RYU APPAREL INC.
(the "Company" or "RYU")
Management's Discussion & Analysis
for the year ended December 31, 2019
Prepared as of August 27, 2020

INTRODUCTION

The following management's discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for the Company and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2019. Readers are encouraged to review the Company's consolidated financial statements in conjunction with this document, copies of which are filed on the SEDAR website at www.sedar.com. The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

As used in this MD&A and unless otherwise indicated, the terms "we", "us", "our", "Company", and "RYU" refer to RYU Apparel Inc. and our wholly-owned subsidiary Respect Your Universe Inc. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

This MD&A contains forward-looking statements. Forward-looking statements may also be made in the Company's other reports filed with or furnished to the Canadian securities commissions. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from such statements. The words "aim," "anticipate," "believe," "continue," "could," "expect," "intend," "likely", "may," "optimistic," "plan," "potential", "predict", "should," "would," and other similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance, and therefore you should not put undue reliance upon them. The material assumptions supporting these forward-looking statements include, among other things the Company's ability to:

- obtain any necessary financing on acceptable terms;
- keep pace with rapid changes in consumer demands;
- compete with other athletic apparel brands;
- rely on third party manufacturers;
- manage expansion effectively;
- enforce its intellectual property rights;
- launch additional product lines;
- retain its skilled personnel;
- manage current tax and regulatory regimes;
- manage the fluctuation in foreign currency exchange rates and interest rates; and
- follow general economic and financial market conditions.

Some of the factors that may cause actual results to differ materially from those indicated in these statements are found in the section "Risk Factors" in this MD&A.

The forward-looking statements contained in this MD&A reflect our views and assumptions only as of the date of this MD&A. The Company undertakes no obligation to update or revise any forward-looking statements after the date on which the statement is made, except as required by applicable laws, including the securities laws of Canada.

OUR BUSINESS

RYU (Respect Your Universe) is an award winning urban athletic apparel and accessories brand engineered for the fitness, performance and lifestyle of athletically minded men and women. Innovatively designed without compromise and tailored for fit, comfort, and durability, RYU exists to facilitate human performance. RYU's products are designed, developed and tested at our corporate headquarters in Vancouver, BC, Canada. Production takes place in factories located in North America and Asia.

The RYU brand was created in 2015 by a team of industry experts that identified a gap in the apparel market whereby the male athlete was underserved, and the female athletic market was dominated by yoga-inspired brands. This team transformed the RYU brand to create the new category of Urban Athletic Apparel.

Since August 2014, when the Company began to reposition its brand from primarily targeting a mixed martial arts consumer to a broader performance and lifestyle consumer, our team has been able to establish and build a brand that has gained sufficient traction to market and sell products at full price year-round versus traditional retailers.

Overall, RYU continues to be in a stage of investment since we went live with the new RYU on November 27, 2015. In 2016, the Company started to build the scale of the business by operating our Flagship store on West 4th Avenue in Vancouver, BC. RYU is an experiential omni-channel retailer and sells its products at its five retail stores in Canada and the United States, through strategic wholesale accounts, and online via its e-commerce site www.ryu.com.

OPERATIONAL AND BUSINESS HIGHLIGHTS

Operations Highlights

Revenue for the year ended December 31, 2019 was $5,618,140, 11% higher than revenue of $5,047,600 during the year ended December 31, 2018. Our financial results have been encouraging with continued sales growth in 2019 and generating a 45% gross profit percentage.

Revenues, cost of sales and gross profit during the year ended December 31, 2019 and 2018 were as follows:

	Three months ended December 31,			Year ended December 31,		
	2019	2018	% Change	2019	2018	% Change
Revenue	$ 1,433,591	$ 1,773,589	(19%)	$ 5,618,140	$ 5,047,600	11%
Cost of sales	889,357	1,113,864	(20%)	3,070,876	2,653,749	16%
Gross profit	$ 544,234	$ 659,725	(18%)	$ 2,547,264	$ 2,393,851	6%
Gross profit %	38%	37%	(1%)	45%	47%	(2%)

Changes to our balance sheet since RYU Apparel Inc. was incorporated compared to when we started rebranded RYU have been as follows:

	December 31, 2019	January 1, 2015	% Change
Assets	$ 2,833,839	$ 759,307	273%
Liabilities	13,485,266	1,562,739	744%
Equity	$ (10,651,427)	$ (803,432)	1,188%

As at December 31, 2019, RYU had an equity deficiency of $10,651,427 due to losses incurred during the year being greater than equity raised. When RYU's rebranding began on January 1, 2015, the Company had an equity deficiency of $803,432. During this time, our team has grown RYU's assets from $759,307 to $2,833,839 with innovative inventory that has net realizable value. RYU continues to invest in growth and in implementing efficiencies in its business operations. Of the liabilities of $13,485,266, $8,084,076 is related to lease obligations.

As at December 31, 2019, RYU's deficit amounted to $103,519,225. Of this amount, $31,240,437 is the legacy deficit from the old RYU, which targeted the mixed martial arts market and that was completely shut down in the year 2014. The Company absorbed the legacy deficit for the future potential of the tax loss carryforwards. The legacy deficit of the old RYU is from our US subsidiary, Respect Your Universe, Inc., which was the original entity that traded in the OTC Markets up until our corporate reorganization in early 2015. Since January 1, 2015, when the Company began to reposition its brand from primarily targeting a mixed martial arts consumer to a broader performance and lifestyle consumer, the Company has invested in the business and this has transformed and grown RYU into a global innovative brand. Today our Company is recognized as one of the top brands "speaking to today's consumer effectively by offering a unique product or service that leverages the experiential quotient."[1]

Business Highlights

The Company underwent an omni-channel expansion plan in 2018 and 2019 which included expanding to a total of nine retail locations in North America, and investing substantially in its new digital platform. The Company intended to build the brand to have a 70:30 "bricks and clicks" business model by the year 2022, but subsequent to year-end, the Company revised its business plan to instead focus on growing its e-commerce operations and close some of its retail stores.

Under the restructuring plan announced on February 26, 2020, the Company took the following steps:

1. Manage Inventory - Due to the lack of capital, as in every retail business, the very first aspect of the business to be adversely affected, is the inventory. While we had planned to expand our offerings, enter more categories and enlarge the volumes, we were compelled to adjust the course to accommodate the requirements of our new status. We addressed a more static and slower moving inventory (with no new styles for many months) through marketing and promotions, but undoubtedly missed a number of opportunities.

2. Reduce Costs - The other concurrent effort was to reduce expenses, the first step of which was to significantly reduce the Head Office headcount. As difficult as the process was, the goals dramatically changed, the powerful team being built suddenly became overwhelming and not in line with the new developments. RYU was forced to do what it has done best since the beginning and operate in a much stronger entrepreneurial way to avoid the risk of falling into a "corporate business" culture.

3. Close Mall Locations - As part of this new strategy, RYU took advantage of the approaching expiration of the first renewals of some of our mall locations. In January 2020 RYU closed enclosed mall locations at Sherway Gardens in Toronto and Metrotown just outside of Vancouver. Going forward, RYU intends to focus on our most impactful street front locations and to continuing to increase our presence in local communities.

4. Increase E-Commerce - RYU intends to increase its focus on e-commerce to maximize ROI, and simultaneously reach new communities and customers more quickly and efficiently. This follows a growing retail trend to limit the number of physical retail locations by being present only in iconic locations while shifting a larger portion of our investment into e-commerce and digital marketing.

5. Gain Significant Strategic Partner - We are excited to have the opportunity to potentially partner with a strategic consultant announced on January 29th, 2020, who is ready to come on board and help RYU go to the next level. Being in conversations with such a worldwide prominent name is the confirmation that the "RYU Brand is bigger than the Business" and that, despite the financial challenges RYU is facing, our customers and community appreciate what we have accomplished.

The Company also intends to close a private placement financing of up to $10 million to fund its new strategy. The private placement has been postponed as announced on July 20, 2020.

E-commerce

The Company has invested significantly in its e-commerce and omni-channel strategies and the Company has seen improvements in traffic yielding increases in local and international orders. Under the restructuring plan announced on February 26, 2020, the Company intends to focus on growing its e-commerce operations.

The new RYU.com, with improved functionality, experience, speed and branding, launched in January 2019 in collaboration with creative agency netamorphosis from NYC.

