RYU APPAREL INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - UNAUDITED
SEPTEMBER 30, 2017
(Expressed in Canadian dollars)

RYU APPAREL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian dollars)
As at

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Current		
Cash	$ 701,582	$ 767,263
Accounts receivable (note 2)	98,383	82,297
Inventory (note 3)	1,857,378	1,067,560
Prepaid expenses and deposits (note 4)	736,145	263,912
	3,393,488	2,181,032
Non-current		
Deposits (note 4)	397,306	172,521
Property and equipment (note 5)	2,226,455	1,439,500
Intangible assets	342	6,549
	$ 6,017,591	$ 3,799,602
LIABILITIES AND EQUITY		
Current		
Accounts payable	$ 541,535	$ 745,894
Accrued liabilities	277,714	169,404
Current portion of finance lease (note 6)	13,930	14,779
Deferred revenue	75,832	64,732
	909,011	994,809
Non-current		
Finance lease (note 6)	48,360	63,296
Derivative liability	-	7,703
	957,371	1,065,808
Equity		
Share capital (note 7)	50,711,949	42,230,355
Equity reserve (note 7)	7,419,847	6,927,354
Deficit	(53,138,670)	(46,491,009)
Accumulated other comprehensive income	67,094	67,094
	5,060,220	2,733,794
	$ 6,017,591	$ 3,799,602

Nature of operations and going concern (note 1)
Commitments (note 6)
Subsequent events (note 11)

Approved and authorized for issue by the Board of Directors on November 16, 2017.

"Martino Ciambrelli" Director *"Maria Leone"* Director

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

RYU APPAREL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited - Expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2017	**2016**	**2017**	**2016**
Revenue	$ 745,226	$ 331,700	$ 1,853,460	$ 892,199
Cost of sales	406,437	192,348	1,000,639	478,669
Gross profit	338,789	139,352	852,821	413,530
	45%	*42%*	*46%*	*46%*
Expenses				
Depreciation (note 5)	117,709	65,972	308,318	184,618
Foreign exchange loss (gain)	(9,167)	37,333	24,347	(93,636)
Interest and bank charges	20,859	38,293	57,176	145,506
Investor relations	36,970	16,077	172,081	657,215
Office and general	720,079	297,232	1,756,584	774,836
Product creation	121,354	139,119	437,138	323,598
Professional fees (note 9)	164,178	158,005	352,182	991,450
Salaries and benefits (note 9)	1,030,507	638,951	2,691,296	2,032,972
Selling and marketing	396,156	245,657	1,255,778	608,705
Share-based payments (notes 7 and 9)	35,686	114,002	291,454	267,076
Travel and entertainment	71,582	40,991	161,831	75,884
	2,705,913	1,791,632	7,508,185	5,968,224
Other items				
Gain on settlement of debt	-	-	-	214,620
Recovery of warrant derivative liability	-	232,105	7,703	1,499,609
Comprehensive loss	$ (2,367,124)	$ (1,420,175)	$ (6,647,661)	$ (3,840,465)
Loss per share - Basic and diluted	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.04)
Weighted average number of common shares outstanding - basic and diluted	241,662,635	107,514,076	202,393,879	95,424,718

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

RYU APPAREL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited - Expressed in Canadian dollars)

	Number of common shares	Share capital	Share subscriptions received in advance	Equity reserve	Accumulated other comprehensive income	Deficit	Total Equity (Deficiency)
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	26,902,705	4,787,686	-	-	-	-	4,787,686
Issuance of common stock for debt settlement	3,266,531	607,710	-	-	-	-	607,710
Issuance of common stock for services	740,000	140,600	-	-	-	-	140,600
Share issuance costs	50,000	(200,295)	-	26,335	-	-	(173,960)
Share subscriptions received in advance	-	-	508,022	-	-	-	508,022
Share-based payments	-	-	-	267,076	-	-	267,076
Comprehensive loss	-	-	-	-	-	(3,840,465)	(3,840,465)
Balance, September 30, 2016	112,657,758	$ 36,909,167	$ 508,022	$ 6,806,432	$ 67,094	$ (44,709,812)	$ (419,097)
Balance, January 1, 2017	160,554,395	$ 42,230,355	$ -	$ 6,927,354	$ 67,094	$ (46,491,009)	$ 2,733,794
Issuance of common stock for cash in private placements (note 7)	91,455,619	9,724,782	-	-	-	-	9,724,782
Issuance of common stock for services (note 7)	375,531	35,481	-	-	-	-	35,481
Exercise of warrants (note 7)	44,000	8,800	-	-	-	-	8,800
Share issuance costs (note 7)	555,554	(1,287,469)	-	201,039	-	-	(1,086,430)
Share-based payments (note 7)	-	-	-	291,454	-	-	291,454
Comprehensive loss	-	-	-	-	-	(6,647,661)	(6,647,661)
Balance, September 30, 2017	252,985,099	$50,711,949	$ -	$ 7,419,847	$ 67,094	$ (53,138,670)	$ 5,060,220

