

# **Burcon NutraScience Corporation**

Condensed Consolidated Interim Financial Statements

**Three and six months ended September 30, 2019 and 2018**

(Unaudited)

(Prepared in Canadian dollars)

**BURCON NUTRASCIENCE CORPORATION**

Condensed Consolidated Interim Balance Sheets

(Unaudited)

**As at September 30, 2019 and March 31, 2019**

(Prepared in Canadian dollars)

	<b>September 30, 2019</b>	<b>March 31, 2019</b>
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	1,797,722	489,215
Amounts receivable (notes 4 and 9)	398,580	126,605
Inventory	84,348	-
Prepaid expenses	121,279	307,997
	<u>2,401,929</u>	<u>923,817</u>
Property and equipment	261,078	284,689
Deferred development costs – net of accumulated amortization of \$nil (2019 - \$nil)	518,905	-
Investment in Merit Functional Foods Corporation (note 4)	7,857,497	-
Goodwill	1,254,930	1,254,930
	<u>12,294,339</u>	<u>2,463,436</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	807,066	633,209
Short-term loan (note 6)	-	1,250,000
Derivative liability (note 5)	-	5,384
Convertible note (note 5)	-	1,990,686
Accrued interest (notes 5 and 6)	-	564,251
	<u>807,066</u>	<u>4,443,530</u>
<b>SHAREHOLDERS' EQUITY</b> (note 7)		
Capital stock	88,747,355	73,361,133
Contributed surplus	9,001,467	9,001,467
Options	9,210,193	9,184,852
Warrants	284,538	199,117
Deficit	(95,756,280)	(93,726,663)
	<u>11,487,273</u>	<u>(1,980,094)</u>
	<u>12,294,339</u>	<u>2,463,436</u>

Going concern (note 1)

Approved by the Audit Committee of the Board of Directors

“Peter H. Kappel”

\_\_\_\_\_  
Director

“Douglas Gilpin”

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Director

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

**BURCON NUTRASCIENCE CORPORATION**Condensed Consolidated Interim Statements of Operations and Comprehensive Loss  
(Unaudited)**For the three and six months ended September 30, 2019 and 2018**

(Prepared in Canadian dollars)

	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2019 \$</b>	<b>2018 \$</b>	<b>2019 \$</b>	<b>2018 \$</b>
<b>REVENUE</b>				
Royalty income (note 2(a))	7,055	7,496	22,691	14,277
<b>EXPENSES</b>				
Research and development (note 8)	160,719	396,989	516,850	851,009
Intellectual property	190,045	307,738	551,305	509,937
General and administrative (note 9)	422,378	509,064	904,877	884,953
	773,142	1,213,791	1,973,032	2,245,899
<b>LOSS FROM OPERATIONS</b>	(766,087)	(1,206,295)	(1,950,341)	(2,231,622)
<b>INTEREST AND OTHER INCOME</b> (note 11)	164,670	(20,536)	175,947	(8,589)
<b>SHARE OF LOSS IN MERIT FUNCTIONAL FOODS CORP.</b> (note 4)	(95,742)	-	(142,504)	-
<b>INTEREST EXPENSE</b> (notes 5 and 6)	-	(69,652)	(117,258)	(137,781)
<b>FOREIGN EXCHANGE (LOSS) GAIN</b>	269	(4,772)	(98)	754
<b>LOSS ON DISPOSAL OF EQUIPMENT</b>	(747)	-	(747)	-
<b>CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITY</b> (note 5)	-	-	5,384	-
<b>LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	(697,637)	(1,301,255)	(2,029,617)	(2,377,238)
<b>BASIC AND DILUTED LOSS PER SHARE</b> (note 10)	(0.01)	(0.03)	(0.03)	(0.05)

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

**BURCON NUTRASCIENCE CORPORATION**

## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Unaudited)

**For the six months ended September 30, 2019 and 2018**

(Prepared in Canadian dollars)

	Number of fully paid common shares	Capital stock \$	Contributed surplus \$	Options \$	Warrants \$	Deficit \$	Total shareholders' equity \$
<b>Balance - March 31, 2018</b>	43,941,536	73,361,133	7,599,389	10,329,057	4,723	(88,949,286)	2,345,016
Loss and comprehensive loss for the period	-	-	-	-	-	(2,377,238)	(2,377,238)
Options cancelled	-	-	84,243	(84,243)	-	-	-
Warrants issued	-	-	-	-	199,118	-	199,118
Stock-based compensation expense	-	-	-	132,794	-	-	132,794
<b>Balance - September 30, 2018</b>	<b>43,941,536</b>	<b>73,361,133</b>	<b>7,683,632</b>	<b>10,377,608</b>	<b>203,841</b>	<b>(91,326,524)</b>	<b>299,690</b>
<b>Balance - March 31, 2019</b>	43,941,536	73,361,133	9,001,467	9,184,852	199,117	(93,726,663)	(1,980,094)
Loss and comprehensive loss for the period	-	-	-	-	-	(2,029,617)	(2,029,617)
Rights offering	44,083,203	15,429,121	-	-	-	-	15,429,121
Issue costs	-	(159,753)	-	-	-	-	(159,753)
Options exercised	171,667	116,854	-	(46,703)	-	-	70,151
Warrant adjustment	-	-	-	-	85,421	-	85,421
Stock-based compensation expense	-	-	-	72,044	-	-	72,044
<b>Balance - September 30, 2019</b>	<b>88,196,406</b>	<b>88,747,355</b>	<b>9,001,467</b>	<b>9,210,193</b>	<b>284,538</b>	<b>(95,756,280)</b>	<b>11,487,273</b>

