RYU APPAREL INC.
(the “Company” or “RYU”)
Management’s Discussion & Analysis
for the six months ended June 30, 2020
Prepared as of October 13, 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 condensed consolidated interim financial statements for the six months ended June 30, 2020 and the audited 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 six months ended June 30, 2020 was $1,124,893, 59% lower than revenue of $2,711,413 during the six months ended June 30, 2019. Our financial results have declined in the first and second quarter of 2020 with sales and gross profit down from the same period in 2019. The COVID-19 pandemic is the main driver for the decline in sales as stores were forced to shut down due to health concerns, with no definitive plans to re-open. Inventory items which were deemed to be obsolete were sold at heavily discounted prices, causing gross profit for the six months ended June 30, 2020 to decrease by 31.5%.

Revenues, cost of sales and gross profit during the three and six months ended June 30, 2020 and 2019 were as follows:

	Three months ended June 30,		
	2020	2019	% Change
Revenue	$ 368,711	$ 1,501,547	(75.4)%
Cost of sales	251,368	766,504	(67.2)%
Gross profit	$ 117,343	$ 735,043	(84.0)%
Gross profit %	32%	49%	(17.1)%

	Six months ended June 30,		
	2020	2019	% Change
Revenue	$ 1,124,893	$ 2,711,413	(58.5)%
Cost of sales	952,783	1,442,625	(34.0)%
Gross profit	$ 172,110	$ 1,268,788	(86.4)%
Gross profit %	15%	47%	(31.5)%

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

	June 30, 2020	January 1, 2015	% Change
Assets	$ 2,151,394	$ 759,307	183.3%
Liabilities	11,110,521	1,562,739	611.0%
Deficiency	$ (8,959,127)	$ (803,432)	(1,015.1)%

As at June 30, 2020, RYU had an equity deficiency of $8,959,127 due to losses incurred during the period being lower 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 $2,151,394 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 $11,110,521, $5,195,481 is related to lease obligations.

As at June 30, 2020, RYU's deficit amounted to $104,470,845. 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 in 2020, 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.

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

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

Retail Locations

In 2020, 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	N/A
Vancouver, BC – Thurlow Street	November 2016	N/A
West Vancouver, BC – Park Royal South	March 2017	N/A
Toronto, ON – Queen Street West	September 2017	N/A
Burnaby, BC – Metropolis at Metrotown	November 2017	January 2020
Venice, CA – Abbot Kinney Boulevard	August 2018	May 2020
Brooklyn, NY – Williamsburg	November 2018	N/A
Toronto, ON – Sherway Gardens Shopping Centre	December 2018	January 2020
Newport Beach, CA – Fashion Island Shopping Center	January 2019	March 2020

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. On May 28, 2020, the Company permanently closed its retail location at Abbot Kinney Boulevard in Venice, California.

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).

Brand Experience Activations

Since the start of RYU, we are proud to have hosted over 4,616 in-store and off-site brand experiences. RYU has identified that sustained growth in the active lifestyle category focuses on driving the customer experience. That's why we prioritize Brand Experience initiatives to effectively speak to today's consumer and leverage on the experiential quotient.

RYU has re-imagined our retail stores as Brand Experience Hubs. Through innovative Brand Experience initiatives, we have made each RYU store an experiential center where people feel welcome, respected, included, and part of something bigger than themselves. Our now famous Sweat Clubs are free in-store workouts led by some of the best trainers in each market. These elite trainers are handpicked by RYU to deliver an amazing brand experience like no other.

The primary goal of the RYU Brand Experience team is to create in-store tailored experiences and authentic opportunities for athletically-minded individuals to connect with each other and with the RYU brand. The aim is to grow customer engagement and loyalty.

The secondary goal of the RYU Brand Experience team is to support and connect with the community outside of our retail store locations. From CrossFit competitions, to races, dance showcases, mindfulness seminars, and special fundraisers, RYU is committed to be continuously and actively engaged in the communities we are part of.

Check out what is happening in the RYU Community at https://ryuapparelinc.exposure.co/

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 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 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.

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

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"). This MD&A and the accompanying consolidated financial statements give retroactive effect to the Share Consolidation. The exercise or conversion price of, and the number of common shares issuable under any securities of the Company has been adjusted proportionally.

During the six months ended June 30, 2020, the Company announced a private placement offering of up to 333,333,333 units at a price of $0.03 per unit to fund its new strategy. As at June 30, 2020, the Company had received $317,816 in advanced subscription funds. The private placement has been postponed as announced on July 20, 2020.

