Burcon NutraScience Corporation

Condensed Consolidated Interim Financial Statements

Three and nine months ended December 31, 2019 and 2018

(Unaudited)

(Prepared in Canadian dollars)

BURCON NUTRASCIENCE CORPORATION
Condensed Consolidated Interim Balance Sheets
(Unaudited)
As at December 31, 2019 and March 31, 2019

(Prepared in Canadian dollars)

	December 31, 2019 $	March 31, 2019 $
ASSETS		
Current assets		
Cash and cash equivalents	6,830,558	489,215
Amounts receivable (notes 3 and 8)	350,026	126,605
Inventory	165,802	-
Prepaid expenses	81,724	307,997
	7,428,110	923,817
Property and equipment	263,841	284,689
Deferred development costs – net of accumulated amortization of $nil (2019 - $nil)	1,022,543	-
Investment in and loan to Merit Functional Foods Corporation (note 3)	10,755,850	-
Goodwill	1,254,930	1,254,930
	20,725,274	2,463,436
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	642,610	633,209
Short-term loan (note 5)	-	1,250,000
Derivative liability (note 4)	-	5,384
Convertible note (note 4)	-	1,990,686
Accrued interest (notes 4 and 5)	48,538	564,251
	691,148	4,443,530
Convertible debentures (note 4)	6,550,859	-
	7,242,007	4,443,530
SHAREHOLDERS' EQUITY (note 6)		
Capital stock	88,737,672	73,361,133
Contributed surplus	9,001,467	9,001,467
Options	9,241,225	9,184,852
Warrants	284,538	199,117
Convertible debentures (note 4)	2,762,927	-
Deficit	(96,544,562)	(93,726,663)
	13,483,267	(1,980,094)
	20,725.274	2,463,436

Subsequent events (note 14)

Approved by the Audit Committee of the Board of Directors

"Peter H. Kappel" Director

"Douglas Gilpin" 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 nine months ended December 31, 2019 and 2018
(Prepared in Canadian dollars)

	Three months ended December 31		Nine months ended December 31	
	2019 **$**	**2018** **$**	**2019** **$**	**2018** **$**
REVENUE				
Royalty income (note 1(a))	5,044	14,170	27,735	28,446
EXPENSES				
Research and development (note 7)	115,459	409,745	632,309	1,260,755
Intellectual property	201,983	319,193	753,288	829,131
General and administrative (note 8)	422,509	380,474	1,327,386	1,265,425
	739,951	1,109,412	2,712,983	3,355,311
LOSS FROM OPERATIONS	(734,907)	(1,095,242)	(2,685,248)	(3,326,865)
INTEREST AND OTHER INCOME (note 3)	90,588	2,753	115,651	(11,785))
MANAGEMENT FEE INCOME (notes 3 and 10)	125,422	4,876	276,306	10,825
SHARE OF LOSS IN MERIT FUNCTIONAL FOODS CORP. (note 3)	(177,906)	-	(320,410)	-
INTEREST EXPENSE (notes 4 and 5)	(90,757)	(79,631)	(208,015)	(217,412)
FOREIGN EXCHANGE (LOSS) GAIN	(520)	12,332	(618)	13,087
LOSS ON DISPOSAL OF EQUIPMENT	(202)	-	(949)	-
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITY (note 4)	-	-	5,384	-
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(788,282)	(1,154,912)	(2,817,899)	(3,532,150)
BASIC AND DILUTED LOSS PER SHARE (note 9)	(0.01)	(0.03)	(0.04)	(0.08)

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 nine months ended December 31, 2019 and 2018

(Prepared in Canadian dollars)

	Number of fully paid common shares	Capital stock $	Contributed surplus $	Options $	Warrants $	Convertible debentures $	Deficit $	Total shareholders' equity $
Balance - March 31, 2018	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	-	-	-	-	-		(3,532,150)	(3,532,150)
Options cancelled	-	-	84,243	(84,243)	-	-	-	-
Warrants issued	-	-	-	-	199,118	-	-	199,118
Warrants expired	-	-	4,724	-	(4,724)	-	-	-
Stock-based compensation expense	-	-	-	192,897	-	-	-	192,897
Balance - December 31, 2018	43,941,536	73,361,133	7,688,356	10,437,711	199,117	-	(92,481,436)	(795,119)
Balance - March 31, 2019	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	-	-	-	-	-	-	(2,817,899)	(2,817,899)
Rights offering	44,083,203	15,429,121	-	-	-	-	-	15,429,121
Issue costs	-	(170,931)	-	-	-	-	-	(170,931)
Options exercised	173,000	118,349	-	(47,280)	-	-	-	71,069
Warrant adjustment	-	-	-	-	85,421	-	-	85,421
Convertible debentures	-	-	-	-	-	2,762,927	-	2,762,927
Stock-based compensation expense	-	-	-	103,653	-	-	-	103,653
Balance - December 31, 2019	88,197,739	88,737,672	9,001,467	9,241,225	284,538	2,762,927	(96,544,562)	13,483,267

