008 when no bonuses were paid in 2007. Outsourced contract expenses increased due to the replacement of the chief financial by a consultant.

Depreciation of property, plant and equipment amounted to \$122,000 for the three-month period ended March 31, 2008, \$16,000 lower than the corresponding period in 2007. Lesser acquisitions in 2007 explained this decrease.

Amortization of intangible assets stood at \$29,000 during the three-month period ended March 31, 2008, comparable with the corresponding period in 2007.

Other net financial expenses amounted to \$388,000 for the three-month period ended March 31, 2008, \$132,000 higher compared to the same period in 2007. This increase is the result of higher interest on bank loans for \$23,000, higher interest on the Bio-Levier debt for \$15,000 and no grants in 2008 compared to \$92,000 in 2007. Concerning the Bio-Levier debt, the Company reached an agreement with Investissement Québec (IQ) where they agreed to capitalize 50% of the interests of 2008. In consideration for this, in May 2008, the company granted 643,877 warrants to purchase an equivalent number of common shares, at a price of \$0.70 per share, for a period of three years. For the period ended March 31, 2008 \$161,000 were capitalized to the principal compared to \$301,000 in 2007 when 100% of the interests were capitalized.

Consolidated loss for the three-month period ended March 31, 2008 was \$326,000, or \$0.01 per basic and diluted share compared to a loss of \$1,647,000, or \$0.10 per basic and diluted share in 2007.

Financial position

	As at March 31, 2008 (unaudited)	As at December 31, 2007 (audited)
Current assets	\$4,110,000	\$1,312,000
Property, plant and equipment	\$3,994,000	\$4,061,000
Current liabilities	(\$2,292,000)	(\$2,041,000)
Long-term debt	(\$14,646,000)	(\$14,451,000)
Shareholders' deficiency	\$7,573,000	\$9,831,000

The Company had cash and cash equivalents totaling \$2.7 million at March 31, 2008, an increase of \$2.5 million from December 31, 2007. The Company had working capital of \$1.8 million as at March 31, 2008.

Total consolidated assets were \$9.4 million as of March 31, 2008, an increase of \$2.7 million from \$6.7 million as of December 31, 2007. The variation is mainly due to an increase in the total of cash and cash equivalents for \$2.5 million. Long-term debt increased by \$0.2 million to \$14.7 million, mainly the result of the capitalized interest on the Bio-Levier debt.

The Company's primary capital needs are the funds required to support its scientific research and development activities including preclinical and clinical trials and capital expenditures for development of its pilot plant facilities and working capital. Since its inception, the Company has financed its cash requirements primarily through issuances of securities, investment tax credits, government funding, cost recoveries, contract research revenues, long-term debt and short-term debt guaranteed by its investment tax credits.

The Company believes that, with the financial resources currently at its disposal, it needs to raise additional funds to be able to continue operations. The Company is in the process of seeking investment in both equity and debt.

The Company's ability to continue as a going concern is contingent upon its ability to obtain additional financing. The Company seeks additional forms of debt or equity financing, but cannot provide assurance that it will be successful in doing so. See 'Risk Factors' in the 2007 Annual Report.

The investment activities are subject to the guidelines contained in the Company's investment policy. The Company invests only in liquid, high grade investment securities of reputable banks.

At March 31, 2008, the Company's long-term debt amounted to \$14.7 million. Under the terms of the Bio-Levier loan agreement, the Company needs to maintain its current ratio at 1.3/1 or higher. As at March 31, 2008 this ratio stood at 1.8/1 (0.6/1 as at December 31, 2007 the Company had a waiver from IQ).