[1] Canaccord Genuity "The Experience Economy: how brands and retailers must evolve to reach the millennial customer" November 17, 2017.

Retail Locations

As of December 31, 2019, the Company had nine retail locations. As part of the Company's restructuring plan, the Company closed certain retail stores. As of the date of this MD&A, the Company has five retail locations consisting of four locations in operation in Canada and one retail location in operation in the United States.

Retail Locations	Opening Date	Date Closed (if applicable)
Vancouver, BC – West 4th Avenue (Flagship)	November 2015	
Vancouver, BC – Thurlow Street	November 2016	
West Vancouver, BC – Park Royal South	March 2017	
Toronto, ON – Queen Street West	September 2017	
Burnaby, BC – Metropolis at Metrotown	November 2017	January 2020
Venice, CA – Abbot Kinney Boulevard	August 2018	May 2020
Brooklyn, NY – Williamsburg	November 2018	
Toronto, ON – Sherway Gardens Shopping Centre	December 2018	January 2020
Newport Beach, CA – Fashion Island Shopping Center	January 2019	March 2020

In January 2019, RYU opened its second California location at Fashion Island Shopping Center in Newport Beach. Subsequent to year-end and consistent with the Company's restructuring plan, the Company permanently closed its locations at Metropolis at Metrotown in Burnaby, BC, Sherway Gardens Shopping Centre in Toronto, Ontario, Fashion Island Shopping Center in Newport Beach, CA, and Abbot Kinney Boulevard in Venice, CA.

The Company's retail stores have been impacted by COVID-19 and the Company has been forced to temporarily close its locations in Canada and the United States as announced on March 18, 2020.

RYU's retail stores are designed by award-winning architect Tony Robins with the same industrial, yet modern aesthetic look as RYU's award winning flagship store in Kitsilano (2016 - "Best New Store" by London-based trend forecasting website WGSN).

Awards and Recognition

In May 2019, RYU was awarded the Startup Canada Global Entrepreneurship of The Year Award for the region of British Columbia, presented by UPS Canada. The award celebrates and recognizes companies that demonstrate innovation, excellence, outstanding achievement, and impact in advancing entrepreneurship in Canada.

Also, in May 2019, the Company won the prestigious award of "Best Customer Experience Initiative" presented at the World Retail Conference held at the National Maritime Museum in Amsterdam – The Netherlands.

During 2018 we were selected as a finalist for the World Retail Awards in two categories:

- Retail Start Up of the Year
- Social Media Campaign of the Year (#RYUOneMoreRep).

The World Retail Awards have been recognizing the very best retailers and retail initiatives across a range of categories for 10 years.

Management and Board of Director Changes

On April 24, 2019, Pedro Villa left his position as CFO and Secretary. The Company, appointed Brett Pawson, as interim Chief Financial Officer and interim Corporate Secretary, effective April 24, 2019.

On August 12, 2019, the Company appointed Tony Longo to the Board of Directors of the Company.

On August 15, 2019, the Company appointed Camilo Lyon to the Board of Directors of the Company.

On March 9, 2020, Marcello Leone resigned from his positions of CEO and President and was appointed Executive Chairman. The Company appointed Cesare Fazari as Interim CEO effective March 9, 2020. Mr. Cesare Fazari, founding partner of Northwood Developments, with over 30 years of experience in retail real estate developments, has been the seed Venture Capital investor in several public and private companies. He owns a vast portfolio of over one million sq/ft of RE holdings, including residential units, office spaces, commercial retail, industrial space and land. Mr. Fazari is also involved in several charitable organizations, including The Breakfast Club of Canada, the Canadian Cancer Society and the Good Shepard Food Bank.

On March 17, 2020, Camilo Lyon resigned from the Company's Board of Directors.

On April 20, 2020, Marcello Leone resigned as Executive Chairman and Director. Martino Ciambrelli also resigned from the Board of Directors. The Company announced the appointment of Cesare Fazari as Chairman of the Board and CEO effective April 20, 2020.

On May 14, 2020, Tony Longo resigned from the Board of Directors. The Company appointed Roger Edwards to the Board of Directors effective May 18, 2020. Mr. Edwards is a highly regarded Canadian designer with over thirty years of experience designing and producing with premier Canadian apparel manufacturers. He has developed a reputation as one of the top "Made in Canada" designers and has designed apparel collections with adidas, Reebok, the National Basketball Association, the National Hockey League, the National Football League, Major League Baseball and Team Canada.

On July 14, 2020, Brett Pawson resigned from his position as Interim CFO and SVP Retail and Operations. The Company appointed Alexander McAulay, CPA, CA as the Company's new CFO effective July 14, 2020. Mr. McAulay brings 10 years of financial leadership and experience in apparel and ecommerce. Mr. McAulay was a co-founder of Naked Brand Group Inc. (NASDAQ: NAKD) and led the company as its COO and CFO in its early stages before moving onto work with another athletic apparel company. Mr. McAulay then founded a licensed accounting practice, ACM Management Inc., providing CFO advisory services to public companies and founded apparel brand Kosan Travel Co., which was responsible for one of the largest ever Kickstarter campaigns in Canada. In addition to his apparel background, Mr. McAulay brings with him many years of public market experience as a public company CFO and is also a founding director of the BC Apparel and Gear Association.

Outlook for 2020

As discussed above, the Company has begun to implement its restructuring plan where it will focus on managing inventory, reducing costs, permanently closing certain retail locations, and increasing e-commerce. The Company also intends to close a private placement financing of up to $10 million to fund its new strategy. The private placement has been postponed as announced on July 20, 2020.

The Company's retail stores have been impacted by COVID-19 due to the health concerns and the Company temporarily closed its locations in Canada and the United States as announced on March 18, 2020. E-commerce is available 24/7 at RYU.com. RYU Head Office team members have been working from home.

Under the new leadership guidance of Cesare Fazari, the Company will focus its efforts on growing its e-commerce operations. In January 2019, the Company launched its new RYU.com website and will continue to invest additional efforts throughout 2020 to continue to improve the omni-channel customer experience. In conjunction with these efforts, RYU will continue with further Search Engine Optimization and Search Engine Marketing strategies to drive traffic to RYU.com.

In 2018, the Company began investing in world-class talent to design, innovate and expand our product categories through 2020 and beyond and complement our existing hero and core programs. Equally important, in 2018 RYU saw its business infrastructure come together through a series of IT integrations from the design stage of our products through to the end user experience. In 2020, the Company intends to continue building and streamlining these new systems and continue to make investments that will enable scalable growth over the next several years.

Equity

During the year ended December 31, 2019, the Company completed the following capital raising activities to fund its growth plans:

- Effective July 22, 2020, the Company consolidated the common shares outstanding and issued on the basis of one new, post-consolidation share for every ten old, pre-consolidated shares (Note 16). The references to the number of common shares, warrants, options, weighted average number of commons shares and loss per share have been adjusted retroactively to reflect the share consolidation.

- On February 12, 2019, the Company closed a non-brokered private placement financing of $2,863,257 consisting of the issuance of 3,817,676 units of the Company at a price of $0.75 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 $1.50 for a period of three years. The fair value of the warrants was determined to be $nil.

- On February 28, 2019, the Company closed a non-brokered private placement financing of $779,889 consisting of the issuance of 1,039,866 units of the Company at a price of $0.75 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 $1.50 for a period of three years. The fair value of the warrants was determined to be $nil.

- On March 28, 2019, the Company closed a non-brokered private placement financing of $637,447 consisting of the issuance of 849,929 units of the Company at a price of $0.75 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 $1.50 for a period of three years. The fair value of the warrants was determined to be $nil.

- On May 17, 2019, the Company closed a non-brokered private placement financing of $1,869,772 consisting of the issuance of 3,739,544 units of the Company at a price of $0.50 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 $1.00 for a period of three years. The fair value of the warrants was determined to be $nil.

- On June 6, 2019, the Company closed a non-brokered private placement financing of $249,500 consisting of the issuance of 499,000 units of the Company at a price of $0.50 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 $1.00 for a period of three years. The fair value of the warrants was determined to be $nil.

- On July 8, 2019, the Company closed a non-brokered private placement financing of $382,884 consisting of the issuance of 765,768 units of the Company at a price of $0.50 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 $1.00 for a period of three years. The fair value of the warrants was determined to be $nil.

