

**BURCON NUTRASCIENCE CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
THREE AND NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006**

The following Management's Discussion and Analysis has been prepared as at February 14, 2008 to provide a meaningful understanding of Burcon NutraScience Corporation's ("Burcon" or the "Company") operations, performance and financial condition for the three and nine months ended December 31, 2007. This information should be read in conjunction with the consolidated financial statements for the years ended March 31, 2007 and 2006 and the related notes therein that are prepared in accordance with Canadian generally accepted accounting principles. Additional Company information is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**FORWARD-LOOKING STATEMENTS**

From time to time, the Company or its employees may provide information containing forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, plans and timing for the introduction or enhancement of our products, statements about future market conditions, supply and demand conditions, and other expectations, intentions and plans contained in these statements that are not historical fact. Our expectations regarding the prospect for future success depend upon our ability to develop and sell products, which we do not produce today and cannot be sold without further research and development. When used in these statements, the words "goal", "intend", "believes" and "potential" and similar expressions, generally identify forward-looking statements. These statements reflect our current expectations. They are subject to a number of risks and uncertainties. In light of the many risks and uncertainties surrounding the development of a source of protein from canola meal, readers should be cautioned not to place undue reliance on such forward-looking statements. The Company's actual future results may differ significantly from those stated in any forward-looking statements.

**OVERVIEW**

Burcon is a research and development company developing a portfolio of composition, application and process patents around its plant protein extraction and purification technology. The goal of Burcon's research is to develop its patented process to utilize inexpensive oilseed meals for the production of purified plant proteins that exhibit certain nutritional, functional or nutraceutical profiles. Burcon, in conjunction with Archer Daniels Midland Company (ADM), is currently focusing its efforts on developing the world's first commercial canola proteins, Puratein<sup>®</sup> and Supertein<sup>™</sup>. Canola, recognized for its nutritional qualities, is Canada's largest oilseed crop and the second-largest oilseed crop in the world after soybeans. Burcon's goal is to develop Puratein<sup>®</sup> and Supertein<sup>™</sup> to participate with soy, dairy and egg proteins in the expanding multi-billion-dollar protein ingredient market, with potential uses in prepared foods, nutritional supplements and personal care products.

**OPERATIONAL HIGHLIGHTS**

Burcon announced during the first quarter that it was proceeding to pursue regulatory recognition for its canola proteins, Puratein<sup>®</sup> and Supertein<sup>™</sup>, and has amended the license and development agreement with ADM to expedite the process. Under the terms of the amendment, there is now a defined cost-sharing structure for all of the third-party expenses incurred in the regulatory recognition process. The amendment provides that either ADM or Burcon will reimburse the other on the occurrence of certain events. If ADM chooses not to proceed with the license under

the License and Development Agreement and terminates it in accordance with specific provisions under the agreement, then Burcon will reimburse ADM for its share of the costs incurred in the regulatory recognition process. Alternatively, if ADM chooses to proceed with the license then ADM will reimburse Burcon for all of its costs incurred in the regulatory recognition process. The total cost of the regulatory process, originally estimated at US\$1.1 million, has been revised to US\$977,000, with Burcon's share now estimated at US\$617,000 as compared to US\$740,000 as previously disclosed.

Canola protein does not form part of the traditional North American human diet and as such certain scientific studies including toxicology assessments, such as feeding trials, are undertaken by third-party contract research organizations. These feeding trials, along with the required scientific studies, were initiated during the second quarter. The scientific studies are expected to be completed within the next quarter and are being prepared to a standard to support the United States Generally Regarded as Safe ("GRAS") affirmation process as well as to enable their use in making application for regulatory approval under the Novel Foods process in the European community and in other countries such as Canada. To-date, Burcon has incurred approximately \$376,000 (US\$373,000) in costs associated with this project and expects to incur a further US\$244,000 in the next quarter.

During the first and second quarters, the Winnipeg Technical Centre ("WTC") focused on the production of samples of canola protein isolates Puratein<sup>®</sup> and Supertein<sup>™</sup> that were sent for toxicology studies and also to potential customers for testing. During the third quarter, the WTC continued work on large-scale production of Puratein<sup>®</sup> and Supertein<sup>™</sup> to facilitate work with ADM's customers through material transfer agreements.

## **INTELLECTUAL PROPERTY**

During the first quarter, Burcon announced that it had been granted two U.S. patents for the novel uses of Burcon's canola protein isolate, Supertein<sup>™</sup>, as a functional component in food compositions. These patents cover important functional characteristics for the use of Burcon's canola protein Supertein<sup>™</sup> in food compositions generally and a canola protein isolate fortified beverage formulated from Supertein<sup>™</sup>.

