

Burcon NutraScience Corporation

Condensed Consolidated Interim Financial Statements

Three and six months ended September 30, 2017 and 2016

(Unaudited)

(Prepared in Canadian dollars)

BURCON NUTRASCIENCE CORPORATION

Condensed Consolidated Interim Balance Sheets

(Unaudited)

As at September 30, 2017 and March 31, 2017

(Prepared in Canadian dollars)

	September 30, 2017 \$	March 31, 2017 \$
ASSETS		
Current assets		
Cash and cash equivalents	2,329,156	4,701,108
Amounts receivable (note 9)	151,948	163,668
Prepaid expenses	224,617	178,998
	<u>2,705,721</u>	<u>5,043,774</u>
Property and equipment	435,611	494,666
Goodwill	<u>1,254,930</u>	<u>1,254,930</u>
	<u>4,396,262</u>	<u>6,793,370</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	628,585	516,883
Derivative liability	6,167	197,613
	<u>634,752</u>	<u>714,496</u>
Convertible note (note 4)	1,862,474	1,818,473
Accrued interest (note 4)	<u>234,250</u>	<u>146,696</u>
	<u>2,731,476</u>	<u>2,679,665</u>
SHAREHOLDERS' EQUITY (note 5)		
Capital stock	70,000,001	70,000,001
Contributed surplus	7,060,216	6,778,227
Options	10,639,899	10,379,989
Warrants	4,103	281,989
Deficit	<u>(86,039,433)</u>	<u>(83,326,501)</u>
	<u>1,664,786</u>	<u>4,113,705</u>
	<u>4,396,262</u>	<u>6,793,370</u>

Going concern (note 1)

Approved by the Audit Committee of the Board of Directors

“Douglas Gilpin” (signed)

Director

“Peter H. Kappel” (signed)

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, 2017 and 2016

(Prepared in Canadian dollars)

	Three months ended September 30		Six months ended September 30	
	2017 \$	2016 \$	2017 \$	2016 \$
REVENUE				
Royalty income (note 2(a))	5,683	17,743	27,549	48,849
EXPENSES				
Research and development (note 6)	485,019	560,226	1,019,202	1,200,407
Intellectual property	376,354	292,474	790,953	737,921
General and administrative (note 7)	381,835	532,400	881,800	1,048,510
	1,243,208	1,385,100	2,691,955	2,986,838
LOSS FROM OPERATIONS	(1,237,525)	(1,367,357)	(2,664,406)	(2,937,989)
INTEREST AND OTHER INCOME	29,795	21,668	41,705	30,444
INTEREST EXPENSE (note 4)	(66,531)	(63,356)	(131,555)	(97,461)
FOREIGN EXCHANGE (LOSS) GAIN	(28,473)	26,126	(47,401)	15,494
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITY (note 4)	16,081	(64,078)	88,725	(36,265)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(1,286,653)	(1,446,997)	(2,712,932)	(3,025,777)
BASIC AND DILUTED LOSS PER SHARE	(0.03)	(0.04)	(0.07)	(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 six months ended September 30, 2017 and 2016

(Prepared in Canadian dollars)

	Number of fully paid common shares	Capital stock \$	Contributed surplus \$	Options \$	Warrants \$	Deficit \$	Total shareholders' equity \$
Balance - March 31, 2016	35,832,750	64,936,947	6,487,975	9,779,276	458,187	(77,550,164)	4,112,221
Loss and comprehensive loss for the period	-	-	-	-	-	(3,025,777)	(3,025,777)
Warrants expired	-	-	178,370	-	(178,370)	-	-
Stock-based compensation expense	-	-	-	294,647	-	-	294,647
Balance - September 30, 2016	35,832,750	64,936,947	6,666,345	10,073,923	279,817	(80,575,941)	1,381,091
Balance - March 31, 2017	37,827,175	70,000,001	6,778,227	10,379,989	281,989	(83,326,501)	4,113,705
Loss and comprehensive loss for the period	-	-	-	-	-	(2,712,932)	(2,712,932)
Warrants issued	-	-	-	-	4,103	-	4,103
Warrants expired	-	-	281,989	-	(281,989)	-	-
Stock-based compensation expense	-	-	-	259,910	-	-	259,910
Balance - September 30, 2017	37,827,175	70,000,001	7,060,216	10,639,899	4,103	(86,039,433)	1,664,786