Cash flow

<i>Unaudited</i>	Period ending March 31, 2008	Period ending March 31, 2007
Operating activities	(\$48,000)	(\$1,055,000)
Financing activities	\$2,524,000	(\$158,000)
Investing activities	(\$25,000)	\$1,176,000
Net change in cash	\$2,451,000	(37,000)

Operating Activities

Cash used in operating activities decreased by \$1,007,000 to \$48,000 for the quarter ended March 31, 2008 compared to the same period in 2007. This decrease is mainly explained by the decrease of the loss net of items not affecting cash and cash equivalents for \$1,453,000. Although the loss in this quarter is smaller than the one in the same quarter in 2007, changes in non-cash working capital items required \$446,000 more cash in than the same quarter in 2007; this is mainly due to the increase of \$339,000 in investment tax credits.

Financing Activities

Cash from financing activities increased by \$2.7 million to \$2.5 million during the quarter ended March 31, 2008 compared to the same period in 2007. The increase is mainly the result of a private placement of 13,000,000 units at a price of \$0.20 per unit for total gross proceeds of \$2,600,000. Each unit consists of one common share of the company and one-half common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one of common share at a price of \$0.25 for two years

Investing Activities

Cash used in investing activities (excluding the term deposit) in the first quarter of 2008 was comparable with the first quarter of 2007.

Contractual Obligations

There has been no significant change in contractual obligations and commercial commitments facing Medicago, as described in the Company's 2007 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 of May 28, 2008, there were 34,112,440 common shares issued and outstanding, 2,068,252 stock options outstanding, 16,574,530 warrants outstanding and 420,268 compensation options outstanding.

Outlook for the Remaining of 2008 and 2009

Medicago continues to work towards the development of its H5N1 vaccine in 2008 as well as to begin the development of its annual influenza vaccine. The Company expects the following milestones to be completed in 2008 and 2009:

H5N1 pandemic vaccine:

- Immunogenicity and lethal challenge study in ferrets
- Pre-IND meeting with regulatory authorities
- Toxicology study
- IND filing and initialization of Phase I studies
- Completion of phase I study

Seasonal vaccine:

- Production of a trivalent VLP based seasonal vaccine
- Initial immunogenicity studies
- Pre-IND meeting with regulatory authorities

Partnerships:

- Ongoing discussion with potential and existing partners

Financing:

- In order to attain these milestones, additional sources of financing are required in 2008

Financial Instruments risk factors

The Company is exposed to various types of risks owing 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 unfavorable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates and exchange rates. The exposure to variation to interest rates is minimal as described in the Annual Report. For the exposure to foreign exchange rates, we operate internationally and a portion of our expenses are incurred in US dollars and Euros but these exposures are not material.

Credit risk

Credit risk exposure represents the risk of financial loss arising from a counterparty's inability or refusal to fully honor its contractual obligations. Our cash is held with a major bank. Amounts receivable are mainly commodity taxes receivable, investment tax credits and financing from governments and the risk is minimal.

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.

Contractual liabilities as of March 31, 2008

	Carrying Amount	Less than 1 year	1 to 3 years	Over 3 years
	\$	\$	\$	\$
Bank loan	935,000	935,000	-	-
Accounts payable and accrued liabilities	1,261,000	1,261,000	-	-
Operating leases	911,000	161,000	359,000	391,000
Licenses	687,000	102,000	269,000	316,000
Long term debt	15,450,000	13,000	320,000	15,117,000

The company monitors cash resources on a weekly basis and when management believes it's required, seeks additional financing through the issuance of new equity instruments, the exercise of existing warrants for the purchase of common shares and the exercise of stock options to continue its activities as a going concern, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. For more information, see note 3, 'Going concern'.

Risk factors and Uncertainties

There has been no significant change in the risk factors and uncertainties facing the Company as described in Medicago's 2007 annual report.

Changes in Internal Controls over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

On behalf of management,

(signed)

Pierre Labbé, CA

Vice-president and Chief Financial Officer

May 28, 2008

Medicago Inc.

Interim Consolidated Financial Statements
(unaudited)
March 31, 2008

Medicago Inc.