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

**BURCON NUTRASCIENCE CORPORATION**  
Condensed Consolidated Interim Statements of Cash Flows  
(Unaudited)  
**For the six months ended September 30, 2019 and 2018**

(Prepared in Canadian dollars)

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	(2,029,617)	(2,377,238)
Items not affecting cash		
Amortization of property and equipment	19,215	59,055
Unrealized foreign exchange loss (gain)	153	(951)
Interest expense	-	137,781
Change in fair value of derivative liability	(5,384)	-
Share in loss of Merit Functional Foods Corporation	142,504	-
Loss on disposal of equipment	747	-
Financing expense	85,420	145,214
Stock-based compensation expense	57,175	132,793
	<u>(1,729,787)</u>	<u>(1,903,346)</u>
Changes in non-cash working capital items		
Amounts receivable	(271,975)	22,785
Inventory	(84,348)	-
Prepaid expenses	186,718	(115,130)
Accounts payable and accrued liabilities	169,884	(275,367)
	<u>(1,729,508)</u>	<u>(2,271,058)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in Merit Functional Foods Corporation	(8,000,001)	-
Development costs deferred	(493,953)	-
Acquisition of property and equipment	(4,141)	(13,006)
	<u>(8,498,095)</u>	<u>(13,006)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of capital stock	15,499,271	-
Share issue costs	(158,070)	(18,410)
Short-term loan	250,000	-
Repayment of convertible note	(2,508,520)	-
Repayment of short-term loan	(1,546,418)	-
	<u>11,536,263</u>	<u>(18,410)</u>
<b>FOREIGN EXCHANGE (LOSS) GAIN ON CASH AND CASH EQUIVALENTS</b>		
	<u>(153)</u>	<u>951</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	1,308,507	(2,301,523)
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD</b>		
	489,215	3,420,865
<b>CASH AND CASH EQUIVALENTS – END OF PERIOD</b>		
	<u>1,797,722</u>	<u>1,119,342</u>
<b>INTEREST RECEIVED</b>		
	<u>28,855</u>	<u>13,664</u>

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

**1. Going concern**

Burcon NutraScience Corporation (“Burcon” or the “Company”) is an incorporated entity headquartered in Vancouver, British Columbia, Canada.

These condensed consolidated interim financial statements have been prepared using generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

As at September 30, 2019, the Company had minimal revenues from its technology and had an accumulated deficit of \$95,756,280. During the six months ended September 30, 2019, the Company incurred a loss of \$2,029,617 (2019 - \$2,377,238) and had negative cash flow from operations of \$1,729,508 (2019 - \$2,271,058). The Company has relied on equity financings, private placements, rights offerings, other equity transactions, issuance of convertible debt and a short-term loan to provide the financing necessary to undertake its research and development activities. On June 25, 2019, the Company completed a rights offering for gross proceeds of \$15.4 million and net proceeds of \$15.3 million (note 7(a)). As at September 30, 2019, the Company had cash and cash equivalents of \$1,797,722 (March 31, 2019 - \$489,215).

The Company’s ability to continue as a going concern is dependent upon the Company raising additional capital. The Company will need to raise additional capital to fund operations and carry out its business objectives. There can be no assurance that additional financing will be available on acceptable terms, if at all. These conditions indicate existence of a material uncertainty that casts significant doubt about the ability of the Company to meet its obligations as they become due and, accordingly, its ability to continue as a going concern.

Although the Company expects to receive royalty revenues from its license and production agreement (the “Soy Agreement”) with Archer Daniels Midland Company (“ADM”) from the sales of CLARISOY<sup>®</sup>, royalty revenues received to-date have not been significant and the timing and the amount of royalty revenues cannot be ascertained at this time.