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, 2017 and 2016

(Prepared in Canadian dollars)

	2017 \$	2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(2,712,932)	(3,025,777)
Items not affecting cash		
Amortization of deferred development costs	-	222,343
Amortization of property and equipment	71,646	70,821
Amortization of deferred revenue	-	(39,097)
Unrealized foreign exchange loss (gain)	45,345	(10,525)
Interest expense	131,555	97,461
Change in fair value of derivative liability	(88,725)	36,265
Financing expense (note 9)	(98,617)	7,366
Gain on disposal of property and equipment	-	(17,891)
Stock-based compensation expense	259,910	294,647
	(2,391,818)	(2,364,387)
Changes in non-cash working capital items		
Amounts receivable	11,720	20,179
Prepaid expenses	(45,619)	(18,615)
Accounts payable and accrued liabilities	110,148	(205,209)
	(2,315,569)	(2,568,032)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	-	18,565
Acquisition of property and equipment	(11,038)	(151,313)
	(11,038)	(132,748)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of convertible note	-	2,000,000
Convertible note issue costs	-	(77,655)
	-	1,922,345
FOREIGN EXCHANGE GAIN ON CASH AND CASH EQUIVALENTS	(45,345)	10,525
DECREASE IN CASH AND CASH EQUIVALENTS	(2,371,952)	(767,910)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	4,701,108	2,479,862
CASH AND CASH EQUIVALENTS – END OF PERIOD	2,329,156	1,711,952
INTEREST RECEIVED	16,305	5,935

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

BURCON NUTRASCIENCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended September 30, 2017 and 2016

(Unaudited)

(Prepared in Canadian dollars)

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 on a going concern basis, 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, 2017, the Company had minimal revenues from its technology and had an accumulated deficit of \$86,039,433 (March 31, 2017 - \$83,326,501). During the six months ended September 30, 2017, the Company incurred a loss of \$2,712,932 (2016 - \$3,025,777) and had negative cash flow from operations of \$2,315,569 (2016 - \$2,568,032). The Company has relied on equity financings, private placements, rights offerings, other equity transactions and issuance of convertible debt to provide the financing necessary to undertake its research and development activities. As at September 30, 2017, the Company had cash and cash equivalents of \$2,329,156 (March 31, 2017 - \$4,701,108). These conditions indicate existence of a material uncertainty that casts substantial 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.

The Company’s ability to continue as a going concern is dependent upon the Company raising additional capital. 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™, 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.

2. Nature of operations

Burcon and its subsidiary are research and development companies that are developing plant protein extraction and purification technology in the field of functional, renewable plant proteins. The Company and its subsidiary have developed CLARISOY™, a soy protein; and are developing Peazazz®, a pea protein, and Puratein®, Supertein® and Nutratein®, three canola protein isolates.

a) CLARISOY™

Burcon has a 20-year Soy Agreement with 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

BURCON NUTRASCIENCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended September 30, 2017 and 2016

(Unaudited)

(Prepared in Canadian dollars)

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 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.

b) **Peazazz®**

Burcon has developed a novel pea protein isolate that it has branded Peazazz®. In June 2013, Burcon announced that it had completed the construction of a Peazazz® semi-works production facility located in Winnipeg, Manitoba. Burcon has been using the semi-works production facility to provide market development quantities (tonnage amounts) to customers for product and market development activities.

Burcon has executed a number of material transfer agreements with potential partners and customers, and has been in discussions with a select group of potential partners to discuss the commercialization of Peazazz® and is considering various options, including building full-scale production facilities through a variety of partnerships.

c) **Puratein®, Supertein® and Nutratein®**

Burcon is developing three canola protein isolate products, Puratein®, Supertein® and Nutratein®. In 2008, Puratein® and Supertein® achieved US self-affirmed GRAS (“Generally Recognized As Safe”) status, and the US Food and Drug Administration formally acknowledged receipt of Burcon’s GRAS notification for Puratein® and Supertein® in 2010.

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, on a basis consistent with those followed in the most recent annual consolidated financial statements, and interpretations issued by the IFRS Interpretations Committee (“IFRIC”). 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 8, 2017.

