

A close-up photograph of a row of protein supplement bottles in various colors: dark red, light blue, bright red, yellow, and dark blue. The bottles are arranged in a row, and the lighting creates highlights and shadows on their surfaces. The text "A New World in Protein" is overlaid in the center of the image in a white, serif font.

*A New World in Protein*

# Letter to Shareholders



## **FELLOW SHAREHOLDERS:**

Welcome to Burcon NutraScience Corporation's tenth annual report. I am pleased to report on what has not only been an excellent year for our company but also an exceptional decade for our company.

Over the past ten years, we have maintained a laser beam focus on our goal of bringing Burcon's canola protein isolates, Puratein® and Supertein™, to market. And we are closer than ever to making that a reality. We believe that Puratein® and Supertein™ have enormous economic potential and as such, we have strived to build an intellectual property portfolio to protect our inventions, innovations, and know-how.

## **PATENTS**

During the year we were granted two additional U.S. patents for the novel uses of Burcon's Supertein™ canola protein isolate as a functional component in food compositions. As at the time of writing, Burcon now has sixty-three granted patents worldwide, including eight U.S. patents and well over two hundred additional patent applications including thirty-eight additional U.S. patent applications. Protecting the commercial applications of our technology is a top priority, and we continue to file additional patents regularly.

## **FACILITIES**

The research supporting our patenting process has been carried out in Burcon's own Winnipeg Technical Centre where we have operated for the past nine years. Our Winnipeg Technical Centre includes not only our 10,000 litre pilot processing plant which produces commercial grade canola protein isolates but also our analytical lab and our functionality lab. We have benefited greatly from the nearly ten years of canola protein processing research that we have conducted in our facility. In our drive to modify and optimize our technology we have achieved not only major protein quality improvements but also yield and cost of production improvements.

## PEOPLE

The real strength though behind our patenting success does not stem from our private research facility but rather from our dedicated professional staff. If you read through Burcon's patents you will notice that it is not just our Ph.D. scientists or engineers whose names appear as inventors; in fact, nearly half of our team are listed and they in turn are supported by all of the other members of our team. Over the past ten years, Burcon's employees have developed an exceptional portfolio of intellectual property and know-how.

## WORLD-CLASS PARTNER

Building on our five-year partnership with Archer Daniels Midland (ADM), we took the major step during the past year of conducting the scientific studies to support a U.S. GRAS affirmation process. This is a critical event in our development as we strive to commercialize our canola protein isolates, and we are on the verge of accomplishing this milestone. ADM has been an excellent partner to work with in developing Puratein® and Supertein™ for many reasons, most importantly because ADM has the experience in taking new ingredients from a concept to reality. And ADM has an excellent team of professionals working on the numerous aspects of developing canola protein isolates to compete in the protein ingredient industry.

## A CHANGING WORLD

Over the past ten years, and particularly over the past few years, we have benefited from a changing world and a changing marketplace for our proteins. Almost daily we read about the growing need to feed a burgeoning middle class in the developing world, most notably in China, India and Brazil. An equally important trend is the continued growth in demand for food and beverage products that meet health and wellness ideals. Lastly, businesses and consumers alike desire truly "sustainable" opportunities. All of these trends bode well for Burcon's products, technology, and general business opportunity.

In the coming year, Burcon will remain focused on commercializing our Puratein® and Supertein™ canola protein isolates. With that commercialization goal in mind, we will continue to work with the major food and beverage companies who have entered into Material Transfer Agreements (MTAs) for the purpose of conducting product trials. We will also continue to work with ADM as we finalize the regulatory recognition process for U.S. GRAS status for Puratein® and Supertein™. We have the additional goal of pursuing European novel foods status in the coming year, a process that is already underway. Finally, we will continue to diligently pursue opportunities to strengthen our intellectual property base wherever possible.

## VISION

Above all else, what has brought Burcon to where it is today is perhaps the least tangible asset of all and that is the shared vision of our employees, management and board of directors. This intangible asset is the essential ingredient that has enabled us to bring what was initially just an idea and a bench-top technology to the organization that we are today. Our shared vision is what has enabled our past innovation and what guides us towards our goal of creating a New World In Protein.



Allan Yap  
Chairman and CEO

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Years ended March 31, 2008 and 2007

(All amounts following are expressed in Canadian dollars unless otherwise indicated.)

This Management's Discussion and Analysis ("MD&A") has been prepared as at July 18, 2008 to provide a meaningful understanding of Burcon NutraScience Corporation's ("Burcon" or the "Company") operations, performance, and financial condition for the year ended March 31, 2008. The following information should be read in conjunction with the Company's audited consolidated financial statements and related notes therein that are prepared in accordance with Canadian generally accepted accounting principles. Additional information relating to Burcon 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 OF THE COMPANY AND ITS BUSINESS

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® and Supertein™. 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® and Supertein™ 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.

## LICENSE AGREEMENT

Burcon has a license and development agreement (the Agreement) with ADM to commercialize Burcon's canola protein ingredients, including Puratein® and Supertein™ (the "Products"). The Agreement outlines the process by which the two parties will carry out final development of Burcon's technology to produce Puratein® and Supertein™ canola protein isolates. The Agreement contemplated that ADM would develop applications for the Products, obtain regulatory approvals, construct one or more full-scale production facilities and have the exclusive right to produce, promote, market and sell the Products worldwide.

Upon completion of the development period set out in the Agreement, and the parties' agreement on the royalty rate and minimum royalties payable by ADM during the term of the Agreement, Burcon would grant ADM an exclusive, royalty-bearing, worldwide license. ADM would pay Burcon royalties based on sales of Products by ADM, its affiliates, or sublicensees.

In June 2007, Burcon announced that, with the intention of expediting the regulatory approval process, Burcon and ADM agreed to amend the Agreement to jointly participate in the efforts to obtain Generally Recognized as Safe ("GRAS") status for the Products. 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 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 is currently estimated at US\$977,000, versus US\$1.1 million as disclosed in the prior year's MD&A, with Burcon's share estimated at US\$617,000 (versus US\$740,000 as previously disclosed). As of the date of this MD&A, a total of US\$837,000 has been expended, with Burcon's share at US\$477,000 (or C\$482,000).

