

Burcon NutraScience Corporation

Condensed Consolidated Interim Financial Statements

Three and six months ended September 30, 2022 and 2021

(Unaudited)

(In Canadian dollars)

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of Burcon NutraScience Corporation for the interim period ended September 30, 2022 have been prepared by management and approved by the Audit Committee of the Board of Directors of the Company. These unaudited condensed consolidated interim financial statements have not been reviewed by an auditor in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

BURCON NUTRASCIENCE CORPORATION
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
As at September 30, 2022 and March 31, 2022

(In Canadian dollars)

	September 30, 2022 \$	March 31, 2022 \$
ASSETS		
Current assets		
Cash and cash equivalents	1,095,642	7,000,824
Restricted cash (note 6)	75,373	122,707
Amounts receivable (notes 7 and 12)	345,791	200,342
Prepaid expenses	419,988	291,621
	<u>1,936,794</u>	<u>7,615,494</u>
Property and equipment	969,486	859,386
Deferred development costs (note 9)	6,006,401	6,217,153
Investment in and loan to Merit Functional Foods Corporation (note 7)	14,296,220	13,402,774
Goodwill	<u>1,254,930</u>	<u>1,254,930</u>
	<u>24,463,831</u>	<u>29,349,737</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	769,125	906,651
Lease liability	21,505	14,397
Deferred revenue (note 6)	54,267	122,707
	<u>844,897</u>	<u>1,043,755</u>
Secured loan (note 5)	2,007,452	-
Lease liability	<u>46,146</u>	<u>58,742</u>
	<u>2,898,495</u>	<u>1,102,497</u>
SHAREHOLDERS' EQUITY (note 8)		
Capital stock	114,566,577	114,566,577
Contributed surplus	15,875,076	15,863,592
Options	7,531,758	7,041,049
Restricted share units	58,199	12,078
Deficit	<u>(116,466,274)</u>	<u>(109,236,056)</u>
	<u>21,565,336</u>	<u>28,247,240</u>
	<u>24,463,831</u>	<u>29,349,737</u>
Going concern (note 1)		
Subsequent events (note 17)		

Approved by the Audit Committee of the Board of Directors

“Douglas Gilpin”

Director

“D. Lorne Tyrrell”

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, 2022 and 2021

(In Canadian dollars)

	Three months ended September 30		Six months ended September 30	
	2022 \$	2021 \$	2022 \$	2021 \$
REVENUE				
Royalty income (note 7)	112,169	31,660	202,707	49,625
EXPENSES				
Research and development (note 9)	844,597	238,412	1,700,900	680,196
Intellectual property	231,402	182,237	623,379	341,022
General and administrative (note 10)	987,260	926,669	1,898,647	1,939,409
	2,063,259	1,347,318	4,222,926	2,960,627
LOSS FROM OPERATIONS	(1,951,090)	(1,315,658)	(4,020,219)	(2,911,002)
Interest and other income (note 7)	131,021	104,654	240,398	213,021
Management fee income (notes 7 and 12)	18,490	24,645	25,130	86,473
Share of loss in Merit Functional Foods Corporation (note 7)	(1,400,506)	(158,933)	(3,404,247)	(1,907,030)
Interest and other expense (notes 5 and 14)	(36,569)	(9,390)	(77,330)	(16,841)
Other	4,604	1,157	6,050	32
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(3,234,050)	(1,353,525)	(7,230,218)	(4,535,347)
BASIC AND DILUTED LOSS PER SHARE (note 11)	(0.03)	(0.01)	(0.07)	(0.04)

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, 2022 and 2021

(In Canadian dollars)