BURCON NUTRASCIENCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended September 30, 2017 and 2016

(Unaudited)

(Prepared in Canadian dollars)

The condensed consolidated interim financial statements should be read in conjunction with the Company's IFRS consolidated annual financial statements for the year ended March 31, 2017.

Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiary, Burcon NutraScience (MB) Corp. 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, 2017 are as follows:

	Place of incorporation	Interest %	Principal activity
Burcon NutraScience (MB) Corp.	Manitoba, Canada	100	Research and development

Accounting standards issued and not yet effective

IFRS 16 - Leases

In January 2016, the IASB issued 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. The required adoption date is January 1, 2019, with early adoption permitted.

The Company is currently assessing the impact of IFRS 16.

IFRS 15 - Revenue from Contracts with Customers

This new standard on revenue recognition supersedes IAS 18 - Revenue, IAS 11, Construction Contracts, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is currently in the process of evaluating the impact of this standard on its financial statements but does not expect this standard to have a significant impact on the company's consolidated financial statements. The Company expects to apply this standard on a modified retrospective basis using certain practical expedients. Under this approach, the 2017 comparative period will not be restated and a cumulative transitional adjustment to the opening balance of retained earnings, if any, will be recognized at the date of initial application.

IFRS 9 - Financial Instruments - Classification and Measurement

The final version of IFRS 9 was issued in July 2014 and includes (i) a third measurement category for financial assets, and (ii) a single forward looking expected loss impairment model. IFRS 9 is

BURCON NUTRASCIENCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended September 30, 2017 and 2016

(Unaudited)

(Prepared in Canadian dollars)

effective for annual periods beginning on or after January 1, 2018. Management expects to apply the standard retrospectively using certain available transitional provisions and is in the process of evaluating the applicability of this new standard on the Company's financial statements but does not expect any material impact from the adoption of IFRS 9. Generally, the Company expects that financial assets currently classified as loans and receivables will continue to be measured at amortized cost.

Amendments to IFRS 7 - Financial Instruments: Disclosures

IFRS 7 is amended to require additional disclosures on transition from IAS 39 to IFRS 9. The Amendment of IFRS 7 is effective on adoption of IFRS 9. Management is currently assessing which of the additional disclosures required under IFRS 7 are applicable to Burcon.

4. Convertible note

On May 12, 2016, the Company issued a convertible note (the "Note") to a wholly-owned subsidiary of PT International Development Corporation Limited ("PT International"), formerly ITC Corporation Limited, an entity that has significant influence over Burcon, for the principal amount of \$2.0 million (the "Principal Amount") with net proceeds of \$1.9 million. The Note bears interest at 8% per annum, compounded monthly. The Principal Amount and accrued interest will be 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. PT International may convert the Principal Amount in whole or in part at \$4.01 per share into common shares of the Company at any time commencing on or after July 1, 2016 and up to and including the Maturity Date.

Burcon has the right, before the Maturity Date, upon written notice to PT International of not less than thirty days, to prepay in cash all or any portion of the Principal Amount by paying to PT International 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 will be subordinated in right of payment to any amount owing in respect of secured indebtedness of the Company. Subject to the consent of PT International, Burcon may pay any interest that is due and payable under the Note through the issuance of common shares at a conversion price equal to the volume weighted average trading price of the common shares on the Toronto Stock Exchange ("TSX") for the five trading days immediately prior to the date such interest is due and payable.

The conversion option was recorded as a derivative liability (note 11). 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.

BURCON NUTRASCIENCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended September 30, 2017 and 2016

(Unaudited)

(Prepared in Canadian dollars)

Pursuant to the terms of the Note, the conversion price had to be adjusted upon the completion of the 2016 Rights Offering (note 5(a)). Therefore, the conversion price of the Note was adjusted effectively immediately after the record date of the 2016 Rights Offering, being November 3, 2016 from \$4.01 per share to \$3.99 per share.

The Company incurred transaction costs of \$77,655 associated with the issuance of the Note, including \$58,376 incurred up to March 31, 2016. Of these costs, \$7,366 has been recorded as financing expense in the first quarter of fiscal 2017, being the portion related to the derivative liability component of the convertible note.