Burcon has obligations to maintain and prosecute its patents in certain countries specified in the Agreement as well as to defend or enforce its patents.

## OPERATIONAL HIGHLIGHTS

Beginning in early fiscal 2007, Burcon, in conjunction with ADM, focused its work on the large-scale production of Supertein™ and Puratein®. Large quantities of both proteins were needed in order to provide ADM's third-party customers with samples for applications testing. These third-party applications tests will ultimately form part of the regulatory process in that they help to establish the probable commercial uses for Burcon's proteins.

Since 2007, Burcon has entered into a number of material transfer agreements ("MTAs") with certain globally recognized food and beverage companies as well as companies involved in the fields of consumer nutritional products and medical nutrition products. These MTAs enable Burcon to provide samples of Burcon's proteins to these companies to test in food matrices, beverages, nutritional and other products while protecting certain intellectual property interests of all of the parties involved. These MTAs define the rights and obligations of Burcon, ADM and the food and beverage companies. The rights defined include intellectual property issues, confidentiality terms and matters governing the publication of findings.

In November 2006 and February 2007, Burcon processed a large quantity of meal through an external facility, and together with process controls and improvements, produced the best final product quality to-date. These products have been sent as samples to ADM's third-party customers who have entered into MTAs. Discussions among Burcon, ADM and food and beverage companies are ongoing and it is anticipated that Burcon will enter into further MTAs in the future.

As noted above, Burcon announced in June 2007 that it was proceeding to pursue regulatory recognition for its canola proteins, Puratein® and Supertein™. 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. The major scientific studies relating to the U.S. GRAS self-affirmation process have been completed and now form a part of the larger dossier of data that also includes scientific information about canola, how canola is grown, handled and processed, Burcon's protein extraction process and finally the intended uses of the proteins in foods, beverages etc. (the process, the products and the intended applications of the products). A panel of qualified experts must review this dossier and affirm unanimously that the proteins are both safe and generally recognized as safe for their intended use in order for the proteins to be GRAS.

Although the process is underway, Burcon cannot provide a specific date as to when it will be complete. To-date, nothing has come to Burcon's attention that would imply that the proteins are unsafe for their intended use.

## INTELLECTUAL PROPERTY

During the second quarter of fiscal 2007, Burcon announced that it had been granted a patent by the European Patent Office that covers a novel protein isolate derived from any flax oilseed, including the low linolenic acid variety Linola™ oilseed, and the production thereof. In addition to the U.S. patents over canola protein processing technology and canola protein isolate uses, Burcon also holds a number of patent applications that are applicable to oilseeds and oilseed meals other than canola. This is the first exclusively non-canola based technology over which Burcon has obtained patent protection. It is expected that Burcon will continue to devote some of its resources to opportunities beyond its core canola protein isolate technology.

Burcon also announced during the same quarter in fiscal 2007 that it had been granted a U.S. patent over a novel and commercially important component of its protein extraction and purification technology. This patent covers critical processing conditions which enable an improved yield of oilseed protein isolate in an oilseed meal aqueous extraction procedure. These unique processing conditions produce a marked improvement in protein recovery and also improve the functional and nutritional qualities of the protein isolates.

In May 2007, Burcon announced that it was granted two U.S. patents for the novel uses of Burcon's canola protein isolate Supertein™ as a functional component in food compositions. The newly granted patents cover important functional characteristics for the use of Burcon's canola protein isolate Supertein™ in food compositions generally and a canola protein isolate fortified beverage formulated from Supertein™.

Also during the year, Burcon 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™'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 thirty-eight 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 sixty-three issued patents covering inventions

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Years ended March 31, 2008 and 2007

that include the eight granted U.S. patents. Currently, Burcon has over two hundred additional patent applications that are being reviewed by the respective patent offices in various countries worldwide.

## RIGHTS OFFERING

During fiscal 2007, Burcon completed a rights offering of 2,192,128 common shares at \$2.30 per common share. The net proceeds of \$4.9 million are being used to continue the research and development of Burcon's protein extraction technology and for general working capital.

Three corporate shareholders each provided a standby guarantee to purchase such common shares that were available to be purchased, but not otherwise subscribed for, that would have resulted in a minimum of 1,095,884 common shares being issued under the rights offering. As consideration for providing a standby guarantee, these guarantors received share purchase warrants entitling the guarantors to acquire up to 273,970 common shares at an exercise price of \$2.30 per common share. These warrants had an expiry date of February 28, 2007 and were fully exercised. The Company recorded \$172,782 in general and administrative expenses as the estimated fair value of the warrants.

## INVESTOR RELATIONS

In December 2007, First Standard Capital Partners ("First Standard") provided its notice of termination of its investor relations agreement with Burcon. First Standard was engaged in August 2005 to assist Burcon with its investor relations activities. Mr. Maurice Boucher was primarily responsible for providing the investor relations services under the Agreement. Burcon has assumed the North American investors relations responsibilities internally.

Burcon paid First Standard \$2,500 per month for its services until February 2007 when the rate was reduced to \$500 per month. Burcon also granted an option to First Standard to purchase up to a total of 50,000 common shares at an exercise price of \$1.33 per share. The option had a term of three years from the date of grant and vested as to 33 1/3% on the date that was 8, 16 and 24 months from the date of grant, respectively. The option was fully exercised during the year. Burcon has recorded in G&A expenses approximately \$38,000 (2007 – \$22,500) in stock-based compensation expense relating to these stock options.

In August 2007, Burcon announced the resignation of Mr. Roderick Adams of London, United Kingdom. Mr. Adams was engaged in October 2006 to assist Burcon in its existing investor relations program in Europe. Burcon paid Mr. Adams £2,500 per month for performing the services under the agreement and reimbursed Mr. Adams for his reasonable out-of-pocket expenses and £300 per day for each day he accompanied Burcon's management on road

shows he had arranged for the Company in the United Kingdom or Europe. During the term of service, Mr. Adams 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 believes that working with a single investor relations consultant can cost-effectively provide investors in that region with a central point of contact for investor communications.