During the current quarter, Burcon also announced that it had been granted a United States patent over a process for the production of flax protein isolates. This patent covers an improved process for the production of flax protein isolates and includes an initial step of removing mucilage from flax seed prior to flax oil and protein removal. The innovations protected by this patent result in a higher protein yield and an improved product.

Burcon now holds eight U.S. patents over canola and flax protein processing technology and canola protein isolate applications. Burcon's canola protein Supertein<sup>™</sup>'s functional applications which are embodied in these patents, enable its use in a variety of food products to replace, wholly or partially, other ingredients including proteins. In addition, Burcon has a further 34 patent applications currently filed with the U.S. Patent and Trademark Office.

Burcon has also filed applications for most of its inventions internationally under the Patent Cooperation Treaty of the World Intellectual Property Organization. Together with patents issued in other countries, Burcon now holds a total of 44 issued patents covering inventions that include the 8 granted U.S. patents. Currently, Burcon has approximately 200 additional patent applications that are being reviewed by the respective patent offices in various countries worldwide.

It is Burcon's strategy to ensure that its innovative protein extraction technology, applications and signature characteristics of its proteins are protected on a worldwide basis. Although Burcon expends significant resources and efforts to patent its discoveries and innovations, there can be no assurances that any of Burcon's patent applications will result in the issuance of patents, or any patents issued to Burcon will provide it with adequate protection or any competitive advantages, or that such patents will not be successfully challenged by any third parties.

Burcon continued its work on research activities directed at optimizing its technologies with the goal of providing additional patenting opportunities in the areas of processing, applications and compound patents.

## **INVESTOR RELATIONS**

During the first and third quarters, First Standard Capital Partners ("First Standard") did not provide nor charge for any investor relations services. On December 5, 2007, First Standard provided its notice of termination of its investor relations agreement with Burcon.

In the second quarter, Mr. Roderick Adams of London, United Kingdom provided his notice of termination of his investor relations agreement with Burcon due to his other professional commitments. Mr. Adams was appointed in October 2006 to assist Burcon with communicating its corporate message to European investors. Over the past ten months, Mr. Adams has assisted Burcon with its investor relations activities and communication strategies in Europe.

Since 2003, Burcon has been working with Axino AG in Germany to assist Burcon in developing its investor relations program in Europe. Going forward, Burcon intends to work exclusively with Axino to further investor awareness in Europe. Burcon's management believes that working with a single investor relations consultant in Europe will provide a central point of contact for investor communications and will also be more cost-effective.

## **RESULTS OF OPERATIONS**

For the quarter and nine months ended December 31, 2007, Burcon recorded a loss of \$1,011,445 (\$0.04 per share) and \$2,650,602 (\$0.11 per share), respectively, as compared to \$920,051 (\$0.04 per share) and \$2,606,389 (\$0.11 per share), respectively, for the same periods in 2006. Of the loss amounts, \$305,886 and \$535,290 (2006 - \$171,589 and \$483,481) related to stock-based compensation (a non-cash) expense for the three and nine months ended December 31, 2007, respectively. In addition, Burcon recorded non-cash financing expense of \$172,782 in the second quarter of fiscal 2007 relating to share purchase warrants issued to guarantors for the rights offering completed during that quarter. The following provides a comparative analysis of significant changes in major expenditures items.

**Research and Development (R&D) expenses** – R&D expenses totalled \$556,783 and \$1,470,379 for the quarter and nine months ended December 31, 2007, respectively, as compared to \$440,100 and \$1,131,340, respectively, for the same periods in 2006. Components of R&D expenses are disclosed in note 5 to the consolidated financial statements. Included in salaries and benefits is stock-based compensation expense of approximately \$92,000 and \$150,000 for the three and nine months ended December 31, 2007, respectively (2006 – approximately \$40,000 and \$112,000). After taking this non-cash component into account, the increase in salaries and benefits are attributable mainly to the bonus paid during the second quarter to a R&D officer

relating to fiscal 2005 to 2007. The balance of the increase is due mainly to the addition of a research associate and normal salary increases.

The increase in analyses and testing expenditures in the current quarter is due almost entirely to \$123,000 paid towards regulatory feeding trials, offset by external meal processing costs in the comparative quarter of about \$89,000. The remaining increase for the nine-month period is mainly attributable to approximately \$177,000 paid during the second quarter towards regulatory feeding trials, a late billing of approximately \$11,000 related to the external production of large quantities of canola meal in November 2006 and increased sample testing and courier expenses related to the preparation of samples for toxicology studies.

