Consolidated Financial Statements of

GOURMET OCEAN PRODUCTS INC.

For the years ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Gourmet Ocean Products Inc.

We have audited the accompanying consolidated financial statements of Gourmet Ocean Products Inc., which comprise the consolidated statement of financial position as at September 30, 2016, and the consolidated statements of comprehensive loss, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Gourmet Ocean Products Inc. as at September 30, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Gourmet Ocean Products Inc.'s ability to continue as a going concern.

Other Matters

The audited consolidated financial statements as at September 30, 2015 and for the year then ended, were examined by other auditors who expressed an opinion without reservation on those statements in their report dated January 27, 2016. We have audited the adjustment as described in Note 2 to amend the 2015 statement of financial position and in our opinion, such adjustment, in all material respects, is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements of the Company as at September 30, 2015 and for the year then ended other than with respect to the adjustment and, accordingly, we do not express any opinion on any other form of assurance on the financial statements as at September 30, 2015 and for the year ended September 30, 2015 taken as a whole.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

January 27, 2017

Gourmet Ocean Products Inc.

Consolidated Statements of Financial Position
As at September 30, 2016 and 2015
(Expressed in Canadian Dollars)

	Note	2016	2015 (restated – Note 2)
		$	$
Current Assets			
Cash and cash equivalents		90,233	582,787
Accounts receivable	4	1,829,390	241,620
Other receivables	5	19,076	17,561
Inventory	6	1,408,370	3,647,856
Prepaid expenses and deposits	7	52,988	105,949
		3,400,057	4,595,773
Deposits		52,600	46,200
Property and equipment	8	422,652	695,282
		3,875,309	5,337,255
Current Liabilities			
Accounts payable		365,907	94,091
Short-term debentures	9, 12(a)	1,518,931	892,655
		1,884,838	986,746
Equity			
Share capital	10	9,471,337	9,471,337
Share-based payments reserves		901,194	892,070
Deficit		(8,382,060)	(6,012,898)
		1,990,471	4,350,509
		3,875,309	5,337,255

NATURE AND CONTINUANCE OF OPERATIONS (Note 1)
COMMITMENTS (Note 17)
SUBSEQUENT EVENTS (Note 18)

Approved on behalf of the Board:

"George Dorin"
Director

"Peter Hughes"
Director

See accompanying notes to consolidated financial statements.

Gourmet Ocean Products Inc.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Note	Year Ended September 30, 2016	Year Ended September 30, 2015 (restated – Note 2)
		$	$
Sales	11, 15	3,882,581	4,282,879
Cost of sales	6	2,674,726	3,300,108
Gross profit		1,207,855	982,771
Expenses			
Bank charges and interest expense	12	130,708	109,134
Consulting fees	12	156,100	271,653
Depreciation	8	266,382	275,783
Director fees	12	61,500	60,750
Filing fees		10,827	19,189
License lease payment		312,650	484,229
Office and general		85,576	174,605
Professional fees		99,721	140,386
Rent	12	219,665	220,263
Salaries and benefits	12	775,801	754,754
Share-based payments	10, 12	9,124	219,955
Supplies and utilities		14,132	83,907
Travel		81,055	60,179
		2,223,241	2,874,787
Loss from continuing operations		(1,015,386)	(1,892,016)
Other expenses			
Foreign exchange loss		9,282	-
Inventory impairment	6	1,338,246	-
Loss on disposal of assets		6,248	-
		1,353,776	-
Net loss and comprehensive loss		(2,369,162)	(1,892,016)
Loss per common share – basic and diluted		($0.02)	($0.02)
Weighted average number of common shares outstanding		125,068,733	124,979,308

See accompanying notes to consolidated financial statements.

Gourmet Ocean Products Inc.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Note	Common Shares Number of Common Shares	Common Shares Share Capital	Share Subscriptions Received	Contributed Surplus	Deficit (restated – Note 2)	Total Equity
			$	$	$	$	$
Balance, September 30, 2014		124,828,733	9,419,406	-	700,046	(4,120,882)	5,998,570
Exercise of options for cash	10	240,000	51,931	-	(27,931)	-	24,000
Share-based payments		-	-	-	219,955	-	219,955
Net loss and comprehensive loss for the year		-	-	-	-	(1,892,016)	(1,892,016)
Balance, September 30, 2015		125,068,733	9,471,337	-	892,070	(6,012,898)	4,350,509
Share-based payments		-	-	-	9,124	-	9,124
Net loss and comprehensive loss for the year		-	-	-	-	(2,369,162)	(2.369,162)
Balance, September 30, 2016		125,068,733	9,471,337	-	901,194	(8,382,060)	1,990,471

See accompanying notes to consolidated financial statements.

