



Letter to Shareholders



In reviewing our 2006 activities, I can say that we achieved important milestones towards our goal of commercializing the world's first food grade canola proteins: Supertein™ and Puratein®.

At the start of fiscal 2006, we recognized the need to modify our protein extraction technology to improve the colour and flavour of Supertein and Puratein to enable their use in a broader array of foods and beverages.

Our scientific team focused its research efforts on a few promising modifications to the existing protein extraction technology. These efforts bore fruit when, in the third quarter of fiscal 2006, we announced technology advancements. This enabled us to turn our focus to the large-scale production of our proteins to produce volumes sufficient for detailed applications work with third parties and additional studies required for regulatory recognition and Generally Regarded As Safe (GRAS) status for Supertein and Puratein from the US Food and Drug Administration.

This work continues to be carried out at our Winnipeg technical centre where we are also conducting research aimed at both optimizing our existing protein extraction technologies and supporting our patenting efforts.

Burcon's key asset is our intellectual property portfolio, comprised of patents, patent applications and know-how. During the fourth quarter of fiscal 2006, we were pleased to announce that we had been granted two additional U.S. patents. One is related to a novel process for extracting and purifying protein from canola and rapeseed. The second is a patent over the functional attributes of blends of Burcon's canola protein isolates Supertein and Puratein. With the addition of these two newly granted U.S. patents, we now have four granted patents and have filed for nineteen additional patent applications.

We also completed some important financing activities during the past year. We completed a rights offering before the end of the first quarter, raising gross proceeds of \$2.26 million. Those funds were necessary to continue the research and development of our protein extraction technology and to support our partnering activities with Archer Daniels Midland (ADM).

During the third quarter of fiscal 2006, some of our shareholders elected to exercise outstanding warrants, which added a further \$1.24 million to Burcon's treasury. These funds are being used to support our day-to-day operations and research activities.

A survey of news from within the protein industry over the past year suggests that opportunities continue to abound in the areas of novel food applications and new nutritional uses. This continues to bode well for what is expected to be one of Burcon's most promising differentiators – the opportunity to provide a plant-based protein to compete with the higher-priced animal protein market dominated by dairy and egg protein.

In the coming year, we will remain focused on the near term steps required to take our proteins to market. At present, that equates to additional production of large quantities of Supertein and Puratein for third-party applications work and studies required for regulatory recognition. We will also continue to conduct research aimed at further optimization of our protein extraction technology while simultaneously working to add to our patent portfolio. Through these activities, Burcon continues to expand on the economic potential of our core technology and novel proteins.

Please join me in thanking the individuals that comprise our team, from the scientific and engineering staff at our technical centre and pilot facility in Winnipeg to our management team in Vancouver and of course our board members from

Toronto to Hong Kong and points in between. We have a group that consistently strives for first-rate results. These people are the primary fuel that is driving continuing improvement in our technology. I am grateful to each and every one of our team members for their efforts and accomplishments in the past year.

I would also like to extend my gratitude to those shareholders who continue to believe in the long-term vision we have for Burcon. We are confident that the unique proteins we are striving to bring to market provide a compelling opportunity both as an investment and as an environmentally responsible food source.

Until next year,

A handwritten signature in black ink, appearing to read 'Allan Yap', with a stylized, flowing script.

Allan Yap
Chairman and CEO

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

Years ended March 31, 2006 and 2005

(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 21, 2006 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, 2006. 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.

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

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 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, as well as special grades of the Products and derivative products. 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, and the parties' agreement on the royalty rate and minimum royalties payable by ADM during the term of 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 the Products, together with certain rights to grant sublicenses. ADM will pay Burcon royalties based on sales of Products by ADM, its affiliates, or sublicensees.

The parties have agreed to a royalty rate within a specified range based on the net revenues ADM may realize from sales of the Products. The Agreement stipulates how the parties will agree on the royalty rate, including a provision to appoint an arbitrator in the event of a dead-lock in negotiations.

Under the Agreement, ADM must use its best efforts to obtain regulatory approval (Generally Recognized As Safe or "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. Until such time as ADM either achieves the Approval Date, or waives its right to terminate, all jointly developed intellectual property arising during the term of the Agreement and relating to the Burcon technology will be owned by Burcon. Thereafter, the Agreement may only be terminated by either party in the event that the royalty rate or the minimum royalties cannot be agreed to between the parties or for a material breach of the other party's obligations under the Agreement.

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

Since the second quarter of fiscal 2005, Burcon, in conjunction with ADM, have been pursuing modifications to its protein extraction process in an effort to improve the colour and flavour of Puratein and Supertein to allow for a broader array of applications. Burcon carried out additional research, both internally and externally through third-party facilities, on investigating modifications to the extraction process that included testing and analyzing proteins produced from various refined processes.