The increase in laboratory operation expenses for the quarter ended December 31, 2007 over the prior year is due mainly to higher repairs and maintenance costs on older equipment, higher utilities and supplies costs associated with larger production runs being done at the technical centre. The slight increase for the nine month period is due to higher utilities and supplies costs as noted, offset by roof repairs of approximately \$18,000 in the first quarter in fiscal 2007.

**General and Administrative (G&A) expenses** – G&A expenses totalled \$335,251 and \$856,709 for the three and nine months ended December 31, 2007, respectively, as compared to \$249,439 and \$878,490 for the same periods in 2006. Components of G&A expenses are disclosed in note 6 to the consolidated financial statements. Included in salaries and benefits is stock-based compensation expense of approximately \$106,000 and \$231,000 (2006 - \$101,000 and \$284,000) for the three and nine months ended December 31, 2007, respectively. During the second quarter, Burcon paid bonuses totalling \$75,000 relating to fiscal years 2005 to 2007 to senior officers of the Company. The remaining increase in the cash component of salaries and benefits for the current quarter and nine-month period as compared to the same periods in 2006 is attributable to the salary increase of a Company officer, offset by the departure of the patent legal counsel and a decrease in the number of board of directors' meetings held.

After taking into account approximately \$90,000 and \$111,000 (2006 – approximately \$10,000 and \$22,000) in stock-based compensation expense for the three and nine months ended December 31, 2007, respectively, that are included in investor relations expense, the decrease of approximately \$9,000 for the three-month period can be attributed to the resignation of Archie Adams and First Standard (decrease of about \$25,000), offset by an increase of about \$11,000 relating to European advertisement and investor relations conference. The increase in the cash expense of about \$28,000 for nine month period over the prior year is attributed to a decrease of approximately \$13,000 for Adams and First Standard, travel and conference expenses of approximately \$26,000 incurred for a European roadshow and European advertising expenses of about \$8,000, website redevelopment of about \$4,000.

## Professional fees

	Three months ended		Nine months ended	
	December 31		December 31	
	2007	2006	2007	2006
Regulatory and intellectual property	\$ 114,762	\$ 229,882	\$ 314,790	\$ 544,193
Consulting and other	25,567	23,385	79,389	42,867
Legal	(1,020)	4,407	7,527	10,995
	\$ 139,309	\$ 257,674	\$ 401,706	\$ 598,055

The decrease in the regulatory and intellectual property expenses over the comparative quarter can be attributed to two patents that had entered the National Phase in the second quarter of fiscal 2007 with the related costs affecting the higher third quarter expenses as well. These patent-related filing fees were also higher during the first quarter of fiscal 2007 due to patents that had entered national applications in late fiscal 2006. The expenses relate mostly to foreign agency fees and filing fees with respect to these patents. There were no patents that entered National Phase during the first three quarters in the current year and Burcon does not expect any more patents to enter National Phase until the last quarter of fiscal 2008. After taking into account stock-based compensation for consulting expenses, the increase in consulting fees for the nine month period of approximately \$30,000 can be attributed to the appointment of Mondo Capital Partners in October 2006 for corporate development activities. The services for Mondo were terminated on December 31, 2007.

**Management fees** – Included in management fees is stock-based compensation expense of approximately \$7,000 and \$21,000 (2006 - \$16,000 and \$50,000) for the three and nine months ended December 31, 2007, respectively, related to corporate advisory services provided by a consultant. There were also increases of approximately \$10,000 and \$15,000 for the three and nine-month periods for fees charged by a related party for general corporate and legal services. The increase is due to one of Burcon's officers assuming the duties of the patent legal counsel and also to rate increases that became effective in October 2006.

## LIQUIDITY AND FINANCIAL POSITION

As at December 31, 2007, the Company's cash position amounted to \$4,649,899, compared to \$6,172,067 as at March 31, 2007. The net cash used in operations for the quarter ended December 31, 2007, measured in terms of cash flows from operating activities, before changes in non-cash working capital, amounted to \$656,714 and \$1,940,873, as compared to \$692,564 and \$1,775,739 for the three and nine months ended December 31, 2007, respectively. The slight decrease in the net cash used in operations for the current quarter from the comparative quarter can be attributed mainly to the expenses of approximately \$123,000 related to feeding trials during the current quarter, offset by a decrease in patent legal fees and expenses of about \$115,000. The increase in the net cash used in operations for the nine-month period can also be attributed to about \$300,000 in expenses relating to the feeding trials, bonuses of \$100,000 paid, offset by a decrease in patent legal fees and expenses of about \$226,000.

There were no significant capital expenditures in the current quarter or in the nine-month period.