	Number of fully paid common shares	Capital stock \$	Contributed surplus \$	Options \$	Warrants \$	Restricted share units \$	Deficit \$	Total shareholders' equity \$
Balance - March 31, 2021	108,431,377	114,106,836	14,058,654	6,490,537	594,621	-	(98,977,649)	36,272,999
Loss and comprehensive loss for the period	-	-	-	-	-	-	(4,535,347)	(4,535,347)
Warrants exercised	105,750	262,260	-	-	(50,760)	-	-	211,500
Options exercised	72,117	114,475	-	(54,410)	-	-	-	60,065
Options expired	-	-	181,706	(181,706)	-	-	-	-
Stock-based compensation expense	-	-	-	900,195	-	-	-	900,195
Balance – September 30, 2021	108,609,244	114,483,571	14,240,360	7,154,616	543,861	-	(103,512,996)	32,909,412
Balance, March 31, 2022	108,728,742	114,566,577	15,863,592	7,041,049	-	12,078	(109,236,056)	28,247,240
Loss and comprehensive loss for the period	-	-	-	-	-	-	(7,230,218)	(7,230,218)
Options forfeited	-	-	11,484	(11,484)	-	-	-	-
Stock-based compensation expense	-	-	-	502,193	-	46,121	-	548,314
Balance – September 30, 2022	108,728,742	114,566,577	15,875,076	7,531,758	-	58,199	(116,466,274)	21,565,336

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, 2022 and 2021
(In Canadian dollars)

	2022	2021
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(7,230,218)	(4,535,347)
Items not affecting cash		
Amortization of property and equipment	103,117	63,123
Amortization of deferred development costs	210,751	-
Inventory expensed as research and development costs	-	132,186
Unrealized foreign exchange gain	(8,405)	(2,234)
Interest accretion	(215,268)	(166,731)
Finance income	-	(798)
Interest and other expense	77,330	16,841
Share in loss of Merit Functional Foods Corporation	3,404,247	1,907,030
Stock-based compensation expense	548,314	556,089
	<u>(3,110,132)</u>	<u>(2,029,841)</u>
Changes in non-cash working capital items		
Amounts receivable	(145,449)	59,938
Inventory	-	287
Prepaid expenses	(128,367)	(125,310)
Accounts payable and accrued liabilities	(297,640)	(384,657)
Deferred revenue	(68,440)	-
	<u>(3,750,028)</u>	<u>(2,479,583)</u>
Interest received	(10,993)	(21,847)
Net cash used in operating activities	<u>(3,761,021)</u>	<u>(2,501,430)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital loan advance to Merit Functional Foods Corporation	(4,107,425)	-
Interest received	10,993	21,847
Development costs deferred	-	(808,863)
Acquisition of property and equipment	(53,102)	(29,724)
	<u>(4,149,534)</u>	<u>(816,740)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of capital stock	-	271,566
Loan proceeds	2,000,000	-
Change in restricted cash	47,334	-
Lease payments	(50,366)	(47,581)
	<u>1,996,968</u>	<u>223,985</u>
FOREIGN EXCHANGE GAIN ON CASH AND CASH EQUIVALENTS	<u>8,405</u>	<u>2,234</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(5,905,182)</u>	<u>(3,091,951)</u>
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	<u>7,000,824</u>	<u>13,972,659</u>
CASH AND CASH EQUIVALENTS – END OF PERIOD	<u>1,095,642</u>	<u>10,880,708</u>

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, 2022 and 2021

(Unaudited)

(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, 2022, the Company had minimal revenues from its technology and had an accumulated deficit of \$116,466,274 (March 31, 2022 - \$109,236,056). During the six months ended September 30, 2022, the Company incurred a loss of \$7,230,218 (2021 - \$4,535,347) and had net negative cash flow from operations of \$3,761,021 (2021 - \$2,501,430). The Company has relied on equity financings, private placements, rights offerings, other equity transactions, issuance of convertible debt and loans to provide the financing necessary to undertake its research and development activities. As at September 30, 2022, the Company had cash and cash equivalents of \$1,095,642 (March 31, 2022 - \$7,000,824). In June 2022, the Company entered into a secured loan agreement for up to \$10 million (note 5). The Company is in the process of considering various financing options for its short-term and long-term funding requirements to maintain its operations and to fund its development activities.