These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

## **BURCON NUTRASCIENCE CORPORATION**

### **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the three and six months ended September 30, 2019 and 2018**

(Unaudited)

(Prepared in Canadian dollars)

#### **2. Nature of operations**

Burcon and its subsidiary are research and development companies that have developed plant protein extraction and purification technology in the field of functional, renewable plant proteins. The Company and its subsidiary have developed Peazazz<sup>®</sup> and Peazac<sup>®</sup> pea proteins, Puratein<sup>®</sup>, Supertein<sup>®</sup> and Nutratein<sup>®</sup> canola proteins, and CLARISOY<sup>®</sup>, a soy protein.

a) Peazazz<sup>®</sup>, Peazac<sup>®</sup>, Puratein<sup>®</sup>, Supertein<sup>®</sup> and Nutratein<sup>®</sup>

Burcon has developed novel pea proteins that it has branded Peazazz<sup>®</sup> and Peazac<sup>®</sup>. In 2017, Peazazz<sup>®</sup> and Peazac<sup>®</sup> pea proteins achieved US self-affirmed GRAS (“Generally Recognized As Safe”) status, and the US Food and Drug Administration (“US-FDA”) formally acknowledged receipt of Burcon’s GRAS notification for Peazazz<sup>®</sup> and Peazac<sup>®</sup> in October 2019.

Burcon has developed three canola protein products, Puratein<sup>®</sup>, Supertein<sup>®</sup> and Nutratein<sup>®</sup>. In 2008, Puratein<sup>®</sup> and Supertein<sup>®</sup> achieved US self-affirmed GRAS status, and the US-FDA formally acknowledged receipt of Burcon’s GRAS notification for Puratein<sup>®</sup> and Supertein<sup>®</sup> in 2010.

On May 23, 2019, Burcon, entered into a shareholders agreement with two other entities to become shareholders of Merit Functional Foods Corporation (“Merit Foods”), to build a new commercial production facility in Western Canada to produce its pea and canola protein products. See note 4 for further details.

On May 23, 2019, Burcon entered into a licence agreement with Merit Foods granting Merit Foods an exclusive, royalty-bearing, worldwide licence to use and exploit Burcon’s pea, pulse, and canola protein technologies required to produce, market and sell Burcon’s pea, pulse and canola proteins (collectively the “Products”). See note 4 for further details.

b) CLARISOY<sup>®</sup>

Burcon has a 20-year Soy Agreement with ADM to license its CLARISOY<sup>®</sup> technology to ADM on an exclusive basis to produce, market and sell CLARISOY<sup>®</sup> soy protein worldwide. The terms of the Soy Agreement include the license to ADM of all intellectual property, including know-how and trade secrets concerning the manufacture and use of CLARISOY<sup>®</sup>, the engineering and design by ADM of an initial commercial CLARISOY<sup>®</sup> production plant and a royalty structure that incorporates financial incentives for ADM to expand sales globally. ADM will make royalty payments to Burcon on the sales of CLARISOY<sup>®</sup> under the Soy Agreement. Maintaining the CLARISOY<sup>®</sup> soy protein patent portfolio during the term of the Soy Agreement is the responsibility of Burcon. Since signing the agreement, Burcon has filed additional patent applications to seek important commercial protection for the production and use of CLARISOY<sup>®</sup>. ADM has elected to include these applications to the license and, if granted, could lengthen the royalty term under the Soy Agreement to at least the year 2035. In November 2016, ADM confirmed that it has fully commissioned the first full-scale CLARISOY<sup>®</sup> production facility at its North American headquarters in Decatur, Illinois.

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**3. Significant accounting policies**

**Basis of presentation**

These condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, *Interim Financial Reporting*, and interpretations issued by the IFRS Interpretations Committee (“IFRIC”) on a basis consistent with those accounting policies followed in the most recent annual consolidated financial statements, except for the new accounting standards adopted in the current year, as discussed below. These condensed consolidated financial statements do not include all of the information required for full annual financial statements and were approved and authorized for issue by the Audit Committee of the Board of Directors on November 12, 2019.

The condensed consolidated interim financial statements should be read in conjunction with the Company’s consolidated annual financial statements for the year ended March 31, 2019.

**Principles of consolidation**

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries, Burcon NutraScience (MB) Corp. (“Burcon-MB”) and Burcon NutraScience Holdings Corp. (“Burcon Holdings”). A subsidiary is an entity in which the Company has control, directly or indirectly. Under IFRS 10, an investor controls an investee if and only if the investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. All material intercompany transactions and balances have been eliminated on consolidation.

Details of the Company’s subsidiary at September 30, 2019 are as follows:

	<b>Place of incorporation</b>	<b>Interest %</b>	<b>Principal activity</b>
Burcon NutraScience (MB) Corp.	Manitoba, Canada	100	Research and development
Burcon NutraScience Holdings Corp.	Canada	100	Investment holding

**Inventory**

Inventory comprises pea protein and canola protein products that are saleable to Merit Foods. Inventory is recorded at the lower of cost and net realizable value.



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**Investment in Associates**

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy of the investee without the power to control or jointly control those policies.