During the current quarter, Burcon received proceeds of \$92,080 from the exercise of stock options for 77,066 common shares at a weighted average exercise price of \$1.19 per share. For the nine months ended December 31, 2007, Burcon received proceeds of \$594,112 from the exercise of stock options for 381,033 common shares at a weighted average exercise price of \$1.56 per share. As at December 31, 2007, Burcon's working capital was \$4,559,015, compared to \$5,973,889 at March 31, 2007. Subsequent to the quarter-end, an employee exercised stock options to acquire 10,000 common shares an exercise price of \$1.70 per share. Burcon may invest up to \$340,000 on property and equipment over the next twelve months. Subsequent to the quarter-end, Burcon paid approximately \$75,000 in costs associated with the regulatory recognition process and may incur an additional \$244,000 within the next quarter. Burcon also expects to incur up to \$450,000 in patent legal fees and disbursements for the next twelve months. Given these estimates, the Company's management believes that it has sufficient resources to fund its expected level of operations and working capital requirements to November 2009. This estimate excludes potential proceeds from any outstanding stock options or warrants as at the date of this MD&A that may be exercised.

Information regarding the Company's outstanding common shares and convertible securities are disclosed in notes 2 to the consolidated financial statements. As at the date of this MD&A, there were 25,159,259 common shares outstanding, 2,177,334 stock options outstanding with a weighted average exercise price of \$2.10 per share.

#### **QUARTERLY FINANCIAL DATA**

(Unaudited, in thousands of dollars, except per-share amounts)

	<b>Quarters ended</b>			
	December 31,	September 30,	June 30, 2007	March 31, 2007
	2007	2007		
Interest and other income	58	65	62	58
Loss for the period	(1,011)	(943)	(697)	(941)
Basic and diluted loss per share	(0.04)	(0.04)	(0.03)	(0.04)

	<b>Quarters ended</b>			
	December 31,	September 30,	June 30, 2006	March 31, 2006
	2006	2006		
Interest and other income	64	35	21	23
Loss for the period	(920)	(944)	(742)	(801)
Basic and diluted loss per share	(0.04)	(0.04)	(0.03)	(0.04)

Included in the first three quarters' losses is stock-based compensation of about \$136,000 and \$93,000 and \$306,000, respectively. Included in the losses of quarters one to four of fiscal 2007 is stock-based compensation expense of approximately \$155,000, \$157,000 and \$172,000 and \$163,000, respectively (FY 2006 Q4 - \$163,000). Also included in the loss in the second quarter of fiscal 2007 is the non-cash financing expense of about \$173,000 related to the warrants issued to the guarantors for the rights offering.

Included in the loss of the current quarter is approximately \$123,000 relating to the feeding trials. Included in the second quarter were bonuses totalling \$100,000 relating to fiscal 2005 – 2007 and expenses of about \$177,000 relating to the feeding trials.

Beginning in the last quarter of fiscal 2006, patent legal fees and disbursements averaged about \$162,000 per quarter, reaching a high of \$229,000 in the third quarter of fiscal 2007. As discussed above, this was due to several of Burcon's patents entering National Phase during that year. The loss also increased in the last two quarters of the fiscal 2007 due to the R&D projects carried out at an external meal processing facility.

#### **RELATED PARTY TRANSACTIONS**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Management fees	\$ 30,081	\$ 20,159	\$ 83,836	\$ 67,004
Office and equipment rental	5,428	5,429	16,283	16,787
Financing expense	-	-	-	88,361
	<b>\$ 35,509</b>	<b>\$ 25,588</b>	<b>\$ 100,119</b>	<b>\$ 172,152</b>

Burcon rents its head office premises from and shares certain office equipment with a company related by virtue of a common shareholder, directors and officers. The office and equipment rental amounts have been included in general and administrative expenses. In addition, professional services of two of the Company's officers and an administrative staff member are contracted through a management agreement with this related company. Of the management fees charged, \$2,118 was included in accounts payable and accrued liabilities as at December 31, 2007 March 31, 2007 – \$1,465).

One of Burcon's shareholder, with approximately 25% shareholding in the Company, provided a standby guarantee in the August 2006 rights offering. As consideration for providing this standby guarantee, this guarantor received a share purchase warrant entitling it to acquire 140,109 common shares of Burcon at \$2.30 per common share. The Company has recorded in general and administrative expenses \$88,361 as the estimated fair value of the warrant.

These transactions, occurring in the normal course of operations, are measured at the exchange amount by which is the amount of consideration established and agreed to by the related parties.

#### **SUBSEQUENT EVENT**

Subsequent to December 31, 2007, an employee exercised an option to acquire 10,000 common shares at an exercise price of \$1.70 per share.

#### **RISKS AND UNCERTAINTIES**

There have been no significant changes to the risks and uncertainties as outlined in the Management's Discussion and Analysis for the years ended March 31, 2007 and 2006.