

Burcon NutraScience Corporation

Condensed Consolidated Interim Financial Statements

Three and nine months ended December 31, 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 December 31, 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 December 31, 2022 and March 31, 2022

(In Canadian dollars)

| | December 31, 2022 | March 31, 2022 |
|---|------------------------------|---------------------------|
| | \$ | \$ |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 1,608,952 | 7,000,824 |
| Restricted cash (note 5) | - | 122,707 |
| Amounts receivable (notes 5 and 6) | 390,169 | 200,342 |
| Prepaid expenses | 223,182 | 291,621 |
| | <u>2,222,303</u> | <u>7,615,494</u> |
| Property and equipment, net of accumulated amortization of \$4,359,680 (2021 - \$4,195,112) | 1,045,968 | 859,386 |
| Deferred development costs, net of accumulated amortization of \$421,502 (2021 - \$105,375) (note 8) | 5,901,026 | 6,217,153 |
| Investment in and loan to Merit Functional Foods Corporation (note 6) | 1 | 13,402,774 |
| Goodwill | 1,254,930 | 1,254,930 |
| | <u>10,424,228</u> | <u>29,349,737</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 11) | 584,847 | 906,651 |
| Lease liability | 26,811 | 14,397 |
| Deferred revenue (note 5) | - | 122,707 |
| | <u>611,658</u> | <u>1,043,755</u> |
| Secured loan (notes 4 and 11) | 4,070,575 | - |
| Lease liability | 36,924 | 58,742 |
| | <u>4,719,157</u> | <u>1,102,497</u> |
| SHAREHOLDERS' EQUITY (note 7) | | |
| Capital stock | 114,566,577 | 114,566,577 |
| Contributed surplus | 16,763,830 | 15,863,592 |
| Options | 7,057,975 | 7,041,049 |
| Restricted share units | 86,209 | 12,078 |
| Deficit | (132,769,520) | (109,236,056) |
| | <u>5,705,071</u> | <u>28,247,240</u> |
| | <u>10,424,228</u> | <u>29,349,737</u> |
| Going concern (note 1) | | |
| Subsequent event (note 16) | | |

Approved by the Audit Committee of the Board of Directors

“Douglas Gilpin”

Director

“Alfred Lau”

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, 2022 and 2021

(In Canadian dollars)

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|--------------------|--|--------------------|
| | 2022 \$ | 2021 \$ | 2022 \$ | 2021 \$ |
| REVENUE | | | | |
| Royalty income (note 6) | 161,206 | 44,597 | 363,913 | 94,222 |
| EXPENSES | | | | |
| Research and development (notes 5, 7 and 8) | 785,629 | 272,012 | 2,486,526 | 952,208 |
| Intellectual property (note 5) | 216,602 | 276,476 | 839,981 | 617,497 |
| General and administrative (notes 7 and 9) | 941,690 | 871,343 | 2,840,338 | 2,810,754 |
| | <u>1,943,921</u> | <u>1,419,831</u> | <u>6,166,845</u> | <u>4,380,459</u> |
| LOSS FROM OPERATIONS | (1,782,715) | (1,375,234) | (5,802,932) | (4,286,237) |
| Interest and other income (note 6) | 131,187 | 98,640 | 371,585 | 311,662 |
| Management fee income (notes 6 and 11) | 19,416 | 24,848 | 44,546 | 111,321 |
| Gain on dilution of investment in Merit Functional Foods Corp. (note 6) | - | 961,164 | - | 961,164 |
| Share of loss in Merit Functional Foods Corporation (note 6) | (2,095,659) | (1,191,630) | (5,499,906) | (3,098,661) |
| Impairment on investment in Merit Functional Foods Corporation (note 6) | (7,987,303) | - | (7,987,303) | - |
| Impairment on loan to Merit Functional Foods Corporation (note 6) | (4,333,630) | - | (4,358,630) | - |
| Interest and other expense (notes 4 and 6) | (252,081) | (23,628) | (304,412) | (40,468) |
| Other | (2,461) | (983) | 3,588 | (951) |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | <u>(16,303,246)</u> | <u>(1,506,823)</u> | <u>(23,533,464)</u> | <u>(6,042,170)</u> |
| BASIC AND DILUTED LOSS PER SHARE (note 10) | <u>(0.15)</u> | <u>(0.01)</u> | <u>(0.22)</u> | <u>(0.06)</u> |