- On December 20, 2019, the Company closed a non-brokered private placement financing of $1,359,682 consisting of the issuance of 4,532,274 units of the Company at a price of $0.30 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 $0.50 for a period of two years. The fair value of the warrants was determined to be $nil.

OVERALL PERFORMANCE

2019 was the most challenging year for RYU since its inception. However, as a young brand in business, there will always be such challenges.

In general, the retail landscape is dramatically changing. The industry is seeing more and more recognizable retailers moving away from traditional brick and mortar strategies to focus on e-commerce. Many retailers are also finding success with a "less is more" approach to physical retail locations. We are witnessing this success in brands such as Supreme, Kith and A Bathing Ape, which are focused on quality versus quantity of stores.

RYU began with a more exclusive retail approach similar to the brands and strategy mentioned above. Nevertheless, as an early stage public company, we faced considerable pressure from private wealth financiers, investment bankers and other financial stakeholders to scale and grow quickly. We believe it is imperative to go back to our roots and continue to build our brand from a "less is more" strategy.

During 2019, the RYU team worked hard to ensure our brand legacy. In fact, what RYU was able to achieve in four short years is nothing less than amazing. RYU has shown the ability to be a truly relevant brand with the correct partners, shareholders and stakeholders. We are grateful for all employees, shareholders, customers and vendors that contributed towards the creation and advancement of RYU's unique brand and culture.

Since the beginning of 2019, the Company unwillingly found itself in a challenging financial situation. We took significant steps to proactively maintain the most important operational efficiencies, with the sole idea of addressing the new status quo and getting the best out of the situation. The second part of 2019 was entirely focused on re-pivoting the business, reducing expenses and adjusting our business strategy.

Although we saw 2019 perform better than 2018 in terms of revenue and gross profit, the Company incurred large losses on the impairment of its inventory, lease deposits, leasehold improvements, right-of-use assets, and intangible assets due to certain underperforming retail stores, some of which have been subsequently closed in 2020. Although the Company opened one new retail store in 2019 (Fashion Island in Newport Beach, California), this location was closed subsequent to year end. In addition, the Company entered into leases and then abandoned plans to open locations in La Jolla, California and West Hollywood, California during 2019. The Company impaired all of its right-of-use assets ($8,384,594), leasehold assets ($4,156,988), intangible assets ($307,544). It also impaired its finished goods inventory by $822,875 and recorded a provision for the value of its raw material inventory by $119,559.

The following is an analysis of the significant items and variances to our cash flow between the year ended December 31, 2019 and 2018, which helps explain our overall performance.

Year ended December 31,	2019	2018	Variance Explanation
Cash flows used in operating activities	$(4,984,485)	$(18,371,469)	Until we reach positive earnings, our brand will continue to require investment and our operations will continue to generate a loss. The favourable variance of $13,386,984 is due to changes in working capital and a lower loss before non-cash items such as impairment and depreciation.
Net loss before non-cash items	(11,443,229)	(15,920,372)	The Company consumed $4,477,143 less cash than in the comparative period in 2018. We benefited from additional gross profit of $153,413 from new stores plus a $2,898,769 reduction in marketing expenses and a $2,238,882 decrease in office and general expenses during the year ended December 31, 2019.
Changes in non-cash working capital	6,458,744	(2,798,327)	Working capital changes in the period ended December 31, 2019 consumed $9,257,071 less cash than in the comparative period in 2018. This improvement is the result of benefiting from the delivery of prepaid inventory, the use of prepaid rent deposits towards lease expenses, collection of accounts receivable and increased accounts payable tied to a larger business operation. The Company also recognized decreases in inventory on hand during the period ended December 31, 2019 versus increases in inventory during the comparative period in 2018.
Cash flows used in investing activities	(832,456)	(3,373,706)	Investing activities in 2019 included payment for store builds at our New York and Newport Beach locations along with smaller leasehold improvements at various other locations. During the year ended December 31, 2018 the Company finished paying for leasehold improvements at Metrotown and Queen Street and started building out its US locations.
Cash flows from financing activities	4,694,833	22,483,812	The Company continued to fund operations by raising capital through the issuance of common shares for gross proceeds of $6,446,954 or net proceeds of 6,174,349. This was less than what was raised in 2018 when $9,294,753 gross proceeds or $9,054,802 net proceeds were raised from the issuance of shares and $11,705,162 was raised from the exercise of warrants. Our team continues to diligently work to raise the capital needed to build the business.

Cash – closing balance	83,338	1,205,446	We opened 2019 with $1,205,446 and had a decrease in cash of $1,122,108 during the year ended December 31, 2019. Much of the cash was used for current operations and expansion of the business as well as for building of the brand.

DISCUSSION OF OPERATIONS

The following table provides selected audited financial information for the three months ended December 31, 2019 and 2018, in accordance with IFRS:

(in Canadian dollars, unless noted otherwise)

	Three months ended December 31,	
	2019	2018
Presentation currency	(C$)	(C$)
Functional currency	(C$)	(C$)
Revenue	1,433,591	1,773,859
Gross profit (loss)	544,234	659,725
Comprehensive income (loss)	(16,718,139)	(5,286,346)
Comprehensive income (loss) per share – basic and diluted	(0.27)	(0.10)
Total assets	2,833,839	13,366,532
Total long-term financial liabilities	6,586,787	52,800

For the three months ended December 31, 2019

The following is an analysis of the significant items and variances between the three months ended December 31, 2019 and 2018.

Revenue, cost of sales and gross profit

Three months ended December 31,	2019	2018	Variance Explanation
Revenue	$ 1,433,591	$ 1,773,589	Decrease of $339,998 or 19% is due to not having the best selling products stocked at the store level.
Cost of sales	889,357	1,113,864	Decrease of $224,507 or 20% in cost of sales is due to: 1) decrease in sales as noted above; 2) increased wholesale transactions with lower gross margins.
Gross profit	544,234	659,725	Decrease of 18% is due to reasons noted above.

Expenses

Three months ended December 31,	2019	2018	Variance Explanation
Depreciation	$ 419,099	$ 214,173	The $204,926 or 95% increase is due to the adoption of IFRS 16 where lease payments previously recorded as rent expense are now recorded as depreciation of right-of-use assets and interest expense.
Foreign exchange (gain) loss	(419,796)	(26,116)	This is the result of fluctuations in the CAD dollar against the US dollar.

Interest and bank charges	317,130	41,929	The $275,201 or 656% increase is mostly due to the adoption of IFRS 16 where lease payments previously recorded as rent expense are now recorded as depreciation of right-of-use assets and interest expense.
Investor relations	237,525	292,521	The decrease of 54,996 or 19% is due to investor relations services provided for the Frankfurt exchange in 2018 that were not incurred in 2019.
Office and general	835,836	1,859,306	The $1,023,470 or 55% decrease is largely due to the adoption of IFRS 16 where lease payments previously recorded as rent expense are now recorded as depreciation of right-of-use assets and interest expense.
Product creation	16,680	148,689	The decrease of $132,009 or 89% is due to management's effort to conserve cash.
Professional fees	468,948	250,306	The increase of $218,642 or 87% is due to The Company was having certain consultants for 12 months in 2019 as compared to 8 months in the prior year.
Salaries and benefits	1,447,170	1,951,188	The decrease of $504,018 or 26% is due to significant savings being realized in reducing head office staff. This was partially offset by increasing our retail operations team to staff nine stores by the end of Q2 2019 compared to eight stores in Q4 2018.
Selling and marketing	201,689	1,014,025	Marketing decreased by $812,336 or 80% as programs in place during 2018 were either not renewed and or were moved in-house in 2019.
Share-based payments	(90,281)	70,719	The $161,000 or 227% decrease in share-based payments expense is due to the Company issuing stock options and RSUs for salaried staff, directors, and certain consultants in 2018 for their service to date and to incentivize them to continue to grow the Company. In 2019, an adjustment was made for repricing options granted and less share-based payments were made.
Travel and entertainment	29,693	129,331	Travel and entertainment expenses were $99,638 or 77% lower in 2019 compared to 2018 as travel in 2018 included the initial geographical expansion of the business into Ontario, New York and California.
Total	3,710,291	5,946,071	

Other items			
Impairment loss	(13,672,001)	-	The impairment loss recognized in 2019 is due to the impairment of right-of-use assets ($8,384,594) associated with the leases of retail stores, the write off of leasehold improvements and deposits ($4,156,988), impairment of intangible assets ($307,544), and impairment of finished goods inventory ($822,875).