The conversion and prepayment options were recorded as a net derivative liability and measured at fair value, with changes in fair value recorded in interest and other income in the condensed consolidated interim 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 September 30, 2017 were as follows: expected volatility of 68%, expected dividend per share of nil; risk-free rate of 1.47%, initial entity-specific credit spread adjusted by the movement in the option adjusted spread of the Canada High Yield Index, and expected life of 1.6 years. The initial fair value of the net derivative liability was estimated as \$189,705 as at the issue date of the Note. The assumptions were reviewed as at March 31, 2017 and the change (decrease) in fair value of the derivative liability of \$94,813 was recorded for the year ended March 31, 2017. As at June 30, 2017 and September 30, 2017, the fair values of the net derivative liability were estimated to be \$22,248 and \$6,167, respectively, and the changes (decrease) in fair value of the derivative liability of \$16,081 and \$88,725 (2016 (increases in fair value) - \$64,078 and \$36,325) were recorded for the three and six months ended September 30, 2017 (note 11).

5. Shareholders' equity

a) Capital stock

Authorized

Unlimited number of common shares without par value

2016 Rights Offering

On November 30, 2016, the Company completed the 2016 Rights Offering for 1,990,708 common shares at \$2.58 per common share for gross proceeds of \$5,136,027, and net proceeds of \$5.0 million. Burcon issued to each shareholder one right (the "2016 Right") for each common share held by such shareholder. Every eighteen 2016 Rights entitled the holder thereof to purchase one common share in the Company at a price of \$2.58 per common share.

Subject to certain conditions, two shareholders (the "2016 Guarantors"), PT International and Mr. Allan Yap ("Mr. Yap"), the Company's Chairman and Chief Executive Officer, had each

BURCON NUTRASCIENCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended September 30, 2017 and 2016

(Unaudited)

(Prepared in Canadian dollars)

agreed to provide a standby guarantee (the “2016 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 1,990,708 common shares being issued under the 2016 Rights Offering. As the 2016 Rights Offering was over-subscribed, the 2016 Guarantors were not required to fulfill their respective obligations under the 2016 Standby Commitment. As consideration for the 2016 Standby Commitment, the 2016 Guarantors received share purchase warrants (“2016 Standby Warrants”) entitling the 2016 Guarantors to acquire up to 497,677 common shares at an exercise price of \$2.58 per common share that would be exercisable up to November 30, 2018. In accordance with the policies of the TSX, the issuance of the 2016 Standby Warrants to the 2016 Guarantors was subject to shareholder approvals, which were granted at Burcon's annual general meeting (“AGM”) held on September 7, 2017. The 2016 Standby Commitment Agreement gave rise to a financial asset and liability, which were initially recorded at fair value as a derivative asset and liability of \$102,721, respectively, with the change in fair value to be recorded through profit and loss. As noted above, the 2016 Guarantors were not required to fulfill their respective obligations under the 2016 Standby Commitment, and therefore the change in the fair value of the derivative asset of \$102,721 was recognized as a financing expense in fiscal 2017. The 2016 Standby Warrants were issued after they were approved at the AGM. Burcon has estimated the value of the 2016 Standby Warrants to be \$4,103 using the Black-Scholes option pricing model and has recorded the amount by which the derivative liability exceeded the fair value of the 2016 Standby Warrants as a credit to financing expense (note 7) during this quarter.

2015 Rights Offering

On April 30, 2015, the Company completed an offering of shares by way of a rights offering for 1,552,044 common shares (the “2015 Rights Offering”) at \$2.26 per common share for gross proceeds of \$3,507,620, and net proceeds of \$3.4 million. Subject to certain conditions, three corporate shareholders (the “2015 Guarantors”), including PT International, had each agreed to provide a standby guarantee (the “2015 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 1,552,044 common shares being issued under the 2015 Rights Offering. As the 2015 Rights Offering was over-subscribed, the 2015 Guarantors were not required to fulfill their respective obligations under the 2015 Standby Commitment.

As consideration for the 2015 Standby Commitment, the 2015 Guarantors received share purchase warrants (“2015 Standby Warrants”) entitling the 2015 Guarantors to acquire up to 388,011 common shares at an exercise price of \$2.26 per common share exercisable up to April 30, 2017. The 2015 Standby Warrants expired unexercised on April 30, 2017.

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. As a result of the expiry of the 2015 Standby Warrants, \$281,989 was reclassified from warrants to contributed surplus during the first quarter of this year.