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

RYU APPAREL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian dollars)
For the nine months ended September 30,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (6,647,661)	$ (3,840,465)
Items not affecting cash:		
Depreciation	308,318	184,618
Share-based payments	291,454	267,076
Foreign exchange	-	(76,228)
Accrued interest	-	95,698
Gain on settlement of debt	-	214,620
Recovery of warrant derivative liability	(7,703)	(1,499,609)
Changes in non-cash working capital		
Accounts receivable	(16,086)	132,927
Inventory	(789,818)	62,298
Prepaid expenses and deposits	(697,017)	(174,948)
Accounts payable and accrued liabilities	(14,158)	89,396
Deferred revenue	11,100	18,950
Net cash flows used in operating activities	(7,561,572)	(4,525,667)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment	(1,140,493)	(218,161)
Net cash flows used in investing activities	(1,140,493)	(218,161)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	9,724,782	4,787,686
Cash share issuance costs	(1,086,430)	(173,960)
Short-term loans received	154,000	1,009,050
Repayment of short-term loans	(154,000)	(1,257,676)
Share subscriptions received in advance	-	508,022
Exercise of warrants	8,800	-
Finance lease	(10,768)	(11,896)
Net cash flows provided by financing activities	8,636,384	4,861,226
Change in cash	(65,681)	117,398
Cash – beginning	767,263	104,518
Cash – end	$ 701,582	$ 221,916

Cash paid for interest	$ 999	$ 64,176
Supplemental cash flow disclosure – non cash transactions		
Additions of property and equipment included in accounts payable	$ 112,410	$ 117,040
Reversal of prior year property and equipment included in accounts payable	$ (163,838)	$ -
Common shares issued for settlement of accounts payable	$ -	$ 748,310
Common shares issued for services	$ 35,481	$ 140,600
Finders' warrants issued for share issuance costs	$ 201,039	$ 26,335

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

(Unaudited - Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

RYU Apparel Inc. (the "Company") is a tailored urban athletic apparel brand that engages in the development, marketing, and distribution of apparel, bags and accessories. The Company's products are engineered for the fitness, training and performance of the multi-discipline athlete. The Company's products are designed, developed and tested at the Company's corporate headquarters in Vancouver, British Columbia, Canada. Production takes place in factories located in North America and Asia and the Company's products are sold through retail, e-commerce and wholesale 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.

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.

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.*

The notes presented in these condensed consolidated interim financial statements include only significant events and transactions occurring since the Company's last fiscal year end and they do not include all of the information required in the Company's most recent annual consolidated financial statements. These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company's annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2016, which were prepared in accordance with IFRS as issued by IASB. There have been no significant changes in judgement or estimates from those disclosed in the consolidated financial statements for the year ended December 31, 2016.

2. ACCOUNTS RECEIVABLE

	September 30, 2017	December 31, 2016
Trade accounts receivable	$ 40,045	$ 2,572
GST input tax credits	58,338	79,725
	$ 98,383	$ 82,297

(Unaudited - Expressed in Canadian dollars)

3. INVENTORY

Inventory consists primarily of ready to wear clothing, bags and accessories, which were either at retail store locations or in either of the two third party logistics warehouses.

During the nine months ended September 30, 2017, $12,451 (2016 – $nil) in inventory was written down and recognized in cost of sales because its carrying value exceeded its net realizable value.

During the nine months ended September 30, 2017, $988,188 (2016 - $478,669) in inventory was sold and recognized in cost of sales.

4. PREPAID EXPENSES AND DEPOSITS

	September 30, 2017	December 31, 2016
Prepaid expenses	$ 105,686	$ 148,895
Deposits and other current assets	630,459	115,017
	736,145	263,912
Long-term rent deposits	397,306	172,521
	$ 1,133,451	$ 436,433