Gourmet Ocean Products Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended September 30, 2016	Year Ended September 30, 2015 (restated – Note 2)
	$	$
OPERATING ACTIVITIES		
Net loss for the year	(2,369,162)	(1,892,016)
Items not involving cash:		
Depreciation	266,382	275,783
Inventory impairment	1,338,246	-
Write-off on other receivable (note 5)	-	10,065
Interest accrual on short-term debentures	76,276	39,079
Loss from disposal of assets	6,248	-
Share-based payments	9,124	219,955
	(672,886)	(1,347,134)
Changes in non-cash working capital balances:		
Accounts receivable	(1,587,770)	(67,008)
Other receivables	(1,515)	70,452
Inventory	901,240	(1,074,727)
Prepaid expenses and deposits	46,561	250,944
Deferred revenue	-	(7,576)
Accounts payable	271,816	(291,318)
Cash used in operating activities	(1,042,554)	(2,466,367)
INVESTING ACTIVITY		
Acquisition of property and equipment	-	(23,605)
Cash used in investing activity	-	(23,605)
FINANCING ACTIVITIES		
Proceeds from short-term debentures	600,000	853,576
Repayment of short-term debentures	(50,000)	-
Exercise of options and warrants (note 10)	-	24,000
Advances from related parties	-	6,000
Cash provided by financing activities	550,000	883,576
Decrease in cash and cash equivalents	(492,554)	(1,606,396)
Cash and cash equivalents, beginning	582,787	2,189,183
Cash and cash equivalents, ending	90,233	582,787
Supplemental disclosure of cash flow information:		
Cash paid for interest	46,407	52,849
Cash paid for income taxes	-	-

See accompanying notes to consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Gourmet Ocean Products Inc. (the "Company" or "Gourmet") was incorporated under the Business Corporations Act (British Columbia) on July 8, 2008. Its registered office is located at 488-1090 West Georgia Street, Vancouver, British Columbia V6E 4V2, Canada. The Company's common shares are trading as a Tier 2 Industrial Issuer on the TSX-V under the symbol "GOP". The Company specializes in the production of seed for scallop and sea cucumber for aquaculture farms. The Company is also a buyer and exporter of sea cucumber. It conducts its hatchery activities in Courtenay, British Columbia, Canada.

For the year ended September 30, 2016, the Company incurred a net loss of $2,369,162 (2015 – $1,892,016). Although the Company has generated revenue from sales, the number of customers and the sales volumes achieved to date have not generated sufficient margins to cover all of the Company's overhead and administrative costs. The Company has an accumulated deficit of $8,382,060 and has been incurring losses since inception. The Company is also heavily dependent on very few major distributors and small customers for its sales of sea cucumbers, scallop and oyster seeds and for its sales of processed sea cucumber product for export.

All of these factors raise significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing, successfully generating profits and cash flows from raising and selling seeds and from re-selling processed seafood products, and developing additional customers to generate gross margin on these sales sufficient to cover its operating costs.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these consolidated financial statements. Management's plans to meet the Company's current and future obligations are to raise equity capital through private placements, rely on the financial support of its key shareholders and parties related to the current key shareholders, as well as explore financing that may be available to the Company such as bank or other financing.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by International Financial Reporting Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors on January 26, 2017.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments carried at fair value as described in Note 3 (j).

Additionally, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Restatement of prior period

The Company has determined that the leasehold improvements should have been amortized over seven years (note 8). The effects of the restatement are to increase the opening accumulated depreciation balance of leasehold improvements as at September 30, 2014 by $256,837 and depreciation expense for the year ended September 30, 2015 by $72,743. The effects on the Statement of Changes in Equity and Deficit are an increase of deficit of $256,837 as at September 30, 2014 and an increase in net loss and comprehensive loss for the year ended September 30, 2015 of $72,743. The impact on the statement of cash flow for the year ended September 30, 2015 is an increase of $72,743 in net loss for the year and depreciation expense with $nil effect on cash used in operating activities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Basis of consolidation

The following companies have been consolidated with Gourmet Ocean Products Inc. as at September 30, 2016:

Company Name	Registered	Holding	Functional Currency
Gourmet Ocean Products Inc.	British Columbia	Parent Company	Canadian Dollar
Wen Lian Aquaculture Co., Ltd.	British Columbia	100%	Canadian Dollar
Gourmet Ocean Products (USA) Inc.	United States	100%	Canadian Dollar

i. Gourmet Ocean Products (USA) Inc. is inactive and has no assets of significance.
ii. Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions, were eliminated in preparing the consolidated financial statements.

e) Revenue recognition

The Company recognizes the revenues from the sale of seafood products and sale of seed product upon delivery and subject to assurance of collection, which is when the Company can measure the amount of revenue reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the risks and rewards of ownership of the goods have been transferred to the buyer and the Company no longer retains control over the goods sold.

Processed and frozen seafood product, which the Company purchases for resale and ships out to third parties in anticipation of future sales is considered part of inventory held by or consigned to others either until the product is delivered to an ultimate customer and the Company receives payment for the product, or the consignee ultimately becomes the customer and the Company receives payment for the product.

Sales of sea cucumber and scallop seeds are recognized as revenues when plantable seeds have been delivered and accepted by a customer.