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 nine months ended December 31, 2019 and 2018

(Prepared in Canadian dollars)

	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(2,817,899)	(3,532,150)
Items not affecting cash		
Amortization of property and equipment	25,417	79,596
Unrealized foreign exchange loss (gain)	676	(12,403)
Interest accretion	(76,259)	-
Interest expense	90,757	217,412
Change in fair value of derivative liability	(5,384)	-
Share in loss of Merit Functional Foods Corporation	320,410	-
Loss on disposal of equipment	949	-
Financing expense	85,420	145,213
Stock-based compensation expense	74,322	192,896
	(2,301,591)	(2,909,436)
Changes in non-cash working capital items		
Amounts receivable	(223,421)	114,619
Inventory	(165,802)	-
Prepaid expenses	226,273	(72,491)
Accounts payable and accrued liabilities	(54,519)	(285,571)
	(2,519,060)	(3,152,879)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Merit Functional Foods Corporation	(11,000,000)	-
Development costs deferred	(969,162)	-
Acquisition of property and equipment	(27,071)	(13,241)
	(11,996,233)	(13,241)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of capital stock	15,500,191	-
Issue of convertible debentures	9,500,000	-
Issue costs	(337,941)	(18,410)
Short-term loan	250,000	500,000
Repayment of convertible note	(2,508,520)	-
Repayment of short-term loan	(1,546,418)	-
	20,857,312	481,590
FOREIGN EXCHANGE (LOSS) GAIN ON CASH AND CASH EQUIVALENTS	(676)	12,403
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,341,343	(2,672,127)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	489,215	3,420,865
CASH AND CASH EQUIVALENTS – END OF PERIOD	6,830,558	748,738
INTEREST RECEIVED	43,033	16,418

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

1. Nature of operations

Burcon NutraScience Corporation ("Burcon" or the "Company") is an incorporated entity headquartered in Vancouver, British Columbia, Canada. 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® and Peazac® pea proteins, Puratein®, Supertein® and Nutratein® canola proteins, and CLARISOY®, a soy protein.

a) Peazazz®, Peazac®, Puratein®, Supertein® and Nutratein®

Burcon has developed novel pea proteins that it has branded Peazazz® and Peazac®. In 2017, Peazazz® and Peazac® 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® and Peazac® in October 2019.

Burcon has developed three canola protein products, Puratein®, Supertein® and Nutratein®. In 2008, Puratein® and Supertein® achieved US self-affirmed GRAS status, and the US-FDA formally acknowledged receipt of Burcon's GRAS notification for Puratein® and Supertein® 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 3 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 3 for further details.

b) CLARISOY®

Burcon has a 20-year Licence and Production Agreement (the "Soy Agreement") with Archer Daniels Midland Company ("ADM") to license its CLARISOY® technology to ADM on an exclusive basis to produce, market and sell CLARISOY® 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®, the engineering and design by ADM of an initial commercial CLARISOY® 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® under the Soy Agreement. Maintaining the CLARISOY® 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

(Prepared in Canadian dollars)

CLARISOY®. 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® production facility at its North American headquarters in Decatur, Illinois.

2. 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 February 12, 2020.

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 December 31, 2019 are as follows:

	Place of incorporation	Interest %	Principal activity
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.

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 3), 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.

(Prepared in Canadian dollars)

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

3. **Investment in and loan to 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® and Peazac® pea proteins, Burcon’s Puratein®, Supertein® and Nutratein® canola proteins, as well as Burcon’s new pea and canola protein blends that it has branded Nutratein-PS™ and Nutratein-TZ™.

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 and $7.5 million (the “Additional Capital Loan Advances”) were made in September 2019 and December 2019, respectively, in the form of shareholder loans (the Initial Capital Loan Advance and Additional Capital Loan Advances together referred to as the “Merit Shareholder Loans”).