Although the Company expects to receive royalty revenues from its amended license and production agreement (the “Amended License Agreement”) with Merit Functional Foods Corporation (“Merit Foods”) from the sales of pea and canola proteins (note 7), royalty revenues received to-date have not been significant and the timing and the amount of royalty revenues cannot be ascertained at this time.

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 may 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.

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 statement of financial position 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, 2022 and 2021

(Unaudited)

(In Canadian dollars)

2. Nature of operations

Burcon is a research and development company that has developed plant protein extraction and purification technology in the field of functional, renewable plant proteins. The Company has an extensive portfolio of composition, application and process patents covering novel plant-based proteins derived from pea, canola, soy, hemp, sunflower seed and more.

Burcon has developed novel pea proteins that it has branded Peazazz[®] and Peazac[®] and three canola protein products, Puratein[®], Supertein[®] and Nutrastein[®].

In May 2019, Burcon and two other entities formed Merit Functional Foods Corporation (“Merit Foods”). Merit Foods has constructed and commissioned a 94,000 square foot commercial protein production facility in Manitoba, Canada to produce, under license, Burcon’s pea and canola protein products. See note 7 for further details.

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. Certain comparatives have been restated to conform with this period’s presentation. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and, as such, should be read in conjunction with the Company’s consolidated annual financial statements for the year ended March 31, 2022.

The condensed consolidated interim financial statements were approved and authorized for issue by the Audit Committee of the Board of Directors on November 3, 2022.

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.

BURCON NUTRASCIENCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the three and six months ended September 30, 2022 and 2021
(Unaudited)
(In Canadian dollars)

Details of the Company's subsidiaries at September 30, 2022 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

Accounting Standards and Amendments Issued but Not Yet Adopted

Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current

The amendment clarifies the classification requirements to determine if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing or recognition. The amendment is effective for annual reporting periods beginning on or after January 1, 2023 and is to be applied retrospectively, with earlier application permitted. The Company is still considering whether the new standard will have a significant impact on the consolidated financial statements.

4. COVID-19

Burcon's operations have not been materially impacted by the COVID-19 pandemic. Since March 2020, Burcon has implemented measures to ensure the safety of work conditions for its staff at the Winnipeg Technical Centre and at its head office in Vancouver. Burcon's COVID-19 protocols continue to evolve in response to government health and safety guidelines. While the COVID-19 pandemic has caused certain disruptions and delays in Merit Foods' business operations, including the commissioning process of Merit Foods' Flex Production Facility, it is not possible to predict how long the pandemic will continue to last and whether the financial and business conditions of Burcon and Merit Foods will be impacted in future periods.

Governments worldwide, including Canada, have implemented significant monetary and fiscal relief programs designed to stabilize their economies. Burcon has received Canadian government assistance through the CEWS and CERS programs. See notes 9 and 10 for details.

5. Secured Loan Facility

In June 2022, Burcon entered into a loan agreement with Large Scale Investments Limited ("Large Scale"), a wholly-owned subsidiary of Firewood Elite Limited ("Firewood"), for a secured loan (the "Secured Loan") of up to \$10 million (the "Loan 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.

BURCON NUTRASCIENCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended September 30, 2022 and 2021

(Unaudited)

(In Canadian dollars)

The Secured Loan would be made available to Burcon in two tranches of \$5 million each upon satisfaction of certain conditions with respect to each tranche. The first tranche's closing date was June 22, 2022 and has a maturity date of July 1, 2024. The second tranche will have a maturity date that is 24 months from the closing date of such tranche (in each case, the "Maturity Date"). The drawn portion of the Loan Amount bears interest at 8% per annum payable on the Maturity Date of each tranche and is secured by all assets of Burcon. Burcon will pay a commitment fee of 1% of the undrawn amount of the Loan Amount under each tranche on (i) the closing date of such tranche and (ii) each annual anniversary of the closing date of each tranche. During the three months ended June 30, 2022, Burcon paid Large Scale a commitment fee of \$50,000 (2021 - \$nil) on closing of the first tranche of the Secured Loan.