Consolidated Balance Sheets

	As at March 31, 2008 \$ (unaudited)	December 31, 2007 \$ (audited)
Assets		
Current assets		
Cash and cash equivalents	2,673,978	223,711
Accounts receivable	107,737	69,745
Financing receivable	-	71,641
Investment tax credits receivable	1,183,245	844,245
Grants receivable	6,808	9,308
Prepaid expenses	138,698	92,963
	<hr/> 4,110,466	<hr/> 1,311,613
Property, plant and equipment	3,994,354	4,060,918
Intangible assets	1,260,485	1,289,052
	<hr/> 9,365,305	<hr/> 6,661,583
Liabilities		
Current liabilities		
Bank loans	935,000	750,000
Accounts payable and accrued liabilities	1,260,931	983,849
Deferred revenues on research agreements	83,333	294,400
Current portion of long-term debt	13,072	13,072
	<hr/> 2,292,336	<hr/> 2,041,321
Long-term debt (note 4)	14,646,079	14,451,147
	<hr/> 16,938,415	<hr/> 16,492,468
Shareholders' Deficiency		
Share capital (note 7)	25,454,904	23,465,147
Contributed surplus	802,219	802,219
Other equity components (note 7)		
Stock Options	306,053	263,821
Unit Options	122,135	122,135
Warrants	2,339,018	1,787,553
Deficit	<hr/> (36,597,439)	<hr/> (36,271,760)
	<hr/> (7,573,110)	<hr/> (9,830,885)
	<hr/> 9,365,305	<hr/> 6,661,583
Going concern (note 3)		

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

Approved by the Board of Directors

(signed) RANDAL CHASE, PH.D.

Medicago Inc.

Interim Consolidated Statement of Earnings (unaudited)

	Three Months Ended March 31	
	2008 \$	2007
Revenues from research agreements	<u>1,664,931</u>	<u>18,500</u>
Expenses		
Research and development	1,100,759	739,481
Research grants and contributions	(7,500)	(4,375)
Research and development tax credits	(339,000)	(76,000)
General and administrative, business development and intellectual property	701,916	576,495
Exchange loss (gain)	(4,552)	2,759
Depreciation of property, plant and equipment	121,787	138,324
Amortization of intangible assets	28,567	31,021
Other financial expenses, net (note 8)	388,636	257,381
	<u>1,990,610</u>	<u>1,665,086</u>
Loss and comprehensive loss for the period	<u>(325,679)</u>	<u>(1,646,586)</u>
Basic and diluted loss per share (note 10)	<u>(0.01)</u>	<u>(0.10)</u>
Going concern (note 3)		

Interim Consolidated Statements of Deficit (unaudited)

	Three Months Ended March 31,	
	2008 \$	2007 \$
Balance at the beginning of the period	36,271,760	30,269,947
Adjustment related to the implementation of new accounting standards	-	(271,368)
Loss and comprehensive loss for the period	<u>325,679</u>	<u>1,646,586</u>
Balance at the end of the period	<u>36,597,439</u>	<u>31,645,165</u>

The accompanying notes are an integral part of these interim consolidated financial

Medicago Inc.

Notes to Interim Consolidated Statement of Cash Flows (unaudited)

	Three Months Ended March 31,	
Cash flows from operating activities		
Loss and comprehensive loss for the period	(325,679)	(1,645,586)
Items not affecting cash and cash equivalents		
Stock-based compensation costs	42,232	34,247
Depreciation and amortization	179,726	198,719
Interest capitalized on long-term debt	172,093	318,584
Grants	-	(92,736)
Warrants issued pursuant a licensing agreement	196,136	-
	264,508	(1,187,772)
Change in non-cash working capital items (note 9)	(312,570)	133,055
	(48,062)	(1,054,717)
Cash flows from financing activities		
Bank loan contracted (repaid)	185,000	(300,000)
Long-term debt contracted	-	148,946
Payments on long-term debt	(6,536)	(6,536)
Issuance of units	2,600,000	-
Issue expenses	(254,914)	-
	2,523,550	(157,590)
Cash flows investing activities		
Term deposit	-	1,230,188
Additions to property, plant and equipment	(25,221)	(22,111)
Additions to intangible assets	-	(32,240)
	(25,221)	1,175,737
Net change in cash and cash equivalents	2,450,267	(36,570)
Cash and cash equivalents at the beginning of the period	223,711	442,929
Cash and cash equivalents at the end of the period	2,673,978	406,359
Additional information		
Interest paid	26,567	2,658