Burcon granted Mr. Adams an option to purchase up to a total of 70,000 common shares in the Company at an exercise price of \$2.45 per share. The option had a term of three years from the date of grant and vested one-third on the date that was 8, 16 and 24 months from the date of grant, respectively. Mr. Adams exercised the option for 23,300 common shares during the year. Burcon has recorded in G&A expenses approximately \$17,000 (2007 – \$11,000) in stock-based compensation expense relating to these stock options.

## SUMMARY OF OPERATING RESULTS

Years ended March 31 (in thousands of dollars, except share and per-share amounts)

	2008	2007	2006
Interest income	229	178	61
Research and development expenditures	2,157	1,655	1,302
Other expenditures	2,114	2,070	1,616
Loss for the year	(4,042)	(3,547)	(2,857)
Basic and diluted loss per share	(0.16)	(0.15)	(0.13)
Total assets	6,439	8,418	4,844
Total long-term liabilities	–	–	–
Cash dividends declared per-share	–	–	–
Weighted average shares outstanding (thousands)	25,039	23,633	21,535

## RESULTS OF OPERATIONS

Burcon has not generated any revenues from its technology and which it is continuing to develop. For the year ended March 31, 2008, the Company recorded a loss of \$4,042,376 (\$0.16 per share) as compared to \$3,546,630 (\$0.15 per share) in the prior year. Included in the loss amount is \$1,186,336 (2007 – \$646,380) of stock-based compensation (non-cash) costs. The other non-cash costs included in the loss for the year are amortization of

\$194,145 (2007 – \$234,775), financing costs of \$nil (2007 – \$172,782), and services received and settled in capital stock of \$30,004 (2007 – \$30,000). The following provides a comparative analysis of significant changes in major expenditures items.

### Research and development expenses

Components of research and development (“R&D”) expenditures are disclosed in note 5 to the consolidated financial statements. R&D expenses increased by approximately \$502,000 from fiscal 2007. After deducting stock-based (non-cash) compensation expense of about \$383,000 (2007 – \$152,000), salaries and benefits increased by approximately \$64,000, including a \$25,000 bonus payment made during the year that related to fiscal 2005 – 2007. The Winnipeg Technical Centre also hired a new employee during the year which contributed to about \$31,000 of the increase with the remaining increase attributable to annual salary adjustments.

Burcon made payments totaling \$397,000 (2007 – \$nil) during the year relating to the ongoing toxicology trials. Subsequent to the year-end, Burcon has incurred a further \$85,000 related to the trials.

Analyses and testing decreased by about \$153,000 from fiscal 2007 due primarily to costs incurred during fiscal 2007 for the large-scale production of meal at an external facility. This meal was later used to produce canola proteins that were sent as samples to ADM’s third-party customers for applications testing and will also be used for regulatory feeding trial studies. Laboratory operation costs increased by approximately \$4,000. Although repairs and maintenance expenses were relatively consistent with last year, increased utilities costs and lab expenses during the current year of approximately \$20,000 due to larger production runs were offset by the one-time rental expenses of about \$19,000 in the prior year.

### General and administrative expenses

Years ended March 31 (in thousands of dollars)

	2008	2007	2006
Salaries and benefits	821	635	612
Investor relations	386	204	131
Financing costs	–	173	152
Office supplies and services	78	83	75
Travel and meals	48	26	32
Other	31	33	28
	1,364	1,154	1,030

Of the total general and administrative (G&A) expenses, approximately \$720,000 (2007 – \$417,000) relate to stock-based compensation. Excluding the effect of stock-based compensation of about \$232,000 (2007 – \$33,000), investor relations expenses decreased by approximately \$17,000. The decrease is due primarily to the resignation of First Standard and Roderick Adams during the year, offset by expenses incurred for European conference, roadshow and advertising. Included in 2007 G&A expenses are financing expenses of about \$173,000 that related to the warrants issued to the guarantors of the rights offering.

### Professional fee expenses

Professional fees decreased by about \$170,000 from 2007. Of the decrease, about \$212,000 is attributable to patent legal fees and disbursements. Several of Burcon’s patents entered National Phase during last year that involved significant foreign agent and filing fees paid to various countries. Two additional patents also entered National Phase during the last quarter of the current year and it is expected that these fees will continue to be high into the first quarters of fiscal 2009. From inception to March 31, 2008, Burcon has expended approximately \$2.9 million on patent legal fees and disbursements to strengthen its patent portfolio worldwide and file new patents for new inventions.

### Management fees and services expenses

Management fees increased by about \$4,000 from the prior year. After taking into account a decrease in stock-based compensation expense of approximately \$18,000, management fees increased by about \$22,000. The increase is attributable to an officer assuming the patent portfolio work after the departure of the patent legal counsel.

## LIQUIDITY AND FINANCIAL POSITION

### Financial Position

At March 31 (in thousands of dollars)

	2008	2007	2006
Cash and cash equivalents	4,221	6,172	2,511
Amounts receivable	16	20	11
Property and equipment, net of amortization	764	894	976
Total assets	6,439	8,418	4,844
Shareholders’ equity	6,223	8,122	4,643

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Years ended March 31, 2008 and 2007

At March 31, 2008, the Company's cash position was \$4,220,679, as compared to \$6,172,067 at March 31, 2007. The net cash used in operations during the year ended March 31, 2008, measured in terms of cash flows from operating activities, before changes in non-cash working capital, totalled \$2,631,891, as compared to \$2,462,693 in the prior year. The increase of \$169,198 in net cash used in operations was due primarily to the expenses related to the toxicology trials, offset by a decrease in patent legal fees and disbursements as discussed in the Results of Operations section above.

The Company invested approximately \$65,000 in capital assets during the year, as compared to about \$153,000 during fiscal 2007. Of the amount invested in fiscal 2007, the Winnipeg facility invested in a piece of equipment for the improved processing methods that have been implemented.

The cash flow from financing activities during the current year related entirely to the exercise of options that provided proceeds of \$830,670. The rights offering from fiscal 2007 netted \$4.9 million. Option and warrant exercises during the prior year provided further proceeds of \$1.3 million.