5. PROPERTY AND EQUIPMENT

	Leasehold Improvements	Furniture and Equipment	Computers and Software	Total
Cost				
Balance at January 1, 2016	$ 1,012,314	$ 18,789	$ 38,614	$ 1,069,717
Additions	706,332	-	9,127	715,459
Balance at December 31, 2016	1,718,646	18,789	47,741	1,785,176
Additions	1,041,927	24,052	23,085	1,089,064
Balance at September 30, 2017	$ 2,760,573	$ 42,841	$ 70,826	$ 2,874,240
Accumulated depreciation				
Balance at January 1, 2016	$ 81,244	$ 3,554	$ 23,473	$ 108,271
Depreciation	217,575	6,263	13,567	237,405
Balance at December 31, 2016	298,819	9,817	37,040	345,676
Depreciation	292,897	6,511	2,701	302,109
Balance at September 30, 2017	$ 591,716	$ 16,328	$ 39,741	$ 647,785
Net book value				
December 31, 2016	$ 1,419,827	$ 8,972	$ 10,701	$ 1,439,500
September 30, 2017	$ 2,168,857	$ 26,513	$ 31,085	$ 2,226,455

Depreciation expense for the nine month period ended September 30, 2017 includes an additional $6,209 from the amortization of the Company's intangible assets.

(Unaudited - Expressed in Canadian dollars)

6. 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):

	September 30, 2017	December 31, 2016
Current portion	$ 13,930	$ 14,779
Non-current portion	48,360	63,296
	$ 62,290	$ 78,075

Operating leases

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

Year	Operating leases
2017	$ 365,311
2018	1,810,807
2019	1,975,376
2020	1,702,454
2021	1,528,205
Thereafter	3,526,036
Total	$ 10,908,189

On August 31, 2017 the Company entered into an unconditional guaranty of payment and performance in relation to the ten-year lease agreement between Respect Your Universe Inc. and its landlord for its upcoming Brooklyn, NY retail store location. As at September 30, 2017, the Company's undiscounted obligation under this lease totaled $5,094,151. The undiscounted obligation is already included in the above overall obligation under operating leases for its corporate office facility and for its retail stores.

7. 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

Nine months ended September 30, 2017:

On February 2, 2017, the Company raised gross proceeds of $3,734,441 through a short form prospectus. Canaccord Genuity Corp. (the "Agent") acted as an agent for the Company with respect to the sale of 24,896,271 common shares of the Company (the "Shares") at a price of $0.15 per Share (the "Offering"). The Shares were sold pursuant to an agency agreement dated January 24, 2017 between the Company and the Agent (the "Agency Agreement").

In consideration of the services performed by the Agent under the Agency Agreement, the Company: (i) paid the Agent a commission of $261,411 in cash; and (ii) issued to the Agent and members of its selling group an aggregate of 1,742,739 warrants with a fair value of $98,868 entitling the Agent and members of its selling group to acquire up to an aggregate of 1,742,739 common shares of the Company at a price of $0.20 per common share until February 2, 2019. In addition, the Company paid the Agent a corporate finance fee of $125,000, consisting of $62,500 in cash and $62,500 in common shares of the Company (the "Corporate Finance Shares"), issued at a price equal to $0.15 per Share, being equal to 416,666 Corporate Finance Shares. The Company has also reimbursed the Agent for expenses incurred by the Agent in connection with the Offering in the amount of $81,500.

(Unaudited - Expressed in Canadian dollars)

The warrants issued to the agent were valued using the Black-Scholes option pricing model and the following input assumptions:

Weighted average fair value of finder warrants issued on February 2, 2017	$	0.06
Risk-free interest rate		1.21%
Estimated life		2 years
Expected volatility		102.73%
Expected dividend yield		0%
Forfeiture rate		0%

On May 18, 2017, the Company settled amounts owing for services through the issuance of 113,036 common shares valued at $11,304.

On May 31, 2017, the Company settled amounts owing for services through the issuance of 138,155 common shares valued at $11,743.

On June 22, 2017, the Company closed a non-brokered private placement financing of $2,252,841 consisting of the issuance of 25,031,570 units of the Company at a price of $0.09 per unit. Each unit consists of one common share of the Company and one share purchase warrant. Each warrant is exercisable into one common share at a price of $0.135 for a period of two years. The fair value of the warrants was determined to be $nil.

On June 28, 2017, the Company settled amounts owing for services through the issuance of 124,340 common shares valued at $12,434.

On July 25, 2017, the Company raised gross proceeds of $3,737,500 through a short form prospectus. The Agent acted for the Company with respect to the sale of 41,527,778 units of the Company (the “Units”) at a price of $0.09 per Unit (the “Offering”). Each Unit consists of one common share of the Company (a “Share”) and one transferable common share purchase warrant (each, a “Warrant”). Each Warrant is exercisable into one Share until July 25, 2019, at an exercise price of $0.135. The Units were sold pursuant to an agency agreement dated July 10, 2017 between the Company and the Agent (the “Agency Agreement”).

