



RYU APPAREL INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - UNAUDITED
MARCH 31, 2016
(Expressed in Canadian dollars)

RYU APPAREL INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION - UNAUDITED

(Expressed in Canadian dollars)

As at

	March 31, 2016	December 31, 2015
ASSETS		
Current		
Cash	\$ 78,937	\$ 104,518
Accounts receivable (note 3)	182,477	305,852
Inventory (note 4)	1,205,260	1,082,448
Prepaid expenses and deposits	92,321	47,653
	<u>1,558,995</u>	<u>1,540,471</u>
Non-current		
Deposits	90,959	90,959
Property and equipment (note 5)	959,446	961,446
Intangible assets	13,307	14,938
	<u>\$ 2,622,707</u>	<u>\$ 2,607,814</u>
LIABILITIES AND EQUITY (DEFICIENCY)		
Current		
Accounts payable	\$ 1,660,231	\$ 1,364,465
Accrued liabilities	119,377	195,764
Current portion of loans payable (notes 6, 10)	1,523,654	1,389,867
Current portion of finance lease (note 7)	14,095	14,951
Deferred revenue	24,707	23,718
	<u>3,342,064</u>	<u>2,988,765</u>
Non-current		
Loans payable (notes 6, 10)	727,644	651,865
Finance lease (note 7)	71,967	80,476
Derivative liability (note 8)	596,211	1,602,474
	<u>4,737,886</u>	<u>5,323,580</u>
Equity (Deficiency)		
Share capital (note 8)	32,861,665	31,573,466
Subscriptions receivable (note 8)	(10,000)	-
Equity reserve (note 8)	6,575,505	6,513,021
Deficit	(41,609,443)	(40,869,347)
Accumulated other comprehensive income	67,094	67,094
	<u>(2,115,179)</u>	<u>(2,715,766)</u>
	<u>\$ 2,622,707</u>	<u>\$ 2,607,814</u>

Commitments (note 7)**Subsequent events** (note 12)

Approved and authorized for issue by the Board of Directors on May 30, 2016.

"Martino Ciambrelli"

Director

"Maria Leone"

Director

The accompanying notes are an integral part of these consolidated financial statements.

RYU APPAREL INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS - UNAUDITED**

(Expressed in Canadian dollars)

For the three months ended March 31

	2016	2015
Revenue	\$ 265,757	\$ 286,635
Cost of sales	124,733	41,382
Gross profit	<u>141,024</u>	<u>245,253</u>
Expenses		
Bad debts and allowance for doubtful accounts	-	15,345
Depreciation (note 5)	57,826	19,009
Foreign exchange	(147,448)	24,087
Impairment	-	5,994
Interest and bank charges	60,657	4,178
Investor relations	219,209	41,537
Office and general	261,649	258,983
Product creation	15,999	-
Professional fees (note 10)	453,918	382,879
Salaries and benefits (note 10)	585,633	360,209
Selling and marketing	357,166	252,810
Share based payments (notes 8, 10)	62,484	100,663
Travel and entertainment	9,627	18,344
	<u>(1,936,720)</u>	<u>(1,484,038)</u>
Other items		
Gain on settlement of debt (note 8)	49,337	-
Recovery of warrant derivative liability (note 8)	1,006,263	-
Comprehensive loss	<u>\$ (740,096)</u>	<u>\$ (1,238,785)</u>
Loss per share - Basic and diluted	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding - basic and diluted	<u>83,021,474</u>	<u>55,336,750</u>

The accompanying notes are an integral part of these consolidated financial statements.

RYU APPAREL INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN DEFICIENCY - UNAUDITED**

(Expressed in Canadian dollars)