At March 31, 2008, Burcon's working capital was \$4,203,646 (2007 – \$5,973,889). There were no committed capital acquisitions as at March 31, 2008. However, Burcon may incur up to \$340,000 in additional capital expenditures and approximately \$420,000 in patent legal fees and disbursements in fiscal 2009. Burcon expects to incur a further US\$140,000 relating to the regulatory recognition process. Under the terms of the amended agreement with ADM, Burcon's share (approximately \$482,000 incurred to-date) will be reimbursable should ADM proceed with the license agreement with Burcon.

The Company's management believes that it currently has sufficient resources to fund its expected level of operations and working capital requirements to at least November 2009, without taking into account potential proceeds from the exercise of any outstanding stock options.

## OUTSTANDING SHARE DATA

Information regarding the Company's outstanding common shares and convertible securities are disclosed in note 4 of the consolidated financial statements. As of the date of this MD&A, Burcon has 25,381,925 common shares outstanding and 1,954,668 stock options outstanding at a weighted average exercise price of \$2.18 per share.

## QUARTERLY FINANCIAL DATA

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

Quarters ended	Mar. 31 2008	Dec. 31 2007	Sep. 30 2007	Jun. 30 2007
Interest and other income	44	58	65	62
Loss for the period	(1,392)	(1,011)	(943)	(697)
Basic and diluted loss per share	(0.06)	(0.04)	(0.04)	(0.03)

Quarters ended	Mar. 31 2007	Dec. 31 2006	Sep. 30 2006	Jun. 30 2006
Interest and other income	58	64	35	21
Loss for the period	(941)	(920)	(944)	(742)
Basic and diluted loss per share	(0.04)	(0.04)	(0.04)	(0.03)

Included in the losses of each of the four quarters of fiscal 2008 is stock-based compensation expense of approximately \$136,000, \$93,000, \$306,000 and \$651,000 in quarters one to four, respectively (2007 – \$155,000, \$157,000, \$172,000 and \$163,000). Stock-based compensation expense increased in the last two quarters due to options granted to employees, directors and the European investor relations consultants late in the second quarter.

The higher loss incurred in the second quarter of the current year is due to bonuses of \$100,000 paid to officers of the Company relating to fiscal years 2005 – 2007 and to payments of about \$177,000 for the toxicology trials. Similar payments relating to the regulatory recognition process of about \$123,000 and \$96,000 were also made in quarters three and four, respectively.

Included in the loss in the second quarter of the prior year is the non-cash financing expense of about \$173,000 related to the warrants issued to the guarantors for the rights offering. The loss also increased in the last two quarters of the prior year due to the R&D projects carried out at the external meal processing facility.

Patent legal fees and disbursements averaged about \$162,000 per quarter for the first two quarters of fiscal 2007, reaching a high of \$229,000 in the third quarter. As discussed above, this was due to several of Burcon's patents entering National Phase during the prior year.

## RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in note 7 to the consolidated financial statements. The Company rents its head office premises from and shares certain office equipment with a company related by virtue of a common shareholder, directors and officers. During fiscal 2008, Burcon paid \$21,710 (2007 – \$22,210) to this company for the rental charges. 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 and, for the year ended March 31, 2008, Burcon paid \$109,134 (2007 – \$87,470) for these services. These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

One of the three guarantors who provided the standby guarantee under the fiscal 2007 rights offering is a shareholder with an approximate 25% shareholding in Burcon. This shareholder provided a standby guarantee to purchase a minimum of 560,435 common shares under the rights offering. As consideration for providing this standby guarantee, this guarantor received a share purchase warrant entitling it to acquire 140,109 common shares at an exercise price of \$2.30 per common share. Burcon has recorded in G&A expenses \$88,361 in fiscal 2007 as the estimated fair value of the warrant.

## RISKS AND UNCERTAINTIES

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. Factors that may contribute to or cause such differences include, but are not limited to, the following:

**Development and commercialization** – Burcon has not developed any commercial products. There can be no assurance that any of its products will meet applicable food regulatory standards, obtain regulatory approvals, receive public and industry acceptance as a food ingredient or dietary supplement or be sold at competitive prices that adequately exceed production and business costs.

**Patent and proprietary rights** – 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 third parties. Burcon cannot be assured that competitors will not independently develop products similar to the Company's products or manufacture products designed to circumvent the exclusive patent rights granted to the Company. Further, Burcon may need to incur significant expenditures in prosecuting claims against others whom it believes are infringing on its rights and by defending claims of intellectual property infringement brought by its competitors and others.

**History of operating losses and financing requirements** – Burcon has accumulated net losses of approximately \$26.2 million from its date of incorporation through March 31, 2008 and it expects such losses to increase as it continues to work with ADM to obtain regulatory approvals for the sale of its products. Burcon expects to continue to incur additional losses before it reaches the commercialization stage. There can be no assurances that additional funding will be available on acceptable terms. Burcon cannot predict if it will ever achieve profitability and, if it does, it may not be able to sustain or increase its profitability.

**Reliance on alliance partner** – The success of the Company's arrangement with its alliance partner, ADM, will depend on ADM's willingness and ability to continue to fulfill its obligations under the terms of the Agreement.

## OUTLOOK

In the coming year, Burcon will remain focused on commercializing our Puratein® and Supertein™ canola protein isolates. With that commercialization goal in mind, we will continue to work with the major food and beverage companies who have entered into MTAs for the purpose of conducting product trials. We will also continue to work with ADM as we finalize the regulatory recognition process for U.S. GRAS status for Puratein® and Supertein™ as well as pursuing European novel foods status, a process that is already underway. Finally, we will continue to diligently pursue opportunities to strengthen our intellectual property base wherever possible.

## Management's Responsibility for Financial Reporting

The consolidated financial statements contained in this Annual Report are the responsibility of management, and have been prepared in accordance with Canadian generally accepted accounting principles and include, when necessary, estimates based on management's best judgment. Financial information presented elsewhere in the Annual Report is under management responsibility and is consistent with that contained in the accompanying financial statements.