Gain on lease modification	119,919	-	Subsequent to year end, the Company permanently closed four retail stores. Due to IFRS 16 and lease modifications in 2019 which did not occur in 2018.

Comprehensive loss

Three months ended December 31,	2019	2018	Variance Explanation
Comprehensive loss	$ (16,718,139)	$ (5,286,346)	The comprehensive loss increased by $11,431,793 or 216% period over period due to the impairment loss of $13,672,001 which was partially offset by a decrease in expenses as noted above.

For the year ended December 31, 2019

The following is an analysis of the significant items and variances between the year ended December 31, 2019 and 2018.

Revenue, cost of sales and gross profit

Year ended December 31,	2019	2018	Variance Explanation
Revenue	$ 5,618,140	$ 5,047,600	Increase of $570,540 or 11% is due to an increase in the number of stores operating in 2019 compared to 2018.
Cost of sales	3,070,876	2,653,749	Increase of $417,127 or 16% in cost of sales is due to: 1) increase in sales as noted above; 2) increased wholesale transactions with lower gross margins 3) inventory written off in the amount of $119,559 in 2019.
Gross profit	$ 2,547,264	2,393,851	Increase of $153,413 or 6% is due to reasons noted above.

Expenses

Year ended December 31,	2019	2018	Variance Explanation
Depreciation	$ 3,521,502	$ 779,557	The $2,741,945 or 352% increase is largely due to the adoption of IFRS 16 where leases payments were previously recorded as rent expense in 2018, but in 2019 are now recorded as depreciation of the right-of-use assets and interest expense.
Foreign exchange (gain) loss	(311,948)	(12,149)	This is the result of fluctuations in the CAD dollar against the US dollar.
Interest and bank charges	1,412,867	129,580	The $1,283,287 or 990% increase is largely due to the adoption of IFRS 16 where lease payments were previously recorded as rent expense in 2018, but in 2019 are now recorded as depreciation of the right-of-use assets and interest expense.
Investor relations	550,766	773,255	The $222,489 or 29% decrease is due to investor relations services provided for the Frankfurt exchange in 2018 that were not incurred in 2019.
Office and general	2,655,441	4,894,323	The $2,238,882 or 46% decrease is due to the adoption of IFRS 16 where lease payments were previously recorded as rent expense in 2018, but in 2019 are now recorded as depreciation of the right-of-use assets and interest expense.
Product creation	276,296	312,668	The $36,372 or 12% decrease in product creation costs in 2019 relates to a design services contract.
Professional fees	1,354,689	1,368,107	Professional fees remained fairly consistent from 2018 to 2019 and decreased by $13,418 or 1%.
Salaries and benefits	6,800,015	6,274,639	Salaries and benefits increased by $525,376 or 8%. We increased our retail operations team to staff nine stores by the end of Q2 2019 compared to only six stores as of Q3 2018. We also converted certain contractors in our design and marketing departments to employees. This was partially offset by savings realized in reducing head office overhead.
Selling and marketing	1,280,345	4,179,114	The decrease of $2,898,769 or 69% is due to

			marketing programs that were in place during 2018 were either not renewed and or were moved in-house in 2019.
Share-based payments	169,742	2,624,740	The $2,454,998 or 94% decrease in share-based payments expense is due to the Company issuing stock options and RSUs for salaried staff, directors, and certain consultants in 2018 for their service to date and to incentivize them to continue to grow the Company. In 2019, less share-based payments were made.
Travel and entertainment	179,454	396,694	Travel and entertainment expenses were $217,240 or 55% lower in 2019 compared to 2018 as travel in 2018 included the initial geographical expansion of the business into Ontario, New York and California.
Total	$ 17,899,169	$ 21,720,528	

Other items			
Impairment loss	(13,672,001)	-	The impairment loss recognized in 2019 is due to the impairment of right-of-use assets ($8,384,594) associated with the leases of retail stores, the write off of leasehold improvements and deposits ($4,156,988), impairment of intangible assets ($307,544), and impairment of finished goods inventory ($822,875). Subsequent to year end, the Company permanently closed four retail stores.
Gain on lease modification	119,919	-	Due to IFRS 16 and lease modifications in 2019 which did not occur in 2018.

Comprehensive loss

Year ended December 31,	2019	2018	Variance Explanation
Comprehensive loss	$ (28,893,987)	$ (19,326,677)	Comprehensive loss increased by $9,567,310 or 50% in 2019 compared to 2018 largely due to the impairment loss of $13,672,001. This was partially offset by a decrease in expenses as noted above.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected unaudited financial information for the Company for its eight most recent quarters, in accordance with IFRS:

	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19
Presentation currency	(C$)	(C$)	(C$)	(C$)
Functional currency	(C$)	(C$)	(C$)	(C$)
Revenue	1,433,591	1,473,136	1,501,547	1,209,866
Gross profit	544,234	734,242	735,043	533,745
Operating expenses and other items	17,262,373	4,010,754	4,449,104	5,436,377
Comprehensive loss	(16,718,139)	(3,276,512)	(3,865,288)	(5,034,048)
Comprehensive loss per share (Basic and Diluted)	(0.27)	(0.07)	(0.07)	(0.10)

	31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18 (Note 1)
Presentation currency	(C$)	(C$)	(C$)	(C$)
Functional currency	(C$)	(C$)	(C$)	(C$)
Revenue	1,773,589	1,223,524	1,223,524	907,915
Gross profit	659,725	710,545	710,545	419,890
Operating expenses and other items	5,598,841	4,877,002	4,877,002	6,350,295
Comprehensive loss	(4,939,116)	(4,166,457)	(4,166,457)	(5,930,405)
Comprehensive loss per share (Basic and Diluted)	(0.11)	(0.09)	(0.09)	(0.16)

Note 1: The first quarter of 2018 depicts higher than normal operating expenses due to share-based payments of $2,054,385 (a non-cash item). In March 2018 we granted 12.3 million stock options and RSUs to our salaried staff, our board of directors, and certain consultants for their service to date and to incentivize them to continue to grow the Company. Most of these stock options vested immediately.

The business of the Company is seasonal and results of operations for any interim period may not necessarily be indicative of results of operations for the full fiscal year.

Fiscal 2019 is RYU's fourth year of operations since relaunching the brand on November 27, 2015 when we opened our Flagship Store in Vancouver, BC. As at December 31, 2019 we have been open for business for 46 months.

The last eight quarters show a consistent growth trend in revenue and gross profit, and, improvements in operating expenses, while taking into consideration the seasonality of the holiday season in the fourth quarter and the slow-down that follows in the corresponding first quarter.

The forth quarter of 2019 marked RYU's forth reporting period incorporating revenue from nine retail store locations, compared to eight locations in the forth quarter of 2018. RYU opened new stores and captured additional revenue and gross profit as follows:

- Q4 2019: Nine stores
- Q3 2019: Nine stores
- Q2 2019: Nine stores
- Q1 2019: Nine stores, Newport Beach opens
- Q4 2018: Eight stores, Williamsburg and Sherway Gardens open
- Q3 2018: Six stores, Venice opens (1st US location)
- Q2 2018: Five stores
- Q1 2018: Five stores
- Q4 2017: Four stores, Metrotown opens
- Q3 2017: Three stores, Queen St. opens
- Q2 2017: Three stores
- Q1 2017: Two stores, Park Royal opens
- Q4 2015 - Q4 2016: One store (Flagship in Kitsilano), Thurlow St. opens

Operating expenses have continued to improve as a percentage of sales with the ongoing implementation of efficiencies and cost controls. We continue to invest in the human capital required to grow our business, in digital marketing, and in our global branding and advertising campaign to spread global awareness of the RYU brand.

Our operating expenses and comprehensive losses reflect the investment required to build the RYU brand from nothing into an omni-channel business that can compete on a global scale. Our investment in the business is underway including investments in e-commerce, innovative high-quality products that are easily identifiable as RYU, and a brand value proposition that connects with consumers at an emotional level. Our team is working hard to reach a break-even level of operations.