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2017 and 2016**

(Unaudited)

(Prepared in Canadian dollars)

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, 2017, 3,341,359 (March 31, 2017 - 3,341,359) 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 \$2.33 and \$9.60 per common share. An additional 422,534 (March 31, 2017 – 422,534) 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.

	Six months ended September 30, 2017		Year ended March 31, 2017	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding - Beginning of period	3,341,359	4.81	2,975,579	5.08
Granted	-	-	476,832	2.66
Exercised	-	-	(29,051)	2.42
Forfeited/Expired	-	-	(82,001)	3.23
Outstanding - End of period	<u>3,341,359</u>	4.81	<u>3,341,359</u>	4.81

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2017 and 2016**

(Unaudited)

(Prepared in Canadian dollars)

The following table summarizes information about stock options outstanding and exercisable at September 30, 2017:

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number outstanding at September 30, 2017	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at September 30, 2017	Weighted average exercise price \$
2.33 - 4.16	2,288,859	7.37	2.79	1,572,059	2.89
6.78 – 9.60	1,052,500	2.51	9.19	1,052,500	9.19
	<u>3,341,359</u>			<u>2,624,559</u>	

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, 2017	Year ended March 31, 2017
Dividend yield	N/A	0%
Expected volatility	N/A	53.3%
Risk-free interest rate	N/A	1.6%
Expected forfeitures	N/A	8.7%
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, 2017. The weighted average fair value of the options granted during the year ended March 31, 2017 was \$1.53 per option.

For the three and six months ended September 30, 2017, included in research and development expenses is \$70,397 and \$136,934, respectively, (2016 - \$74,587 and \$144,847) (note 6) of stock-based compensation and included in general and administrative expenses (salaries and benefits) is \$63,221 and \$122,976, respectively (2016 - \$77,136 and \$149,800) (note 7) of stock-based compensation.

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2017 and 2016**

(Unaudited)

(Prepared in Canadian dollars)

6. Research and development

	Three months ended September 30		Six months ended September 30	
	2017 \$	2016 \$	2017 \$	2016 \$
Salaries and benefits (note 5)	318,673	339,774	675,751	692,936
Laboratory operation	93,833	52,978	186,222	134,647
Amortization of property and equipment	34,197	37,384	70,880	69,394
Rent	21,175	22,845	43,372	45,618
Analyses and testing	15,664	12,466	29,860	25,240
Travel and meals	1,477	5,842	13,117	10,299
Amortization of deferred development costs	-	88,937	-	222,343
	485,019	560,226	1,019,202	1,200,407

7. General and administrative

	Three months ended September 30		Six months ended September 30	
	2017 \$	2016 \$	2017 \$	2016 \$
Salaries and benefits (note 5)	267,766	304,395	562,672	639,322
Financing expense (note 5)	(93,468)	-	(93,468)	7,366
Investor relations	64,743	43,906	111,487	78,310
Office supplies and services (note 9)	44,887	46,463	94,108	89,780
Professional fees	42,398	77,036	86,381	118,319
Travel and meals	26,374	32,188	43,552	39,197
Other	20,992	21,561	41,020	41,857
Transfer agent and filing fees	8,143	6,851	36,048	34,359
	381,835	532,400	881,800	1,048,510

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2017 and 2016**

(Unaudited)

(Prepared in Canadian dollars)

8. 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	
	2017 \$	2016 \$	2017 \$	2016 \$
Loss for the period, being loss attributable to common shareholders - basic and diluted	(1,286,653)	(1,446,997)	(2,712,932)	(3,025,777)
	Shares	Shares	Shares	Shares
Weighted average common shares - basic and diluted	37,827,175	35,832,750	37,827,175	35,832,750
Basic and diluted loss per share	(0.03)	(0.04)	(0.07)	(0.08)

For the three and six months ended September 30, 2017 and 2016, the Company excluded all potential common share equivalents from the diluted loss per share calculation as they were anti-dilutive.

9. Related party transactions

The Company engaged a company that is controlled by PT International, an entity that has significant influence over Burcon 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, 2017 is \$18,752 and \$38,796, respectively (2016 - \$20,027 and \$40,009) for office space rental, services, and equipment rental.