The results and assets and liabilities of associates are incorporated in these condensed consolidated interim financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. Changes in the net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Company. When the Company's share of losses of an associate or a joint venture exceeds the Company's interest in the associate, which includes any long-term interests that, in substance, form part of the Company's net investment in the associate, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the carrying amount of the investment is tested for impairment by comparing the recoverable amount with its carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

**Research and development costs**

Research costs are expensed in the period incurred. Development costs are also expensed in the period incurred unless the related process is clearly defined and the costs attributable thereto can be reliably measured; the technical feasibility of the process has been established so that it will be available for use or sale; management has indicated its intention to produce and market, or use, the process; an ability to use or sell the process exists; the process will generate probable future economic benefits; and adequate resources exist, or are expected to be available, to complete the development and to use or sell the process. With the Shareholders Agreement and the Licence Agreement having taken effect after the completion of the Initial Capital Loan Advance (see Note 4) , the Company commenced deferring development costs related to its pea and canola proteins. The deferred development costs will be amortized on a straight-line basis over their estimated useful lives commencing with the commercial production of the related products.

**Newly adopted accounting standards and amendments**

*IFRS 16 - Leases*

Effective April 1, 2019, the Company has adopted IFRS 16 - Leases, which requires, among other things, leases to recognize leases traditionally recorded as operating leases in the same manner as a financing lease.

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The Company applied IFRS 16 on a modified retrospective basis and it did not have a significant impact on the consolidated financial statements.

**4. Investment in Merit Functional Foods Corporation**

On May 23, 2019, Burcon, through a new wholly-owned subsidiary incorporated on May 22, 2019, Burcon Holdings, entered into a shareholders agreement (the “Shareholders Agreement”) with two other entities to become shareholders of Merit Foods, to build and own a new commercial production facility in Western Canada to produce, sell, market and distribute Burcon’s Peazazz<sup>®</sup> and Peazac<sup>®</sup> pea proteins, Burcon’s Puratein<sup>®</sup>, Supertein<sup>®</sup> and Nutratein<sup>®</sup> canola proteins, as well as Burcon’s new pea and canola protein blends that it has branded Nutratein-PS<sup>™</sup> and Nutratein-TZ<sup>™</sup>.

Burcon Holdings holds 40% of the issued and outstanding shares of Merit Foods, and the two other parties owning 40% and 20%, respectively. In accordance with the Shareholders Agreement, each shareholder made its respective initial loan advance in June 2019 by way of shareholder loans (the “Initial Capital Loan Advance”) in the aggregate of \$10.0 million and further capital loan advances in the aggregate of \$10.0 million (the “Additional Capital Loan Advance”) were made by September 3, 2019 in the form of shareholder loans (the Initial Capital Loan Advance and Additional Capital Loan Advance together referred to as the “Merit Shareholder Loans”).

The terms of the Merit Shareholder Loans are under negotiations but are expected to be non-interest bearing, unsecured, subordinated to Merit Foods’ other secured and unsecured debts, have a term of 15 years, and may be repaid by Merit Foods, without penalty or bonus, on a pro-rata basis based on the proportionate share of each shareholder’s loan outstanding in relation to the other shareholders of Merit Foods, applied firstly to the repayment of any accrued and unpaid interest and secondly to the outstanding principal amounts.

On May 23, 2019, Burcon entered into a licence agreement (the “Licence Agreement”) with Merit Foods granting Merit Foods an exclusive, royalty-bearing, worldwide licence to use and exploit Burcon’s Products. Under the terms of the Licence Agreement, Merit Foods will have the exclusive rights across all geographic regions and all product uses for Burcon’s pulse protein (including pea) and canola protein technologies (the “Licence”). Burcon will receive running royalties on the net revenue (as defined in the Licence Agreement) from the sales of the Products by Merit Foods. Burcon will be responsible for the technology transfer to Merit Foods, and will also provide assistance, under a services agreement, to support the design, construction and commissioning of the commercial protein production facility.

Merit Foods has agreed to develop, build and commission an initial production facility within a specified amount of time to manufacture the Products. Merit Foods will also, within a specified time period, provide written notice to Burcon to advise whether it will or will not increase its annual production capacity of the Products to develop, build and commission a full commercial scale production facility (the “Full Commercial Production Facility”). If Merit Foods expands production to the Full Commercial Production Facility, the royalty rate will reduce to a lower percentage rate. The royalty rate may also reduce if the exclusive licence is converted to a non-exclusive licence or if a certain Burcon patent does not grant within a specified time.

The Licence Agreement has a term of the greater of twenty years and the last to expire of Burcon patents that are being used to produce products under the Licence Agreement. The Licence

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Agreement provides Burcon with the right to convert the exclusive licence to a non-exclusive licence under certain conditions. As long as the Licence is exclusive, Burcon will be responsible for the filing, prosecution and maintenance of Burcon patent rights in certain countries.

Burcon accounts for its investment in Merit Foods using the equity method of accounting. Burcon's initial investment of \$0.40 in the capital stock of Merit Foods was initially recorded at cost and the \$8 million loans to Merit Foods, which forms part of the net investment in Merit Foods, were initially recorded at fair value. For the three and six months ended September 30, 2019, Burcon recorded \$95,742 and \$142,504, respectively, as its share of Merit Foods' loss. The Company's share in the loss of Merit Foods was recognized by adjusting the Company's investment in Merit Foods.