Burcon's policy is to maintain internal accounting and administrative systems, combined with disclosure controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements through its Audit Committee, which reviews the consolidated financial statements and reports thereon to the Board of Directors. The Audit Committee meets periodically with the external auditors and management to review their respective activities and to satisfy itself that each party is properly discharging its responsibilities. The external auditors have free access to the Audit Committee, with or without management, to discuss the scope of their audits, the adequacy of the system of internal control, and financial reporting matters.

The consolidated financial statements have been reviewed by the Audit Committee and, together with the other required information in the Annual Report, approved by the Board of Directors. In addition, the consolidated financial statements have been audited by PricewaterhouseCoopers LLP, whose report is provided herein.



Johann F. Tergesen  
President & Chief Operating Officer



Jade Cheng  
Chief Financial Officer

## Auditors' Report

### To the Shareholders of Burcon NutraScience Corporation

We have audited the consolidated balance sheets of Burcon NutraScience Corporation as at March 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss, and deficit and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Vancouver, British Columbia  
June 26, 2008

# Consolidated Balance Sheets

As at March 31, 2008 and 2007

	2008 \$	2007 \$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	4,220,679	6,172,067
Amounts receivable	15,893	19,503
Prepaid expenses and deposits (note 4)	183,402	77,866
	4,419,974	6,269,436
Property and equipment (note 3)	764,045	893,523
Goodwill	1,254,930	1,254,930
	6,438,949	8,417,889
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	216,328	295,547
<b>SHAREHOLDERS' EQUITY</b> (note 4)		
Capital stock	26,281,156	25,018,046
Contributed surplus	3,692,747	3,692,747
Options	2,464,737	1,585,192
Deficit	(26,216,019)	(22,173,643)
	6,222,621	8,122,342
	6,438,949	8,417,889

**NATURE OF OPERATIONS** (note 1)

**SUBSEQUENT EVENT** (note 10)

Approved by the Board of Directors



Dorothy Law, Director



Johann Tergesen, Director

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Operations, Comprehensive Loss, and Deficit

For the years ended March 31, 2008 and 2007

	2008 \$	2007 \$
<b>EXPENSES</b>		
Research and development (note 5)	2,157,617	1,655,199
General and administrative (notes 4 and 7)	1,363,897	1,153,608
Professional fees (note 4)	600,033	769,758
Management fees and services (notes 4 and 7)	147,946	144,164
Amortization	2,347	2,422
<b>LOSS FROM OPERATIONS</b>	<b>(4,271,840)</b>	<b>(3,725,151)</b>
<b>OTHER INCOME</b>		
Interest	229,464	178,521
<b>LOSS AND COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(4,042,376)</b>	<b>(3,546,630)</b>
<b>DEFICIT – BEGINNING OF YEAR</b>	<b>(22,173,643)</b>	<b>(18,627,013)</b>
<b>DEFICIT – END OF YEAR</b>	<b>(26,216,019)</b>	<b>(22,173,643)</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b> (note 6)	<b>(0.16)</b>	<b>(0.15)</b>
<b>NATURE OF OPERATIONS</b> (note 1)		

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2007

	2008 \$	2007 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	(4,042,376)	(3,546,630)
Items not affecting cash		
Amortization	194,145	234,775
Non-cash financing costs	–	172,782
Stock-based compensation expense	1,186,336	646,380
Services received and settled in capital stock	30,004	30,000
	(2,631,891)	(2,462,693)
Changes in non-cash working capital items		
Amounts receivable	3,610	(8,138)
Prepaid expenses and deposits	(9,891)	5,295
Accounts payable and accrued liabilities	(79,219)	93,964
	(2,717,391)	(2,371,572)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(64,667)	(152,569)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of capital stock	830,670	6,294,389
Share and warrant issue costs	–	(109,234)
	830,670	6,185,155
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(1,951,388)	3,661,014
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR</b>	6,172,067	2,511,053
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	4,220,679	6,172,067
<b>CASH AND CASH EQUIVALENTS CONSIST OF</b>		
Cash	43,905	28,432
Cash equivalents	4,176,774	6,143,635
	4,220,679	6,172,067
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES</b>		
Change in prepaid expenses and deposits	(95,645)	7,859

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

March 31, 2008 and 2007

## 1 Nature of operations

Burcon NutraScience Corporation (Burcon or the Company) is a research and development company that is developing its plant protein extraction and purification technology. To date, the Company has not earned revenues from its technology and is considered to be in the development stage. 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 (ADM), is currently focusing its efforts on developing the world's first commercial canola proteins, Puratein® and Supertein™. Burcon's goal is to develop Puratein® and Supertein™ to participate with soy, dairy and egg proteins in the protein ingredient market, with potential uses in prepared foods, nutritional supplements and personal care products.

On September 16, 2003, Burcon entered into a license and development agreement (the Agreement) with ADM to commercialize Burcon's canola protein ingredients, including Puratein® and Supertein™. The Agreement contemplates that ADM will develop applications for the products, obtain regulatory approvals, construct one or more full-scale production facilities and have the exclusive right to produce, promote, market and sell the products worldwide.

Upon completion of the development period set out in the Agreement, Burcon will grant ADM an exclusive, royalty-bearing, worldwide license to use and exploit Burcon's technology solely to make, have made, use, import and sell products, together with certain rights to grant sublicenses. ADM will pay Burcon royalties based on a royalty rate within a specified range based on the net revenues ADM realizes from sales of the products.

Under the Agreement, ADM must use its best efforts to obtain regulatory approval (GRAS status) from the U.S. Food and Drug Administration for the products (the Approval Date). At any time up to the Approval Date, ADM has the right to terminate the Agreement or waive its right to do so. Thereafter, the Agreement may only be terminated by either party in the event that the royalty rate or minimum royalties cannot be agreed upon by the parties or for a material breach of the other party's obligations under the Agreement.