	Number of common shares	Share capital	Share subscriptions received in advance (receivable)	Equity reserve	Accumulated other comprehensive income	Deficit	Total deficiency
Balance, January 1, 2015	55,336,788	\$24,329,187	\$ -	\$ 6,040,724	\$ 67,094	\$ (31,240,437)	\$ (803,432)
Share-based payments	-	-	-	100,663	-	-	100,663
Share subscriptions received in advance	-	-	372,360	-	-	-	372,360
Comprehensive loss	-	-	-	-	-	(1,238,785)	(1,238,785)
Balance, March 31, 2015	55,336,788	\$24,329,187	\$ 372,360	\$ 6,141,387	\$ 67,094	\$ (32,479,222)	\$ (1,569,194)
Balance, January 1, 2016	81,698,522	\$ 31,573,466	\$ -	\$ 6,513,021	\$ 67,094	\$ (40,869,347)	\$ (2,715,766)
Issuance of common stock for cash (note 8)	5,260,626	1,142,625	(10,000)	-	-	-	1,132,625
Issuance of common stock for debt settlement (note 8)	986,737	197,347	-	-	-	-	197,347
Share issuance costs (note 8)	50,000	(51,773)	-	-	-	-	(51,773)
Share based payments (note 8)	-	-	-	62,484	-	-	62,484
Comprehensive loss	-	-	-	-	-	(740,096)	(740,096)
Balance, March 31, 2016	87,995,885	\$32,861,665	\$ (10,000)	\$ 6,575,505	\$ 67,094	\$ (41,609,443)	\$ (2,115,179)

The accompanying notes are an integral part of these consolidated financial statements.

RYU APPAREL INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS - UNAUDITED**

(Expressed in Canadian dollars)

For the three months ended March 31

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (740,096)	\$ (1,238,785)
Items not affecting cash:		
Depreciation	57,826	19,009
Share-based payments	62,484	100,663
Foreign exchange	7,369	(621)
Impairment	-	5,994
Accrued interest	27,779	-
Gain on settlement of debt	(49,337)	-
Recovery of warrant derivative liability	(1,006,263)	-
Changes in non-cash working capital		
Accounts receivable	123,375	(871)
Inventory	(122,812)	72,859
Prepaid expenses and deposits	(44,668)	(36,989)
Accounts payable and accrued liabilities	439,098	127,788
Deferred revenue	989	-
Net cash flows used in operating activities	<u>(1,244,256)</u>	<u>(950,953)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment	<u>(27,230)</u>	<u>(135,253)</u>
Net cash flows used in investing activities	<u>(27,230)</u>	<u>(135,253)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	1,132,625	-
Cash share issuance costs	(51,773)	-
Short-term loans received	379,050	529,115
Repayment of short-term loans	(210,000)	-
Share subscriptions received in advance	-	372,360
Finance lease	(3,997)	(5,269)
Net cash flows provided by financing activities	<u>1,245,905</u>	<u>896,206</u>
Change in cash	<u>(25,581)</u>	<u>(190,578)</u>
Cash - beginning	<u>104,518</u>	<u>307,884</u>
Cash - end	<u>\$ 78,937</u>	<u>\$ 117,306</u>
Cash paid for interest	\$ -	\$ -
Supplemental cash flow disclosure - non cash transactions		
Additions of property and equipment included in accounts payable	\$ 26,965	\$ 111,801
Common shares issued for settlement of accounts payable	\$ 197,347	\$ -

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

RYU APPAREL INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - UNAUDITED

(Expressed in Canadian dollars)

March 31, 2016

1. NATURE OF OPERATIONS AND GOING CONCERN

RYU Apparel Inc. (the "Company") is a tailored technical urban athletic apparel brand that engages in the development, marketing, and distribution of apparel, bags and accessories. The Company's products are sold through wholesale, retail and e-commerce channels. The Company was incorporated in the Province of British Columbia ("BC"), Canada on December 4, 2014 and its registered address is 1672 West 2nd Ave, Vancouver, BC, V6J 1H4, Canada. The Company's shares are listed on the TSX-Venture Exchange ("TSX-V") under the symbol "RYU" and on the Frankfurt Stock Exchange under the symbol "RYA".

The Company has incurred losses and negative cash flows from operations from inception that has primarily been funded through financing activities. The Company will need to raise additional capital during the next twelve months and beyond to support current operations and planned development. These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash on hand and through the private placement of common shares. Subsequent to the period end, the Company completed financings as outlined in note 12.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGMENTS**Basis of presentation and statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company's most recent annual consolidated financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2015, which were prepared in accordance with IFRS as issued by the IASB. There have also been no significant changes in judgements or estimates from those disclosed in the consolidated financial statements for the year ended December 31, 2015.

The comparative statements for the three months ended March 31, 2015 were previously filed in US dollars. These have been translated into Canadian dollars using the average exchange rate for the period.