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

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

March 31, 2008

1 Interim financial information

The financial information for the three-month periods ended March 31, 2008 and 2007 is unaudited. However, in the opinion of management, all adjustments necessary to present fairly the results of these periods have been recorded. The adjustments made were of a normal recurring nature. The results of the interim period are not necessarily indicative of results which may be expected for any other interim period or for the full year.

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP), using the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2007 with the exception of the application of new accounting standards as described in note 2 hereunder. All disclosures required for annual financial statements have not been included in these financial statements. These consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements.

Consolidated financial statements

On April 1, 2007, the Company completed a corporate reorganization resulting in the creation of new entities to perform all of its research and development activities. Consequently, the consolidated financial statements include the accounts of Medicago Inc. and those of Medicago R&D Inc., 9177-4083 Québec Inc., 9157-4265 Québec Inc., 9177-4299 Québec Inc., Fiducie Financière Medicago and SAS Medicago Europa.

2 New accounting standards

Adopted in 2008

On January 1, 2008 the Company adopted the following new sections:

- Section 3862, "Financial Instruments – Disclosures". This section describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks, see note 6.
- Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation", see note 6.
- Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to determine if the entity has complied with capital requirements and if not, the consequences of such non-compliance, see note 5.
- Section 3031, "Inventories". This section prescribes the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

March 31, 2008

written down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The Company has adopted this standard and there has been no impact on the financial statements.

The CICA amended Section 1400, "General Standards of Financial Statement Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern (going concern assumption).

Future accounting changes

Section 3064, "Goodwill and Intangible Assets" replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company has not yet determined that the impact of the adoption of this section on its consolidated financial statements.

In 2007 the CICA published an update to the Accounting Standards Board of Canada's ("AcSB") "Implementation Plan for Incorporating International Financial Reporting Standards ("IFRS") into Canadian GAAP". The plan outlines the key decisions that the CICA will need to make as it implement the Strategic Plan to converge Canadian GAAP standards with IRFS. While IFRS uses a similar conceptual framework to that of Canadian GAAP, there are still significant accounting policies differences that will need to be resolved. The CICA has confirmed January 1, 2011 as the change over from current Canadian GAAP to IFRS for publicly accountable companies. In sequence with these changes, the Company is currently developing its internal implementation plans to meet the guidelines of the future reporting requirements.

3 Going concern

After reviewing its strategic plan and the corresponding budget and forecasts, management believes that the Company currently has sufficient cash and access to cash to fund planned expenditures and execute its strategy until the fourth quarter of 2008.

While the accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, certain adverse conditions and events cast substantial doubt upon the validity of this assumption. The Company has not yet realized profitable operations and has relied mostly on non-operational sources of financing to fund operations. The Company's ability to continue as a going concern will be dependent on management's ability to successfully execute its business plan, which includes an increase in revenue and product development. The Company seeks additional forms of debt or equity financing, but cannot provide assurance that it will be successful in doing so. These financial statements do not include adjustments or disclosures that may result from the Company's inability to continue as a going concern. If the going concern assumption is not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported losses and balance sheet classifications used.

Medicago Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

March 31, 2008

Management is of the opinion that additional equity or debt-based financing is required to continue the Company's operations. There is no assurance that management will be successful in this action.