In consideration for the services performed by the Agent under the Agency Agreement, the Company: (i) paid the Agent a commission of $245,569 in cash; and (ii) issued to the Agent and a member of its selling group an aggregate of 2,728,540 warrants with a fair value of $102,170 entitling the Agent and a member of its selling group to acquire up to an aggregate of 2,728,540 common shares of the Company at a price of $0.135 per common share until July 25, 2019. In addition, the Company paid the Agent a corporate finance fee of $25,000, consisting of $12,500 in cash and $12,500 in common shares of the Company (the “Corporate Finance Shares”), issued at a price equal to $0.09 per Share, being equal to 138,888 Corporate Finance Shares. The Company has also reimbursed the Agent for expenses incurred by the Agent in connection with the Offering in the amount of $73,500.

The warrants issued to the agent were valued using the Black-Scholes option pricing model and the following input assumptions:

Weighted average fair value of finder warrants issued on July 25, 2017	$	0.04
Risk-free interest rate		1.40%
Estimated life		2 years
Expected volatility		97.41%
Expected dividend yield		0%
Forfeiture rate		0%

In connection with the above share issuances the Company incurred a total of $1,287,469 in share issuance costs, including legal fees of $274,451.

(Unaudited - Expressed in Canadian dollars)

Stock options

On June 9, 2014, January 27, 2015 and November 30, 2016, the Board of Directors approved certain revisions to the 2013 Stock Option Plan, resulting in the Company's revised 2014 stock option plan (the "revised 2014 Plan") whereby the aggregate number of securities reserved for issuance set aside and made available for issuance under the Plan was set at 24,883,867 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 activities:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2016	7,930,000	$ 0.34
Granted	3,035,000	0.24
Forfeited	(273,750)	0.25
Expired	(300,000)	1.13
Outstanding at December 31, 2016	10,391,250	0.29
Granted	3,625,000	0.15
Forfeited	(1,406,250)	0.30
Expired	(650,000)	0.25
Outstanding at September 30, 2017	11,960,000	$ 0.25
Exercisable at September 30, 2017	4,746,250	$ 0.23

Options outstanding at September 30, 2017 were as follows:

	Options Outstanding		Options Exercisable	
Exercise Price ($)	Number of Options	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Remaining Contractual Life (years)
$0.10 - $0.18	3,456,250	6.84	2,000,000	7.36
$0.19 - $0.29	2,173,750	3.33	1,226,250	3.09
$0.30 - $0.34	2,400,000	7.06	120,000	2.59
$0.35 - $0.45	3,700,000	6.46	1,250,000	5.63
$0.46 - $0.99	230,000	3.03	150,000	3.23
	11,960,000	6.06	4,746,250	6.06

Estimated fair value of stock options

During the nine months ended September 30, 2017, the Company granted 3,625,000 options (September 30, 2016 – 2,885,000) to acquire common shares. Share-based payments relating to options vesting during the period using the Black-Scholes option pricing model was $291,454 (September 30, 2016 - $267,076).

	September 30, 2017	**September 30, 2016**
Weighted average fair value of options granted	$ 0.16	$ 0.14
Risk-free interest rate	1.05%	0.52%
Estimated life	4.11 years	4.5 years
Expected volatility	122%	137%
Expected dividend yield	0.00%	0.00%
Forfeiture rate	6.48%	15.00%

(Unaudited - Expressed in Canadian dollars)

Warrants

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

	Number of Warrants		Weighted Average Exercise Price
Outstanding at January 1, 2016	37,074,124	$	0.53
Issued	74,608,141		0.28
Expired	(5,852,271)		0.50
Outstanding at December 31, 2016	105,829,994		0.35
Issued	71,030,627		0.14
Exercised	(44,000)		0.20
Expired	(23,903,103)		0.51
Outstanding at September 30, 2017	152,913,518	$	0.22

Warrants outstanding at September 30, 2017 were as follows:

Exercise Price		Expiration Date	Number of Warrants Outstanding and Exercisable
US$	1.96	February 1, 2022	7,500
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
CDN$	0.20	September 1, 2018	7,511,408
CDN$	0.20	October 3, 2018	11,749,456
CDN$	0.50	October 20, 2018	6,000,000
CDN$	0.50	November 12, 2018	1,160,000
CDN$	0.20	November 14, 2018	5,680,000
CDN$	0.20	November 23, 2018	30,655,480
CDN$	0.50	January 24, 2019	1,810,000
CDN$	0.20	February 2, 2019	1,698,739
CDN$	0.50	March 30, 2019	3,450,626
CDN$	0.50	April 11, 2019	1,595,850
CDN$	0.50	May 29, 2019	12,155,321
CDN$	0.14	June 22, 2019	25,031,570
CDN$	0.14	July 25, 2019	44,256,318
			152,913,518

The weighted average remaining contractual life of warrants outstanding as of September 30, 2017 was 1.47 years.