Changes in accounting standards

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - UNAUDITED

(Expressed in Canadian dollars)

March 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGMENTS (continued)*New standard IFRS 15 "Revenue from Contracts with Customers"*

This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

New standard IFRS 16 "Leases"

This new standard replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15.

3. ACCOUNTS RECEIVABLE

	March 31, 2016	December 31, 2015
Trade accounts receivable	\$ 7,537	\$ 31,204
GST input tax credits	174,940	274,648
	<u>\$ 182,477</u>	<u>\$ 305,852</u>

4. INVENTORY

As at March 31, 2016 and December 31, 2015, inventory consisted primarily of ready to wear apparel, bags and accessories, which were either at the retail store location or in either of the Company's two warehouse locations.

5. PROPERTY AND EQUIPMENT

	Leasehold Improvements	Furniture and Equipment	Computers and Software	Total
Cost				
Balance at January 1, 2015	\$ 193,217	\$ -	\$ 53,040	\$ 246,257
Additions	819,097	18,789	24,842	862,728
Impairment	-	-	(39,268)	(39,268)
Balance at December 31, 2015	<u>1,012,314</u>	<u>18,789</u>	<u>38,614</u>	<u>1,069,717</u>
Additions	53,189	-	1,006	54,195
Balance at March 31, 2016	<u>\$ 1,065,503</u>	<u>\$ 18,789</u>	<u>\$ 39,620</u>	<u>\$ 1,123,912</u>
Accumulated depreciation				
Balance at January 1, 2015	\$ -	\$ -	\$ 47,047	\$ 47,047
Depreciation	81,244	3,554	9,700	94,498
Impairment	-	-	(33,274)	(33,274)
Balance at December 31, 2015	<u>81,244</u>	<u>3,554</u>	<u>23,473</u>	<u>108,271</u>
Depreciation	53,275	939	1,981	56,195
Balance at March 31, 2016	<u>\$ 134,519</u>	<u>\$ 4,493</u>	<u>\$ 25,454</u>	<u>\$ 164,466</u>
Net book value				
December 31, 2015	\$ 931,070	\$ 15,235	\$ 15,141	\$ 961,446
March 31, 2016	<u>\$ 930,984</u>	<u>\$ 14,296</u>	<u>\$ 14,166</u>	<u>\$ 959,446</u>

RYU APPAREL INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - UNAUDITED

(Expressed in Canadian dollars)

March 31, 2016

5. PROPERTY AND EQUIPMENT (continued)

During the year ended December 31, 2015 the Company closed all of its business activities in the USA and relocated to Canada to relaunch the brand. As a result, computer equipment in the USA was impaired in the amount of \$5,994.

Included in depreciation for the three months ended March 31, 2016 is \$1,631 for depreciation of the Company's intangible assets.

6. LOANS PAYABLE

	March 31, 2016	December 31, 2015
Current		
Loans and short-term advances	\$ 886,050 (i)	\$ 777,000
Notes payable	637,604 (iii)	612,867
	<u>1,523,654</u>	<u>1,389,867</u>
Non-current loans	727,644 (ii)	651,865
	<u>\$ 2,251,298</u>	<u>\$ 2,041,732</u>

Loans and short-term advances

- i. During the three months ended March 31, 2016, the Company received short-term advances of \$290,000 from directors and other related parties and \$29,050 from an arms-length party. These advances were non-interest bearing, unsecured and due on demand. During the three months ended March 31, 2016, the Company repaid \$210,000 of these advances.

As at March 31, 2016, \$886,050 of the non-interest bearing advances are outstanding.

- ii. During the three months ended March 31, 2016, the Company was loaned an additional \$60,000 from the CEO for a total principal outstanding of \$710,000. The loan bears interest of 8.95% and is due on June 1, 2017. As at March 31, 2016, \$17,644 of interest was accrued.