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, 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 |
| Total comprehensive loss for the period | - | - | - | - | - | - | (6,042,170) | (6,042,170) |
| Warrants exercised | 105,750 | 262,260 | - | - | (50,760) | - | - | 211,500 |
| Options exercised | 120,117 | 174,245 | - | (114,180) | - | - | - | 60,065 |
| Options expired | - | - | 505,947 | (505,947) | - | - | - | - |
| Options forfeited | - | - | 242,490 | (242,290) | - | - | - | - |
| Stock-based compensation expense | - | - | - | 1,328,336 | - | - | - | 1,328,336 |
| Balance – December 31, 2021 | 108,657,244 | 114,543,341 | 14,807,091 | 6,956,256 | 543,861 | - | (105,019,819) | 31,830,730 |
| Balance, March 31, 2022 | 108,728,742 | 114,566,577 | 15,863,592 | 7,041,049 | - | 12,078 | (109,236,056) | 28,247,240 |
| Total comprehensive loss for the period | - | - | - | - | - | - | (23,533,464) | (23,533,464) |
| Options expired | - | - | 575,648 | (575,648) | - | - | - | - |
| Options forfeited | - | - | 324,590 | (324,590) | - | - | - | - |
| Stock-based compensation expense | - | - | - | 917,164 | - | 74,131 | - | 991,295 |
| Balance – December 31, 2022 | 108,728,742 | 114,566,577 | 16,763,830 | 7,057,975 | - | 86,209 | (132,769,520) | 5,705,071 |

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, 2022 and 2021

(In Canadian dollars)

| | 2022 | 2021 |
|--|--------------------|--------------------|
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss for the period | (23,533,464) | (6,042,170) |
| Items not affecting cash | | |
| Amortization of property and equipment | 164,568 | 88,510 |
| Amortization of deferred development costs | 316,127 | - |
| Inventory expensed as research and development costs | - | 132,186 |
| Unrealized foreign exchange gain | (8,343) | 437 |
| Interest accretion | (335,641) | (254,094) |
| Finance income | - | (798) |
| Interest and other expense | 304,412 | 40,468 |
| Gain on dilution of investment in Merit Functional Foods Corporation | - | (961,164) |
| Share in loss of Merit Functional Foods Corporation | 5,499,906 | 3,098,661 |
| Impairment on investment in Merit Functional Foods Corporation | 7,987,303 | - |
| Impairment on loan to Merit Functional Foods Corporation | 4,358,630 | - |
| Stock-based compensation expense | 991,295 | 803,389 |
| | <u>(4,255,207)</u> | <u>(3,094,575)</u> |
| Changes in non-cash working capital items | | |
| Amounts receivable | (357,519) | 202,829 |
| Inventory | - | 287 |
| Prepaid expenses | 68,439 | (77,507) |
| Accounts payable and accrued liabilities | (352,472) | (767,362) |
| Deferred revenue | (122,707) | - |
| | <u>(5,019,466)</u> | <u>(3,736,328)</u> |
| Interest received | (21,807) | (30,306) |
| Net cash used in operating activities | <u>(5,041,273)</u> | <u>(3,766,634)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital and loan advances to Merit Functional Foods Corporation | (4,107,425) | - |
| Interest received | 21,807 | 30,306 |
| Development costs deferred | - | (962,717) |
| Acquisition of property and equipment | (320,482) | (46,856) |
| Net cash used in investing activities | <u>(4,406,100)</u> | <u>(979,267)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issue of capital stock | - | 271,580 |
| Loan proceeds | 4,000,000 | - |
| Change in restricted cash | 122,707 | - |
| Lease payments | (75,549) | (72,763) |
| Net cash provided by financing activities | <u>4,047,158</u> | <u>198,817</u> |
| FOREIGN EXCHANGE GAIN (LOSS) ON CASH AND CASH EQUIVALENTS | <u>8,343</u> | <u>(437)</u> |
| DECREASE IN CASH AND CASH EQUIVALENTS | <u>(5,391,872)</u> | <u>(4,547,521)</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>1,608,952</u> | <u>9,425,138</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 nine months ended December 31, 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 December 31, 2022, the Company had minimal revenues from its technology and had an accumulated deficit of \$132,769,520 (March 31, 2022 - \$109,236,056). During the nine months ended December 31, 2022, the Company incurred a loss of \$23,533,464 (2021 - \$6,042,170) and had net negative cash flow from operations of \$5,041,273 (2021 - \$3,766,634). 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 December 31, 2022, the Company had cash and cash equivalents of \$1,608,952 (March 31, 2022 - \$7,000,824). In June 2022, the Company entered into a secured loan agreement for up to \$10 million (note 4). 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.