4 Long-term debt

	As at March 31, 2008 \$	As at December 31, 2007 \$ (audited)
Loan from Investissement Québec ("IQ"), bearing interest at prime rate plus 3%, payable annually from March 2008 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 (a)	14,877,775	14,717,187
Contribution under an innovation program, payable in semi-annual instalments of \$6,536 since April 2005, non-interest bearing	16,005	21,653
Refundable contribution granted under the Technology Partnerships Canada program, non-interest bearing (b)	391,374	384,618
Contribution under an innovation program, payable in annual instalments of \$28,458 from January 2009, non-interest bearing (c)	165,312	161,452
Deferred financing expenses	(791,316)	(820,691)
	14,659,150	14,464,219
Less: Current portion	13,072	13,072
	14,646,078	14,451,147

- (a) On July 28, 2003, the Company signed a loan agreement of \$12,000,000 with IQ under the Bio-Levier Program. As at March 31, 2008, the Company has used \$12,000,000 plus capitalized interest of \$2,877,775.

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

- (i) For the first three years, the Company may defer the principal instalments and may capitalize interest. Afterwards, interest is payable on a monthly basis from December 21, 2007.
- (ii) In April 2008, IQ agreed to capitalize 50% of the interest of 2008. In consideration for this, Medicago issued 643,877 warrants to purchase an equivalent number of common shares, at a price of \$0.70 per share, for a period of three years.
- (iii) 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 the Company executes a license agreement, a commercialization agreement or an operating agreement.

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- (iv) Under the terms of the agreement, the Company undertook to meet a current ratio exceeding 1.3:1. As at March 31, 2008, the current ratio was 1.8:1.
- (b) Under the federal contribution program called Technology Partnerships Canada ("TPC"), the Company is entitled to receive a refundable contribution equivalent to 33% of the eligible expenses incurred by the Company in the optimization and scale-up of its production unit up to a maximum of \$848,200. Royalties of 2% on gross cash proceeds of any kind will be payable from January 1, 2009 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, 2019; subsequent to this date, no further payments will be required. Under this program, the Company undertook to meet a current ratio exceeding 1.3:1.
- (c) Under a federal innovation program, the Company is entitled to receive a refundable contribution equivalent to 47.1% of the eligible expenses incurred by the Company for business development and intellectual property up to a maximum of \$300,000. This contribution is refundable in annual instalments, beginning after a two-year period following the end of the project, which ended September 1, 2007.

The principal instalments for each of the next five years, excluding IQ loan, are as follows:

	<u>\$</u>
2008	13,072
2009	173,069
2010	160,000
2011	160,000
2012	160,000

5 Capital management

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. The Company makes every effort to manage its fund to minimize dilution to its shareholders.

In the management of capital, the Company includes shareholders' equity and long-term debt in the definition of capital.

The Company manages the capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its activities.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets. There are no assurances that these initiatives will be successful.

The Company is not subject to any capital requirements imposed by a regulator.

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6 Financial risk factors

The Company is exposed to various types of risks owing 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 unfavorable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates and exchange rates. The exposure to variation to interest rates is minimal as described in the Annual Report. For the exposure to foreign exchange rates, we operate internationally and a portion of our expenses are incurred in US dollars and Euros but these exposures are not material.

Credit risk

Credit risk exposure represents the risk of financial loss arising from a counterparty's inability or refusal to fully honor its contractual obligations. Our cash is held with a major bank. Amounts receivable are mainly commodity taxes receivable, investment tax credits and financing from governments and the risk is minimal.

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.

Contractual liabilities as of March 31, 2008

	Carrying Amount	Less than 1 year	1 to 3 years	Over 3 years
	\$	\$	\$	\$
Bank loan	935,000	935,000	-	-
Accounts payable and accrued liabilities	1,261,000	1,261,000	-	-
Operating leases	911,000	161,000	359,000	391,000
Licenses	687,000	102,000	269,000	316,000
Long term debt	15,450,000	13,000	320,000	15,117,000

The Company monitors cash resources on a weekly basis and when management believes it's required, seeks additional financing through the issuance of new equity instruments, the exercise of existing warrants for the purchase of common shares and the exercise of stock options to continue its activities as a going concern, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. For more information, see note 3, '*Going concern*'.