In October 2005, Burcon announced that it had successfully developed modifications to its patented protein extraction process that improved the physical and functional properties of Puratein and Supertein which were expected to enable their use in a broader array of food and beverage applications. Burcon and ADM's development plans dictated that the new

process needed to be refined and optimized at an even larger scale in order to produce the samples sufficient for large-scale applications testing as well as for the important regulatory feeding trial studies. The two companies carried out additional large pilot-scale production tests at third-party facilities and continued research and development to improve and optimize Burcon's protein extraction process.

Burcon's Winnipeg facility has undergone significant modification over the past several years and now incorporates new continuous processing steps that produce product under conditions that try to replicate the expected commercial processing conditions which is a critical step in obtaining regulatory recognition for Puratein and Supertein.

The modification made to the protein extraction process led to the filing of additional patent applications over these novel processing steps. In addition, during the last quarter of the current year, Burcon announced that it was granted a U.S. patent for a major component of its protein extraction and purification technology. This patent covers an improved process for the recovery of protein from canola oil seed meal and other oil seed meals. Both the amount and quality of protein isolate are improved through processing modifications to the input oilseed meal instead of the use of conventional meal. Burcon also announced that it had been granted a U.S. patent over the functional attributes of blends of its canola protein isolates Puratein and Supertein. This patent covers a protein isolate, obtained from canola oil seed meal, as a functional component in food compositions. One example is the use of these isolates as an emulsifying agent in salad dressings.

During fiscal 2005, Burcon filed two patent applications over a process to produce sodium-free versions of Puratein and Supertein and the functional properties of the components of Puratein and Supertein.

Burcon now holds four granted U.S. patents over canola protein processing technology and canola protein isolate product uses. Burcon has filed for patent applications for nineteen additional inventions which may be broadly grouped into three areas: firstly, further novel processing steps for the extraction and purification of proteins from oilseed meals including canola meal; secondly, uses of Puratein and Supertein as functional food ingredients; lastly, "signature characteristics" of its products including its canola proteins Puratein and Supertein.

In addition to the U.S. patent applications, Burcon has also filed applications for most of its inventions internationally under the Patent Cooperation Treaty of the World Intellectual Property Organization in some 35 countries including the European Union, Japan, China, India, Australia, New Zealand and Canada.

RIGHTS OFFERING

During the first quarter of fiscal 2006, Burcon completed a rights offering for 3,012,563 common shares for gross proceeds of approximately \$2.3 million and net cash proceeds of about \$2.1 million. Two 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 1,506,282 common shares being issued under the rights offering. As consideration for providing a standby guarantee, Burcon issued share purchase warrants entitling each guarantor to acquire 188,285 common shares at an exercise price of \$0.75 per common share. The Company has recorded a fair value of \$151,892 for the warrants. These warrants had an expiry date of December 28, 2005 and were fully exercised. The net proceeds from this offering are being used to continue the research and development of Burcon's protein extraction technology and for general working capital.

WARRANT EXERCISES

In November 2005, Burcon received net proceeds of approximately \$941,000 from the exercise of share purchase warrants to acquire 425,839 common shares. A total of 868,278 warrants expired unexercised on November 28, 2005. These warrants were originally issued in November 2003 in conjunction with a brokered private placement.

Warrants to acquire 500,000 common shares expired unexercised during the first quarter of the year. These warrants had an exercise price of \$2.25 per common share.

INVESTOR RELATIONS

Burcon announced during the year that it had retained First Standard Capital Corporation of Vancouver to perform investor relations services by assisting the Company with communicating its corporate message to financial markets worldwide. First Standard works directly with Burcon's senior management to ensure that financial professionals and investors who specialize in food technology investment are made aware of the investment opportunity Burcon represents in this industry category.

The agreement with First Standard has an initial term of twelve months and will automatically renew on its terms for another twelve months unless either party provides 30-days' written notice. Burcon has agreed to pay First Standard \$2,500 per month for its services and has 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 has a term of three years from the date of grant and will vest as to 33 1/3% on the date that is 8, 16 and 24 months from the date of grant, respectively.

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

Years ended March 31, 2006 and 2005

During 2005, Burcon announced the departure of Michael Kirwan, senior vice-president corporate development. Mr. Kirwan was responsible for, among other items, Burcon's investor relations and corporate communications. Burcon's chief financial officer, Jade Cheng, has assumed the responsibility for investor relations and corporate communications.

SUMMARY OF OPERATING RESULTS

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

	2006	2005	2004
Interest income	61	48	48
Research and development expenditures	1,302	1,406	1,331
Other expenditures	1,616	1,795	1,313
Loss for the year	(2,857)	(3,153)	(2,596)
Basic and diluted loss per share	(0.13)	(0.17)	(0.16)
Total assets	4,844	3,645	6,319
Total long-term liabilities	–	–	–
Cash dividends declared per-share	–	–	–
Weighted average shares outstanding (thousands)	21,178	18,598	16,246

RESULTS OF OPERATIONS

Burcon has not generated any revenues from its technology and is considered to be a development stage company. For the year ended March 31, 2006, the Company recorded a loss of \$2,857,149 (\$0.13 per share) as compared to \$3,153,294 (\$0.17 per share) in the prior year. 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 6 to the consolidated financial statements. R&D expenses decreased by approximately \$104,000 from the prior year. Salaries and benefits account for approximately one-half of R&D expenditures and remained relatively stable after taking into account the stock-based (non-cash) compensation expense of about \$93,000 (2005 – \$67,000).