In June 2007, Burcon and ADM agreed to amend the Agreement to expedite the regulatory recognition of Puratein® and Supertein™. The amendment provides that, if certain events occur, either ADM or Burcon will reimburse the other party for expenditures incurred in connection with the regulatory recognition process. If ADM chooses not to proceed with the license under the 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 is currently estimated at US\$977,000, with Burcon's share estimated as being US\$617,000.

## 2 Significant accounting policies

### Adoption of new accounting standards

On April 1, 2007, the Company adopted The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 1530, Comprehensive Income; and Section 3865, Hedges; and the amendments to CICA Handbook sections and accounting guidelines resulting from the issuance of these sections.

#### a) Financial Instruments – Recognition and Measurement

Under this new standard, all financial instruments are classified as one of the following: held-to-maturity investments, loans and receivables, held-for-trading, or available-for-sale. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net earnings. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits any non-derivative financial instruments to be designated as held-for-trading upon initial recognition.

All of the Company's financial instruments are recorded at amortized cost.

#### b) Comprehensive Income

This new standard requires the presentation of a statement of comprehensive earnings and its components. Comprehensive earnings include both net earnings and other comprehensive earnings. Other comprehensive earnings include unrealized gains and losses on available-for-sale investments, gains and losses on certain derivative instruments, and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized. This statement has been included in the Company's consolidated financial statements for the 2008 fiscal year and there were no components to be recognized in other comprehensive earnings.

#### c) Hedges

This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies. The Company has not designated any agreements as hedges.

These new standards have been adopted on a retroactive basis with no restatement of prior periods. Their adoption did not impact the Company's financial statements.

#### **Future accounting changes**

- a) On April 1, 2008, the Company will adopt two new accounting standards as follows:
- CICA Handbook Section 1535, Capital Disclosures, which requires disclosing information related to the objectives, policies, and processes for managing capital.
  - CICA Handbook Section 3862, Financial Instruments – Disclosures, which requires disclosing information related to the significance of financial instruments to the Company's financial position and performance, the nature and extent of risks arising from financial instruments to which the Company is exposed during the reporting period and as at the balance sheet date, and how the Company is managing those risks.

The Company is currently assessing the impact these standards will have on its financial results.

- b) On April 1, 2009, the Company will adopt CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces CICA Handbook Section 3062, Goodwill and Other Intangible Assets, and results in the withdrawal of Section 3450, Research and Development Costs, and Emerging Issues Committee Abstract 27, Revenues and Expenditures During the Pre-operating Period, and amendments to Accounting Guideline 11, Enterprises in the Development Stage. The new standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the matching concept, whether the assets are acquired or internally developed. This standard is applicable to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company has not yet assessed the impact this standard will have on its financial results.
- c) The CICA plans to transition Canadian generally accepted accounting principles for public companies to International Financial Reporting Standards (IFRS). The effective changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements is not yet determinable.

#### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Burcon NutraScience (MB) Corp. All material intercompany balances and transactions have been eliminated.

#### **Use of estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements. Actual results may differ from those estimates.

The estimated useful lives of the Company's property and equipment for purposes of determining amortization and the evaluation of the net recoverable amount resulting from the use and eventual disposition of these assets require management to make estimates and assumptions due in part to the uncertainties associated with the development and exploitation of the Company's technology and of the limited availability of reliable comparable data for certain equipment. Accordingly, by their nature, such estimates are subjective and do not result in precise determinations. It is possible that changes may occur that could materially affect the estimated recoverable amounts.

#### **Cash and cash equivalents**

For purposes of determining cash flows, cash and cash equivalents consist of cash on deposit with banks and highly liquid short term interest bearing securities with maturities at the date of purchase of three months or less.

#### **Property and equipment**

Property and equipment are recorded at cost less accumulated amortization. The Company provides for amortization using the declining balance method at the following annual rates:

Equipment	20% – 100%
Computer equipment	30%

The Company tests property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. If the carrying value of an asset or group of assets exceeds the undiscounted estimated future cash flows related to the asset or group of assets, an impairment loss is recognized in the period it is determined to the extent that the carrying value exceeds the fair value of the asset or group of assets.

#### **Goodwill**

Goodwill represents the excess at the date of acquisition of the cost of the acquired business over the fair values attributed to the underlying net tangible assets and the identifiable intangible assets. Goodwill is not amortized.

# Notes to Consolidated Financial Statements

March 31, 2008 and 2007

On at least an annual basis, the Company subjects goodwill to an impairment test based upon a comparison of the carrying amount to the fair value of the goodwill. Any impairment in the carrying amount of goodwill is charged to operations in the period such impairment is identified.

## Research and development costs

Research costs are expensed in the period incurred. Development costs are expensed as incurred unless they meet the specific criteria for deferral as set out under Canadian generally accepted accounting principles.

## Patent costs

Expenditures incurred to prepare, file and obtain patents, and to maintain existing patents, are expensed as incurred.

## Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized in the current period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. A valuation allowance is recognized to the extent it is more likely than not that future income tax assets will not be realized.

## Stock-based compensation

The Company applies the fair value based method of accounting for stock-based compensation. Under the fair value method, the value of a stock option is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock, its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option.

## Loss per share

The Company applies the treasury stock method to calculate diluted loss per share and assumes that the proceeds from "in the money" dilutive instruments are used to purchase

common shares at the average market price during the period. Basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the year. For diluted loss per common share, the denominator also includes the effect of exercising the common stock purchase warrants and stock options, only if dilutive.

## 3 Property and equipment

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Equipment	2,730,320	1,980,910	749,410
Computer equipment	39,657	25,022	14,635
	<u>2,769,977</u>	<u>2,005,932</u>	<u>764,045</u>

	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Equipment	2,669,034	1,792,445	876,589
Computer equipment	36,276	19,342	16,934
	<u>2,705,310</u>	<u>1,811,787</u>	<u>893,523</u>

## 4 Capital stock

**Authorized** – Unlimited number of common shares without par value

### Issued

	Number of shares	Amount \$
Balance – March 31, 2006	21,917,688	18,551,107
Issued during the year for cash		
On rights offering	2,192,128	5,041,894
Options exercised	364,932	622,364
Warrants exercised	273,970	630,131
Share issuance costs	–	(109,234)
Options and warrants exercised	–	251,784
Shares issued to settle debt*	10,416	30,000
Balance – March 31, 2007	24,759,134	25,018,046
Issued during the year for cash		
Options exercised	560,699	830,670
Options exercised	–	402,436
Shares issued to settle debt*	9,092	30,004
Balance – March 31, 2008	25,328,925	26,281,156

\* During the year ended March 31, 2008, the Company issued 9,092 (2007 – 10,416) common shares in settlement of \$30,004 (2007 – \$30,000) in outstanding directors' fees.