Notes payable

- iii. During the year ended December 31, 2015 the Company entered into three term notes ("Notes"). The principal amount of \$600,000 plus accrued interest of \$37,604 is still outstanding as of March 31, 2016. The Notes bear interest at 10% per annum, which became payable on the maturity date and is secured by all the assets of the Company. The Notes are convertible by the holder at any point during the ninety day term into common shares of the Company provided a minimum of \$20,000 of the principal was converted, unless there was less than \$20,000 of the principal amount outstanding. The number of shares issuable upon conversion are based on the greater of \$0.40 per share or a 20% discount to the closing price on the TSX Venture Exchange on the previous business before the holder requested conversion. Due to the short maturity of the Notes the fair value of the conversion feature was nominal. The Notes matured in October 2015. These notes are secured against inventory acquired after the issuance of the loan, and all proceeds therefrom.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - UNAUDITED

(Expressed in Canadian dollars)

March 31, 2016

7. COMMITMENTS**Finance lease**

On February 1, 2012, the Company entered into a ten year finance lease agreement for the domain name *ryu.com*. At the end of the lease term, title to the domain name will automatically transfer to the Company.

The following is the summary of the Company's outstanding liabilities (excluding interest):

	March 31, 2016	December 31, 2015
Current portion	\$ 14,095	\$ 14,951
Non-current portion	71,967	80,476
	<u>\$ 86,062</u>	<u>\$ 95,427</u>

Operating leases

The Company has obligations under operating leases for its corporate office facility and for its retail store. The leases expire at various dates through 2022.

Year	Operating leases	Domain name	Total
2016	\$ 273,183	\$ 11,688	\$ 284,971
2017	366,483	15,584	382,067
2018	372,165	15,584	387,749
2019	357,317	15,584	372,901
2020	62,798	15,584	78,382
2021	-	15,584	15,584
2022	-	1,299	1,299
Total	<u>\$ 1,431,946</u>	<u>\$ 90,907</u>	<u>\$ 1,522,853</u>

8. EQUITY**Common shares**

The authorized capital of the Company consists of an unlimited number of common shares without par value.

Common shares issued for cash

Three months ended March 31, 2016:

On January 25, 2016, the Company closed a private placement financing consisting of 810,000 units at a price of \$0.25 per unit for proceeds of \$202,500. Each unit consists of one common share and one common share purchase warrant, which entitles the holder to purchase one additional common share of the Company at a price of \$0.50 per share for a period of three years. The fair value of the warrants was determined to be \$nil using the residual method. In connection with the private placement, the Company paid a finder's fee of \$7,750 and issued 50,000 shares valued at \$12,500.

On February 26, 2016 the Company closed a non-brokered private placement of \$250,000 consisting of the issuance of 1,000,000 units at a price of \$0.25 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.50 for a period of three years. The fair value of the warrants was determined to be \$nil using the residual method.

On March 3, 2016 the Company settled debt in the amount of \$246,684 through the issuance of 986,737 common shares valued at \$197,347, resulting in a gain on settlement of debt of \$49,337.

RYU APPAREL INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - UNAUDITED

(Expressed in Canadian dollars)

March 31, 2016

8. EQUITY (continued)

On March 31, 2016 the Company closed a non-brokered private placement for \$690,125 consisting of the issuance of 3,450,626 units at a price of \$0.20 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant will be exercisable into one common share at a price of \$0.50 for a period of three years. The fair value of the warrants was determined to be \$nil using the residual method. As at March 31, 2016, \$10,000 of this private placement had not yet been received, and has been recorded as a subscriptions receivable. This amount was received subsequent to March 31, 2016.

In connection with the above share issuances, the Company incurred an additional \$44,023 in share issuance costs.

Stock options

On June 9, 2014 and January 27, 2015, the Board of Directors approved certain revisions to the 2013 Stock Option Plan, resulting in the Company's 2014 Stock Option Plan (the "2014 Plan") whereby the aggregate number of securities reserved for issuance set aside and made available for issuance under the Plan was set at 11,058,357 shares of the Company's common stock. Each stock option permits the holder to purchase one share at the stated exercise price. The options vest at the discretion of the Board of Directors.