During the quarter ended September 30, 2022, Burcon made a drawdown of \$2 million from the first tranche of the Secured Loan and recorded interest expense of \$7,452 (2021 - \$nil).

6. Deferred Revenue

In March 2022, Burcon entered into a collaborative agreement with Protein Industries Canada ("PIC") for the development of protein ingredients from sunflower seeds. PIC is an industry-led, not-for-profit organization committed to positioning Canada as a global source of high-quality plant protein ingredients. It is one of Canada's five innovation superclusters, which are government initiated efforts to significantly boost Canada's job market, GDP, research and innovations.

Burcon has partnered with Pristine Gourmet, a processor of Canadian non-GMO cold pressed virgin oils, to further develop Burcon's novel process for the production of sunflower protein ingredients. In March 2022, PIC provided Burcon an upfront payment of \$122,707, which was recorded as restricted cash and deferred revenue. During the three and six months ended September 30, 2022, Burcon recognized \$35,220 and \$68,440, respectively (2021 - \$nil and \$nil) of the deferred revenue as a credit to research and development expenses.

7. Investment in and loan to Merit Functional Foods Corporation

Merit Foods was formed in May 2019 by Burcon NutraScience Holdings Corp. and two other entities (the "Partners"), with Burcon initially owning 40% of Merit Foods. After Bunge Limited's ("Bunge") investment in August 2020 and further investment in October 2021 into Merit Foods, Burcon's current ownership interest in Merit Foods is 31.6%.

The business of Merit Foods is the commercial production, sales, marketing and distribution worldwide of Burcon's pea protein, pulse protein and canola protein products. Merit Foods has constructed and commissioned a 94,000 square foot state-of-the-art production facility to produce, market and sell Burcon's pulse protein ingredients, including Peazazz® and Peazac® pea proteins and Burcon's canola proteins, Supertein®, Puratein® and Nutratein® (collectively the "Products").

Under the amended license and production agreement (the "Amended License Agreement"), Merit Foods has the exclusive rights over Burcon's pulse proteins (including pea) and canola protein technologies across all geographic regions and all product uses. Burcon receives running royalties on the net revenue (as defined in the Amended License Agreement) from the sales of the Products by Merit Foods. Burcon is responsible for the technology transfer to Merit Foods and has provided

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2022 and 2021**

(Unaudited)

(In Canadian dollars)

assistance, under a services agreement, to support the design, construction and commissioning of the commercial protein production facility, as well as providing other services and sample production services.

In May and September 2022, Burcon Holdings, Bunge and the Partners advanced an aggregate \$10 million loan (the “May 2022 Shareholder Loans”) and \$3 million loan (the “September 2022 Shareholder Loans”), respectively, to Merit Foods to address Merit Foods’ liquidity requirements as it ramps up production and sales at the Flex Production Facility. Burcon Holdings’ proportion of the May 2022 Shareholder Loans and September 2022 Shareholder Loans were \$3.16 million and \$948,000, respectively.

As of September 30, 2022, Burcon Holdings has made capital and loan advances in the aggregate of \$17.1 million to Merit Foods in the form of shareholder loans.

	Investment in Share capital	Capital Contribution	Loan receivable	Total net investment
	\$	\$	\$	\$
Net Investment in Merit Foods, March 31, 2021	1	13,508,191	2,893,511	16,401,703
Share of loss in Merit Foods	-	(4,294,789)	-	(4,294,789)
Gain on dilution of investment in Merit Foods	-	961,164	-	961,164
Interest accretion	-	-	343,503	343,503
Expected credit loss provision	-	-	(8,807)	(8,807)
Net Investment in Merit Foods, March 31, 2022	1	10,174,566	3,228,207	13,402,774
Share of loss in Merit Foods	-	(3,404,247)	-	(3,404,247)
Capital and loan advances	-	3,312,643	794,782	4,107,425
Interest accretion	-	-	215,268	215,268
Expected credit loss provision	-	-	(25,000)	(25,000)
Net Investment in Merit Foods, September 30, 2022	1	10,082,962	4,213,257	14,296,220

The capital and loan advances 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. Notional interest is accruing on the loan receivable at 11% per annum, which is considered to be the market rate of interest. For the three and six months ended September 30, 2022, Burcon recorded interest accretion of \$112,601 and \$215,268, respectively (2021 - \$84,636 and \$166,731).