No gain or loss on settlement resulted from this transaction as the settlement price per common share was the fair value of the shares at the date of grant.

### Private placements

On August 31, 2006, Burcon completed a rights offering for 2,192,128 common shares for gross proceeds of \$5,041,894. Three guarantors provided standby guarantees to purchase from Burcon such number of common shares that were available for purchase, but not otherwise subscribed for, that would have resulted in a minimum of 1,095,884 common shares being issued under the rights offering. As consideration for providing a standby guarantee, Burcon issued share purchase warrants entitling the guarantors to acquire 273,970 common shares at an exercise price of \$2.30 per common share. In the year ended March 31, 2007, the

Company recorded in general and administrative expenses \$172,782 as the estimated fair value of the warrants. These warrants were fully exercised prior to their expiry date of February 28, 2007. Of the three guarantors who provided the standby guarantee, one was a shareholder with an approximate 25% shareholding in the Company. This shareholder provided a standby guarantee to purchase a minimum of 560,435 common shares. As consideration for providing this standby guarantee, this guarantor received a share purchase warrant entitling it to acquire 140,109 common shares at an exercise price of \$2.30 per common share. In the year ended March 31, 2007, the Company recorded \$88,361 in general and administrative expenses, being the estimated fair value of the warrant.

The fair value of the warrants was estimated using the Black-Scholes pricing model.

# Notes to Consolidated Financial Statements

March 31, 2008 and 2007

## Warrants

### 2008

During the year ended March 31, 2008, there were no warrant transactions.

### 2007

March 31, 2006	Granted	Exercised	Expired	March 31, 2007	Exercise price \$	Expiry date
–	273,970	(273,970)	–	–	2.30	February 28, 2007

## Stock option plan

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 March 31, 2008, 2,007,668 (2007 – 2,008,068) 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 \$1.12 and \$3.30 per common share. An additional 439,701 (2007 – 218,134) options may be granted in future years under this plan. Unless otherwise determined by the board of directors, the options have a term of five years from the date of grant. One-third of the options vest and may be exercised in each of the three years after granting unless otherwise determined by the board of directors.

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding – Beginning of year	2,008,068	1.64	2,205,167	1.59
Granted	612,000	3.29	317,000	2.76
Exercised	(560,699)	1.48	(364,932)	1.71
Expired	–	–	(137,500)	3.25
Cancelled	(50,034)	2.48	–	–
Forfeited	(1,667)	2.85	(11,667)	1.72
Outstanding – End of year	2,007,668	2.17	2,008,068	1.64

	2008	2007
	\$	\$
Balance – Beginning of year	1,585,192	1,025,673
Stock-based compensation to employees	871,376	536,149
Stock-based compensation to consultants	410,648	102,373
Transfer to equity upon exercise of options	(402,438)	(79,003)
Forfeited	(41)	–
<b>Balance – End of year</b>	<b>2,464,737</b>	<b>1,585,192</b>

The following table summarizes information about stock options outstanding and exercisable at March 31, 2008:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at March 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at March 31, 2008	Weighted average exercise price
\$ 1.12 – 1.88	1,163,667	1.75	1.44	1,143,667	1.44
\$ 2.80 – 3.30	844,001	4.08	3.17	358,556	3.10
	<u>2,007,668</u>			<u>1,502,223</u>	

# Notes to Consolidated Financial Statements

March 31, 2008 and 2007

The fair value of each option is estimated as at the date of grant or other measurement date as required by CICA Handbook Section 3870 using the Black-Scholes option pricing model and the following weighted average assumptions:

	2008	2007
Dividend yield	0.0%	0.0%
Expected volatility	63.2%	78.0%
Risk-free interest rate	4.2%	4.2%
Expected average option term (years)	4.6	4.5

The weighted average fair value of the options granted during the year ended March 31, 2008 was \$3.29 (2007 – \$1.83) per option.

Included in research and development expenses is \$383,048 (2007 – \$151,644) (note 5) and included in general and administrative expenses is \$719,617 (2007 – \$417,680) of costs settled by way of stock options. Similarly, included in management fees and services expenses is \$38,812 (2007 – \$56,693), and included in professional fees is \$44,859 (2007 – \$20,363), related to services settled by way of stock options. Included in prepaid expenses and deposits is \$125,251 (2007 – \$29,606) of consulting costs settled by way of stock options.

## 5 Research and development

	2008	2007
	\$	\$
Salaries and benefits (note 4)	1,150,164	854,485
Toxicology trials	397,156	–
Laboratory operation	249,122	245,299
Amortization	191,798	232,353
Analyses and testing	78,203	231,232
Rent	70,002	68,789
Travel and meals	21,172	23,041
	<u>2,157,617</u>	<u>1,655,199</u>

Since inception, the Company has expensed \$13,137,550 (2007 – \$10,979,933) on research and development expenditures.

## 6 Basic and diluted loss per share

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

	2008	2007
	\$	\$
Loss for the year, being loss available to common shareholders		
basic and diluted – loss per share	4,042,376	3,546,630
	<b>Shares</b>	<b>Shares</b>
Weighted average common shares		
– basic loss per share (a)	25,039,393	23,632,985
Effect of dilutive securities		
– common share stock options and purchase warrants (b)	–	–
Weighted average common shares		
– diluted loss per share (a)	25,039,393	23,632,985
Basic and diluted loss per share	(0.16)	(0.15)

- a) For the year ended March 31, 2007, the exercise price of the rights offering was less than the fair market value of the common shares at issuance. Accordingly, it contained a bonus element that is somewhat similar to a stock dividend. In accordance with the recommendations of CICA Handbook Section 3500, Earnings Per Share, the weighted average common shares for 2007 have been retroactively increased by 357,350 shares to reflect the bonus element. This had no impact on the basic and diluted loss per share.
- (b) For the years ended March 31, 2008 and 2007, the Company excluded the potential common share equivalents from the diluted loss per share calculation as they were considered anti-dilutive.