The following is a summary of the Company's stock option activity:

	Number of Options	Weighted Average Exercise Price
Options outstanding at January 1, 2015	7,674,335	\$ 0.77
Granted	6,650,000	0.29
Exercised	(2,060,000)	0.26
Forfeited	(4,334,335)	1.09
Options outstanding at December 31, 2015	7,930,000	0.34
Granted	300,000	0.20
Options outstanding at March 31, 2016	8,230,000	\$ 0.34
Options exercisable at March 31, 2016	2,043,750	\$ 0.39

Options outstanding at March 31, 2016 were as follows:

Exercise Price (\$)	Options Outstanding		Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Remaining Contractual Life (years)
\$0.20 - \$0.29	500,000	2.24	340,000	1.36
\$0.30 - \$0.39	7,350,000	8.08	1,490,000	6.45
\$0.40 - \$0.49	5,000	7.47	5,000	7.47
\$0.50 - \$0.59	200,000	4.16	40,000	4.16
\$0.80 - \$0.89	25,000	6.95	18,750	6.95
\$1.30 - \$1.38	150,000	0.19	150,000	0.19
	8,230,000	7.48	2,043,750	5.11

RYU APPAREL INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - UNAUDITED

(Expressed in Canadian dollars)

March 31, 2016

8. EQUITY (continued)**Estimated fair value of stock options**

During the three months ended March 31, 2016, the Company granted 300,000 options (March 31, 2015 – 2,300,000) to acquire common shares. Share-based payments relating to options vesting during the period using the Black-Scholes option pricing model was \$62,480 (March 31, 2015 - \$100,663).

	March 31, 2016	March 31, 2015
Weighted average fair value of options granted	\$ 0.08	\$ 0.19
Risk-free interest rate	0.56%	2.04% - 2.23%
Estimated life	1 year	10 years
Expected volatility	112%	111%
Expected dividend yield	0.00%	0.00%
Forfeiture rate	0.00%	35%

Warrants

The following is a summary of the Company's warrant activity:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2015	30,184,436	\$ 0.50
Issued	7,160,000	0.50
Exercised	(120,312)	0.50
Expired	(150,000)	0.50
Outstanding at December 31, 2015	37,074,124	0.53
Issued	5,260,626	0.50
Outstanding at March 31, 2016	42,334,750	\$ 0.52

Warrants outstanding at March 31, 2016 were as follows:

Exercise Price	Expiration Date	Number of Warrants Outstanding and Exercisable
US\$ 2.40	January 25, 2017	50,000
US\$ 1.96	February 1, 2022	7,500
US\$ 2.40	April 26, 2017	50,000
US\$ 2.40	July 26, 2017	50,000
US\$ 2.40	October 26, 2017	50,000
US\$ 2.40	January 30, 2018	50,000
US\$ 1.00	January 19, 2018	50,000
US\$ 1.00	March 6, 2018	1,250
US\$ 0.50	June 3, 2016	3,645,000
US\$ 0.20	November 5, 2016	2,207,271
US\$ 0.50	February 27, 2017	6,553,103
US\$ 0.50	May 22, 2017	15,800,000
US\$ 0.50	June 11, 2017	1,400,000
CDN\$ 0.50	October 20, 2018	6,000,000
CDN\$ 0.50	November 12, 2018	1,160,000
CDN\$ 0.50	January 24, 2019	1,810,000
CDN\$ 0.50	March 30, 2019	3,450,626
		42,334,750

The weighted average remaining contractual life of warrants outstanding as of March 31, 2016 was 1.46 years.

RYU APPAREL INC.

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8. EQUITY (continued)**Warrant Derivative Liability**

	March 31, 2016	December 31, 2015
Balance, Beginning	\$ (1,602,474)	\$ (4,281,783)
Change in fair value of warrants outstanding	1,006,263	2,679,309
Balance, Ending	\$ (596,211)	\$ (1,602,474)

The derivative financial liability consists of the fair value of non-compensatory share purchase warrants that have exercise prices that differ from the functional currency of the Company and are within the scope of IAS 32 "Financial Instruments: Presentation". Details of these warrants and their fair values are as follows:

Expiration Date	Exercise Price	Number of Warrants Outstanding at March 31, 2016	Fair Value at March 31, 2016	Number of Warrants Outstanding at December 31, 2015	Fair Value at December 31, 2015
	US \$		CDN \$		CDN \$
January 19, 2018	1.00	50,000	1,537	50,000	4,487
March 6, 2018	1.00	1,250	43	1,250	120
June 3, 2016	0.50	3,645,000	355	3,645,000	37,304
November 5, 2016	0.20	2,207,271	77,797	2,207,271	206,085
February 27, 2017	0.50	6,553,103	107,609	6,553,103	319,955
May 22, 2017	0.50	15,800,000	373,385	15,800,000	947,048
June 11, 2017	0.50	1,400,000	35,485	1,400,000	87,475
		29,656,624	596,211	29,656,624	1,602,474

The fair values of these warrants were estimated using the Black-Scholes Option Pricing Model using the following assumptions.