Analyses and testing decreased by about \$80,000 from fiscal 2005 due primarily to the Fraunhofer functionality and bio-functionality study conducted in 2005. Laboratory operation costs increased by approximately \$49,000 due mainly to higher repairs and maintenance costs on older equipment. Included in R&D expenses is approximately \$7,000 (2005 – \$60,000) relating to the loss on disposal of computer equipment during the current year. Amortization expense also decreased by about \$43,000 due to applying the declining balance method of amortization on the lower unamortized balance of equipment acquired in previous years.

General and administrative expenses

Years ended March 31 (in thousands of dollars)

	2006	2005	2004
Salaries and benefits	612	652	459
Financing costs	152	–	–
Investor relations	131	73	107
Office supplies and services	75	81	85
Travel and meals	32	42	41
Other	28	31	34
	1,030	879	726

Burcon incurred \$1,030,260 of general and administrative (G&A) expenses for fiscal 2006 with the increase of approximately \$151,000 due almost entirely to financing expense related to the warrants issued to the guarantors of the rights offering completed earlier in the year. G&A expenses include salaries and benefits, office supplies and services, investor relations and travel and meals. Of the total G&A expenses, approximately \$384,000 (2005 – \$336,000) related to stock-based compensation. The cash component of salaries and benefits decreased by about \$76,000 as a result of the departure of a senior officer in 2005. Investor relations expenses increased by approximately \$47,000, after taking into account the effect of stock-based compensation of about \$12,000 in 2006 (2005 – nil). The increase in investor relations expenses is due primarily to travel expenses incurred for meetings with potential investors, brokers and analysts in North America and Europe during 2006, the preparation of a European newsletter and online promotion and also to the appointment of First Standard during 2006 to perform investor relations services.

Professional fee expenses

Total professional fees incurred in 2006 decreased by about \$346,000 from 2005 which is due primarily to lower levels of patent legal fees and disbursements. The decrease in patent legal fees and disbursements of about \$301,000 from the prior year is due to higher filing fees incurred from patents that had entered National Phase during fiscal 2005.

Management fees and services expenses

Management fees totalled \$115,011 for the year ended March 31, 2006 (2005 – \$98,222). Of the total amount, \$44,411 (2005 – \$31,954) related to stock-based compensation expense.

LIQUIDITY AND FINANCIAL POSITION

Financial Position

At March 31 (in thousands of dollars)

	2006	2005	2004
Cash and cash equivalents	2,511	1,059	3,574
Amounts receivable	11	18	16
Property and equipment, net of amortization	976	1,172	1,408
Total assets	4,844	3,645	6,319
Shareholders' equity	4,643	3,466	6,040

At March 31, 2006, the Company's cash position was \$2,511,053, as compared to \$1,058,976 at March 31, 2005. The net cash used in operations during the year ended March 31, 2006, measured in terms of cash flows from operating activities, before changes in non-cash working capital, totalled \$1,894,562, as compared to \$2,333,755 in the prior year. The decrease of \$439,193 in net cash used in operations was due primarily to decreased patent legal fees and disbursements and professional fees and a decrease in general and administrative cash expenses due to the departure of a senior employee as discussed in the Results of Operations section above.

The Company invested in approximately \$61,000 in capital assets during the year, as compared to about \$165,000 during fiscal 2005. The equipment acquired in 2005 facilitated the implementation of continuous processing steps at the Winnipeg facility. During 2006, Burcon

replaced some aging computer equipment and during 2005, Burcon disposed of a piece of equipment that provided proceeds of about \$46,000.

Cash flows from financing activities totalled \$3,388,620, compared to \$36,185 in the prior year. As noted above, Burcon raised a net of \$2.1 million from the rights offering completed during the earlier part of fiscal 2006. Burcon also raised a net of \$1.2 million from the exercise of warrants and options during the current year.

At March 31, 2006, Burcon's working capital was \$2,411,855 (2005 – \$1,000,537). There were no capital acquisitions committed as at March 31, 2006. However, Burcon may incur up to \$312,000 in additional capital expenditures and approximately \$540,000 in patent legal fees and disbursements in fiscal 2007. Burcon expects the patent legal fees and disbursements to be higher in the second and fourth quarters of fiscal 2007.