Under the Company’s amended license and production agreement (the “Amended License Agreement”) with Merit Functional Foods Corporation (“Merit Foods”), it is to receive royalties from Merit Foods’ sales of pea and canola proteins. However, royalty revenues received to-date have not been significant and the timing and the amount of royalty revenues cannot be ascertained at this time. In addition, uncertainties around Merit Foods’ future operations may have a material impact on the Company’s ability to receive future royalties (see note 6).

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 nine months ended December 31, 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 Nutratein[®].

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 6 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 reclassified 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. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual financial statements.

The condensed consolidated interim financial statements were approved and authorized for issue by the Audit Committee of the Board of Directors on February 13, 2023.

4. 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.

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. If certain conditions of the second tranche have been met, it 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

BURCON NUTRASCIENCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended December 31, 2022 and 2021

(Unaudited)

(In Canadian dollars)

annum payable on the Maturity Date of each tranche and is secured by all assets of Burcon. Burcon is to 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 and nine months ended December 31, 2022, Burcon paid Large Scale a commitment fee of \$nil and \$50,000, respectively, (2021 - \$nil and \$nil) on closing of the first tranche of the Secured Loan.

During the three and nine months ended December 31, 2022, Burcon made drawdowns of \$nil and \$4.0 million from the first tranche of the Secured Loan and recorded interest expense of \$63,123 and \$70,575, respectively (2021 - \$nil and \$nil).

5. Protein Industries Canada

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 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 nine months ended December 31, 2022, Burcon recorded PIC grants of \$217,689 and \$285,862, respectively (2021 - \$nil and \$nil) against research and development expenses and intellectual property expenses, of which \$163,155 has been included in amounts receivable as at December 31, 2022 (March 31, 2022 - \$nil).

6. 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 Nutrastein[®] (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 provides 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

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services.

As a result of Bunge's investment in Merit Foods in October 2021, Burcon recorded a dilution gain of \$961,164 during the three months ended December 31, 2021.

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. Burcon Holdings' proportion of the May 2022 Shareholder Loans and September 2022 Shareholder Loans were \$3.16 million and \$948,000, respectively.

As at December 31, 2022, Burcon Holdings has made capital and loan advances to Merit Foods in the aggregate of \$17.1 million. 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 nine months ended December 31, 2022, Burcon recorded interest accretion of \$120,374 and \$335,641, respectively (2021 - \$87,363 and \$254,094).

In late 2022, given the liquidity deficiency as Merit Foods continued to ramp up production and sales at the Flex Production Facility, Merit Foods began a process to identify a new strategic investor. To-date, no funding has been received from a new investor.

Expected credit losses on loan to Merit Functional Foods Corporation and royalty receivable

The Company estimates the expected credit losses on Merit Foods' loan receivable based on management's best estimate of lifetime expected credit loss calculated based on probability of default, loss given default, and outstanding balance of the loan. Due to Merit Foods' ongoing liquidity requirements and uncertainty regarding its cash flows to support these requirements, and that no funding has been received to-date from a new investor, the credit risk of Merit Foods has increased significantly since initial recognition to December 31, 2022 and the loan to Merit Foods is considered to be credit-impaired. As a result, the Company has recorded an expected credit loss provision of \$4,333,630 and \$4,358,630, respectively, (2021 - \$nil and \$nil) for the three and nine months ended December 31, 2022, and included in the condensed consolidated interim statement of operations and comprehensive loss.