Balance, April 1, 2019	\$ -
Investment in Merit Foods' capital stock	0.40
Initial Capital Loan Advance	4,000,000
Share of loss in Merit Foods for the period ended June 30, 2019	<u>(46,762)</u>
<b>Balance, June 30, 2019</b>	<b>3,953,239</b>
Additional Capital Loan Advance	4,000,000
Share of loss in Merit Foods for the three months ended Sep. 30, 2019	<u>(95,742)</u>
<b>Balance, September 30, 2019</b>	<b><u><u>7,857,497</u></u></b>

**5. Convertible note**

The Company had a convertible note (the "Note") with Large Scale Investments Limited ("Large Scale"), a wholly-owned subsidiary of Firewood Elite Limited ("Firewood"), for the principal amount of \$2.0 million (the "Principal Amount"). Firewood, a related party of Burcon that has significant influence over the Company, is wholly-owned by Mr. Alan Chan, a director of the Company.

The Note bore interest at 8% per annum, compounded monthly. The Principal Amount and accrued interest were payable on the earlier of May 12, 2019, the occurrence of an event of default as set out in the Note (the "Maturity Date"), or voluntary prepayment by the Company. Under the Note, Large Scale could convert the Principal Amount in whole or in part at \$4.01 per share into common shares of the Company commencing on or after July 1, 2016 and up to and including the Maturity Date. Pursuant to the terms of the Note, the conversion price was adjusted upon completion of Burcon's rights offering that completed in 2016 to \$3.99 per share and further adjusted upon the completion of Burcon's 2018 Rights Offering (note 7(a)) to \$3.94 per share.

Burcon had the right, before the Maturity Date, upon written notice to Large Scale of not less than thirty days, to prepay in cash all or any portion of the Principal Amount by paying to Large Scale an amount equal to the Principal Amount to be prepaid multiplied by 110%. The payment of the Principal Amount and all accrued and unpaid interest thereon would be subordinated in right of payment to any amount owing in respect of secured indebtedness of the Company.

On May 21, 2019, the Company and Large Scale amended (the "Amendment") the Note's Maturity Date to June 21, 2019. The Amendment also provided Large Scale with the right to offset any amounts due to it under the Note against any obligations of Large Scale to pay for subscription proceeds of any rights offering that Burcon may conduct.

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In connection with the 2019 Rights Offering (note 7(a)), Large Scale exercised its right to offset the amounts due under the Note against its obligations to pay for subscription proceeds under the 2019 Rights Offering. The offset was completed on June 25, 2019. The total amount offset under the Note included the principal amount and accrued interest of \$2,565,022.

The conversion option was recorded as a derivative liability (note 13). Under the terms of the Note, there are certain conditions where the conversion price may be adjusted. Therefore, in accordance with IFRS, an obligation to issue shares for a price that is not fixed must be classified as a derivative liability and measured at fair value, with changes recognized in change in fair value of conversion option in the consolidated statement of operations and comprehensive loss.

The conversion and prepayment options were recorded as a net derivative liability and measured at fair value, with changes in fair value recorded in the consolidated statement of operations and comprehensive loss. The fair value of the conversion and prepayment options was estimated based on a methodology for pricing convertible bonds using the Partial Differential Equation Method, with the following initial assumptions: expected volatility of 63%; expected dividend per share of nil; risk-free rate of 0.60%, entity-specific credit spread, and expected life of 3 years. The assumptions as at March 31, 2019 were as follows: expected volatility of 99%, expected dividend per share of nil; risk-free rate of 1.63%, initial entity-specific credit spread adjusted by the movement in the option adjusted spread of the Canada High Yield Index, and expected life of 1.1 years. The initial fair value of the net derivative liability was estimated as \$189,705 as at the issue date of the Note. As at March 31, 2019, the fair value of the net derivative liability was estimated to be \$5,384. Upon the offset by Large Scale of its obligations to pay for subscription proceeds under the 2019 Rights Offering, the net derivative liability was expensed during the first quarter of fiscal 2020 as financing expense.

## **6. Short-term loan**

On November 13, 2018, the Company entered into a loan agreement with Large Scale to provide Burcon with an unsecured loan for up to \$1.0 million (the "Loan"). On March 27, 2019, Burcon and Large Scale amended the loan (the "Loan Amendment") to increase the principal amount available to \$1.5 million. The Loan Amendment provided the Lender with the right to offset any amount due to it under the Note against any obligations of the Lender to pay for subscription proceeds of any rights offering that Burcon may conduct. During the three months ended June 30, 2019, the Company drew down \$250,000 to the maximum principal amount available under the Loan.

The Loan bore interest at 18% per annum on the amount drawn, and 3% per annum on the undrawn portion. Burcon paid Large Scale a commitment fee of 1%, or \$15,000, on the principal amount available under the Loan. The amounts drawn on the Loan and the accrued interest was payable on the earlier of June 3, 2019, the occurrence of an event of default as set out in the Loan, or voluntary prepayment by the Company.