On June 29, 2006, Burcon announced that it would be filing with applicable securities regulatory authorities to commence a rights offering. Subject to regulatory approval, Burcon intends to issue to each shareholder in permitted jurisdictions other than the United States, as of a record date to be announced, one right for each common share held by such shareholder. Ten rights will entitle the holder to acquire one common share at a price of \$2.30 per share for maximum proceeds to Burcon of approximately \$5.0 million, with expenses estimated at \$110,000. Three guarantors will provide standby guarantees to purchase from Burcon such number of common shares that are available for purchase, but not otherwise subscribed for, that would have resulted in a minimum of 50% of the common shares being issued under the rights offering. As consideration for providing a standby guarantee, Burcon will issued share purchase warrants entitling the guarantors to acquire a total of 273,970 common shares at an exercise price of \$2.30 per common share which will expire six months after issue. The net proceeds from this offering will be used to continue the research and development of Burcon's protein extraction technology and for general working capital.

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 May 2007. Assuming the full exercise of the rights from the upcoming rights offering, Burcon's management believes that it will have sufficient resources to fund the expected level of operations and working capital requirements to June 2009, without taking into account any outstanding options and warrants that would be issued from the proposed rights offering.

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

Years ended March 31, 2006 and 2005

OUTSTANDING SHARE DATA

Information regarding the Company's outstanding common shares and convertible securities are disclosed in note 5 of the consolidated financial statements. As of the date of this MD&A, Burcon had 21,921,288 common shares outstanding and 2,448,567 stock options outstanding at a weighted average exercise price of \$1.72 per share.

QUARTERLY FINANCIAL DATA

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

Quarters ended	Mar. 31 2006	Dec. 31 2005	Sep. 30 2005	Jun. 30 2005
Interest and other income	23	18	16	4
Loss for the period	(801)	(679)	(651)	(726)
Basic and diluted loss per share	(0.04)	(0.03)	(0.03)	(0.03)

Quarters ended	Mar. 31 2005	Dec. 31 2004	Sep. 30 2004	Jun. 30 2004
Interest and other income	8	11	13	16
Loss for the period	(678)	(637)	(913)	(925)
Basic and diluted loss per share	(0.04)	(0.04)	(0.05)	(0.05)

Included in the losses of each of the four quarters of fiscal 2006 is stock-based compensation expense of approximately \$70,000, \$127,000, \$163,000 and \$163,000 in quarters one to four, respectively. Also included in the loss in the first quarter is the non-cash financing expense of about \$152,000 related to the warrants issued to the guarantors for the rights offering. Patent legal fees and disbursements were significantly lower for the first three quarters of the year due to a lack of new patents entering the National Phase. These fees and disbursements increased again in the fourth quarter as additional patents started entering National Phase, during which national applications were filed in selected countries.

Included in the losses in each of the four quarters of fiscal 2005 is stock-based compensation expense of approximately \$229,000, \$66,000, \$70,000 and \$70,000 in quarters one to

four, respectively. Burcon incurred an average of about \$172,000 in each of the four quarters for patent legal fees and disbursements due to several of the Company's patents entering National Phase. Burcon also incurred higher expenditures during the second quarter with the Fraunhofer study, the recording of the directors' annual retainer (settled in shares) and the loss on disposal of equipment. There was a reduction in expense after the second quarter of fiscal 2005 due to the departure of a senior officer and also to the reduction of the monthly fee paid to the European investor relations firm.

RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in note 8 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 2006, Burcon paid \$22,916 (2005 – \$23,871) 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, 2006, Burcon paid \$71,055 (2005 – \$67,478) for these services. A former director of the Company is legal counsel in a partnership. During the year ended March 31, 2006, the Company also paid \$58,177 (2005 – \$65,776) for legal services provided by the partnership while that individual was still a director. 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.

DISCLOSURE CONTROLS

Burcon's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures. These officers have evaluated the effectiveness of Burcon's disclosure controls and procedures for the years ended March 31, 2006 and 2005 and have concluded that they provide management with a reasonable level of assurance that the information the Company is required to disclose on a continuous basis in annual and interim filings and other reports is recorded, processed, summarized and reported or disclosed on a timely basis as required.

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 \$18.6 million from its date of incorporation through March 31, 2006 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

During the past year, Burcon continued to research modifications to its existing protein extraction technology in an effort to improve the flavour and colour of Puratein and Supertein. Through this work, Burcon identified an improved process and during the year, began production of significant quantities of its proteins utilizing the modified process.

As explained in last year’s annual report, the toxicology feeding trials which make up a significant part of the regulatory recognition process can only be conducted after first determining the final process for production of the proteins. During the past year, Burcon moved closer to being able to initiate the feeding trials, but as of the date writing, this work has not been initiated. Burcon’s management believes that the significant production of proteins currently being carried out could provide the confidence to confirm that the trials can now be undertaken.

In the coming year, Burcon will continue to work on the large-scale production of Supertein and Puratein. It is anticipated that large quantities of both proteins will be needed in order to provide ADM’s third-party customers with samples for applications testing.