## 7 Related party transactions

Included in general and administrative expenses for the year ended March 31, 2008 is \$21,710 (2007 – \$22,210) for the rental of office space, for services, and for equipment rental from companies related by virtue of a common shareholder, directors, and officers.

For the year ended March 31, 2008, included in management fees and services is \$109,134 (2007 – \$87,470) for services provided by a company related by virtue of common shareholders, directors, and officers. At March 31, 2008, \$1,709 (2007 – \$1,465) of this amount is included in accounts payable and accrued liabilities.

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

## 8 Income taxes

The recovery of income taxes differs from the amount obtained by applying the statutory Canadian federal and provincial income tax rates to loss for the year as follows:

	2008	2007
	\$	\$
Recovery of income taxes based on the combined statutory income tax rate of 34.66% (2007 – 35.71%)	(1,401,000)	(1,267,000)
Change in valuation allowance on future income tax assets	(66,000)	717,000
Investment tax credits	(152,000)	(402,000)
Adjustment to future income tax assets for changes in tax rates	866,000	546,000
Non-deductible items and tax adjustments	414,000	273,000
Non-capital losses expired	339,000	133,000
Recovery of income taxes	–	–

As at March 31, 2008, the Company has non-capital losses of approximately \$12,344,000 (2007 – \$11,149,000) available to reduce taxable income in future years. These losses expire as follows:

	\$
2009	1,483,000
2010	1,830,000
2014	1,672,000
2015	1,943,000
2026	1,502,000
2027	1,814,000
2028	2,100,000
	12,344,000

In addition, the Company has scientific research and experimental development expenditures of approximately \$8,171,000 (2007 – \$7,610,000) available to carry forward indefinitely.

The investment tax credits of \$3,295,000 (2007 – \$3,085,000) may be used to offset future income taxes otherwise payable and expire as follows:

	\$
2009	446,000
2010	197,000
2011	188,000
2012	505,000
2013	208,000
2014	244,000
2015	259,000
2016	188,000
2017	271,000
2018	234,000
2026	150,000
2027	218,000
2028	187,000
	3,295,000

The tax effects of temporary differences that give rise to future income tax assets are as follows:

	2008	2007
	\$	\$
Future income tax assets		
Scientific research and experimental development expenditures	2,100,000	2,252,000
Investment tax credits	2,372,000	2,067,000
Losses from operations carried forward	3,463,000	3,621,000
Share issuance costs	75,000	129,000
Property and equipment	79,000	86,000
	8,089,000	8,155,000
Valuation allowance	(8,089,000)	(8,155,000)
	–	–

# Notes to Consolidated Financial Statements

March 31, 2008 and 2007

Management believes the realization of income tax benefits related to these losses and other potential future income tax assets is uncertain at this time and cannot be viewed as more likely than not. Accordingly, the Company has recorded a full valuation allowance.

## 9 Financial instruments

### Credit risk exposures

The financial instruments that potentially expose the Company to a concentration of credit risk are cash and cash equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high quality financial institutions.

### Interest rate risk exposure

All of the Company's financial instruments are non-interest bearing except for cash and cash equivalents that earn interest at variable market rates.

### Fair values

The fair values of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities approximate their carrying values given the short term to maturity of these instruments.

## 10 Subsequent event

Subsequent to March 31, 2008, stock options for 53,000 common shares were exercised for proceeds of \$89,360.



[www.burcon.ca](http://www.burcon.ca)

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# Corporate Information



## CORPORATE OFFICE

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## TECHNICAL CENTRE

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Winnipeg, Manitoba

## WEBSITE

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## INVESTOR RELATIONS

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## AUDITORS

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## TRANSFER AGENT & REGISTRAR

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of Canada  
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Vancouver, British Columbia V6C 3B9

## SHARE LISTING

TSX Venture Exchange  
Symbol for Common Shares: BU

Frankfurt Stock Exchange  
Symbol for Common Shares: WKN 157793

## ANNUAL MEETING OF SHAREHOLDERS

Date:  
September 4, 2008 at 10am PDT  
Location:  
The Westin Bayshore  
1601 Bayshore Drive  
Vancouver, British Columbia  
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## DIRECTORS

Allan Yap<sup>2</sup>  
Hong Kong  
Chairman and  
Chief Executive Officer  
Burcon NutraScience Corporation

Rosanna M.W. Chau<sup>1</sup>  
Hong Kong  
Deputy Chairman and Managing Director  
ITC Corporation Limited

Dorothy K.T. Law  
Vancouver, British Columbia  
Vice-President, Legal and  
Corporate Secretary  
Burcon NutraScience Corporation

Stuart MacGregor<sup>1</sup>  
Toronto, Ontario  
President, MacGregor Equities Inc.

Richard Whittall<sup>1,2</sup>  
Delta, British Columbia  
Partner, Watershed Capital Partners Inc.

Johann F. Tergesen  
Vancouver, British Columbia  
President and  
Chief Operating Officer  
Burcon NutraScience Corporation

Paul S. Westdal  
Winnipeg, Manitoba  
President, Agri-Tec International

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the Compensation Committee

## OFFICERS

Allan Yap  
Chief Executive Officer

Johann F. Tergesen  
President and  
Chief Operating Officer

Jade Cheng  
Chief Financial Officer  
and Treasurer

Dorothy K.T. Law  
Vice-President, Legal and  
Corporate Secretary

Randy Willardsen  
Senior Vice-President, Process

This Annual Report contains forward-looking statements that 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 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. They are subject to a number of risks and uncertainties that are difficult to control or predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. The Company undertakes no obligation to publicly update any such statement, to reflect new information or the occurrence of future events or circumstances.



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