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7 Share capital

- Authorized
 - 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.

The share capital issued has varied as follows:

	Three Months Ended March 31, 2008		Twelve Months Ended December 31, 2007	
	Number	\$	Number	\$
Common shares				
Balance – Beginning of period	21,112,440	23,465,147	17,112,440	22,152,413
Issued pursuant to a private placement (i,ii)	13,000,000	2,158,000	4,000,000	1,540,000
Issue expenses *	-	(168,243)	-	(227,266)
Balance – End of period	34,112,440	25,454,904	21,112,440	23,465,147

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

- (i) On March 14, 2008, the Company issued 13,000,000 units at a price of \$0.20 per unit for total gross proceeds of \$2,600,000 ("the Private Placement"). Each unit consists of one common share of the Company and one-half common share purchase warrant. Each warrant entitles the holder thereof to purchase one of common share at a price of \$0.25.
- (ii) The gross proceeds of the Private Placement of \$2,600,000 is shared out between the 13,000,000 common shares for a gross amount of \$2,158,000 and the 6,500,000 warrants attached to each unit for a gross amount of \$442,000 (note 7c). In connection with this investment, the Company paid a cash compensation of \$215,070.
- (iii) On May 29, 2007, the Company issued 4,000,000 units at a price of \$0.50 per unit for total gross proceeds of \$2,000,000 ("the Private Placement"). Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.75.

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- (iv) The gross proceeds of the Private Placement of \$2,000,000 is shared out between the 4,000,000 common shares for a gross amount of \$1,540,000 and the 4,000,000 warrants attached to each unit for a gross amount of \$460,000 (c). In connection with this investment, the Company paid a cash compensation equivalent to 7% of the gross proceeds from the investment, being \$140,000. The Company has also granted a non-transferable unit option to the agent entitling to subscribe, before May 29, 2009, for 280,000 options at a price of \$0.50 per share as financing expenses (b). Each option entitles the holder thereof to purchase one common share at a price of \$0.50.

(b) Stock option plan

The following table summarizes the stock option activity since January 1, 2007:

	Three Months Ended March 31, 2008			Twelve Months Ended December 31, 2007		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding – Beginning of period	1,415,958	263,821	1.10	1,628,978	110,926	1.12
Granted	263,850	-	0.65	97,000	-	0.91
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	(310,020)	(4,185)*	1.17
Compensation costs for the period	-	42,232	-	-	157,080	-
Outstanding – End of period	1,679,808	306,053	1.03	1,415,958	263,821	1.10
Options exercisable – End of period	825,950	-	1.16	751,258	-	1.13

* During fiscal 2007, 310,020 stock options were forfeited. The corresponding credit amounting to \$4,185 has been recorded as contributed surplus.

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The following table summarizes information about outstanding and exercisable stock options as at March 31, 2008:

Exercise price	Stock options outstanding			Stock options currently exercisable	
	Number	Weighted average remaining contractual life (months)	Weighted average exercise price \$	Number	Weighted average exercise price \$
\$0.62 to \$0.66	289,020	59	0.65	-	-
\$1.00	860,164	40	1.00	312,163	1.00
\$1.11	378,706	30	1.11	378,706	1.11
\$1.50 to \$1.68	152,088	39	1.68	152,088	1.68
	<u>1,679,808</u>	<u>41</u>	<u>1.03</u>	<u>825,950</u>	<u>1.16</u>

Assumptions used in determining stock-based compensation costs

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

	Three Months Ended March 31, 2008	For the year ended December 31, 2007
Dividend yield	Nil	Nil
Expected volatility	95%	82.73%
Risk-free interest rate	2.93%	4.12%
Expected life (years)	5.00	5.00
Number of stock options granted	263,850	97,000
Weighted average fair value of options granted (\$)	0.425	0.58