These third-party applications tests supersede the toxicology trials but will ultimately form part of the regulatory process in that they will help to establish the probable commercial uses for Burcon’s proteins. This information is important in determining the potential exposure of Burcon’s proteins if and when they will be incorporated into commercially available food products.

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

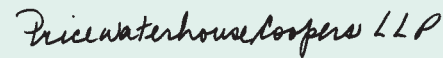
Auditors' Report

To the Shareholders of Burcon NutraScience Corporation

We have audited the consolidated balance sheets of Burcon NutraScience Corporation as at March 31, 2006 and 2005 and the consolidated statements of operations 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, 2006 and 2005 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
May 18, 2006
(except for note 11, which is as of June 28, 2006)

Consolidated Balance Sheets

As at March 31, 2006 and 2005

	2006 \$	2005 \$
ASSETS		
Current assets		
Cash and cash equivalents	2,511,053	1,058,976
Amounts receivable	11,365	18,157
Prepaid expenses and deposits	91,020	102,933
	2,613,438	1,180,066
Property and equipment (note 3)	975,729	1,171,837
Deferred financing costs	–	38,595
Goodwill (note 4)	1,254,930	1,254,930
	4,844,097	3,645,428
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	201,583	179,529
SHAREHOLDERS' EQUITY (note 5)		
Capital stock	18,551,107	14,780,639
Contributed surplus	3,692,747	2,920,764
Warrants	–	1,010,534
Options	1,025,673	523,826
Deficit	(18,627,013)	(15,769,864)
	4,642,514	3,465,899
	4,844,097	3,645,428

NATURE OF OPERATIONS AND GOING CONCERN (note 1)

SUBSEQUENT EVENTS (note 11)

Approved by the Board of Directors



Dorothy Law, Director



Johann Tergesen, Director

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations and Deficit

For the years ended March 31, 2006 and 2005

	2006	2005
	\$	\$
EXPENSES		
Research and development (notes 3, 5 and 6)	1,301,739	1,406,035
General and administrative (notes 5 and 8)	1,030,260	879,025
Professional fees (notes 5 and 8)	468,331	814,571
Management fees and services (notes 5 and 8)	115,011	98,222
Amortization	2,825	3,065
LOSS FROM OPERATIONS	(2,918,166)	(3,200,918)
OTHER INCOME		
Interest	61,017	47,624
LOSS FOR THE YEAR	(2,857,149)	(3,153,294)
DEFICIT – BEGINNING OF YEAR	(15,769,864)	(12,616,570)
DEFICIT – END OF YEAR	(18,627,013)	(15,769,864)
BASIC AND DILUTED LOSS PER SHARE (note 7)	(0.13)	(0.17)
NATURE OF OPERATIONS AND GOING CONCERN (note 1)		

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2006 and 2005

	2006	2005
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	(2,857,149)	(3,153,294)
Items not affecting cash		
Amortization	250,339	293,788
Non-cash financing costs	151,893	–
Stock-based compensation expense	523,273	435,031
Loss on disposal of property and equipment	7,082	60,720
Services received and settled in capital stock	30,000	30,000
	(1,894,562)	(2,333,755)
Changes in non-cash working capital items		
Amounts receivable	6,792	(2,651)
Prepaid expenses and deposits	(9,514)	2,989
Accounts payable and accrued liabilities	22,054	(98,889)
	(1,875,230)	(2,432,306)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(61,313)	(164,569)
Proceeds from disposal of property and equipment	–	45,862
	(61,313)	(118,707)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of capital stock	3,515,400	74,780
Share and warrant issue costs	(126,780)	–
Deferred financing costs	–	(38,595)
	3,388,620	36,185
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,452,077	(2,514,828)
CASH AND CASH EQUIVALENTS – Beginning of year	1,058,976	3,573,804
CASH AND CASH EQUIVALENTS – End of year	2,511,053	1,058,976
CASH AND CASH EQUIVALENTS CONSIST OF		
Cash	61,573	34,749
Cash equivalents	2,449,480	1,024,227
	2,511,053	1,058,976

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2006 and 2005

1 Nature of operations and going concern

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 outlines the process by which the two parties will carry out final development of the technology to produce Puratein and Supertein canola protein isolates, as well as special grades of the products and derivative products. 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 sales of products by ADM, its affiliates, or sublicensees. The parties have agreed to a royalty rate within a specified range based on the net revenues ADM realizes from sales of the products. The Agreement stipulates the procedure by which the parties will agree on the royalty rate, including a provision to appoint an arbitrator in the event of a deadlock of negotiations.

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. Until such time as ADM either achieves the Approval Date, or waives its right to terminate, all jointly developed intellectual property arising during the term of the Agreement and relating to the Burcon technology will be owned by Burcon. 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.

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.