Revenue is measured at the fair value of the consideration received or receivable. The fair value of an account receivable balance with an extended credit term is determined by discounting the face value of the receivable at an interest rate that reflects the risk specific to the transaction over the credit period. Payments received from customers in advance of meeting all of the recognition criteria are recorded as deferred revenue and subsequently recognized as all the criteria are met.

f) Cash equivalents

Cash equivalents consist of highly liquid investments and bank overdrafts, excluding restricted cash, if any, that are readily convertible to cash with maturities of three months or less when purchased, or which are redeemable at the option of the Company and are subject to an insignificant risk of change in value.

g) Accounts receivable

Trade receivables are recognized initially at fair value less allowances made for doubtful receivables based on a review of year-end trade receivables, and do not carry any interest. An allowance for doubtful accounts receivable is generally made when there is objective evidence that the Company will not be able to collect the amounts due according to original payment terms or when there are indications of collection issues related to specific customers. Receivables with initial terms of six months or greater are discounted and accreted to their maturity date values.

h) Share issuance costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issuance costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Impairment

At each reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated to determine the extent of the impairment, if any. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

An impairment loss is recognized in operations if the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

j) Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. Cost includes the acquisition price, any direct costs to bring the asset into productive use at its intended location, the cost of replacing part of the property and equipment and borrowing costs if the recognition criteria are met. Major inspection cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Depreciation is calculated using the following rates and methods:

Aquaculture equipment	20% declining balance basis
Building	10% straight line basis
Computer equipment	50% declining balance basis
Office furniture	20% declining balance basis
Vehicles	30% declining balance basis
Boats	15% declining balance basis
Leasehold improvement	7 year straight line basis

k) Financial instruments

The Company does not have any derivative financial assets and derivative financial liabilities.

Non-derivative financial assets

Non-derivative financial assets are initially recognized at fair value and are classified into one of four categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables or available-for-sale financial assets.

i) Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss ("FVTPL") if they are held for trading or are designated as such upon initial recognition. Financial assets at fair value through profit or loss are measured at fair value, and changes are recognized in operations. Upon initial recognition transaction costs are recognized in operations as incurred.

ii) Held-to-maturity financial assets

Financial assets are classified as held-to-maturity if the Company has the intent and ability to hold them to maturity. These financial assets are recognized initially at fair value together with directly attributable costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses. Any sale or reclassification of a more than significant amount of these assets not close to their maturity would result in the reclassification of all held-to-maturity financial assets as available-for-sale, and would prevent the Company classifying investment securities as held-to-maturity for the current and following two financial years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial instruments (continued)

iii) Loans and receivables

These assets are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses.

iv) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is reclassified through operations.

Non-derivative financial liabilities

Non-derivative financial liabilities are initially recognized at fair value and are classified into one of two categories: financial liabilities at fair value through profit or loss or other financial liabilities.

i) Financial liabilities at fair value through profit or loss

These financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value, and changes therein are recognized in operations.

ii) Other financial liabilities

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method.

l) Share-based payments

The Company accounts for share-based payment awards granted to employees and consultants using the fair value method. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest, using the Black-Scholes option pricing model. The amount recognized as expense is adjusted to reflect the number of share options expected to vest at each reporting period.

m) Earnings per share

Basic earnings per share is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted earnings per share. Diluted earnings per share exclude all dilutive potential common shares if their effect is anti-dilutive.

n) Income taxes

Income tax expense comprises current and deferred tax and is recognized in operations except to the extent that it relates to business combinations, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Income taxes (continued)

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for temporary differences in assets and liabilities arising in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, transactions relating to investments in jointly controlled entities to the extent that they will not reverse in the foreseeable future, and transactions arising on the initial recognition of goodwill. Deferred income tax is recognized at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence; related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

p) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The functional currency of the Company is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars, which is the Company’s presentation currency.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations and comprehensive loss.

q) Inventory

The Company’s inventory is comprised of various freeze-dried sea cucumber products stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. The cost of inventory includes inbound freight and processing charges. An allowance for obsolete, slow-moving or spoiled inventories is made where necessary. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

r) Biological Assets

Biological assets are only recognized when they meet the criteria that the Company has control over the assets, it is probable the future economic benefits from the biological assets will flow to the Company, and the fair value or costs can be measured reliably.

If the biological assets can be recognized, they are measured at fair value on initial recognition and their carrying amounts are reviewed at the end of each reporting period at their fair values less costs to sell, except when the fair value cannot be reliably measured, in which case they will be measured at costs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Biological Assets (continued)

Biological assets comprise sea cucumbers and geoduck in development, and seeds in development. The fair value of geoducks cannot be determined by management as there is insufficient information about survival rates, available on which to base quantity measurements. In addition, geoducks live below the beach surface, which makes physical observation of quantities difficult; therefore, the fair value of geoducks as a biological asset is not recognized in the consolidated financial statements until harvest.

Sea cucumber is valued at fair value less the cost to harvest and sell based on quantities seeded, published data about estimated survival rates, expected number of months to maturity, and the value of mature harvested sea cucumber. Any adjustments to the fair value of biological assets are shown as a fair value adjustment on biological assets reported as other income and expenses in the consolidated statement of comprehensive loss. As at September 30, 2016, the quantity and fair value of the sea cucumber were undeterminable. Therefore, no biological asset has been recorded accordingly.