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(c) Unit options

The following table summarizes information about unit options outstanding and exercisable as at January 1, 2007:

	For the three-month period Ending March 31, 2008			To the year ended December 31, 2007		
	Number	Carrying value	Weighted average exercise price \$	Number	Carrying value	Weighted average exercise price \$
Outstanding and exercisable – Beginning of period	420,268	122,135	0.83	140,268	55,495	1.00
Granted to the agent pursuant to the private placement	-	-	-	280,000	66,640	0.75
Outstanding and exercisable - End of period	420,268	122,135	0.83	420,268	122,135	0.83

The following table summarizes information about unit options outstanding and exercisable as at March 31, 2008:

Exercise price	Number	Weighted average remaining (years)
\$1.00	140,268	0.42
\$0.75	280,000	1.16
	420,268	0.91

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(d) Warrants

The following table summarizes the information relating to warrants outstanding as at January 1, 2007:

	For the three-month period Ending March 31, 2008			To the year ended December 31, 2007		
	Number	Carrying value	Weighted average exercise price \$	Number	Carrying value	Weighted average exercise price \$
Outstanding and exercisable						
– Beginning of period	7,430,653	1,787,553	1.05	3,872,321	1,395,437	1.11
Granted at the signature of a non- exclusive licensing agreement*	2,000,000	196,136	0,23	-	-	-
Granted to the subscribers in connection with a private offering	6,500,000	442,000	0.25	4,000,000	460,000	0.75
Cancelled **	-	-	-	(441,668)	-	-
Warrant issue expenses	-	(86,671)	-	-	(67,884)	-
Outstanding and exercisable - End of period	<u>15,930,653</u>	<u>2,339,018</u>	<u>0.56</u>	<u>7,430,653</u>	<u>1,787,553</u>	<u>0.92</u>

* Under the terms of a non exclusive licensing agreement, the Company issued 2,000,000 warrants. Each warrants entitles the holder thereof to purchase one common share at a price of \$0.23 for the first year, \$0.25 for the second year and \$0.27 for the third year ending February 7, 2011.

** No carrying value has been allocated to these warrants since they were granted before January 1, 2003.

The following table summarizes the information relating to warrants outstanding and exercisable as at March 31, 2008:

Exercise price	Number	Weighted average remaining (years)
\$0,23	2,000,000	2,83
\$0,25	6,500,000	1,96
\$0,75	4,000,000	1,16
\$1,10	2,003,834	0,42
\$1,12	1,426,819	3,42
	<u>15,930,653</u>	<u>1,81</u>

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

	Three Months Ended March 31, 2008	Year ended December 31, 2007
Dividend yield	Nil	Nil
Expected volatility	93%	85%
Risk-free interest rate	2.59%	4.53%
Expected life (years)	2.43	2
Fair value of warrants granted (\$)	0.075	0.115

8 Financial expenses, net

	Three-month period ended March 31	
	2008	2007
Interest on long-term debt	332,694	318,584
Interest and bank charges	26,914	3,629
Amortization of deferred financing expenses	29,375	29,375
Interest income	(347)	(1,471)
Grants	-	(92,736)
	388,636	257,381

9 Additional information on cash flows

(a) Change in non-cash working capital items

	Three-month period ended March 31	
	2008	2007
Accounts receivable, grants and financing receivable	36,149	41,598
Investment tax credits receivable	(339,000)	324,467
Prepaid expenses	(45,735)	(58,583)
Accounts payable and accrued liabilities	247,083	(174,427)
Deferred revenues on research agreements	(211,067)	-
	(312,570)	133,055

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10 Earnings per share

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 earnings per share calculations:

	Three-Month period Ended March 31	
	2008	2007
Basic and diluted weighted average number of shares outstanding	<u>23,541,011</u>	<u>17 112 440</u>

For the three-month periods ended March 31, 2008 and 2007, 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.

11 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.