Due to Merit Foods' significantly higher credit risk, the Company has recorded a loss allowance for royalty receivable from Merit Foods measured at an amount equal to lifetime expected credit loss of \$167,692 and \$167,692, respectively (2021 - \$nil and \$nil), which has been included in interest and other expense in the condensed consolidated interim statement of operations and comprehensive loss.

BURCON NUTRASCIENCE CORPORATION
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For the three and nine months ended December 31, 2022 and 2021
(Unaudited)
(In Canadian dollars)

Impairment in investment in Merit Functional Foods Corporation

Merit Foods has incurred cumulative losses and cash flow deficiencies which adversely impacted its financial situation and liquidity position. Due to the uncertainty of Merit Foods' financial situation and ongoing liquidity requirements, the Company reviewed whether impairment indicators existed for its investment in Merit Foods.

Judgment is required in assessing whether there is objective evidence of impairment of its investment in Merit Foods. The information management considered included whether there was evidence of significant financial difficulty, breach of contract, the granting of concessions, probable bankruptcy or financial reorganisation or the disappearance of an active market for the investment in Merit Foods. Management also considered whether there was information about changes with an adverse effect that has taken place in technological, market, economic or legal environment and whether there has been a significant or prolonged decline in the fair value of an investment below cost. As a result of one or more of the above impairment indicators that existed as at December 31, 2022, management concluded that there was objective evidence of impairment related to its investment in Merit Foods.

As at December 31, 2022, the Company assessed the carrying value of the investment against the estimated recoverable amount. The recoverable amount is the higher of fair value less cost of disposal ("FVLCD") and value in use ("VIU"). The FVLCD is the price that would be received to sell an asset in an orderly transaction between the market participants at the measurement date, less cost to dispose. The VIU is the present value of future cash flows expected to be derived from the investment. Due to the uncertainty of Merit Foods' future operations and cash flows, there is no reason to believe that VIU would materially exceed its FVLCD. As a result of the current financial situation and liquidity position of Merit Foods, it is, in management's opinion, highly unlikely that the FVLCD would result in a significant positive value. Accordingly, the Company has recognized an impairment charge of \$7,987,303 and \$7,987,303 for the three and nine months ended December 31, 2022, respectively (2021 - \$nil and \$nil), in the condensed consolidated interim statement of operations and comprehensive loss.

As of December 31, 2022, the carrying value of the investment in and loan to Merit Foods consist of:

| | 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 |

BURCON NUTRASCIENCE CORPORATION**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****For the three and nine months ended December 31, 2022 and 2021**

(Unaudited)

(In Canadian dollars)

| | | | | |
|---|----------|-------------|-------------|-------------|
| Share of loss in Merit Foods | - | (5,499,906) | - | (5,499,906) |
| Capital and loan advances | - | 3,312,643 | 794,782 | 4,107,425 |
| Impairment of investment | - | (7,987,303) | - | (7,987,303) |
| Interest accretion | - | - | 335,641 | 335,641 |
| Expected credit loss provision | - | - | (4,358,630) | (4,358,630) |
| Net Investment in Merit Foods, December 31, 2022 | 1 | - | - | 1 |

During the three and nine months ended December 31, 2022, Burcon recorded royalty revenues of \$161,206 and \$363,913, respectively, (2021 - \$44,597 and \$94,222) from Merit Foods' sales of the Products. The Company estimated an expected credit loss on royalty receivable from Merit Foods and has recorded an expected credit loss provision (see above).

For the three and nine months ended December 31, 2022, included in management fee income is \$19,416 and \$44,401, respectively, (2021 - \$24,650 and \$107,390) for services provided, of which \$10,088 was included in amounts receivable as at December 31, 2022 (March 31, 2022 - \$1,210).