Going concern

These financial statements have been prepared using Canadian generally accepted accounting principles that are applicable to a going concern, which includes the assumption that the Company will be able to realize its assets and settle its liabilities in the normal course of business. The use of such principles may not be appropriate because the Company has not yet realized profitable operations and has relied on private placements to provide the financing necessary to support its research and development activities. No provision has been made in these financial statements for adjustments to the carrying value of assets and liabilities should the Company be unable to continue as a going concern. To complete current research and development activities and fund operations, the Company may require additional capital. If sufficient capital is not raised, the ability of the Company to continue operations and bring the projects to market may be impaired. During the year ended March 31, 2006, Burcon raised gross proceeds of approximately \$3.5 million through a rights offering and option and warrant exercises. The Company continues to work with ADM to bring the products into commercial production. Management believes that these actions make the use of the going concern basis appropriate; however, it is not possible at this time to predict the outcome of these actions.

2 Significant accounting policies

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 requires management to make significant 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 which 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 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 following annual rates and methods:

Plant equipment	20% – 50% declining balance basis
Computer equipment	30% declining balance basis

Impairment of long-lived assets

The Company tests long-lived assets 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.

Deferred financing costs

Professional fees and other direct costs relating to financing activities are deferred and recorded as share issue costs upon completion of the financing.

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.

On at least an annual basis, the Company subjects goodwill to an impairment test which is 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

For all stock-based compensation to employees granted on or after April 1, 2003, the Company applies the fair value based method of accounting. 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.

For such awards granted prior to April 1, 2003, the Company discloses the pro forma effects on the loss for the year and the loss per common share for the year as if the fair value method had been applied to those awards.

The Company applies the fair value method for stock-based compensation granted to non-employees.

Notes to Consolidated Financial Statements

March 31, 2006 and 2005

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

	2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Plant equipment	2,525,959	(1,565,928)	960,031
Computer equipment	26,782	(11,084)	15,698
	<u>2,552,741</u>	<u>(1,577,012)</u>	<u>975,729</u>

	2005		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Plant equipment	2,476,981	(1,321,132)	1,155,849
Computer equipment	47,700	(31,712)	15,988
	<u>2,524,681</u>	<u>(1,352,844)</u>	<u>1,171,837</u>

In connection with the continued development of the Company's technology, during the year ended March 31, 2006, the Company disposed of certain plant equipment with a net book value of approximately \$7,082 (2005 – \$106,000) resulting in a loss of \$7,082 (2005 – \$59,850) which is included in research and development expenses (note 6).

4 Goodwill

	2006	2005
	\$	\$
Goodwill on acquisition of business	3,260,700	3,260,700
Reduction of goodwill upon cancellation of capital stock	(850,000)	(850,000)
	<u>2,410,700</u>	<u>2,410,700</u>
Accumulated amortization	(1,155,770)	(1,155,770)
	<u>1,254,930</u>	<u>1,254,930</u>

5 Capital stock

Authorized – Unlimited number of common shares without par value

	Number of shares	Amount
		\$
Balance – March 31, 2004	18,008,237	14,650,662
Issued during the year for cash		
Options exercised	15,000	21,000
Warrants exercised	29,070	53,780
Warrants exercised	–	25,197
Shares issued to settle debt (a)	23,076	30,000
Balance – March 31, 2005	18,075,383	14,780,639
Issued during the year for cash		
On rights offering	3,012,563	2,259,422
Options exercised	12,333	15,413
Warrants exercised	802,409	1,240,565
Share issuance costs	–	(165,375)
Warrants exercised	–	390,443
Shares issued to settle debt (a)	15,000	30,000
Balance – March 31, 2006	<u>21,917,688</u>	<u>18,551,107</u>

a) During the year ended March 31, 2006, the Company issued 15,000 (2005 – 23,076) common shares in settlement of \$30,000 (2005 – \$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 June 28, 2005, Burcon completed a rights offering for 3,012,563 common shares for gross proceeds of \$2,259,422 and net cash proceeds of \$2,111,418. Two 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 1,506,282 common shares being issued under the rights offering. As consideration for providing a standby guarantee, Burcon issued share purchase warrants entitling each guarantor to acquire 188,285 common shares at an exercise price of \$0.75 per common share. The Company has recorded in general and administrative expenses a total of \$151,893 as the estimated fair value of the warrants. These warrants were fully exercised prior to their December 28, 2005 expiry.

In November 2005, warrants to acquire a total of 425,839 common shares were exercised providing gross proceeds of \$958,137.