Seeds produced from mass cultivation cycles are valued at fair value less the costs to sell, based on estimated approximate quantity of survivals. The value of seeds is generally based the size of the seeds at the time when they are measured. As at September 30, 2016, the quantity and fair value of the seeds were undeterminable. Therefore, no biological asset has been recorded accordingly.

s) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

t) Recent accounting pronouncements

The Company adopted the following standards for the year ended September 30, 2016:

- IAS 1 – *Presentation of Financial Statements* - In December 2014, the IASB issued an amendment to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The changes clarify that materiality considerations apply to all parts of the financial statements and the aggregation and disaggregation of line items within the financial statements.

- IAS 16 – *Property, Plant and Equipment* and IAS 36 – *Intangible Assets* - In May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

- IFRS 7 – *Financial Instruments: disclosures* - Amended to require additional disclosures on transition from IAS 39 and IFRS 9.

The mandatory adoption of the new and revised accounting standards and interpretations on October 1, 2015 had no significant impact on the Company's consolidated financial statements for the current year or prior year presented.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the IFRIC that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

Standard effective for annual periods beginning on or after January 1, 2018

IFRS 15 *Revenue from Contracts with Customers* – In May 2014, the IASB issued IFRS 15 which replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all, revenue arising from contracts with customers, unless the contracts are within the scope of other IFRSs. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities. Additional disclosure is required under the standard, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgments and estimates.

The standard is effective for annual periods beginning on or after January 1, 2018; early application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item as a result of the adoption of the new standard. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of adoption of IFRS 15 has not yet been determined.

IFRS 9 *Financial Instruments* - This is a finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39. The standard contains requirements in the following areas:

- **Classification and measurement**. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

- **Impairment**. IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

- **Hedge accounting**. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

- **Derecognition**. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Standard effective for annual periods beginning on or after January 1, 2019

IFRS 16 *Leases* - IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

The extent of the impact of adoption of these above standards on the consolidated financial statements of the Company has not yet been determined.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Significant estimates include:

- the determination of allowances for doubtful accounts and bad debts;
- the valuation of trade accounts receivable with extended payment terms;
- the valuation of inventories and the recognition of inventory impairments;
- the determination of the useful lives of equipment; and
- the recognition and valuation of impairment of property and equipment.

Critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

- Revenue recognition
  Sales transactions involving seed sales of biological assets and frozen adult seafood products with extended payment terms require management to make judgments regarding whether all recognition criteria under IAS 18, *Revenue*, are met for such sales to be recognized as revenue at the time products are delivered by the Company.

- Valuation of biological assets in development
  During the years ended September 30, 2016 and 2015, the Company did not recognize a value for seeds in development and sea cucumbers in development as biological assets in the Company's consolidated statement of financial position. The determination of whether to recognize the value of the seeds in development and sea cucumbers in development requires management estimates about survival rates, expected time to maturity, and rates of growth (Note 6).

  As at September 30, 2016, the Company determines that the fair value of its biological assets cannot be measured reliably, because there are no quoted market prices for these biological assets in development stage, and alternative fair value measurements were determined by the Company to be clearly unreliable. In addition, the physical verification of the geoduck and sea cucumber in development are located in ocean tenures, most of which are not readily susceptible to physical observation and verification because they are below the low tide watermark or located in sand below the seabed. Management applies judgement in determining whether or not the criteria under IAS 41 *Agriculture* can be applied to carry biological assets at fair value.

- Consignment Inventory
  Processed or frozen seafood products that are shipped to third parties in anticipation of future sales and from which the Company will not collect payments until the third parties have resold the goods to ultimate customers are considered inventories held in consignment. As at September 30, 2016 and 2015, the Company has $Nil inventory held in consignment. Judgement is required when applying the criteria used to evaluate whether or not the Company controls this inventory.

(Expressed in Canadian Dollars)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

- Deferred income taxes
  In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. In addition, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period. Judgement is applied by management when determining the likely tax treatment for certain items giving rise to deferred tax assets or obligations.

- Going Concern
  Management makes an assessment about the Company’s ability to continue as a going concern by taking into the account the consideration of the various factors discussed in Note 1. Judgement is applied by management in determining whether or not the elements giving rise to factors that cause doubt about the ability of the Company to continue as a going concern are present.

4. ACCOUNTS RECEIVABLE

According to the terms of the sales agreements, the average credit period is approximately two to six months on the sales of harvested sea cucumber purchased for resale. Trade receivables with extended payment terms are discounted and then accreted to their expected date of collection.

Allowances for doubtful accounts and bad debts are recognized against accounts receivable based on estimated unrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. During the year ended September 30, 2016 and 2015, there was no bad debt or provision recorded for the trade receivable.

The Company does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts that may be owed by the Company to the counterparty.