BURCON NUTRASCIENCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended September 30, 2022 and 2021

(Unaudited)

(In Canadian dollars)

During the three and six months ended September 30, 2022, an expected credit loss provision of \$7,000 and \$25,000, respectively, (2021 - \$nil and \$nil) was recognized in relation to the loan receivable and included in interest and other expense on the condensed consolidated interim statement of operations and comprehensive loss.

Burcon recorded its first royalty revenues from Merit Foods during the quarter ended June 30, 2021. During the three and six months ended September 30, 2022, Burcon recorded royalty revenues of \$112,169 and \$202,707, respectively, (2021 - \$31,660 and \$49,625) from Merit Foods' sales of the Products.

For the three and six months ended September 30, 2022, included in management fee income is \$18,490 and \$24,985, respectively, (2021 - \$23,084 and \$82,740) for services provided, of which \$11,370 was included in amounts receivable as at September 30, 2022 (March 31, 2022 - \$1,210).

Merit Foods also provides certain consulting services to Burcon. For the three and six months ended September 30, 2022, Burcon recorded professional fee expense of \$nil and \$19,145, respectively, (2021 - \$nil and \$9,415), of which \$nil was included in accounts payable and accrued liabilities as at September 30, 2022 (March 31, 2022 - \$nil).

From inception, Merit Foods has secured debt financing of up to \$95 million from Export Development Canada ("EDC"), Farm Credit Canada, and Canadian Imperial Bank of Commerce ("CIBC"), as well as a \$10 million interest-free loan from Agriculture and Agri-Food Canada (the "AIP Loan"). The shareholders of Merit Foods have pledged their shares in Merit Foods as security under the loan facilities from EDC and provided a guarantee for the CIBC facility of \$500,000, of which Burcon Holdings' share is \$416,625. Burcon Holdings and the Partners have also provided a guarantee for the AIP Loan (the "AIP Guarantee"), of which Burcon Holdings' share is \$4 million.

During fiscal 2022, the shareholders of the Partners (the "EDC Guarantors") provided guarantees of \$10 million (the "EDC Guarantee") to EDC in order for Merit Foods to meet certain credit requirements required by EDC under the loan agreements with EDC. Burcon Holdings and the EDC Guarantors entered into a reciprocal indemnity agreement (the "EDC Indemnity Agreement"). Under the EDC Indemnity Agreement, if any EDC Guarantor (each, a "EDC Paying Guarantor") is required to make payment under the EDC Guarantee and any other EDC Guarantor and Burcon Holdings (each, a "EDC Contributing Guarantor") has not made a corresponding payment equal to its Contributive Share, such EDC Contributing Guarantor(s) shall pay the EDC Paying Guarantor such amounts so that, after payment, all obligations and liabilities under the EDC Guarantee will have been borne by the EDC Guarantors in their respective Contributive Shares. Burcon Holdings' Contributive Share under the EDC Indemnity agreement is 44.44%. The obligations of Burcon Holdings and the EDC Guarantors shall terminate upon the termination or release by EDC of the EDC Guarantors' obligations under the EDC Guarantee.

Following the May 2022 Shareholder Loans, EDC released the EDC Guarantors of the EDC Guarantee and the obligations of Burcon Holdings under the EDC Indemnity Agreement were also released.

Merit Foods has also received four co-investments from Protein Industries Canada. Merit Foods cannot reasonably estimate the amount to be received from the PIC projects for periods where PIC

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2022 and 2021**

(Unaudited)

(In Canadian dollars)

has not finalized their assessment of the submission. These amounts may be material to the financial statements.