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

Contributed surplus

	2006	2005
	\$	\$
Balance – Beginning of year	2,920,764	1,350,065
Expired warrants	771,983	1,570,699
Balance – End of year	3,692,747	2,920,764

Notes to Consolidated Financial Statements

March 31, 2006 and 2005

Warrants

The following warrants are outstanding:

2006

March 31, 2005	Granted	Exercised	Expired	March 31, 2006	Exercise price \$	Expiry date
500,000	–	–	(500,000)	–	2.25	May 1, 2005
1,294,117	–	(425,839)	(868,278)	–	2.25	November 26, 2005
–	376,570	(376,570)	–	–	0.75	December 28, 2005
1,794,117	376,570	(802,409)	(1,368,278)	–		

2005

March 31, 2004	Granted	Exercised	Expired	March 31, 2005	Exercise price \$	Expiry date
1,614,394	–	(29,070)	(1,585,324)	–	1.85	May 17, 2004
27,500	–	–	(27,500)	–	1.85	May 24, 2004
158,106	–	–	(158,106)	–	1.85	May 31, 2004
105,009	–	–	(105,009)	–	1.90	November 26, 2004
500,000	–	–	–	500,000	2.25	May 1, 2005
1,294,117	–	–	–	1,294,117	2.25	November 26, 2005
3,699,126	–	(29,070)	(1,875,939)	1,794,117		

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. Prior to establishing the stock option plan in September 2000, the Company granted 1,300,000 options to purchase common stock, of which nil (2005 – 235,948) was outstanding as at March 31, 2006. The outstanding options at March 31, 2005 were exercisable at prices ranging from \$1.40 to \$4.25 per common share. The options had a five-year term from the grant date and all had vested.

At March 31, 2006, 2,205,167 (2005 – 1,679,052) 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 \$3.50 per common share. An additional 385,967 (2005 – 924,415) options may be granted in future years under this plan. The options have a term of five years from the date of grant unless otherwise determined by the board of directors. 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.

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding – Beginning of year	1,915,000	2.52	1,805,000	2.48
Granted	1,008,000	1.19	635,000	1.72
Exercised	(12,333)	1.25	(15,000)	1.40
Expired	(600,000)	3.86	(500,000)	1.40
Cancelled	(105,500)	1.65	(10,000)	1.94
Outstanding – End of year	2,205,167	1.59	1,915,000	2.52

The following table summarizes information about stock options outstanding and exercisable at March 31, 2006:

	Options outstanding			Options exercisable	
Range of exercise prices (\$)	Number outstanding at March 31, 2006	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at March 31, 2006	Weighted average exercise price
			\$		\$
1.12 – 1.86	1,814,667	3.32	1.40	552,500	2.16
2.00 – 3.50	390,500	0.74	2.48	390,500	2.48
	2,205,167			943,000	

Notes to Consolidated Financial Statements

March 31, 2006 and 2005

The fair value of each option is estimated as at the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	2006	2005
Dividend yield	0.0%	0.0%
Expected volatility	81.6%	80.6%
Risk-free interest rate	3.7%	3.9%
Expected average option term (years)	4.9	5.0

The weighted average fair value of the options granted during the year ended March 31, 2006 was \$0.78 (2005 – \$1.15) per option.

Had compensation cost for the Company's compensation plan been determined based on the fair value at the grant dates for awards granted during the year ended March 31, 2003 under the plan consistent with the fair value based method of accounting for stock-based compensation, the Company's net loss and loss per share would have increased as noted in the pro forma amounts indicated below:

	2006	2005
	\$	\$
Loss for the year		
As reported	(2,857,149)	(3,153,294)
Pro forma	(2,928,418)	(3,206,745)
Basic and diluted loss per share		
As reported (note 7)	(0.13)	(0.17)
Pro forma	(0.14)	(0.18)

Included in research and development expenses is \$93,150 (2005 – \$67,103) and included in general and administrative expenses is \$384,011 (2005 – \$335,974) of employee compensation costs resulting from stock based compensation awards. Included in management fees and services expenses is \$44,411 (2005 – \$31,954), included in professional fees is \$1,701 (2005 – \$nil), and included in prepaid expenses and deposits is \$37,464 (2005 – \$58,892) of consulting costs settled by way of stock options.

6 Research and development

	2006	2005
	\$	\$
Salaries and benefits (note 5)	713,260	691,076
Amortization	247,515	290,723
Laboratory operation	214,565	165,856
Rent	64,720	65,291
Analyses and testing	31,544	111,644
Travel and meals	23,053	21,595
Loss on disposal of property and equipment (note 3)	7,082	59,850
	<u>1,301,739</u>	<u>1,406,035</u>

Since inception, the Company has expensed \$9,324,734 (2005 – \$8,022,995) on research and development expenditures.

7 Loss per share

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

	2006	2005
	\$	\$
Loss for the year, being loss available to common shareholders		
– basic and diluted – loss per share	2,857,149	3,153,294
	Shares	Shares
Weighted average common shares		
– basic loss per share (a)	21,177,999	18,598,171
Effect of dilutive securities		
– common share stock options and purchase warrants*	–	–
Weighted average common shares		
– diluted loss per share (a)	21,177,999	18,598,171
Basic and diluted loss per share	<u>(0.13)</u>	<u>(0.17)</u>

a) 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 Canadian Institute of Chartered Accountants Handbook Section 3500, Earnings Per Share, the weighted average common shares has been retroactively increased by 539,222 shares to reflect the bonus element. There was no impact on the basic and diluted loss per share as a result of this restatement.