- The stock price was based upon the publicly traded price at the time of issuance;
- The risk-free interest rate assumption is based on the daily treasury yield curve rate, per US Department of Treasury for a period consistent with the expected term of the option in effect at the time of the grant;
- The Company does not pay dividends on common stock and does not anticipate paying dividends on its common stock in the foreseeable future. Therefore, the expected dividend rate was 0%;
- The expected life of the warrants was estimated to be the difference between the translation date and the remaining contractual term; and
- The expected volatility was based off of the historical trading prices of the Company's common stock price over a period equivalent to the expected life of the warrants.

The fair values of these warrants as at March 31, 2016 and December 31, 2015 were estimated using the Black-Scholes Option Pricing Model using the following inputs (weighted averages):

	March 31, 2016	December 31, 2015
Expiration Date		
Weighted average fair value	US\$ 0.02	US\$ 0.04
Expected volatility	112.16%	106.86%
Expected life	0.94 years	1.18 years
Dividends	0.00%	0.00%
Risk-free interest rate	0.59%	0.55%

RYU APPAREL INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

March 31, 2016

9. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the development, marketing, and distribution of apparel and accessories. Geographic information related to the Company's assets and operating activities for the three months ended March 31, 2016 as follows:

	March 31, 2016		
	Canada	United States	Total
Revenue	\$ 248,375	\$ 17,382	\$ 265,757
Property and equipment	\$ 959,446	\$ -	\$ 959,446
Intangible assets	\$ -	\$ 13,307	\$ 13,307

10. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the three months ended March 31, 2016 and 2015 was as follows:

	March 31, 2016	March 31, 2015
Consulting fees (included in professional fees)	\$ 12,000	\$ 16,756
Salaries and benefits	74,200	-
Share based payments	15,687	35,955
	\$ 101,887	\$ 52,711

Remuneration paid to related parties other than key personnel during the three months ended March 31, 2016 and 2015 was as follows:

	March 31, 2016	March 31, 2015
Consulting fees (included in professional fees)	\$ 32,500	\$ 13,500
Salaries and benefits	6,441	-
Share based payments	9,535	3,600
	\$ 48,476	\$ 17,100

As at March 31, 2016, included in short term loans payable is \$857,000 (December 31, 2015 - \$777,000) owing to the directors, a family member of the CEO and a company owned by the CEO (note 6). Amounts owing are non-interest bearing, unsecured and due on demand.

As at March 31, 2016, included in loans payable is \$727,644 (December 31, 2015 - \$651,865) owing to the CEO of the Company. This loan bears an interest rate of 8.95% and is due on June 1, 2017 (note 6).

As at March 31, 2016, included in accrued liabilities is \$51,000 (December 31, 2015- \$51,000) commitment fee owing to the CEO in relation to the loan issued during the year ended December 31, 2015 (note 6).

As at March 31, 2016, the following is included in accounts payable in relation to transactions with related parties, which are non-interest bearing, unsecured and due on demand:

- i. \$20,278 (December 31, 2015 - \$nil) to related parties for contract services
- ii. \$nil (December 31, 2015 - \$6,000) to the CFO.
- iii. \$105,890 (December 31, 2015 - \$69,749) in amounts owing for products and services provided by a company owned by the CEO.

During the three months ended March 31, 2016, the Company had sales to a company owned by a director of \$13,671 (March 31, 2015 - \$nil).

RYU APPAREL INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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10. RELATED PARTY TRANSACTIONS (Continued)

On November 1, 2014, the Company entered into a sublease agreement with a company affiliated with the CEO of the Company. Under the agreement, the Company is required to make lease payments for a term of 5 years (note 7). During the three months ended March 31, 2016, the Company recorded rent expense of \$34,472 (March 31, 2015 – 29,584) to the related party.