Merit Foods also provides certain consulting services to Burcon. For the three and nine months ended December 31, 2022, Burcon recorded professional fee expense of \$nil and \$19,145, respectively, (2021 - \$nil and \$9,415).

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.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2022 and 2021
(Unaudited)
(In Canadian dollars)

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 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 December 31, 2022 | As at March 31, 2022 |
|-------------------------|------------------------------------|---------------------------------|
| | \$ | \$ |
| Current assets | 7,072,239 | 8,772,383 |
| Non-current assets | 130,343,562 | 132,469,291 |
| Current liabilities | 9,277,002 | 6,026,955 |
| Non-current liabilities | 106,619,453 | 103,910,943 |

Summary financial results for Merit Foods

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|-------------|--|-------------|
| | 2022 | 2021 | 2022 | 2021 |
| | \$ | \$ | \$ | \$ |
| Total revenue | 3,013,787 | 1,226,383 | 7,718,720 | 4,028,701 |
| Total comprehensive loss for the period | (6,631,832) | (3,764,725) | (17,404,766) | (9,485,816) |

7. 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.

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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 December 31, 2022, 7,178,804 (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 3,694,070 (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.

| | Nine months ended December 31, 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 | 2,320,000 | 1.02 | 1,245,000 | 1.64 |
| Exercised | - | - | (264,299) | 0.74 |
| Forfeited | (249,177) | 2.13 | (505,326) | 3.10 |
| Expired | (216,500) | 4.16 | (100,000) | 7.54 |
| Outstanding - End of period | <u>7,178,804</u> | 1.88 | <u>5,324,481</u> | 2.36 |

The following table summarizes information about stock options outstanding and exercisable at December 31, 2022:

| Range of exercise prices | Options outstanding | | | Options exercisable | |
|-------------------------------------|--|--|---|--|---|
| | Number outstanding at Dec. 31, 2022 | Weighted average remaining contractual life (years) | Weighted average exercise price \$ | Number exercisable at Dec. 31, 2022 | Weighted average exercise price \$ |
| 0.23 - 0.69 | 2,000,334 | 6.43 | 0.39 | 1,080,334 | 0.38 |
| 1.00 - 3.00 | 4,132,470 | 5.79 | 2.04 | 2,482,802 | 2.25 |
| 4.01 - 4.89 | <u>1,046,000</u> | 5.32 | 4.09 | <u>558,665</u> | 4.06 |
| | <u>7,178,804</u> | 5.90 | 1.88 | <u>4,121,801</u> | 2.00 |

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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, 2022 | Year ended March 31, 2022 |
|--------------------------------------|--|--|
| Dividend yield | 0.0% | 0.0% |
| Expected volatility | 85.5% | 81.9% |
| Risk-free interest rate | 3.56% | 1.7% |
| Expected forfeitures | 6.8% | 6.6% |
| Expected average option term (years) | 6.6 | 5.8 |

During the nine months ended December 31, 2022, 2,320,000 options were granted at a weighted average exercise price of \$1.02 per option.

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 nine months ended December 31, 2022 was \$1.02 per option (year ended March 31, 2022 - \$1.64).

For the three and nine months ended December 31, 2022, included in research and development expenses (salaries and benefits) is \$172,672 and \$486,729, respectively, (2021 - \$62,500 and \$176,637) (note 8) of stock-based compensation and included in general and administrative expenses (salaries and benefits) is \$242,299 and \$430,435, respectively, (2021 - \$184,800 and \$626,752) (note 9) of stock-based compensation. For the three and nine months ended December 31, 2022, included in deferred development costs is \$nil and \$nil, respectively, (2021 - \$180,842 and \$524,947) of stock-based compensation.

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.