Subsequent to nine months ended September 30, 2017, 50,000 share purchase warrants expired without being exercised.

8. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the development, marketing, and distribution of apparel, bags and accessories. Geographic information related to the Company's assets and operating activities as at and for the nine months ended September 30, 2017 was as follows:

	September 30, 2017		
	Canada	United States	Total
Revenue	$ 1,607,202	$ 246,258	$ 1,853,460
Inventory	$ 1,698,234	$ 159,144	$ 1,857,378
Property and equipment	$ 2,226,456	$ -	$ 2,226,456
Intangible assets	$ -	$ 342	$ 342

(Unaudited - Expressed in Canadian dollars)

9. 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 nine months ended September 30, 2017 and 2016 was as follows:

	September 30, 2017	September 30, 2016
Consulting fees (included in professional fees)	$ -	$ 12,000
Salaries and benefits	330,865	232,577
Share-based payments	162,804	30,670
	$ 493,669	$ 275,247

Remuneration paid to related parties other than key management personnel during the nine months ended September 30, 2017 and 2016 was as follows:

	September 30, 2017	September 30, 2016
Consulting fees (included in professional fees)	$ 40,500	$ 79,074
Salaries and benefits	24,330	59,718
Share-based payments	-	13,515
	$ 64,830	$ 152,307

Accounts payable and accrued liabilities:

As at September 30, 2017, $9,565 (December 31, 2016 - $33,311), is included in accounts payable from amounts owing for products and services provided by a company owned by the CEO.

Transactions with related parties:

During the nine months ended September 30, 2017, the Company had sales to a company owned by the CEO of $11,145 (2016 - $44,088) and purchased goods and services from the same company totaling $122,184 (2016 – $23,698).

On November 1, 2014, the Company entered into a sublease agreement with a company owned by the CEO for its corporate office at 1672 W 2nd Avenue in Vancouver, BC. Under the agreement, the Company is required to make lease payments for a term of 5 years (note 6). During the nine months ended September 30, 2017, the Company recorded rent expense of $102,371 (2016 – $109,938) to the related party.

During the nine months ended September 30, 2017 the Company received and repaid $154,000 in advances from the CEO and a company owned by the CEO.

Equity:

On July 26, 2016 the Company issued 2,988,889 units of the Company at a price of $0.09 per Unit to Alberto Leone, a family member of the CEO of the Company, Carla Leone, a family member of the CEO of the Company, and Maria Leone, a director of the Company, for gross proceeds of $269,000. Each Unit consists of one common share and one transferable common share purchase warrant. Each warrant is exercisable into one common share at a price of $0.135 for a period of two years.

(Unaudited - Expressed in Canadian dollars)

10. FINANCIAL INSTRUMENT RISK MANAGEMENT

Classification of financial instruments

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

		September 30, 2017		December 31, 2016
Loans and receivables:				
Cash	$	701,582	$	767,263
Trade accounts receivable		40,045		2,572
Deposits (current and long-term)		1,027,765		287,538
	$	1,769,392	$	1,057,373

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

		September 30, 2017		December 31, 2016
Non-derivative financial liabilities:				
Accounts payable	$	541,535	$	745,894
Finance lease (current and long-term)		62,290		78,075
Derivative liability		-		7,703
	$	603,825	$	831,672

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 September 30, 2017 and December 31, 2016 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.

The Company does not have any financial liabilities measured at fair value using level 3 inputs.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at September 30, 2017:

		Within one year		Between one and five years		More than five years
Accounts payable	$	541,535	$	-	$	-
Finance lease		13,930		48,360		-
	$	555,465	$	48,360	$	-

11. SUBSEQUENT EVENTS

On October 31, 2017 the Company received an unsecured non-interest bearing advance of $350,000 from the CEO of the Company.

On November 1, 2017 the Company received an unsecured non-interest bearing advance of $120,000 from an individual.

On November 10, 2017 the Company entered into a Promissory Note with Klondike Contracting Corporation for $96,424. The Promissory Note carries an annual interest rate that is the greatest of 10% and the TD Canada Trust Prime Rate plus 6%. The Promissory Note matures on February 1, 2018.

On November 14, 2017 the Company received unsecured non-interest bearing advances totaling $1,035,000 from Gaby Leone and Patrizia Leone, family members of the CEO of the Company.