11. FINANCIAL INSTRUMENT RISK MANAGEMENT**Classification of financial instruments**

Financial assets included in the statement of financial position are as follows:

	March 31, 2016	December 31, 2015
Loans and receivables:		
Cash	\$ 78,937	\$ 104,518
Trade accounts receivable	7,537	31,204
Deposits	90,959	90,959
	\$ 177,433	\$ 226,681

Financial liabilities included in the statement of financial position are as follows:

	March 31, 2016	December 31, 2015
Non-derivative financial liabilities:		
Accounts payable	\$ 1,660,231	\$ 1,364,465
Loans payable	2,251,298	2,041,732
Finance lease	86,062	95,427
Derivative liability	596,211	1,602,474
	\$ 4,593,802	\$ 5,104,098

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- 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 or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The carrying value of Company's financial assets and liabilities as at March 31, 2016 and December 31, 2015 approximate their fair value due to their short terms to maturity.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures.

Financial liabilities measured at fair value at March 31, 2016 and December 31, 2015 consisted of the derivative financial liability, which is measured using level 3 inputs.

The fair value of the derivative liability is determined by the Black-Scholes option pricing model using the historical volatility as an estimate of future volatility. At March 31, 2016, if the volatility used was increased by 10 percent the impact would be an increase to the derivative liability of approximately \$160,700, with a corresponding increase to comprehensive loss.

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11. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)**Credit risk**

The Company's principal financial assets are cash, trade accounts receivable and deposits. The Company's credit risk is primarily concentrated in its trade receivables. The amounts disclosed in the condensed consolidated interim statements of financial position are net of allowances for doubtful accounts estimated by the management of the Company based on previous experience with customers and their assessment of the current economic environment and specific customer circumstances. To reduce its risk, management maintains credit policies that include regular review of credit limits of individual customers. Aging of trade receivables is systematically monitored by management.

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 has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's primary source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at March 31, 2016:

	Within one year	Between one and five years	More than five years
Accounts payable	\$ 1,660,231	\$ -	\$ -
Accrued liabilities	119,377	-	-
Finance lease	14,095	71,967	-
Loans payable	1,523,654	727,644	-
	\$ 3,317,357	\$ 799,611	\$ -

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as it has sales to the United States and it incurs certain expenditures that are denominated in US dollars while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

The Company has net financial liabilities of approximately \$364,000 that are denominated in US dollars.

If the US dollar had changed against the Canadian dollar by 10 basis points (US\$0.10) at March 31, 2016, the Company's net loss and comprehensive loss after taxes would change by approximately \$36,400, resulting from the translation of the US dollar denominated financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Based on borrowings that accrue interest as at March 31, 2016, a 1% change in interest rates would not have a significant impact on net loss.

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11. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)**Capital Management**

In the management of capital, the Company includes components of stockholders' equity (deficiency). The Company aims to manage its capital resources to ensure financial strength and to maximize its financial flexibility by maintaining strong liquidity and by utilizing alternative sources of capital including equity, debt and bank loans or lines of credit to fund continued growth. The Company sets the amount of capital in proportion to risk and based on the availability of funding sources. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. As a young growth company, issuance of equity has been the primary source of capital to date. Additional debt and/or equity financing may be pursued in future as deemed appropriate to balance debt and equity. To maintain or adjust the capital structure, the Company may issue new shares, take on additional debt or sell assets to reduce debt. The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to managing capital during the period.

12. SUBSEQUENT EVENTS

The following events occurred subsequent to March 31, 2016:

- a. On April 12, 2016 the Company closed a non-brokered private placement of \$319,170 consisting of the issuance of 1,595,850 units at a price of \$0.20 per unit. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.50 for a period of three years.
- b. On April 25, 2016, the Company settled debt in the amount of \$569,949 through the issuance of 2,279,794 common shares.
- c. On May 24, 2016, the Company settled amounts owing for services in the amount of \$148,000 through the issuance of 740,000 common shares.
- d. On May 30, 2016, the Company closed a non-brokered private placement of \$2,386,964 consisting of the issuance of 11,934,821 units at a price of \$0.20 per unit. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.50 for a period of three years. In connection with the private placement the Company paid cash finder fees of \$49,100, issued 600,000 common shares and issued 220,500 share purchase warrants on the same terms of the warrants issued in the financing.