LIQUIDITY AND CAPITAL RESOURCES

To build RYU into an iconic global brand, we will continue to raise capital. The proceeds will be used to execute our omni-channel strategic plan that uses a balanced approach of investment between building our e-commerce business and opening a select number of impactful new retail stores. To reach sustainable business operations, we will continue our plan of opening additional retail stores, investing in digital marketing strategies, and building authentic brand awareness in our communities, which in turn is anticipated to result in higher demand for our products and a positive return to our shareholders.

Our cash balance as of December 31, 2019 was $83,338 compared to $1,205,446 as of December 31, 2018. As of December 31, 2019, we had current assets of $2,632,542, current liabilities of $6,878,479 and working capital deficit of $4,245,937 compared to working capital of $5,551,975 as of December 31, 2018.

During the year ended December 31, 2019, our operating activities were funded by:

- Revenue from our sales channels totaling $5,618,140;
- Short-term loans received from related parties tottaling $1,275,000;
- A non-brokered private placement that closed on February 12, 2019, raising gross proceeds of $2,863,257;
- A non-brokered private placement that closed on February 28, 2019, raising gross proceeds of $779,900;
- A non-brokered private placement that closed on March 28, 2019, raising gross proceeds of $637,447;
- A non-brokered private placement that closed on May 17, 2019, raising gross proceeds of $1,869,772;
- A non-brokered private placement that closed on June 6, 2019, raising gross proceeds of $249,500;
- A non-brokered private placement that closed on July 8, 2019, raising gross proceeds of $382,884; and
- A non-brokered private placement that closed on December 20, 2019, raising gross proceeds of $1,359,682.

We manage the capital structure and adjust it considering 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. Debt and/or equity financing may be pursued in the future as deemed appropriate to balance debt and equity. To maintain or adjust the capital structure, our Company may issue new shares, take on debt or sell assets to reduce debt.

While our management plans to generate increased revenues and to continue financing our Company through the issuances of additional equity securities or debt instruments, there can be no assurance that enough revenue or financing will occur to meet our cash needs for the next 12 months. The ability to achieve our projected future operating results is based on several assumptions which involve significant judgments and estimates, which cannot be assured. If we are unable to achieve our projected operating results, our liquidity could be adversely impacted, and we may need to seek additional sources of financing. Our operating results could adversely affect our ability to raise additional capital to fund our operations and there is no assurance that sufficient debt or equity financing will be available, on acceptable terms, or in a timely basis.

CONTRACTURAL OBLIGATIONS AND COMMITMENTS

Lease obligations

The following is the summary of the Company's outstanding lease obligations:

	December 31, 2019	December 31, 2018
Current portion	$ 1,497,289	$ 22,222
Non-current portion	6,586,787	52,800
	$ 8,084,076	$ 75,022

Effective January 1, 2019, the Company has adopted IFRS 16. IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases (lease terms of 12 months or less) and leases of low value assets.

Future minimum undiscounted lease payments outstanding under the Company's lease obligations as at December 31, 2019 are as follows:

Less than 1 year	$	2,380,599
1-3 Years		3,997,590
3-5 Years		2,275,876
Beyond 5 Years		4,139,290
Total lease payments		12,793,355
Amount representing implicit interest		(4,709,279)
Lease obligations	$	8,084,076

The total commitments are expected to be funded by cash flows from operations.

CLAIMS AND LAWSUITS

The Company signed a lease for a retail location to be located in La Jolla, California, but in August 2019, did not proceed. No termination agreement was negotiated nor accepted by the landlord. The Company has been notified by legal counsel that the landlord of the La Jolla, California property has served legal notice to RYU. No termination agreement has been reached. From time to time, the Company may be subject to various claims and legal actions arising in the course of its business.

CONTINGENT LIABILITY

In the ordinary course of business, the Company and its subsidiaries may become involved in various legal and regulatory actions. The Company establishes legal provisions when it becomes probable that the Company will incur a loss and the amount can be reliably estimated. The Company signed a lease for a retail location to be located in La Jolla, California, but in August 2019, did not proceed. No termination agreement was negotiated nor accepted by the landlord. The Company has recorded a total provision of $506,165 for contingent liabilities as of December 31, 2019.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The fair value of our cash, accounts receivable, deposits, accounts payable, accrued liabilities, loans from related parties, and lease obligations as at December 31, 2019 and December 31, 2018 approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as “special purpose entities”.

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 during 2019 consisted of:

Marcello Leone, former CEO and former Director
Pedro Villa, former CFO
Brett Pawson, former Interim CFO
Bill Marcus, Director
Maria Leone, Director
Martino Ciambrelli, former Director
Tony Longo, former Director
Camilo Lyon, former Director

The remuneration of directors and key management personnel during the year ended December 31, 2019 and 2018 was as follows:

	December 31, 2019	December 31, 2018
Salaries and benefits	$ 491,692	$ 619,692
Share based payments**	76,355	959,937
	$ 568,047	$ 1,579,629

The Company entered into the following related party transactions with key management personnel during the year ended December 31, 2019:

a) The Company paid or accrued salaries to Marcello Leone, the former CEO and Director, of $320,000 (2018 - $381,923), and made share-based payments of $66,530 (2018 - $617,355);
b) The Company paid or accrued salaries to Pedro Villa, the former CFO, of $34,692 (2018 - $110,000) and made share-based payments of $Nil (2018 - $78,760);
c) The Company paid or accrued salaries to Brett Pawson, the former Interim CFO, of $137,000 (2018 - $127,769) and made share-based payments of $4,405 (2018 - $135,062);
d) The Company made share-based payments to Bill Marcus, Director, of $1,807 (2018 - $37,381);
e) The Company made share-based payments to Maria Leone, Director, of $1,807 (2018 - $37,381);
f) The Company made share-based payments to Martino Ciambrelli, former Director, of $1,807 (2018 - $53,998);

Other transactions with related parties:

	December 31, 2019	December 31, 2018
Consulting fees (included in professional fees)	$ 137,700	$ 139,500
Salaries and benefits	10,132	26,680
Share based payments**	-	103,277
	$ 147,832	$ 269,457

The Company entered into the following additional related party transactions with during the year ended December 31, 2019:

a) The Company paid or accrued salaries to a family members of Marcello Leone, former CEO and Director, of $10,132 (2018 - $26,680) and made share-based payments of $Nil (2018 – $103,277);
b) The Company paid or accrued consulting fees to three family members of Marcello Leone, former CEO and Director, totalling $107,700 (2018: $99,000);
c) The Company paid or accrued consulting fees to a company controlled by Martino Ciambrelli, former Director, of $30,000 (2018 - $19,500);
d) The Company paid or accrued consulting fees to a company controlled by Marcello Leone of $Nil (2018 - $21,000).
e) The Company paid or accrued consulting fees to Pedro Villa, the former CFO of $6,000 (2018 - $110,000).

** Share-based payments are comprised of stock options, which are non-cash expenditures.

During the year ended December 31, 2019, the Company had sales to a company owned by Marcello Leone of $48,393 (2018 - $34,950) and purchased goods and services from the same company totaling $86,983 (2018 – $39,341).

On November 1, 2014, the Company entered into a sublease agreement with a company controlled by Marcello Leone for its corporate office at 1672 West 2nd Avenue in Vancouver, BC. Under the agreement, the Company is required to make lease payments for a term of 5 years. During the year ended December 31, 2019, the Company recorded rent expense of $153,165 (2018 – $143,135) to the related party.

Accounts payable:

As at December 31, 2019, $174,462 (December 31, 2018 - $6,302) included in accounts payable is due to a company controlled by the former CEO for products and services provided. The amount is non-interest bearing, unsecured and due on demand.

Loans from related parties:

During the year ended December 31, 2019, the Company obtained loans of $400,000 and $295,000 (2018 – Nil) from family members of Marcello Leone, the former CEO of the Company. The loans are non-interest bearing, unsecured and due on demand.

The Company also entered into a loan agreement for a series of loans totalling $580,000 with a company controlled by a family member of Marcello Leone. The loan bears interest at an annual interest rate of 2% compounded monthly, and is secured by all assets of the Company. Included in accrued liabilities is $4,331 of accrued interest due to a company controlled by a family member of Marcello Leone.

Equity:

Year ended December 31, 2019:

On February 12, 2019 the Company issued 2,940,000 units of the Company at a price of $0.75 per unit to Marcello Leone, the former CEO of the Company, two family members of Marcello Leone and to a company owned by Marcello Leone, for gross proceeds of $2,205,000. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share at a price of $1.50 for a period of three years.