The aging analysis of accounts receivable as at September 30, 2016 is as follows:

	September 30, 2016	September 30, 2015
	$	$
1 – 30 days	945,980	-
31 – 60 days	562,497	-
Over 90 days, but less than one year	320,913	241,620
	1,829,390	241,620

In determining the recoverability of an accounts receivable balance, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. Trade receivable with initial terms over six months have been discounted.

5. OTHER RECEIVABLES

	2016	2015
	$	$
GST/HST refundable	19,076	17,561

During the year ended September 30, 2016, the Company took an impairment of $Nil (2015 - $10,065) related to other receivables, which has been included in the office and general expenses.

(Expressed in Canadian Dollars)

6. INVENTORY

	2016		
	$	$	$
	Held in China	Held in Canada	Total
Freeze-dried sea cucumber	945,853	462,517	1,408,370
	945,853	462,517	1,408,370

	2015		
	$	$	$
	Held in China	Held in Canada	Total
Freeze-dried sea cucumber	2,841,112	314,867	3,155,979
Freeze-dried salted sea cucumber	491,877	-	491,877
	3,332,989	314,867	3,647,856

During the year ended September 30, 2016, inventory in the amount of $2,674,726 (year ended September 30, 2015 - $3,300,108) was expensed through cost of sales.

For the year ended September 30, 2016, the Company recorded an inventory impairment of $1,338,246 (2015 - $nil) due to obsolescence.

During the year ended September 30, 2016 and 2015, the Company did not recognize any biological assets for the seeds it cultivated in the hatchery operation, or for the growing seafood it seeded under a collaborative farming agreement in 2010 and 2013 because the fair value cannot be reliably measured. For the biological assets where the fair value cannot be reliably measured, the costs are considered minimal. For the growing geoducks, the Company considers that due to the long growth period for the seeds, the uncertainties and difficulties involved in assessing and determining the fair value of these biological assets prior to maturity, these assets do not meet all the criteria for recognition at fair value as required by IAS 41 *Agriculture*.

7. PREPAID EXPENSES

	2016	2015
	$	$
Prepaid rent and deposit	37,500	37,500
Prepaid license lease	-	50,000
Prepaid marketing and other expenses	15,488	18,449
	52,988	105,949

(Expressed in Canadian Dollars)

8. PROPERTY AND EQUIPMENT

	Aquaculture Equipment	Boats	Building	Computer Equipment	Office Furniture	Leasehold Improvements (restated – Note 2)	Vehicles	Total
	$	$	$	$	$	$	$	$
Cost								
Balance, September 30, 2014	148,769	81,484	22,403	7,806	10,388	1,464,216	110,243	1,845,309
Additions	-	-	-	722	358	22,525	-	23,605
Balance, September 30, 2015	148,769	81,484	22,403	8,528	10,746	1,486,741	110,243	1,868,914
Additions	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	(10,746)	-	-	(10,746)
Balance, September 30, 2016	148,769	81,484	22,403	8,528	-	1,486,741	110,243	1,858,168
Accumulated Depreciation								
Balance, September 30, 2014	82,084	16,774	12,880	4,460	1,039	760,221	20,391	897,849
Charge for the year	13,337	9,707	2,240	1,763	1,897	219,883	26,956	275,783
Balance, September 30, 2015	95,421	26,481	15,120	6,223	2,936	980,104	47,347	1,173,632
Charge for the year	10,670	8,251	2,240	1,152	1,562	223,638	18,869	266,382
Disposal	-	-	-	-	(4,498)	-	-	(4,498)
Balance, September 30, 2016	106,091	34,732	17,360	7,375	-	1,203,742	66,216	1,435,516
Net book value								
September 30, 2015	53,348	55,003	7,283	2,305	7,810	506,637	62,896	695,282
September 30, 2016	42,678	46,752	5,043	1,153	-	282,999	44,027	422,652

(Expressed in Canadian Dollars)

9. SHORT-TERM DEBENTURES

On November 1, 2015, the Company renewed seven short-term debenture agreements with two related parties and two arm's length parties to borrow a total of $850,036 at an interest rate of 12% per annum, which includes loans carried in USD$40,000. The debentures are unsecured, non-convertible and have a maturity date of April 30, 2016. On December 1, 2015, the Company entered into a short-term debenture agreement with a related party to borrow $600,000 at an interest rate of 12% per annum. The debenture is unsecured, non-convertible and has a maturity date of April 30, 2016.

On May 1, 2016, the Company renewed these short-term debenture agreements and increased the amount to a total of $1,452,036, which $1,080,036 loan from one of related parties at an interest rate of 4% and $370,000 loan ($100,000 from a related party and $270,000 from non-related parties) with an interest rate of 12% per annum. The debentures are unsecured, non-convertible and have a maturity date of April 30, 2017, with the exception of a $20,000 loan due on October 31, 2016. During the year ended September 30, 2016, $50,000 debenture loan to a related party was paid back. Subsequent to the year end, $20,000 debenture loan to a non-related party was paid back.

During the year ended September 30, 2016, interest expense in the amount of $123,847 (year ended September 30, 2015 - $91,928) was recorded.