For the three and six months ended September 30, 2017, included in general and administrative expenses (management fees) is \$36 and \$490, respectively (2016 - \$351 and \$744) for services provided to the Company. At September 30, 2017, \$nil (March 31, 2017 - \$161) of this amount is included in accounts payable and accrued liabilities. For the three and six months ended September 30, 2017, included in interest and other income is \$5,083 and \$8,446, respectively (2016 - \$3,498 and \$8,785) for management services provided by the Company. At September 30, 2017, \$2,031 (March 31, 2017 - \$896) of this amount is included in amounts receivable.

Following shareholder approvals received at the AGM held on September 7, 2017, 497,677 share purchase warrants were issued to PT International and Mr. Yap, with an estimated fair value of \$4,103. The Company recorded \$98,617, representing the amount by which the value of the derivative liability exceeded the fair value of the 2016 Standby Warrants, as a credit to financing expense.

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2017 and 2016**

(Unaudited)

(Prepared in Canadian dollars)

Of the 388,011 2015 Standby Warrants that expired on April 30, 2017 (note 5(a)), 198,429 were issued to PT International.

On May 12, 2016, the Company issued a convertible note to a wholly-owned subsidiary of PT International (note 4).

10. Key management compensation

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

	Six months ended September 30	
	2017	2016
	\$	\$
Short-term benefits	140,682	183,224
Option-based awards	20,019	41,188
	160,701	224,412

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 5 to these condensed consolidated interim financial statements.

11. 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 Note that bears 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 six months ended September 30, 2017, the weighted average interest rate earned on the Company's cash and cash equivalents was 1.11% and 0.97% per annum, respectively (2016 – 0.52% and 0.56% per annum). The impact of a 1%

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2017 and 2016**

(Unaudited)

(Prepared in Canadian dollars)

strengthening or weakening of interest rates on the Company's cash and cash equivalents at September 30, 2017 is estimated to be a \$23,000 increase or decrease in interest income per year.

Liquidity risk

The Company manages liquidity risk through the management of its capital structure (note 12). 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, 2017 is \$2,862,835, of which \$628,585 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 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 conversion option and prepayment option related to the Note, included in derivative liability, is a level 3 fair value. The methods and assumptions used to determine the fair value are described in note 4.

The fair value of the Note approximate the carrying value as at September 30, 2017 given the risk-free rate and the credit spread of the Company have not changed substantially since the issue date of the Note.

The carrying values and fair values of financial instruments, by class, are as follows as at September 30, 2017 and March 31, 2017:

As at September 30, 2017

	At fair value through profit or loss	Loans and receivables	Financial liabilities at amortized cost	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	-	2,329,156	-	2,329,156
Amounts receivable	-	151,948	-	151,948
Total	-	2,481,104	-	2,481,104

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2017 and 2016**

(Unaudited)

(Prepared in Canadian dollars)

Financial liabilities				
Accounts payable and accrued liabilities	-	-	628,585	628,585
Convertible note	-	-	1,862,474	1,862,474
Accrued interest	-	-	234,250	234,250
Derivative liability	6,167	-	-	6,167
Total	6,167	-	2,725,309	2,731,476

As at March 31, 2017

	At fair value through profit or loss	Loans and receivables	Financial liabilities at amortized cost	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	-	4,701,108	-	4,701,108
Amounts receivable	-	163,668	-	163,668
Total	-	4,864,776	-	4,864,776
Financial liabilities				
Accounts payable and accrued liabilities	-	-	516,883	516,883
Convertible note	-	-	1,818,473	1,818,473
Accrued interest	-	-	146,696	146,696
Derivative liabilities	197,613	-	-	197,613
Total	197,613	-	2,482,052	2,679,665

Currency risk

The Company has not hedged its exposure to currency fluctuations. As at September 30, 2017 and March 31, 2017, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars:

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2017 and 2016**

(Unaudited)

(Prepared in Canadian dollars)

	Sep. 30, 2017	March 31, 2017
U.S. Dollars		
Cash and cash equivalents	\$ 553,668	\$ 661,588
Amounts receivable	4,537	8,062
Accounts payable and accrued liabilities	(31,515)	(23,454)
Net exposure	\$ 526,690	\$ 646,196
Canadian dollar equivalent	\$ 657,309	\$ 859,376

Based on the above net exposure at September 30, 2017, a 10% appreciation or depreciation of the U.S. dollar against the Canadian dollar would have resulted in an increase/decrease of approximately \$65,000 (March 31, 2017 - \$86,000) in the Company's loss from operations.

12. 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, 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, 2017.