* For the years ended March 31, 2006 and 2005, the Company excluded the potential common share equivalents from the diluted loss per share calculation as they were considered anti-dilutive.

8 Related party transactions

Included in general and administrative expenses for the year ended March 31, 2006 is \$22,916 (2005 – \$23,871) for the rental of office space, for services, and for equipment rental from companies related by virtue of a common shareholder, directors, and officers. At March 31, 2005, \$nil (2005 – \$100) of these fees was included in accounts payable and accrued liabilities.

A former director of the Company is legal counsel in a partnership. Included in professional fees is \$58,177 (2005 – \$65,776) for services provided by the partnership while that individual was still a director. At March 31, 2006, \$nil (2005 – \$29,876) of these fees was included in accounts payable and accrued liabilities.

For the year ended March 31, 2006, included in management fees and services is \$71,055 (2005 – \$67,478) for services provided by a company related by virtue of common shareholders, directors, and officers. At March 31, 2006, \$1,967 (2005 – \$1,771) 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.

9 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:

	2006 \$	2005 \$
Recovery of income taxes based on the combined statutory income tax rate of 36.18% (2005 – 36.64%)	(1,034,000)	(1,156,000)
Change in valuation allowance on future income tax assets	764,000	1,043,000
Investment tax credits	(152,000)	(98,000)
Adjustment to future income tax assets for changes in tax rates	172,000	–
Non-deductible items and tax adjustments	250,000	211,000
Provision for income taxes	–	–

As at March 31, 2006, the Company has non capital losses of approximately \$9,238,000 (2005 – \$7,945,000) available to reduce taxable income in future years. These losses expire as follows:

	\$
2007	375,000
2008	982,000
2009	1,483,000
2010	1,830,000
2014	1,672,000
2015	1,630,000
2016	1,266,000
	9,238,000

In addition, the Company has scientific research and experimental development expenditures of approximately \$7,549,000 (2005 – \$6,770,000) available to carry forward indefinitely.

Notes to Consolidated Financial Statements

March 31, 2006 and 2005

The investment tax credits of \$2,486,000 (2005 – \$2,251,000) may be used to offset future income taxes otherwise payable and expire as follows:

	\$
2007	19,000
2008	166,000
2009	446,000
2010	197,000
2011	297,000
2012	625,000
2013	335,000
2014	123,000
2015	135,000
2016	143,000
	2,486,000

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

	2006	2005
	\$	\$
Future income tax assets		
Scientific research and experimental development expenditures	2,397,000	2,106,000
Investment tax credits	1,615,000	1,463,000
Losses from operations carried forward	3,217,000	2,876,000
Share issuance costs	97,000	120,000
Property and equipment	111,000	108,000
	7,437,000	6,673,000
Valuation allowance	(7,437,000)	(6,673,000)
	–	–

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.

10 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.

11 Subsequent events

- a) In May 2006, the Company granted 247,000 stock options to employees and a director. These options have a five-year term and vest one-third on the date that is 8, 16 and 24 months from the date of the grant. These options have a fair value of \$1.91 per option and an exercise price of \$2.85 per share.
- b) In June 2006, the Company announced that it will be filing with applicable securities regulatory authorities to commence a rights offering. Subject to regulatory approval, Burcon intends to issue to each shareholder in permitted jurisdictions other than the United States, as of a record date to be announced, one right for each common share held by such shareholder. Ten rights will entitle the holder to acquire one common share at a price of \$2.30 per share for maximum proceeds to Burcon of \$5,041,068, with estimated net proceeds of \$4,931,068. The rights will be listed for trading on the TSX Venture Exchange for a period of 21 days from the record date, at which time they will be halted for trading. Subject to certain conditions, three corporate shareholders have agreed to provide a standby guarantee to purchase such common shares that are available to be purchased, but not otherwise subscribed for, that will result in a minimum of 50% of the common shares being issued under the rights offering. As consideration for providing the standby guarantee, these guarantors will receive share purchase warrants entitling the guarantors to acquire up to 273,970 common shares at an exercise price of \$2.30 per common share that will be exercisable six months after the issue date.

Corporate Information



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TRANSFER AGENT & REGISTRAR

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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 6, 2006 at 10am PDT
Location:
The Westin Bayshore
1601 Bayshore Drive
Vancouver, BC V6G 2V4

DIRECTORS

Allan Yap
Hong Kong
Chairman and
Chief Executive Officer
Burcon NutraScience Corporation

Rosanna M.W. Chau ¹
Hong Kong
Managing Director
ITC Corporation Limited

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

Stuart MacGregor ¹
Toronto, Ontario
President, MacGregor Equities Inc.

Richard Whittall ¹
Vancouver, British Columbia
President, Watershed Capital Partners Inc.

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

Paul S. Westdal
Winnipeg, Manitoba
Professional Agrologist

¹ Member of the Audit 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.



www.burcon.ca

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