The loan balance as at September 30, 2016 includes principal in the amount of $1,402,468 (2015 - $853,576) and accrued interest of $116,463 (2015 - $39,079).

10. SHARE CAPITAL

Authorized: unlimited number of common shares without par value.

Escrow Shares

As at September 30, 2016, the Company has 16,212,500 of its shares held in escrow (2015 - 48,637,500 shares). 16,212,500 common shares will be released on February 24, 2017.

Stock Options

As at September 30, 2016, the Company has stock options outstanding to directors, officers, employees, one consultant and one investor relations advisor to acquire an aggregate of 6,410,000 common shares summarized as follows. The options have a weighted average remaining life of 0.45 year and weighted average exercise price of $0.19. As at September 30, 2016, 6,410,000 stock options are exercisable.

	Number of Options	Exercise Price	Expiry Date
Outstanding, September 30, 2014	6,650,000	$0.19	
Exercised on February 13, 2015	(240,000)	$0.10	
Outstanding, September 30, 2015	6,410,000	$0.19	
Granted on December 13, 2015	125,000	$0.15	January 15, 2016
Expired on January 15, 2016	(125,000)	$0.15	
Outstanding, September 30, 2016	6,410,000	$0.19	

On March 7, 2014, the Company granted an aggregate of 5,650,000 stock options to directors, officers, employees and one consultant of the Company. These options have an exercise price of $0.20 and an expiry date of March 7, 2017. All of the options will vest over a two year period (12.5% to vest immediately; 12.5% to vest every 3 months thereafter; such that the options were fully vested by December 31, 2015). During the year ended September 30, 2016, the Company recognized share-based compensation of $9,124 (2015 - $207,850) related to these options.

On May 1, 2014, the Company granted 400,000 stock options to one investor relation advisor of the Company. All of the options will vest over a one-year period at a rate of 25% every three months. As at September 30, 2016, 100% of these options have vested. During the year ended September 30, 2016, the Company recognized share-based compensation of $Nil (2015 - $12,105) related to these options.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

On December 13, 2015, the Company granted 125,000 options to one consultant, which were expired on January 15, 2016 after his consulting agreement was terminated.

During the year ended September 30, 2016, no options were exercised (2015 - 240,000 options were exercised for proceeds of $24,000).

The fair value of options granted during the year ended September 30, 2016 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2016
Share price on vesting date	$0.03
Exercise price	$0.19
Risk-free interest rate	0.72%
Expected dividend yield	0%
Expected option life (years)	0.45
Expected stock price volatility	95%

The following table summarizes the stock options exercisable as at September 30, 2016:

Exercise price $	Number of Outstanding Exercisable Options	Expiry Date	Remaining Contractual Life (years)
0.10	360,000	March 29, 2017	0.50
0.20	5,650,000	March 7, 2017	0.44
0.20	400,000	May 1, 2017	0.59
	6,410,000		

The following table summarizes the stock options exercisable as at September 30, 2015:

Exercise price $	Number of Outstanding Exercisable Options	Expiry Date	Remaining Contractual Life (years)
0.10	360,000	March 29, 2017	1.50
0.20	4,943,750	March 7, 2017	1.44
0.20	400,000	May 1, 2017	1.59
	5,703,750		

Stock Option Plan

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the TSX-V Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Such options will be exercisable for a period of up to five years from the date of grant.

In connection with the foregoing, the number of common shares reserved for issuance to any individual director or officer will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised after 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

The Company grants incentive stock options as permitted pursuant to the Company's Stock Option Plan approved by the shareholders which complies with the rules and policies of the TSX-V.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

Warrants

On February 14, 2014, the Company issued 1,125,000 agents' warrants with a fair value of $115,544 pursuant to the concurrent financing competed together with the reversed merger transaction. These agent's warrants had an exercise price of $0.20. Each warrant allowed the holder to purchase one common share of the Company until February 14, 2016.

The following table reflects the continuity of warrants as at September 30, 2016 and 2015:

	Number of Warrants	Amount
		$
Warrants outstanding and exercisable, September 30, 2015	1,125,000	115,544
Warrants expired on February 14, 2016	(1,125,000)	115,544
Warrants outstanding and exercisable, September 30, 2016	-	-

11. SEGMENTED INFORMATION

Gourmet has one reportable segment which includes its integrated operations for harvesting, processing and distribution of seafood products and seeds. All the Company's property and equipment is located in Canada.

(a) Sales by Category

	Year Ended September 30, 2016	Year Ended September 30, 2015
	$	$
Scallop seeds	-	4,000
Harvested wild sea cucumber	3,882,581	4,191,294
Oyster seeds	-	87,585
	3,882,581	4,282,879

(b) Sales by Geographic Region

	Year Ended September 30, 2016	Year Ended September 30, 2015
	$	$
Canada	253,342	138,974
China	3,629,239	4,143,905
	3,882,581	4,282,879

12. RELATED PARTY BALANCES AND TRANSACTIONS

<u>Related party balances</u>

(a) As at September 30, 2016, the Company has short-term debentures in the amount of $1,221,031 (2015 - $609,755) from a spouse of a director and an officer of the Company with terms which are described in Note 9. Of the $1,221,031 balance, $1,132,468 was principal and $88,563 was interest payable (2015 - Of the $609,755 balance, $583,576 was principal and $26,179 was interest payable).