Summary financial position for Merit Foods

	As at September 30, 2022 \$	As at March 31, 2022 \$
Current assets	12,410,847	8,772,383
Non-current assets	130,894,842	132,469,291
Current liabilities	6,708,457	6,026,955
Non-current liabilities	113,781,448	103,910,943

Summary financial results for Merit Foods

	Three months ended September 30		Six months ended September 30	
	2022 \$	2021 \$	2022 \$	2021 \$
Total revenue	2,376,988	1,606,580	4,704,932	2,802,318
Loss and comprehensive loss for the period	(4,431,982)	(476,798)	(10,772,934)	(5,721,091)

Included in the loss and comprehensive loss for Merit Foods for the three months ended September 30, 2021 is a recovery of \$1,967,942 to correct for a deferred income tax misstatement related to the three months ended June 30, 2021.

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2022 and 2021**

(Unaudited)

(In Canadian dollars)

8. Shareholders' equity

a) Capital stock

Authorized

Unlimited number of common shares without par value.

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 subsidiaries are eligible to participate.

At September 30, 2022, 5,321,148 (March 31, 2022 - 5,324,481) 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 \$4.89 per common share. An additional 5,551,726 (March 31, 2022 – 5,548,393) options may be granted in future years under this plan. Unless otherwise determined by the board of directors, the options have a term of up to 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, 2022		Year ended March 31, 2022	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding - Beginning of period	5,324,481	2.36	4,949,106	2.63
Granted	-	-	1,245,000	1.64
Exercised	-	-	(264,299)	0.74
Forfeited	(3,333)	4.73	(505,326)	3.10
Expired	-	-	(100,000)	7.54
Outstanding - End of period	<u>5,321,148</u>	2.36	<u>5,324,481</u>	2.36

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and six months ended September 30, 2022 and 2021**

(Unaudited)

(In Canadian dollars)

The following table summarizes information about stock options outstanding and exercisable at September 30, 2022:

Range of exercise prices	Number outstanding at Sep. 30, 2022	Options outstanding		Number exercisable at Sep.30, 2022	Options exercisable
		Weighted average remaining contractual life (years)	Weighted average exercise price		Weighted average exercise price
\$			\$		\$
0.23 - 0.69	630,334	6.00	0.39	630,334	0.39
1.29 - 2.99	3,388,314	4.89	2.05	2,638,644	2.24
4.01 - 4.89	1,302,500	4.62	4.10	815,158	4.08
	<u>5,321,148</u>	4.95	2.36	<u>4,084,136</u>	2.32

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, 2022	Year ended March 31, 2022
Dividend yield	N/A	0.0%
Expected volatility	N/A	81.9%
Risk-free interest rate	N/A	1.7%
Expected forfeitures	N/A	6.6%
Expected average option term (years)	N/A	5.8

There were no options granted during the six months ended September 30, 2022.

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.

The weighted average fair value of the options granted during the year ended March 31, 2022 was \$1.13 per option.

For the three and six months ended September 30, 2022, included in research and development expenses (salaries and benefits) is \$175,839 and \$346,107, respectively, (2021 - \$45,350 and \$114,137) (note 9) of stock-based compensation and included in general and administrative expenses (salaries and benefits) is \$102,526 and \$202,207, respectively, (2021 - \$277,906 and \$441,952) (note 10) of stock-based compensation. For the three and six months ended September 30, 2022, included in deferred development costs is \$nil and \$nil, respectively, (2021 - \$190,503 and \$344,106) of stock-based compensation.

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d) Restricted Share Unit (“RSU”) Plan

The Company has an RSU plan in which all directors, officers, employees and consultants of the Company and its subsidiaries are eligible to participate. Each RSU is intended to be redeemable for one common share of the Company but, at the election of the Company, may be redeemed for cash in the amount equal to the market value of the Company’s shares on vesting date, or a common share acquired by the Company on a public exchange. The RSUs must be redeemed no later than December 31st of the third year after the date of grant. The vesting terms are determined at the discretion of the board of directors at the time of grant. The fair value of the grants is determined on the date of grant and is recognized using graded vesting, with each vesting tranche being valued separately, and the fair value of each tranche recognized over its respective vesting period. As at September 30, 2022, 118,000 (March 31, 2022 – 118,000) RSUs were outstanding.