In connection with the 2019 Rights Offering (note 7(a)), Large Scale exercised its right to offset the amounts due under the Loan against its obligations to pay for subscription proceeds under the 2019 Rights Offering. The offset was completed on June 25, 2019 for \$1,436,629 against the principal amount. The balance of the principal amount of \$63,371 and accrued interest of \$107,173 was repaid to Large Scale in cash on June 28, 2019.

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**7. Shareholders' equity**

a) Capital stock

Authorized

Unlimited number of common shares without par value

2019 Rights Offering

On June 25, 2019, the Company completed a rights offering (the "2019 Rights Offering") for 44,083,203 common shares at \$0.35 per common share for gross proceeds of \$15,429,121, and net proceeds of \$15,284,430. Burcon issued to each shareholder as of the record date of May 30, 2019 one transferrable right (the "2019 Rights") for each common share held by such shareholder. Every 2019 Right entitled the holder thereof to purchase one common share in the Company at a price of \$0.35 per common share.

The Company's directors, officers and persons controlling over 10% of the common shares of the Company agreed to exercise at least all of the 2019 Rights they were issued in connection with the 2019 Rights Offering for 14,306,740 common shares, representing 32.5% of the 2019 Rights Offering.

Of the net proceeds of the 2019 Rights Offering, \$2,565,022 were used to repay the convertible note and accrued interest to Large Scale (note 5) and \$1,607,183 has been used to repay the Loan and accrued interest to Large Scale (note 6). Burcon made its Initial Capital Loan Advance of \$4,000,000 to Merit Foods (note 4) on June 28, 2019 and made its Additional Capital Loan Advance of \$4,000,000 to Merit Foods on September 3, 2019.

2018 Rights Offering

On February 13, 2018, the Company completed a rights offering (the "2018 Rights Offering") for 6,114,361 common shares at \$0.57 per common share for gross proceeds of \$3,485,186, and net proceeds of \$3.4 million. Subject to certain conditions, Dr. Allan Yap ("Dr. Yap"), the Company's former Chairman and Chief Executive Officer, agreed to provide a standby guarantee (the "Standby Commitment") to purchase such common shares that were available to be purchased, but not otherwise subscribed for, that would have resulted in a minimum of 4,728,397 common shares being issued under the 2018 Rights Offering. As consideration for the Standby Commitment, Dr. Yap received share purchase warrants ("Standby Warrants") to acquire up to 1,182,099 common shares at an exercise price of \$0.69 per common share that would be exercisable up to February 13, 2020. Burcon estimated the value of the Standby Warrants to be \$199,118 using the Black-Scholes option pricing model and recorded \$145,214, being the amount by which the fair value of the Standby Warrants exceeded the value of the derivative liability, as an expense during fiscal 2019. Pursuant to the terms of the Standby Warrants, the exercise price was adjusted upon completion of the 2019 Rights Offering from \$0.69 per share to \$0.45 per share. Burcon recorded a warrant valuation adjustment of \$85,421 during the first quarter of fiscal 2020.

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b) Contributed surplus

Contributed surplus comprises the value ascribed to expired warrants and options and forfeited vested options, previously categorized in either warrants or options, as applicable, within shareholders' equity.

c) Options

The Company has a stock option plan in which all directors, officers, employees and consultants of the Company and its subsidiary are eligible to participate.

At September 30, 2019, 3,812,072 (March 31, 2019 - 3,953,739) options to purchase common stock are outstanding from the stock option plan. These options, when vested under the terms of the plan, are exercisable at prices ranging between \$0.23 and \$9.60 per common share. An additional 5,004,568 (March 31, 2019 – 440,414) options may be granted in future years under this plan. Unless otherwise determined by the board of directors, the options have a term of 10 years from the date of grant. The vesting terms are determined at the discretion of the board of directors at the time of grant. All grants are recognized using graded vesting, with each vesting tranche being valued separately, and the fair value of each tranche recognized over its respective vesting period.

	<b>Six months ended September 30, 2019</b>		<b>Year ended March 31, 2019</b>	
	<b>Number of options</b>	<b>Weighted average exercise price \$</b>	<b>Number of options</b>	<b>Weighted average exercise price \$</b>
Outstanding - Beginning of period	3,953,739	3.46	3,595,549	4.32
Granted	-	-	680,000	0.23
Exercised	(171,667)	0.41		
Cancelled	-	-	(321,810)	6.20
Outstanding - End of period	<u>3,782,072</u>	3.60	<u>3,953,739</u>	3.46

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The following table summarizes information about stock options outstanding and exercisable at September 30, 2019:

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number outstanding at Sep. 30, 2019	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at Sep. 30, 2019	Weighted average exercise price \$
0.23 – 0.69	936,333	8.95	0.41	252,660	0.53
2.33 - 4.16	2,028,239	5.39	2.78	1,922,438	2.79
6.78 - 9.60	817,500	0.46	9.27	817,500	9.27
	<u>3,782,072</u>	5.21	3.60	<u>2,992,598</u>	4.37

The fair value of each option is estimated as at the date of grant or other measurement date using the Black-Scholes option pricing model and the following weighted average assumptions:

	Six months ended September 30, 2019	Year ended March 31, 2019
Dividend yield	N/A	0.0%
Expected volatility	N/A	72.8%
Risk-free interest rate	N/A	1.8%
Expected forfeitures	N/A	8.1%
Expected average option term (years)	N/A	7.8

The expected volatility and expected forfeitures are based on historical volatility and forfeitures. The risk-free rate of return is the yield on a zero-coupon Canadian treasury bill of a term consistent with the expected average option term. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche.