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| | <u>Nine months ended December 31, 2022</u> | <u>Year ended March 31, 2022</u> |
|-----------------------------------|--|--------------------------------------|
| | Number of RSUs | Number of RSUs |
| Outstanding - Beginning of period | 118,000 | - |
| Granted | 127,000 | 121,000 |
| Forfeited | <u>(10,000)</u> | <u>(3,000)</u> |
| Outstanding - End of period | <u>235,000</u> | <u>118,000</u> |

For the three and nine months ended December 31, 2022, included in research and development expenses (salaries and benefits) is \$19,455 and \$51,505, respectively, (2021 - \$nil and \$nil) (note 8) of stock-based compensation and included in general and administrative expenses (salaries and benefits) is \$8,555 and \$22,626, respectively, (2021 - \$nil and \$nil) (note 9) of stock-based compensation. Subsequent to December 31, 2022, 180,181 RSUs were granted to employees.

8. Research and development

| | <u>Three months ended December 31</u> | | <u>Nine months ended December 31</u> | |
|---|---|----------------|--|------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| | \$ | \$ | \$ | \$ |
| Salaries and benefits | 447,064 | 663,685 | 1,537,744 | 1,818,535 |
| Amortization of deferred development costs | 105,375 | - | 316,127 | - |
| Laboratory operation | 112,767 | 112,152 | 295,255 | 254,368 |
| Amortization of property and equipment | 53,844 | 59,031 | 141,629 | 176,353 |
| Rent | 46,405 | 42,353 | 137,866 | 94,432 |
| Analyses and testing | 12,858 | 10,956 | 44,406 | 49,995 |
| Travel and meals | 7,316 | 7,052 | 13,499 | 13,608 |
| Inventory written off to research and development | - | - | - | 132,186 |
| Gross research and development expenses | <u>785,629</u> | <u>895,229</u> | <u>2,486,526</u> | <u>2,539,477</u> |
| Allocated to deferred development costs | - | (623,217) | - | (1,587,269) |
| Net research and development expenses | <u>785,629</u> | <u>272,012</u> | <u>2,486,526</u> | <u>952,208</u> |

For the three and nine months ended December 31, 2022, research and development expenses have been reduced by COVID-19 subsidies of \$nil and \$nil, respectively, (2021 - \$18,428 and \$225,309) from the Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy programs (“CERS”).

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For the three and nine months ended December 31, 2022, research and development expenses have been reduced by PIC funding of \$185,233 and \$285,862, respectively, (note 5) (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 nine months ended December 31, 2021.

9. General and administrative

| | Three months ended December 31 | | Nine months ended December 31 | |
|--------------------------------|-----------------------------------|------------|----------------------------------|------------|
| | 2022 \$ | 2021 \$ | 2022 \$ | 2021 \$ |
| Salaries and benefits | 660,821 | 537,857 | 1,699,547 | 1,637,780 |
| Investor relations | 80,385 | 98,566 | 335,926 | 404,637 |
| Professional fees | 41,309 | 86,979 | 311,435 | 315,006 |
| Office supplies and services | 116,130 | 88,018 | 308,464 | 263,977 |
| Travel and meals | 14,750 | 4,757 | 77,068 | 26,790 |
| Transfer agent and filing fees | 1,010 | 5,489 | 45,857 | 87,888 |
| Financing expense | 18,647 | 40,952 | 35,608 | 40,952 |
| Other | 8,639 | 8,725 | 26,433 | 33,724 |
| | 941,691 | 871,343 | 2,840,338 | 2,810,754 |

For the three and nine months ended December 31, 2022, general and administrative expenses have been reduced by \$nil and \$nil, respectively, (2021 - \$5,862 and \$114,864) from COVID-19 subsidies received from the CEWS program.

10. Basic and diluted loss per share

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

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|--------------------|--|--------------------|
| | 2022 \$ | 2021 \$ | 2022 \$ | 2021 \$ |
| Loss for the period, being loss attributable to common shareholders - basic and diluted | (16,303,246) | (1,506,823) | (23,533,464) | (6,042,170) |
| | Shares | Shares | Shares | Shares |
| Weighted average common shares - basic and diluted | 108,728,742 | 108,542,044 | 108,728,742 | 108,551,058 |
| | \$ | \$ | \$ | \$ |
| Basic and diluted loss per share | (0.15) | (0.01) | (0.22) | (0.06) |

For the three and nine months ended December 31, 2022, the Company excluded all potential common share equivalents from the diluted loss per share calculation as they were anti-dilutive.