<u>Summary financial position for Merit Foods as at December 31, 2019</u>

	As at December 31, 2019 $
Current assets	10,123,048
Non-current assets	18,248,914
Current liabilities	1,482,337
Non-current liabilities	5,511,868

(Prepared in Canadian dollars)

Summary financial results for Merit Foods for the three and nine months ended December 31, 2019

	Three months ended December 31, 2019 $	Nine months ended December 31, 2019[1] $
Total revenue	541,293	567,647
Loss and comprehensive loss for the period	(444,765)	(801,024)

As at December 31, 2019, Burcon Holdings has made capital loan advances of $11.0 million to Merit Foods in the form of shareholder loans.

	Investment in Share capital $	Capital Contribution $	Loan receivable $	Total net investment $
At inception	**1**	**-**	**11,000,000**	**11,000,001**
Share of loss in Merit foods			(142,504)	(142,504)
Investment in Merit Foods, September 30, 2019	**1**	**-**	**10,857,496**	**10,857,497**
Modification to loan terms		8,729,008	(8,729,008)	-
Share of loss in Merit foods		(177,906)		(177,906)
Notional interest			76,259	76,259
Net Investment in Merit Foods, December 31, 2019	**1**	**8,551,102**	**2,204,747**	**10,755,850**

On inception, the Merit Shareholder Loans were recorded as loan receivable. In December 2019, the terms of the Merit Shareholder Loans were finalized. They are 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 to the outstanding principal amounts. As a result, Burcon recalculated the fair value at this date, resulting in a reduction of the fair value of the loan receivable of $8,729,008, which has been transferred to a capital contribution account. Notional interest is accruing on the loan receivable at

[1] Merit Foods was incorporated on May 15, 2019. As a result, information in this table represents certain financial information of Merit Foods from the date of its incorporation to December 31, 2019.

11% per annum, which is considered to be the market rate of interest. The Company has recorded $76,259 of notional interest from the inception date of these loans to December 31, 2019.

Subsequent to the quarter-end, Burcon Holdings made an additional capital loan advance of $2.0 million to Merit Foods as an additional shareholder loan on the same terms as the prior shareholder loans.

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 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 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 nine months ended December 31, 2019, included in interest and other income is $123,190 and $265,884, respectively, (2018 - $nil and $nil) for technical services provided and sample production by the Company to Merit Foods, of which $129,350 was included in amounts receivable at December 31, 2019 (March 31, 2019 - $nil).

4. Convertible debentures and convertible note

<u>Convertible debentures</u>

On December 10, 2019, the Company issued convertible debentures (the "Debentures") through a non-brokered private placement for an aggregate principal amount of $9.5 million. Certain directors and an officer of the Company subscribed for Debentures totaling $2 million in principal amount. Each Debenture consists of $1,000 principal amount, bear interest at a rate of 8.5% per annum, payable semi-annually in arrears and be unsecured. The principal amount outstanding under the Debentures and all accrued and unpaid interest thereon will be payable in cash on December 10, 2022. The Debentures will be convertible at the option of the holder, in whole or in part, into common shares of the Company at a conversion price of $1.05 per share. Burcon will have the right, at its sole discretion, to force the conversion of the Debentures if the shares trade at or above $2.15 for a period of 14 consecutive trading days. The Company incurred issue costs of $228,432, of which $156,600 were finder's fees at 4.5% of the gross proceeds received from investors introduced to the Company by the finders.

The Debentures are a level 3 financial liability with an embedded conversion feature. As a result, the debt and equity components were bifurcated and the instrument valued to par at the issuance date. The value assigned to the liability at December 10, 2019 was the present value of the contractually determined stream of future cash flows discounted at 24%, being the rate estimated to be equivalent to that which the market would apply to an instrument with comparable credit status and provide substantially the same cash flows, on the same terms, but without the conversion option. From the date of issuance, the liability component is accreted up to its principal value using the effective interest method, with the charge recorded in the consolidated statement of operations and comprehensive loss. The initial fair value of the debt as at December 10, 2019 was estimated to be $6,508,641. The residual amount of $2,762,927 was recognized within equity as the value of the conversion option. For the period ended December 31, 2019, the Company recorded interest expense of $90,757.

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 6(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.

In connection with the 2019 Rights Offering (note 6(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 12). 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.

5. 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 6(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.

6. Shareholders' equity

a) Capital stock

Authorized
Unlimited number of common shares without par value

Equity Offering

On February 12, 2020, the Company filed and received a receipt from the regulatory authorities for a short-term prospectus for a bought deal equity offering with a syndicate of underwriters (the "Underwriters") to purchase an aggregate of 6,452,000 units (the "Units") at a price of $1.55 per Unit for aggregate gross proceeds to the Company of $10 million (the "Offering").