There were no options granted during the six months ended September 30, 2019. The weighted average fair value of the options granted during the year ended March 31, 2019 was \$0.16 per option.

For the three and six months ended September 30, 2019, included in research and development expenses is \$nil and \$16,757, respectively, (2018 - \$37,117 and \$72,278) (note 8) of stock-based compensation and included in general and administrative expenses (salaries and benefits) is \$17,009 and \$33,151, respectively (2018 - \$27,982 and \$60,515) (note 9) of stock-based compensation.

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**8. Research and development**

	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Salaries and benefits (note 7)	129,338	283,830	379,194	571,276
Laboratory operation	20,870	49,883	77,668	138,052
Rent	9,932	21,762	29,276	43,496
Analyses and testing	-	12,578	11,325	34,423
Amortization of property and equipment	579	27,228	13,141	58,099
Travel and meals	-	1,708	6,246	5,663
	<b>160,719</b>	<b>396,989</b>	<b>516,850</b>	<b>851,009</b>

**9. General and administrative**

	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Salaries and benefits (note 7)	217,589	216,841	444,091	469,024
Professional fees	57,279	21,396	123,964	40,503
Investor relations	42,374	29,111	64,080	48,964
Office supplies and services (note 11)	39,800	42,966	80,936	85,336
Travel and meals	29,896	22,602	44,460	24,617
Other	20,983	20,688	40,888	40,453
Transfer agent and filing fees	14,089	5,797	17,538	26,393
Financing expense (note 7)	368	149,663	88,920	149,663
	<b>422,378</b>	<b>509,064</b>	<b>904,877</b>	<b>884,953</b>



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**10. Basic and diluted loss per share**

The following table sets forth the computation of basic and diluted loss per share:

	Three months ended September 30		Six months ended September 30	
	2019 \$	2018 \$	2019 \$	2018 \$
Loss for the period, being loss attributable to common shareholders - basic and diluted	(697,637)	(1,301,255)	(2,029,617)	(2,377,238)
	Shares	Shares	Shares	Shares
Weighted average common shares - basic and diluted	88,195,754	43,941,536	67,661,230	43,941,536
Basic and diluted loss per share	(0.01)	(0.03)	(0.03)	(0.05)

For the three and six months ended September 30, 2019 and 2018, the Company excluded all potential common share equivalents from the diluted loss per share calculation as they were anti-dilutive.

**11. Related party transactions**

The Company engaged an entity that is related by virtue of common officers for the following related party transactions:

Included in general and administrative expenses (office supplies and services) for the three and six months ended September 30, 2019 is \$18,752 and \$37,503, respectively, (2019 - \$18,752 and \$37,503) for office space rental.

For the three and six months ended September 30, 2019, included in general and administrative expenses (management fees) are \$29 and \$488, respectively, (2018 - \$nil and \$120), for services provided to the Company. At September 30, 2019, \$nil (March 31, 2019 - \$22) of this amount is included in accounts payable and accrued liabilities. For the three and six months ended September 30, 2019, included in interest and other income is \$3,931 and \$8,190, respectively, (2018 - \$2,830 and \$5,949) for management services provided by the Company. At September 30, 2019, \$1,560 (March 31, 2019 - \$670), of this amount is included in amounts receivable.

Burcon has a services agreement (the "Services Agreement") with Merit Foods to provide technical, administrative and general management services, research and analytical services and sample production services based on rates set out in the Services Agreement. For the three and six months ended September 30, 2019, included in interest and other income is \$166,459 and \$167,419, respectively, (2018 - \$nil) for technical services provided and sample production by the Company to Merit Foods, of which \$117,901 was included in amounts receivable at September 30, 2019 (March 31, 2019 - \$nil).

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Burcon had the Loan and Note with Large Scale, a company that is wholly owned by Firewood. For the three and six months ended September 30, 2019, included in interest expense is \$ nil and \$56,502, respectively, (2018 - \$69,652 and \$137,781) related to the Note and \$nil and \$60,756, respectively, (2018 - \$nil) related to the Loan. Included in accrued interest as at September 30, 2019 is \$nil (March 31, 2019 - \$517,833) for the Note and \$nil (March 31, 2019 - \$46,418) for the Loan.

Upon completion of the 2019 Rights Offering, the exercise price for the share purchase warrants issued to Dr. Yap was adjusted from \$0.69 per share to \$0.45 per share. The Company recorded \$85,420 as expense during the first quarter of fiscal 2020.