(Expressed in Canadian Dollars)

12. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Related party balances (continued)

(b) Included in accounts payable at September 30, 2016 was:

	September 30, 2016	**September 30, 2015**
	$	$
Guonan Qiu (i)	**54,197**	1,178
Harold Lee (ii)	**3,990**	3,990
Laizhong Qiu (iii)	**49,200**	-
Shubo Li (iv)	**49,252**	-
	156,639	5,168

(i) Balance consists of salaries and expenses reimbursement due to the current president.
(ii) Balances consist of director fees due to the current director.
(iii) Balances consist of salaries and director fees due to the current director.
(iv) Balance consists of salaries, rent and expenses reimbursement due to the spouse of a director.

These balances are unsecured, non-interest bearing and have no fixed terms of repayment.

Related party transactions

a) The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-term benefits or termination benefits were made during the year ended September 30, 2016 and 2015. Short-term key management compensation consists of the following:

	Year Ended September 30, 2016	Year Ended September 30, 2015
	$	$
Salaries	200,000	216,000
Consulting fees	143,400	172,800
Director fees	61,500	60,750
Share-based payments	9,124	163,705
	414,024	613,255

b) During the year September 30, 2016, the Company made $24,000 (2015 - $24,000) rent expense to a spouse of a director of the Company.

c) During the year September 30, 2016, the Company made $91,447 (2015 - $61,564) interest expenses on short-term debentures to a spouse of a director and an officer of the Company.

d) During the year September 30, 2016, there were USD $360,372 sales made to a Company which one director is the legal representative of. As of September 30, 2016 (2015 - $Nil), the entire balance is included in accounts receivable on the consolidated statement of financial position.

(Expressed in Canadian Dollars)

13. INCOME TAX

The following table reconciles the amount of income tax expense on the application of the combined statutory Canadian federal and provincial income tax rates:

	Year Ended September 30, 2016	Year Ended September 30, 2015
Canadian statutory income tax rate	26%	26%
	$	$
Income tax recovery at statutory rates	(616,000)	(492,000)
Non-deductible items and others	381,000	1,137,000
Change in enacted tax rates	-	-
Change in unrecognized deferred tax assets	235,000	(645,000)
Income tax provision	-	-

Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of deferred tax assets (liabilities) are as follows:

	2016	2015
	$	$
Property and equipment	71,000	144,000
Non-capital losses	1,600,000	759,000
Share issuance costs	61,000	92,000
Short-term debentures	30,000	-
Unrecognized deferred tax assets	(1,762,000)	(995,000)
Recognized deferred income tax assets	-	-

As at September 30, 2016, the Company has accumulated Canadian non-capital losses carried forward totaling approximately $6,156,000 which can be used to offset taxable income of future years. The losses expire from 2030 to 2036, as follows:

2030	$	74,000
2031		53,000
2032		143,000
2033		755,000
2034		395,000
2035		2,501,000
2036		2,235,000
	$	6,156,000

14. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments include cash and cash equivalents, accounts receivables, accounts payable and short-term debentures. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature.

The following table summarizes the carrying values of the Company's financial instruments:

	2016	2015
	$	$
Financial assets at fair value through profit or loss (i)	90,233	582,787
Loans and receivables (ii)	1,829,390	241,620
Other financial liabilities (iii)	1,663,713	986,746

14. FINANCIAL INSTRUMENTS (continued)

(i) Cash and cash equivalents
(ii) Accounts receivable
(iii) Accounts payable and short-term debentures

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
Level 3 – Inputs that are not based on observable market data

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	2016
	$	$	$	$
Cash and cash equivalents	90,233	-	-	90,233

	Level 1	Level 2	Level 3	2015
	$	$	$	$
Cash and cash equivalents	582,787	-	-	582,787

Interest Rate and Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. Management evaluates credit risk on an ongoing basis and monitors activities related to amounts receivable including the amounts of counterparty concentrations. The primary sources of credit risk for the Company arise from its financial assets consisting of cash and cash equivalents and amounts receivable. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. To minimize credit risk the Company only holds its cash and cash equivalents with Canadian and US financial institutions. Management, on an ongoing basis, monitors the level of accounts and other receivables attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

At September 30, 2016, outstanding amounts receivable from two customers accounted for 95% of total accounts receivable (September 30, 2015 – one of these two customers accounted for 100%). These two customers are located in China. The Company's primary sources of income and cash flows originate in China; the Company is therefore subject to the considerations and risks of operating in China. These include risk associated with foreign currency exchange. The Chinese government exercises significant control over China's economic growth by controlling payment of foreign currency-denominated obligations. While management does not believe that there is significant credit risk arising from the concentration of credit risk from the Company's customers, the foreign exchange controls imposed by the Chinese government may have an impact on the Company's cash flows.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar. All other financial instruments are denominated in Canadian dollars. The Company has sales to China, but the sales are denominated in the Company's functional currency Canadian dollar and the Company's customers bear the risk from changes in foreign currency exchange rate. In management's opinion there is no significant foreign exchange risk to the Company. As at September 30, 2016, the Company has cash in the amount of $78,718 (2015 - $178,202) denominated in US dollars.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its amounts receivable in a timely manner and by maintaining sufficient cash on hand through sales, equity financing and bank loans.