11. 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 nine months ended December 31, 2022, included in general and administrative expenses (management fees) are \$280 and \$897, respectively, (2021 - \$207 and \$2,312), for services provided to the Company. At December 31, 2022, \$280 (March 31, 2022 - \$522) of this amount is included in accounts payable and accrued liabilities.
- For the three and nine months ended December 31, 2022, included in interest and other income is \$nil and \$145, respectively, (2021 - \$198 and \$3,931) for management services provided by the Company.

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 6 for details.

In relation to the Secured Loan (see note 4), 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 and nine months ended December 31, 2022, Burcon recorded \$63,123 and \$70,575, respectively. (2021 - \$nil and \$nil) of interest expense related to the Secured Loan.

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12. Key management compensation

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

| | Nine months ended December 31 | |
|---------------------|--|----------------|
| | 2022 | 2021 |
| | \$ | \$ |
| Short-term benefits | 560,632 | 517,164 |
| Option-based awards | 226,730 | 426,966 |
| | <u>787,362</u> | <u>944,130</u> |

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

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

13. Financial instruments

Credit risk

The financial instruments that expose the Company to a concentration of credit risk are cash and cash equivalents, 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.

The credit risk associated with the loan to Merit Foods and royalty receivable has increased significantly during the three and nine months ended December 31, 2022 (see note 6). During the three and nine months ended December 31, 2022, the Company recorded expected credit loss provisions of:

- a) \$4,333,630 and \$4,358,630, respectively, (2021 - \$nil and \$nil) related to the loan receivable from Merit Foods, resulting in a total lifetime expected credit loss of \$4,358,630 (March 31, 2022 - \$83,000); and
- b) \$167,692 and \$167,692, respectively, related to royalty receivable from Merit Foods, resulting in a total lifetime expected credit loss of \$167,692 (March 31, 2022 - \$nil).

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, short-term deposits that earn interest at fixed interest rates, and the Secured Loan 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

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the three and nine months ended December 31, 2022, the weighted average interest rate earned on the Company's cash and cash equivalents was 2.8% and 1.4% per annum, respectively, (2021 – 0.35% and 0.42% per annum). The impact of a 1% strengthening or weakening of interest rates on the Company's cash and cash equivalents at December 31, 2022 is estimated to be a \$16,000 increase or decrease in interest income per year.

Liquidity risk

The Company manages liquidity risk through the management of its capital structure (note 14). It also manages liquidity risk by monitoring actual and forecasted cash flows taking into account current and planned operations. The Company's estimated minimum contractual undiscounted cash flow requirement for its financial liabilities at December 31, 2022 is \$4,844,517, of which \$719,091 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 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. As at December 31, 2022, an expected credit loss provision of \$4,358,630 has been recorded against the loan receivable balance (note 6).

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

| As at December 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 | - | 1,608,952 | - | 1,608,952 |
| Amounts receivable | - | 390,169 | - | 390,169 |
| Total | - | 1,999,121 | - | 1,999,121 |
| Financial liabilities | | | | |
| Accounts payable and accrued liabilities | - | - | 584,847 | 584,847 |
| Secured loan | - | - | 4,070,575 | 4,070,575 |
| Total | - | - | 4,655,422 | 4,655,422 |

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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 |

Currency risk

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

| | December 31, 2022 | March 31, 2022 |
|--|-------------------|----------------|
| U.S. Dollars | | |
| Cash and cash equivalents | 79,609 | 69,402 |
| Amounts receivable | - | - |
| Accounts payable and accrued liabilities | (30,649) | (5,504) |
| Net exposure | 48,960 | 63,898 |
| Canadian dollar equivalent | 66,311 | 79,847 |

Based on the above net exposure at December 31, 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.

14. Capital disclosures

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

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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, 2022.

15. 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 nine months ended December 31, 2022 and 2021, all revenues were generated in Canada.

16. Subsequent event

Subsequent to December 31, 2022, 180,181 RSUs were granted to employees (note 7(d)).