**12. Key management compensation**

Key management includes the Company's CEO and COO. Remuneration of directors and key management personnel comprises:

	<b>Six months ended September 30</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Short-term benefits	164,676	188,325
Option-based awards	10,572	20,872
	<u>175,248</u>	<u>209,197</u>

Short-term benefits comprise salaries, director fees and employment benefits.

Option-based awards represent the cost to the group of senior management and directors' participation in the incentive stock option plan, as measured by the fair value of instruments granted accounted for in accordance with IFRS 2, *Share-based Payment*. For details of these plans refer to note 7 to these condensed consolidated interim financial statements.

**13. Financial instruments**

**Credit risk**

The financial instruments that expose the Company to a concentration of credit risk are cash and cash equivalents and amounts receivable. The Company's cash and cash equivalents may comprise interest-bearing savings instruments with Canadian chartered banks. The Company limits its exposure to credit loss by placing its cash and cash equivalents with two Canadian chartered banks.

**Interest rate risk**

All of the Company's financial instruments are non-interest bearing except for cash and cash equivalents that earn interest at variable market rates, and the loan to Merit Foods that bears interest

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at a fixed interest rate. Burcon's cash and cash equivalents are held at two Canadian chartered banks to maximize interest and to diversify risk. For the three and six months ended September 30, 2019, the weighted average interest rate earned on the Company's cash and cash equivalents was 2.19% and 2.15%, respectively, per annum (2018 – 1.77% and 1.66% per annum). The impact of a 1% strengthening or weakening of interest rates on the Company's cash and cash equivalents at September 30, 2019 is estimated to be a \$18,000 increase or decrease in interest income per year.

**Liquidity risk**

The Company manages liquidity risk through the management of its capital structure (note 14). It also manages liquidity risk by monitoring actual and forecasted cash flows taking into account current and planned operations. Refer also to Note 1. The Company's estimated minimum contractual undiscounted cash flow requirement for its financial liabilities at September 30, 2019 is \$807,066, all of which is within the next 12 months.

**Fair value**

The fair value of the Company's short-term financial assets and financial liabilities, including cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities approximates their carrying values due to the short-term maturities of these financial instruments.

The fair value of the loan to Merit Foods approximates the carrying value as at September 30, 2019 given the risk profile of Merit Foods has not changed substantially since the issue date of the loan to Merit Foods.

The carrying values and fair values of financial instruments, by class, are as follows as at September 30, 2019 and March 31, 2019:

**As at September 30, 2019**

	At fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	-	1,797,722	-	1,797,722
Amounts receivable	-	398,580	-	398,580
Investment in Merit Functional Foods Corporation	-	7,857,497	-	7,857,497
<b>Total</b>	<b>-</b>	<b>10,053,799</b>	<b>-</b>	<b>10,053,799</b>

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<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	-	-	807,066	807,066
<b>Total</b>	<b>-</b>	<b>-</b>	<b>807,066</b>	<b>807,066</b>

**As at March 31, 2019**

	At fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	-	489,215	-	489,215
Amounts receivable	-	126,605	-	126,605
<b>Total</b>	<b>-</b>	<b>615,820</b>	<b>-</b>	<b>615,820</b>

<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	-	-	633,209	633,209
Short-term loan			1,250,000	1,250,000
Convertible note	-	-	1,990,686	1,990,686
Accrued interest	-	-	564,251	564,251
Derivative liability	5,384	-	-	5,384
<b>Total</b>	<b>5,384</b>	<b>-</b>	<b>4,438,146</b>	<b>4,443,530</b>

**Currency risk**

The Company has not hedged its exposure to currency fluctuations. As at September 30, 2019 and March 31, 2019, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars:

	September 30, 2019	March 31, 2019
<b>U.S. Dollars</b>		
Cash and cash equivalents	\$ 12,732	\$ 48,219
Amounts receivable	5,342	8,826
Accounts payable and accrued liabilities	(49,650)	(27,502)
Net exposure	\$ (31,577)	\$ 29,543
<b>Canadian dollar equivalent</b>	\$ (41,817)	\$ 39,479

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Based on the above net exposure at September 30, 2019, a 10% appreciation or depreciation of the U.S. dollar against the Canadian dollar would have resulted in an increase/decrease of approximately \$4,000 (March 31, 2019 - \$4,000) in the Company's loss from operations.

**14. Capital disclosures**

The Company considers its capital to be its shareholders' equity.

The Company manages its capital structure to have sufficient resources available to meet day-to-day operating requirements, continue as a going concern and fund its research and development program. The Company is dependent on non-operating sources of cash, primarily from issuing equity and debt, to fund its operations and research development programs. The Company monitors its capital and the expected cash flows required to achieve its business objectives to determine its future financing needs. It seeks additional capital when deemed appropriate, but there is no assurance that it will be able to secure the necessary capital when required. Refer also to note 1.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the six months ended September 30, 2019.