Each Unit will consist of one common share of the Company and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant will be exercisable to acquire one common share (a "Warrant Share") for a period of 24 months following the closing of the Offering (the "Closing Date") at an exercise price of $2.00 per Warrant Share.

The Company has granted the Underwriter an option (the "Over-Allotment Option"), to purchase up to an additional 967,800 Units at a price of $1.55 per Unit, exercisable at any time, for a period of 30 days after and including the Closing Date.

The Units will be offered by way of a short-form prospectus that was filed in all provinces of Canada, except Prince Edward Island, Newfoundland and Labrador, and Quebec. The Offering is expected to close on February 19, 2020 and is subject to certain conditions including, but not limited to, the approval of the Toronto Stock Exchange. The securities being offered have not been, nor will they be, registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons absent registration or an applicable exemption from the registration requirements.

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 4) and $1,607,183 has been used to repay the Loan and accrued interest to Large Scale (note 5). Burcon made its Initial Capital Loan Advance of $4,000,000 to Merit Foods (note 3) 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.

The Standby Warrants were fully exercised subsequent to the quarter-end.

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 December 31, 2019, 3,750,606 (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 5,069,167 (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.

(Prepared in Canadian dollars)

	Nine months ended December 31, 2019		Year ended March 31, 2019	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding - Beginning of period	3,953,739	3.46	3,595,549	4.32
Granted	-	-	680,000	0.23
Exercised	(173,000)	0.41		
Cancelled	(30,133)	1.96	(321,810)	6.20
Outstanding - End of period	3,750,606	3.61	3,953,739	3.46

The following table summarizes information about stock options outstanding and exercisable at December 31, 2019:

	Options outstanding			Options exercisable	
Range of exercise prices $	**Number outstanding at Dec. 31, 2019**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**	**Number exercisable at Dec. 31, 2019**	**Weighted average exercise price $**
0.23 – 0.69	926,333	8.70	0.41	251,326	0.53
2.33 - 4.16	2,006,773	5.14	2.79	2,006,773	2.79
6.78 - 9.60	817,500	0.25	9.27	817,500	9.27
	3,750,606	4.95	3.61	3,075,599	4.33

(Prepared in Canadian dollars)

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:

	Nine months ended December 31, 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 nine months ended December 31, 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 nine months ended December 31, 2019, included in research and development expenses is $nil and $16,757, respectively, (2018 - $31,697 and $103,975) (note 7) of stock-based compensation and included in general and administrative expenses (salaries and benefits) is $12,441 and $45,591, respectively (2018 - $28,406 and $88,921) (note 8) of stock-based compensation.

7. Research and development

	Three months ended December 31		**Nine months ended December 31**	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Salaries and benefits (note 6)	102,118	292,669	481,312	863,945
Laboratory operation	6,121	63,194	83,789	201,247
Rent	6,293	21,825	35,569	65,321
Amortization of property and equipment	927	20,064	14,068	78,163
Travel and meals	-	2,797	10,197	8,460
Analyses and testing	-	9,196	7,374	43,619
	115,459	409,745	632,309	1,260,755

(Prepared in Canadian dollars)

8. General and administrative

	Three months ended December 31		Nine months ended December 31	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Salaries and benefits (note 6)	243,289	228,455	687,381	697,479
Professional fees	58,407	16,540	182,370	57,042
Office supplies and services (note 10)	42,800	59,386	123,736	144,722
Investor relations	34,109	10,518	98,189	59,481
Other	20,617	19,504	61,505	59,957
Travel and meals	17,846	13,762	62,307	38,380
Transfer agent and filing fees	5,441	2,210	22,978	28,602
Financing expense (note 6)	-	30,099	88,920	179,762
	422,509	380,474	1,327,386	1,265,425

9. Basic and diluted loss per share

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

	Three months ended December 31		Nine months ended December 31	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Loss for the period, being loss attributable to common shareholders - basic and diluted	(788,282)	(1,154,912)	(2,817,899)	(3,532,150)
	Shares	**Shares**	**Shares**	**Shares**
Weighted average common shares - basic and diluted	88,196,884	43,941,536	74,531,340	43,941,536
Basic and diluted loss per share	(0.01)	(0.03)	(0.04)	(0.08)

For the three and nine months ended December 31, 2019 and 2018, the Company excluded all potential common share equivalents from the diluted loss per share calculation as they were anti-dilutive.

10. 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 nine months ended December 31, 2019 is $18,752 and $56,255, respectively, (2019 - $18,752 and $56,255) for office space rental.