9. Research and development

	Three months ended September 30		Six months ended September 30	
	2022 \$	2021 \$	2022 \$	2021 \$
Salaries and benefits	552,236	538,289	1,090,680	1,154,850
Amortization of deferred development costs	105,375	-	210,751	-
Laboratory operation	87,869	73,980	182,490	142,217
Rent	45,644	23,554	91,461	52,078
Amortization of property and equipment	45,289	56,960	87,786	117,321
Analyses and testing	8,184	30,080	37,732	45,596
Inventory written off to research and development	-	-	-	132,186
Gross research and development expenses	844,597	722,863	1,700,900	1,644,248
Allocated to deferred development costs	-	(484,451)	-	(964,052)
Net research and development expenses	844,597	238,412	1,700,900	680,196

For the three and six months ended September 30, 2022, research and development expenses have been reduced by COVID-19 subsidies of \$nil and \$nil, respectively, (2021 - \$118,146 and \$206,881) from the Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy programs (“CERS”).

For the three and six months ended September 30, 2022, research and development expenses have been reduced by PIC funding of \$34,952 and \$68,173, respectively, (note 6) (2021 - \$nil and \$nil).

As Merit Foods began producing its own samples after the completion of the Flex Production Facility to provide to its customers, it no longer required Burcon to supply samples. As a result, Burcon wrote off its pea and canola inventory on-hand during the three months ended June 30, 2021.

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10. General and administrative

	Three months ended September 30		Six months ended September 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries and benefits	539,368	582,263	1,038,726	1,099,923
Investor relations	161,186	117,158	255,540	306,070
Professional fees	122,290	75,123	270,127	228,026
Office supplies and services	95,924	101,380	186,858	175,960
Travel and meals	32,645	22,005	62,319	22,032
Financing expense	16,961	-	16,961	-
Other	11,874	10,203	23,269	24,999
Transfer agent and filing fees	7,012	18,537	44,847	82,399
	987,260	926,669	1,898,647	1,939,409

For the three and six months ended September 30, 2022, general and administrative expenses have been reduced by \$nil and \$nil, respectively, (2021 - \$41,895 and \$109,003) from COVID-19 subsidies received from the CEWS program.

11. 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	
	2022	2021	2022	2021
	\$	\$	\$	\$
Loss for the period, being loss attributable to common shareholders - basic and diluted	(3,234,050)	(1,353,525)	(7,320,218)	(4,535,347)
	Shares	Shares	Shares	Shares
Weighted average common shares - basic and diluted	108,728,742	108,536,205	108,728,742	108,501,348
	\$	\$	\$	\$
Basic and diluted loss per share	(0.03)	(0.01)	(0.07)	(0.04)

For the three and six months ended September 30, 2022, the Company excluded all potential common share equivalents from the diluted loss per share calculation as they were anti-dilutive.

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12. Related party transactions

Burcon had the following transactions with Regent Park Realty Inc., a company that is controlled by an entity with common directors (and also with common officers prior to September 1, 2021) with the Company. One of these directors also has indirect significant influence over the Company.

- For the three and six months ended September 30, 2022, included in general and administrative expenses (management fees) are \$338 and \$617, respectively, (2021 - \$263 and \$2,106), for services provided to the Company. At September 30, 2022, \$338 (March 31, 2022 - \$522) of this amount is included in accounts payable and accrued liabilities.
- For the three and six months ended September 30, 2022, included in interest and other income is \$nil and \$145, respectively, (2021 - \$1,561 and \$3,733) for management services provided by the Company. At September 30, 2022, \$nil (March 31, 2022 - \$nil) 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. Merit Foods also provides certain technical and consulting services to Burcon. See note 7 for details.