On March 28, 2019, the Company issued 2,666,666 common shares of the Company at a price of $0.75 per unit to Marcello Leone, and to a company owned by Marcello Leone, for gross proceeds of $200,000. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share at a price of $1.50 for a period of three years.

On May 17, 2019, the Company issued 77,400 and 1,330,000 common shares of the Company at a price of $0.50 per unit to two family members of Marcello Leone for total gross proceeds of $703,700. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share at a price of $1.00 for a period of three years.

On July 8, 2019, the Company issued 460,000 common shares of the Company at a price of $0.50 per unit to a family member of Marcello Leone for total gross proceeds of $230,000. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share at a price of $1.00 for a period of three years.

Year ended December 31, 2018:

On January 19, 2018, the Company issued 45,636 units of the Company at a price of $0.70 per unit to two family members of the former CEO of the Company and to a company owned by the former CEO, for gross proceeds of $31,945. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share at a price of $2.00 for a period of five years.

On February 19, 2018, the Company issued 52,333 common shares of the Company at a price of $1.20 per share to a family member of the former CEO of the Company for gross proceeds of $62,800.

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company's common shares trade on the TSX Venture Exchange under the symbol "RYU" and in the Frankfurt Stock Exchange under the symbol "RYA". The following table summarizes the outstanding common shares, options, warrants and corresponding market capitalization stated in Canadian dollars.

As at:

	August 27, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Share price – closing (C$)	$0.08	$0.30	$0.30	$0.50	$0.70
Market capitalization (C$)	$5,442,159	$18,891,235	$17,466,510	$28,319,116	$36,661,582
Outstanding					
Shares	68,026,933	62,970,783	58,221,701	56,638,233	52,373,688
Options	7,082,500	1,947,500	1,985,625	2,030,625	2,053,625
RSUs	500,000	16,500	21,500	118,700	107,900
Warrants	26,805,024	26,805,024	22,272,751	24,379,758	23,942,742

PROPOSED TRANSACTIONS

The Company continues to engage in discussions with several financing groups and intends to provide a market update when the Company's management and board decide to proceed with any such financing.

SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2019:

a. On January 6, 2020, the Company released 15,750 RSUs and issued 15,750 common shares.

b. On January 20, 2020, the Company released 750 RSUs and issued 750 common shares.

c. In January 2020, the Company permanently closed its retail locations at Sherway Gardens in Toronto, Ontario and Metrotown in Burnaby, British Columbia. All leasehold assets and right-of-use assets associated with these locations were fully impaired as of December 31, 2019 and are carried at $nil value.

d. On February 26, 2020, the Company announced its intention to restructure the Company and its brand, including reducing its Head Office headcount, closing mall locations and focusing on its most impactful street front locations, and increasing its focus on e-commerce.

e. On March 15, 2020, the Company permanently closed its retail location at Fashion Island in Newport Beach, California. All leasehold assets and right-of-use assets associated with this location were fully impaired as of December 31, 2019 and are carried at $nil value.

f. On April 14, 2020, the Company granted 5,195,000 stock options at an exercise price of $0.50 per common share to two employees, one officer, two directors, and nine consultants, pursuant to its stock option plan. Each stock option granted is exercisable for a period of five years. The stock options vest immediately.

g. On April 20, 2020, the Company entered into a settlement agreement with the former CEO for termination compensation where the Company will settle the $320,000 termination settlement liability through the issuance of 800,000 common shares at a deemed price of $0.40 per common share, subject to shareholder approval and TSXV approval.

h. On April 30, 2020, the Company issued 4,613,745 common shares at a deemed price of $0.40 per common share to three related party creditors to settle debt in the amount of $1,845,498 owed by the Company.

i. On May 28, 2020, the Company permanently closed its retail location at Abbot Kinney Boulevard in Venice, California. All leasehold assets and right-of-use assets associated with this location were fully impaired as of December 31, 2019 and are carried at $nil value.

j. On June 15, 2020, the Company issued 425,904 common shares at a deemed price of $0.50 per share to settle debt in the amount of $212,952 owed by the Company.

k. On July 22, 2020, the Company completed a consolidation of its outstanding common shares on the basis of one (1) post-consolidation common share for every ten (10) pre-consolidated common shares (the "Share Consolidation"). The exercise or conversion price of, and the number of common shares issuable under any securities of the Company has been proportionally adjusted upon the completion of the share consolidation.

l. The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time. While certain restrictions are presently in the process of being relaxed, it is unclear when the world will return to the previous normal, if ever. This may adversely impact the expected implementation of the Company's Business Plans. The Company has been impacted as it temporarily closed certain retail locations and permanently closed other retail locations.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied, on a consistent basis, in the preparation of the consolidated financial statements are included in the Company's audited financial statements for the year ended December 31, 2019. Those accounting policies have been used throughout all periods presented in the consolidated financial statements, except as noted below.

ACCOUNTING CHANGES

In 2018, the Company adopted IFRS 15 Revenue from contracts with customers and IFRS 9, financial instruments. Refer to the consolidated financial statements for the year ended December 31, 2018 for more information.

In 2019, the Company adopted IFRS 16 Leases. Refer to the consolidated financial statements for the year ended December 31, 2019 for more information.

RISK FACTORS

If the Company does not obtain additional financing its business may fail. The Company has a history of operating losses and negative cash flow that will continue into the foreseeable future.

The Company will require additional financing to sustain its business operations. The Company currently does not have any arrangements for such financing, and it may not be able to obtain financing when required. A decline in the price of the Common Shares may impact the Company's ability to obtain future financing. Obtaining additional financing would be subject to a number of factors, including the Company's ability to initially attract investments prior to substantial revenue generation, and thereafter its ability to grow its brand. The Company can provide investors with no assurance that it will ever achieve profitable operations, and thus it faces a high risk of business failure. The Company's ability to achieve and maintain profitability and positive cash flow is dependent upon:

- the Company's ability to market and sell its products to the levels anticipated;
- the Company's ability to generate profits from the sale of those products; and
- the Company's ability to create a successful brand.

The Company has a history of operating losses and negative cash flow that will continue into the foreseeable future. If the Company fails to execute its strategy to achieve and maintain profitability in the future, investors could lose confidence in the value of the Common Shares, which could cause the Company's stock price to further decline and adversely affect its ability to raise additional capital. If the Company fails to obtain additional short-term financing, it would not have adequate liquidity to fund its operations and would not be able to continue as a going concern.

Because of the unique difficulties and uncertainties inherent in the apparel business, the Company faces a high risk of business failure.

Potential investors should be aware of the difficulties normally encountered by apparel companies and the high rate of failure of such enterprises. The Company's likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the design, manufacture and sale of the products that it plans to offer, as well as the highly competitive landscape of the apparel industry. These potential problems include, but are not limited to, unanticipated problems relating to manufacturing and sales, lack of branding and marketing traction with consumers, and additional costs and expenses that may exceed current estimates.

The Company's success depends on its ability to maintain the value and reputation of its brand.

The Company's success depends on the value and reputation of its brand. The Company's brand is integral to its business as well as to the implementation of its strategies for expanding its business. The Company has repositioned and will continue to reposition its brand from primarily targeting a mixed martial arts consumer to a broader performance and lifestyle consumer. The market's acceptance of the Company's repositioned brand is a key factor to its success. Maintaining, promoting and positioning its brand will depend largely on the success of its marketing and merchandising efforts and its ability to provide a consistent, high quality guest experience. The Company relies on social media, as one of its marketing strategies, to have a positive impact on both its brand value and reputation. The Company's brand could be adversely affected if it fails to achieve these objectives or if the Company's public image or reputation were to be tarnished by negative publicity. Negative publicity regarding the production methods of any of the Company’s suppliers or manufacturers could adversely affect its reputation and sales and force the Company to locate alternative suppliers or manufacturing sources.

An economic downturn or economic uncertainty in the Company’s key markets may adversely affect consumer discretionary spending and demand for its products.

Many of the Company’s products may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions, particularly those in North America and other factors such as consumer confidence in future economic conditions, fears of recession, the availability of consumer credit, level of unemployment, tax rates and the cost of consumer credit. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remains unpredictable and subject to reductions due to credit constraints and uncertainties about the future. The current volatility in the North America economy in particular has resulted in an overall slowing in growth in the retail sector because of decreased consumer spending, which may remain depressed for the foreseeable future. These unfavorable economic conditions may lead consumers to delay or reduce purchases of its products. Consumer demand for the Company’s products may not reach its sales targets, or may decline, when there is an economic downturn or economic uncertainty in its key markets, particularly in North America. The Company’s sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on its financial condition.