(Prepared in Canadian dollars)

For the three and nine months ended December 31, 2019, included in general and administrative expenses (management fees) are $458 and $946, respectively, (2018 - $nil and $120), for services provided to the Company. At December 31, 2019, $73 (March 31, 2019 - $22) of this amount is included in accounts payable and accrued liabilities. For the three and nine months ended December 31, 2019, included in interest and other income is $2,232 and $10,422, respectively, (2018 - $4,876 and $10,825) for management services provided by the Company. At December 31, 2019, $711 (March 31, 2019 - $670), of this amount is included in amounts receivable.

Burcon has a 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. (see note 3 for details).

Burcon had the Loan (note 4) and Note (note 5) with Large Scale, a company that is wholly owned by Firewood. For the three and nine months ended December 31, 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 December 31, 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.

11. Key management compensation

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

	Nine months ended December 31	
	2019 **$**	**2018** **$**
Short-term benefits	288,949	272,252
Option-based awards	15,747	29,998
	304,696	302,250

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 6 to these condensed consolidated interim financial statements.

12. 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 Debentures issued by the Company that pays interest 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 nine months ended December 31, 2019, the weighted average interest rate earned on the Company's cash and cash equivalents was 2.15% and 2.15%, respectively, per annum (2018 – 1.52% and 1.64% per annum). The impact of a 1% strengthening or weakening of interest rates on the Company's cash and cash equivalents at December 31, 2019 is estimated to be a $68,000 increase or decrease in interest income per year.

Liquidity risk

The Company manages liquidity risk through the management of its capital structure (note 13). It also manages liquidity risk by monitoring actual and forecasted cash flows taking into account current and planned operations. The Company's estimated minimum contractual undiscounted cash flow requirement for its financial liabilities at December 31, 2019 is $10,191,148, of which $691,148 is due 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, accounts payable and accrued liabilities and accrued interest 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 December 31, 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 December 31, 2019 and March 31, 2019:

(Prepared in Canadian dollars)

As at December 31, 2019

	At fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value
	$	$	$	$
Financial assets				
Cash and cash equivalents	-	6,830,558	-	6,830,558
Amounts receivable	-	350,026	-	350,026
Loan receivable from Merit Functional Foods Corporation	-	2,204,747	-	2,204,747
Total	**-**	**9,385,331**	**-**	**9,385,331**
Financial liabilities				
Accounts payable and accrued liabilities	-	-	642,610	642,610
Accrued interest	-	-	48,538	48,538
Convertible debentures	-	-	6,550,859	6,550,859
Total	**-**	**-**	**7,242,007**	**7,242,007**

As at March 31, 2019

	At fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value
	$	$	$	$
Financial assets				
Cash and cash equivalents	-	489,215	-	489,215
Amounts receivable	-	126,605	-	126,605
Total	**-**	**615,820**	**-**	**615,820**
Financial liabilities				
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
Total	**5,384**	**-**	**4,438,146**	**4,443,530**

Currency risk

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

		December 31, 2019		March 31, 2019
U.S. Dollars				
Cash and cash equivalents	$	18,016	$	48,219
Amounts receivable		3,822		8,826
Accounts payable and accrued liabilities		(31,553)		(27,502)
Net exposure	$	(9,715)	$	29,543
Canadian dollar equivalent	$	(12,618)	$	39,479

Based on the above net exposure at December 31, 2019, a 10% appreciation or depreciation of the U.S. dollar against the Canadian dollar would have resulted in an increase/decrease of approximately $1,000 (March 31, 2019 - $4,000) in the Company's loss from operations.

13. 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.

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 nine months ended December 31, 2019.

14. Subsequent events

Subsequent to the quarter-end:

a) 757,000 options were granted to directors, officers and employees at an exercise price of $1.88 per share;

b) The Company entered into an agreement with the Underwriters, pursuant to which the Underwriters have agreed to purchase, on a bought deal basis, for an aggregate of 6,452,000 units at a price of $1.55 per unit for aggregate gross proceeds of $10.0 million (see note 6(a) for details);

c) Burcon made a capital loan advance of $2.0 million to Merit Foods (see note 3);

d) The Standby Warrants (see note 6(a)) for 1,182,099 common shares were exercised at $0.45 per common share, providing proceeds of $531,945 to the Company; and

e) Burcon, Nestlé and Merit Foods have entered into a joint development agreement to tailor Burcon and Merit's plant-based proteins for use in Nestlé food and beverage applications.