(Expressed in Canadian Dollars)

14. FINANCIAL INSTRUMENTS (continued)

The following are the contractual maturities of financial liabilities:

September 30, 2016	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
	$	$	$	$	$
Accounts payable	144,782	144,782	144,782	-	-
Short-term debentures	1,518,931	1,518,931	1,518,931		
Total	1,663,713	1,663,713	1,663,713	-	-

September 30, 2015	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
	$	$	$	$	$
Accounts payable	94,091	94,091	94,091	-	-
Short-term debentures	892,655	892,655	892,655		
Total	986,746	986,746	986,746	-	-

15. ECONOMIC DEPENDENCE

For the year ended September 30, 2016, one distributor and two customers accounted for 92% of the Company's total sales (for the year ended September 30, 2015, two customers accounted for approximately 96.7% of the Company's total sales). At September 30, 2016, 95% of the outstanding accounts receivables was due from a distributor and a customer (September 30, 2015 – 100% due from one distributor).

For the year ended September 30, 2016, two suppliers accounted for approximately 53.9% of the Company's total purchases (year ended September 30, 2015, two suppliers accounted for approximately 34.5% of the Company's total purchases). At September 30, 2016 and 2015, no outstanding amounts included in accounts payable were due to these suppliers.

The loss of the above customers or suppliers could have a material adverse effect on the Company's financial position and results of operations.

16. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders through expansion correspondingly to the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets, reduce debt or increase its debt.

17. COMMITMENTS

(a) On May 28, 2015, the Company entered into a Settlement Agreement and Mutual Release agreement ("Settlement") with two arm's length parties (one as the "Landlord") whereby all parties agreed on the final settlement that the Company make a cash payment of $425,000 ("cash payment") to the Landlord. With the settlement, the Company paid off all outstanding rent payments and discharged any and all liabilities related to previously dispute and claims with the Landlord regarding the hatchery premises lease.

The cash payment included a security deposit pursuant to the new Lease agreements entered into with the Landlord, to lease the land and the premises situated in Courtenay, BC, Canada where the Company runs its seafood seeds hatchery operation. Under the new Lease agreements, the hatchery premise is leased to the Company at a rate of $50,000 per annum, with terms expiring on June 30, 2018.

17. COMMITMENTS (continued)

(b) On February 11, 2014, the Company entered into a sub-lease agreement and is committed to office leases for its office in Vancouver, BC, Canada, starting from March 1, 2014 and expiring on March 31, 2018. Minimum annual lease payments of $120,400 are required until expiry on March 31, 2018. On June 20, 2016, the Company sub-subleased this office to another sub-tenant for the rest of the lease term with annual lease payments of $108,360, effectively on July 1, 2016.

(c) The Company entered into a lease agreement on August 1, 2016 with an arm's length party to use the premises at 133–13982 Cambie Road, Richmond, BC V6V 2K2, starting from August 1, 2016 and expiring on July 31, 2019, as an office for the Company after its sub-sublease of its Vancouver office. Lease payment is $3,200 per month for the first year, $3,300 for the second year and $3,400 for the third year.

(d) The Company entered into a lease agreement with a non-arm's length party to use the premises at 4089 Gartley Point Road in Courtenay, BC, Canada, as an office for the Company and as the residence for onsite workers at the Company's hatchery. Rent is $2,000 per month and the agreement expires in October 2017.

(e) The Company has collaborative farming agreements with two holders of ocean tenures into which sea cucumber and geoduck seeds have been planted respectively. The agreement for sea cucumber farming has a term of 10 years, and the agreement for geoduck farming has no specific expiry date.

Under the agreements, the Company agrees to (1) supply the tenure holders with seeds for planting; (2) give the tenure holders 50% of the harvests to compensate them for their services; (3) keep 50% of the harvest from those seeds; and (4) retain a right of first refusal to buy tenure holders' 50% of the harvest at market value.

As at September 30, 2016, the geoduck seeds planted under the agreement have not reached maturity for harvest, while the sea cucumbers planted are estimated to have reached full maturity by the farmer, however, they had less than a 1% survival rate. Accordingly, the value of the geoduck under production is considered minimal because they are not mature, and the value of the surviving grown sea cucumbers is considered very minimum.

(f) The Company has a number of consulting agreements with its key management personnel and one arm's length entity. These agreements do not have specific expiry dates.

18. SUBSEQUENT EVENTS

(a) Subsequent to the year-end, the Company paid back $20,000 debenture loan to an arm's length party with an interest rate of 12% per annum.