The Company’s sales and profitability may decline as a result of increasing product costs and decreasing selling prices.

The Company’s business is subject to significant pressure on pricing and costs caused by many factors, including intense competition, constrained sourcing capacity and related inflationary pressure, pressure from consumers to reduce the prices it charges for its products and changes in consumer demand. These factors may cause the Company to experience increased costs, reduce its sales prices to consumers or experience reduced sales in response to increased prices, any of which could cause its operating margin to decline if the Company is unable to offset these factors with reductions in operating costs and could have a material adverse effect on its financial conditions, operating results and cash flows.

If the Company is unable to anticipate consumer preferences and successfully develop and introduce new, innovative and updated products, the Company may not be able to achieve profitability.

The Company’s success depends on its ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of the Company’s products are subject to changing consumer preferences that cannot be predicted with certainty. If the Company is unable to introduce new products or novel technologies in a timely manner or its new products or technologies are not accepted by its customers, the Company’s competitors may introduce similar products in a more timely fashion, which could hurt its goal to be viewed as a leader in apparel innovation. The Company’s new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of apparel or away from these types of products altogether, and its future success depends in part on its ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales, excess inventory levels, and further deterioration of operating results. Even if the Company is successful in anticipating consumer preferences, its ability to adequately react to and address those preferences will in part depend upon the Company’s continued ability to develop and introduce innovative, high-quality products. The Company’s failure to effectively introduce new products that are accepted by consumers could result in a decrease in net revenue and excess inventory levels, which could have a material adverse effect on its financial condition.

The Company’s results of operations could be materially harmed if it is unable to accurately forecast customer demand for its products.

To ensure adequate inventory supply, the Company must forecast inventory needs and place orders with its manufacturers based on its estimates of future demand for particular products. The Company’s ability to accurately forecast demand for its products could be affected by many factors, including its ability to raise sufficient equity or debt capital in a timely manner, an increase or decrease in customer demand for the Company’s products or for products of its competitors, its failure to accurately forecast customer acceptance of new products, product introductions by competitors, unanticipated changes in general market conditions, and weakening of economic conditions or consumer confidence in future economic conditions. If the Company fails to accurately forecast customer demand, it may experience excess inventory levels or a shortage of products available for sale in its stores or for delivery to customers.

Inventory levels in excess of customer demand or purchased in excess quantities, may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause the Company’s gross margin to suffer and could impair the strength and exclusivity of its brand. Conversely, if the Company underestimates customer demand for its products, its manufacturers may not be able to deliver products to meet its requirements, and this could result in damage to its reputation and customer relationships.

The fluctuating cost of raw materials could increase the Company's cost of goods sold and cause its results of operations and financial condition to suffer.

The Company's costs for raw materials are affected by, among other things, weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries, and other factors that are generally unpredictable and beyond its control. Increases in the cost of raw materials or the prices the Company pays for its cotton yarn and cotton-based textiles, could have a material adverse effect on its cost of goods sold, results of operations, financial condition and cash flows.

The Company relies on third-party suppliers to provide fabrics for and to produce its products, and it has limited control over them and may not be able to obtain quality products on a timely basis or in sufficient quantity.

The Company does not manufacture its products or the raw materials for them and relies instead on third-party suppliers. Due to its financial condition, the Company has in the past delayed payments to its manufactures or agreed to revise contractual terms, which has had a negative impact on its relationships with them. If the Company fails to make or delay payments to its manufactures, those manufactures may refuse to work for the Company and it may have difficulties finding other manufactures that are willing to make its products on terms acceptable to the Company, or which are competitive in the marketplace.

Many of the specialty fabrics used in the Company's products are technically advanced textile products developed and manufactured by third parties and may be available, in the short-term, from only one or a very limited number of sources. The Company has no long-term contracts with its suppliers or manufacturing sources, and it competes with other companies for fabrics, raw materials, production and import quota capacity.

The Company has occasionally received, and may in the future continue to receive, shipments of products that fail to comply with its technical specifications or that fail to conform to its quality control standards. The Company has also received, and may in the future continue to receive, products that meet its technical specifications but that are nonetheless unacceptable to the Company. Under these circumstances, unless the Company is able to obtain replacement products in a timely manner, it risks the loss of net revenue resulting from the inability to sell those products and related increased administrative and shipping costs. Additionally, if defects in the manufacture of the Company's products are not discovered until after such products are purchased by its customers, the Company's customers could lose confidence in the technical attributes of its products and its results of operations could suffer and its business could be harmed.

The Company may in the future experience a significant disruption in the supply of fabrics or raw materials from current sources and it may be unable to locate alternative materials suppliers of comparable quality at an acceptable price, or at all. In addition, if the Company experiences significant increased demand, or if the Company needs to replace an existing supplier or manufacturer, it may be unable to locate additional supplies of fabrics or raw materials or additional manufacturing capacity on terms that are acceptable to the Company, or at all, or the Company may be unable to locate any supplier or manufacturer with sufficient capacity to meet its requirements or to fill its orders in a timely manner. Identifying a suitable supplier is an involved process that requires the Company to become satisfied with its quality control, responsiveness and service, financial stability and labor and other ethical practices. Even if the Company is able to expand existing or find new manufacturing or fabric sources, it may encounter delays in production and added costs as a result of the time it takes to train its suppliers and manufacturers in its methods, products and quality control standards. Delays related to supplier changes could also arise due to an increase in shipping times if new suppliers are located farther away from the Company's markets or from other participants in its supply chain. Any delays, interruption or increased costs in the supply of fabric or manufacture of the Company's products could have an adverse effect on its ability to meet customer demand for its products and could result in lower net revenue and income from operations both in the short and long term.

The Company's reliance on third party providers for all warehouse and fulfillment functions reduces its ability to control the warehousing and fulfillment processes, which could harm its sales, reputation, and overall business.

The Company has entered into an agreement to outsource most of its warehouse and fulfillment functions to third party providers where its inventory is held at sites managed by an independent contractor who will then perform most of its warehousing, packaging and fulfillment services. The Company depends on independent contractor fulfillers to properly fulfill customer orders in a timely manner and to properly protect its inventories. The contractor's failure to ship products to customers in a timely manner, to meet the required quality standards, to correctly fulfill orders, to maintain appropriate levels of inventory, or to provide adequate security measures and protections against excess shrinkage could cause the Company to miss delivery date requirements of its customers or incur increased expense to replace or replenish lost or damaged inventory or inventory shortfall. The failure to make timely and proper deliveries may cause the Company's customers to cancel orders, refuse to accept deliveries, impose non-compliance charges through invoice deductions or other charge-backs, demand reduced prices or reduce future orders, any of which could harm its sales, reputation and overall profitability. The Company's excess inventory held at these facilities may be damaged due to the length of time that they are at the facility, which may not be covered by the contractor or its insurance.

The Company operates in a highly competitive market and the size and resources of some of its competitors may allow them to compete more effectively than the Company can, resulting in a decrease in its net revenue.

The market for apparel is highly competitive. Competition may result in pricing pressures, reduced profit margins or lost market share or a failure to grow the Company's market share, any of which could substantially harm its business and results of operations. The Company competes directly against wholesalers and direct retailers of athletic apparel, including large, diversified apparel companies with substantial market share and established companies expanding their production and marketing of technical athletic apparel, as well as against retailers specifically focused on athletic, active, lifestyle, and other categories of apparel. The Company also faces competition from wholesalers and direct retailers of traditional commodity athletic apparel, such as cotton T-shirts and sweatshirts. Many of the Company's competitors are large apparel and sporting goods companies with strong worldwide brand recognition, such as Nike, Inc., Lululemon Athletica Inc., Adidas AG, which includes the Adidas and Reebok brands, and The Gap, Inc., which includes the Athleta brand. Because of the fragmented nature of the industry, the Company also competes with other apparel sellers. Many of the Company's competitors have significant competitive advantages, including longer operating histories, larger and broader customer bases, more established relationships with a broader set of suppliers, greater brand recognition and greater financial, research and development, store development, marketing, distribution and other resources than the Company does. In addition, the Company's athletic and other categories of apparel are sold at a price premium to comparable apparel.