In relation to the Secured Loan (see note 5), Burcon paid a commitment fee of \$50,000 (2021 - \$nil) to Large Scale on closing of the first tranche of the Secured Loan. During the three ended June 30, 2022, Burcon recorded \$7,452 (2021 - \$nil) of interest expense related to the Secured Loan.

13. Key management compensation

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

	Six months ended September 30	
	2022 \$	2021 \$
Short-term benefits	380,725	336,255
Option-based awards	57,146	273,018
	<u>437,871</u>	<u>609,273</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 8 to these condensed consolidated interim financial statements.

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14. Financial instruments

Credit risk

The financial instruments that expose the Company to a concentration of credit risk are cash and cash equivalents, amounts receivable, and capital and loan advances to Merit Foods. 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.

During the three and six months ended September 30, 2022, an expected credit loss provision of \$7,000 and \$25,000, respectively, have been recognized in relation to the loan receivable from Merit Foods, resulting in a total lifetime expected credit loss of \$108,000 (March 31, 2022 - \$83,000).

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 short-term deposits that earn interest at fixed interest rates. 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, 2022, the weighted average interest rate earned on the Company's cash and cash equivalents was 2.2% and 1.8% per annum, respectively, (2021 – 0.44% and 0.44% per annum). The impact of a 1% strengthening or weakening of interest rates on the Company's cash and cash equivalents at September 30, 2022 is estimated to be a \$11,000 increase or decrease in interest income per year.

Liquidity risk

The Company manages liquidity risk through the management of its capital structure (note 15). 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 September 30, 2022 is \$867,447, 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, accounts payable and accrued liabilities, and deferred revenue approximates their carrying values due to the short-term maturities of these financial instruments.

The fair value of the loan to Merit Foods is a level 3 fair value and was determined using a discount rate of 11%. The discount rate used is considered the market rate of interest.

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The carrying values and fair values of financial instruments, by class, are as follows as at September 30, 2022 and March 31, 2022:

As at September 30, 2022

	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	-	1,095,642	-	1,095,642
Restricted cash	-	75,373	-	75,373
Amounts receivable	-	345,791	-	345,791
Loan to Merit Foods	-	4,213,257	-	4,321,257
Total	-	5,730,063	-	5,838,063
Financial liabilities				
Accounts payable and accrued liabilities	-	-	769,125	769,125
Secured loan	-	-	2,007,452	2,007,452
Total	-	-	2,776,577	2,776,577

As at March 31, 2022

	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	-	7,000,824	-	7,000,824
Restricted cash	-	122,707	-	122,707
Amounts receivable	-	200,342	-	200,342
Loan to Merit Foods	-	3,228,207	-	3,311,207
Total	-	10,552,080	-	10,635,080
Financial liabilities				
Accounts payable and accrued liabilities	-	-	906,651	906,651
Total	-	-	906,651	906,651

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Currency risk

The Company has entered into certain forward U.S. dollar purchase contracts to hedge its estimated exposure to currency fluctuations for its U.S. denominated liabilities. As at September 30, 2022 and March 31, 2022, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars:

	September 30, 2022	March 31, 2022
U.S. Dollars		
Cash and cash equivalents	69,403	69,402
Amounts receivable	-	-
Accounts payable and accrued liabilities	(22,717)	(5,504)
Net exposure	46,686	63,898
Canadian dollar equivalent	63,992	79,847

Based on the above net exposure at September 30, 2022, a 10% appreciation or depreciation of the U.S. dollar against the Canadian dollar would have resulted in an increase/decrease of approximately \$5,000 (March 31, 2022 - \$6,000) in the Company's loss from operations.

15. 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 six months ended September 30, 2022.

16. Segment information

The Company operates in a single reportable operating segment and geographic location involving the development of plant-based proteins.

All non-current assets are located in Canada. For the three and six months ended September 30, 2022 and 2021, all revenues were generated in Canada.

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17. Subsequent events

Subsequent to September 30, 2022:

- a) 216,500 options with an exercise price of \$4.16 expired unexercised; and
- b) 1.2 million options were granted with exercise prices ranging from \$0.40 to \$3.00.