The Company's competitors may be able to achieve and maintain brand awareness and market share more quickly and effectively than the Company can. Many of the Company's competitors promote their brands through traditional forms of advertising, such as print media and television commercials, and through celebrity endorsements, and have substantial resources to devote to such efforts. The Company's competitors may also create and maintain brand awareness using traditional forms of advertising more quickly than it can. The Company's competitors may also be able to increase sales in their new and existing markets faster than it does by emphasizing different distribution channels than it does, such as catalog sales or an extensive franchise network, as opposed to distribution through retail stores, wholesale or internet, and many of the Company's competitors have substantial resources to devote toward increasing sales in such ways.

The Company has eight utility patent applications pending in Canada, the United States and China, and two patents issued in the United States, that are directed to the construction and operation of bag products and exercise tights garments, and top garments. The Company has fourteen design registrations/design patents granted in Canada, the United States and China directed to the visual aesthetics of bag products, exercise tights products, and exercise shorts products. However, the Company does not yet own any patents in the technology, fabrics or processes underlying its products.

The Company's failure or inability to protect its intellectual property rights could diminish the value of its brand and weaken its competitive position.

The Company currently relies on a combination of copyright, trademark, trade dress and unfair competition laws, as well as confidentiality procedures and licensing arrangements, to establish and protect its intellectual property rights. The Company cannot assure you that the steps taken by it to protect its intellectual property rights will be adequate to prevent infringement of such rights by others, including imitation of its products and misappropriation of its brand. In addition, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect the Company's intellectual property rights as fully as in the United States or Canada, and it may be more difficult for the Company to successfully challenge the use of its intellectual property rights by other parties in these countries. If the Company fails to protect and maintain its intellectual property rights, the value of its brand could be diminished, and the Company's competitive position may suffer.

Third parties may oppose the Company's trademark applications or otherwise challenge the Company's use of the trademarks. In the event that the Company's trademarks are successfully challenged, the Company could be forced to rebrand its products, which could result in loss of brand recognition and could require the Company to devote resources to advertising and marketing new brands and the Company's competitive position may suffer, which could have a material adverse effect on its financial condition.

Lululemon Athletica Canada Inc. has advised that it does not intend to expunge any RYU trade-mark registrations of the Company that may be issued from the Canadian Intellectual Property Officer ("CIPO"), including the RYU (stylized) trade-mark (the "RYU Marks") or oppose the Company's current trade-mark applications for the RYU Marks.

The Company may not be able to successfully open profitable new store locations in a timely manner, if at all, which could harm its results of operations.

The Company's growth will depend on its ability to successfully open and operate new stores. Sales at these stores are derived, in part, from the volume of foot traffic in these locations. The Company's ability to successfully open and operate new stores depends on many factors, including, among others, its ability to:

- identify suitable store locations, the availability of which is outside of the Company's control;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- hire, train and retain store personnel and field management;
- immerse new store personnel and field management into the Company's corporate culture;
- source sufficient inventory levels; and
- successfully integrate new stores into our existing operations and information technology systems.

Successful new store openings may also be affected by the Company's ability to initiate its marketing efforts in advance of opening additional stores in new markets. The Company typically relies on its marketing efforts to build awareness of its brand and demand for its products. There can be no assurance that the Company will be able to successfully implement its marketing efforts in a particular market in a timely manner, if at all. Additionally, the Company may be unsuccessful in identifying new markets where its apparel and other products and brand image will be accepted or the performance of its stores will be considered successful.

The Company's USA operations may not be successful, which could harm the Company's results of operations.

Certain USA markets are part of the Company's expansion strategy. If the Company opens one or more stores in the USA, the Company anticipates that it will be subject to the risks associated with operating in new markets where the demographics, consumer preferences, and economic conditions can be very different from the Canadian markets in which the Company primarily operates. Should market conditions of new USA locations vary significantly from what is anticipated, the Company's financial results could be adversely affected. In addition, the Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company, the Canadian dollar. The currency in which these transactions are denominated is the US dollar. Should the financial results of the Company's USA operations significantly fall short of targets, the Company could be exposed to the risk of loss depending on the relative movement of this currency against the Canadian dollar. The Company has not entered into forward contracts to mitigate this risk.

The Company's ability to source its merchandise profitably or at all could be hurt if new trade restrictions are imposed or existing trade restrictions become more burdensome.

Canada and the countries in which the Company's products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels. Countries impose, modify and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for the Company to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards and customs restrictions, could increase the cost or reduce the supply of products available to the Company or may require the Company to modify its supply chain organization or other current business practices, any of which could harm its business, financial condition and results of operations.

The Company's employees are critical to its success, and the loss of key personnel could harm its business.

The Company's performance is substantially dependent on the continued services and performance of its executive officers and other key personnel. The Company has employment agreements in place for its Chief Executive Officer, Chief Financial Officer, and its Senior Vice President of Retail and Operations. No key man life insurance has been purchased on any of the Company's executive officers. The Company's performance also depends on its ability to retain and motivate its officers. The loss of the services of any of the Company's officers could have a material adverse effect on its business, prospects, financial condition and results of operations.

Competition for key personnel is intense, and the Company cannot assure you that it will be successful in attracting and retaining such personnel. The failure to attract and retain the necessary technical, managerial and marketing personnel could have a material adverse effect on the Company's business, prospects, financial condition and results of operations. The Company's future success also depends on its ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial and marketing personnel.

The Company is dependent on its information technology systems and third-party servicers, and systems failures, interruptions or breaches of security could have an adverse effect on its financial condition and results of operations.

The Company's business is dependent on the successful and uninterrupted functioning of its information technology systems setup by third-party providers, as it outsources many of its major systems. The Company relies on the controls of these providers in lieu of controls setup by the Company. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt the Company's operations. Because the Company's information technology and telecommunications systems interface with and depend on third-party systems, the Company could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions.

The Corporation may be unable to safeguard against security breaches with respect to its information technology systems, and, could be exposed to a risk of loss or misuse of this information and potential liability.

The Corporation's business employs systems and websites that allow for the storage and transmission of proprietary or confidential information regarding its business, customers and employees, including credit card information. Security breaches could expose the Corporation to a risk of loss or misuse of this information and potential liability. The Corporation may not be able to anticipate or prevent rapidly evolving types of cyber-attacks. Actual or anticipated attacks may cause the Corporation to incur increased costs, including costs to deploy additional personnel and protection technologies, train employees and engage third party experts and consultants. Advances in computer capabilities, new technological discoveries or other developments may result in the technology used by the Corporation to protect transaction or other data being breached or compromised. Data and security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breach by employees or persons with whom the Corporation has commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach could result in a violation of applicable privacy and other laws, significant financial exposure, damage to the Corporation's reputation, and a loss of confidence in its security measures, which could have a material adverse effect on the Corporation's business, reputation, prospects, financial condition and results of operations.

The exercise of outstanding options and warrants may have a dilutive effect on the price of the Common Shares.

To the extent that outstanding stock options and warrants are exercised, dilution to the Company's shareholders will occur. Moreover, the terms upon which the Company will be able to obtain additional equity capital may be adversely affected, since the holders of the outstanding options and warrants can be expected to exercise them at a time when the Company would, in all likelihood, be able to obtain any needed capital on terms more favorable to it than the exercise terms provided by the outstanding options and warrants.

The Company does not expect to pay dividends in the future. Any return on investment may be limited to the value of the Common Shares.

The Company does not currently anticipate paying cash dividends in the foreseeable future. The payment of dividends on Common Shares will depend on earnings, financial condition and other business and economic factors affecting it at such time as the board of directors may consider relevant. The Company's current intention is to apply net earnings, if any, in the foreseeable future to increasing its capital base and development and marketing efforts. There can be no assurance that the Company will ever have sufficient earnings to declare and pay dividends to the holders of Common Shares, and in any event, a decision to declare and pay dividends is at the sole discretion of the Company's board of directors. If the Company does not pay dividends, its Common Shares may be less valuable because a return on your investment will only occur if its stock price appreciates.

ADDITIONAL INFORMATION

The Company files annual and other reports and other information with Canadian securities regulatory authorities. The documents are available to the public at http://www.sedar.com.

APPROVAL

The Board of Directors of the Company has approved the disclosure contained in this MD&A.