On April 14, 2020, the Company granted 5,195,000 stock options (the "April 2020 Grant") 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. The Company recorded $421,069 in share-based payments in relation to the vesting of these options.

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. As at June 30, 2020, $320,000 is included in accrued liabilities.

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.

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. The Company's common shares had a fair market value of $0.10 on the date of grant. The Company recorded a gain of $170,362 on the settlement of this debt.

OVERALL PERFORMANCE

The performance in the six months ended June 30, 2020 has been largely impacted by the COVID-19 pandemic. As stores were forced to close due to health concerns, we saw a significant decline in sales. In addition, inventory that was impaired at the end of 2019 were also sold at heavily discounted prices.

The following is an analysis of the significant items and variances to our cash flow between the six month ended June 30, 2020 and 2019, which helps explain our overall performance.

Six months ended June 30,	2020	2019	Variance Explanation
Cash flows used in operating activities	$ 17,596	$ (3,838,230)	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 $3,855,826 is due to a change in comprehensive loss of $7,382,428. This is largely due to decreases in operating expenses totaling $5,824,084 as well as adjustments for non-cash items totaling $1,826,716 relating largely to a gain on lease terminations of $2,551,846.

Net loss before non-cash items	(2,778,336)	(6,050,064)	Net loss before non-cash items in the period ended June 30, 2020 consumed $3,271,728 less cash than in the comparative period in 2019. As a result of store closures, the Company spent $2,197,962 and $573,462 less on salaries and selling and marketing expenses, respectively. Depreciation also decreased by $2,021,433 due to right-of use assets being fully impaired at the end of 2019. Due to the COVID-19, the Company also spent less overall on operational expenses including $640,993 less in professional fees, $215,427 less in office and general fees, and $173,252 less in product creation.
Changes in non-cash working capital	2,795,932	2,211,834	Working capital changes in the period ended June 30, 2020 consumed $584,098 less cash than in the comparative period in 2019. This improvement is the result of benefiting from increased accounts payable. The Company also recognized decreases in inventory on hand during the period ended June 30, 2020 versus increases in inventory during the comparative period in 2019.
Cash flows used in investing activities	-	(557,488)	There were no investing activities during the six months ended June 30, 2020.
Cash flows from financing activities	(79,255)	3,245,891	The Company continued to fund operations by raising capital through the issuance of loans for proceeds of $600,000. The Company also received $317,816 in advance subscriptions for a planned private placement of 333,333,333 units at a price of $0.03 per unit. The private placement has been postponed. During the period, the Company repaid $16,500 in loans and also made lease payments of $980,571.
Cash – closing balance	21,679	48,645	We opened 2020 with $83,338 and had a decrease in cash of $61,659 during the six month period ended June 30, 2020. The change in cash is mostly due to the reasons noted above and the cash used during the period for current operations.

DISCUSSION OF OPERATIONS

The following table provides selected unaudited financial information for the six months ended June 30, 2020 and 2019, in accordance with IFRS:

(in Canadian dollars, unless noted otherwise)

	Six months ended June 30, 2020	2019
Presentation currency	(C$)	(C$)
Functional currency	(C$)	(C$)
Revenue	1,124,893	2,711,413
Gross profit (loss)	172,110	1,268,788
Comprehensive income (loss)	(951,620)	(8,616,692)
Comprehensive income (loss) per share – basic and diluted	$(0.01)	$ (0.02)
Total assets	2,151,394	22,379,179
Total long-term financial liabilities	4,008,155	6,586,787

For the three months ended June 30, 2020

The following is an analysis of the significant items and variances between the three months ended June 30, 2020 and 2019.

Revenue, cost of sales and gross profit

Three months ended June 30,		2020		2019	Variance Explanation
Revenue	$	368,711	$	1,501,547	Decrease of 75% is largely the result of both permanent and temporary store closures due to the COVID-19 pandemic and selling items at discounted prices.
Cost of sales		251,368		766,504	Decrease of 64% in cost of sales is due to: 1) decrease in sales as noted above; 2) increased sales at discounted prices leading to lower gross margins.
Gross profit	$	117,343	$	735,043	Decrease of 87% is due to reasons noted above.

Expenses

Three months ended June 30,		2020		2019	Variance Explanation
Depreciation	$	20,673	$	1,080,293	The $1,059,382, or 98% decrease is due to right-of use assets being fully impaired at the end of 2019.
Foreign exchange (gain) loss		(253,681)		(368,365)	This is the result of fluctuations in the CAD dollar against the US dollar.
Interest and bank charges		208,659		422,829	Interest expense for the three months ended June 30, 2020 was lower than the comparative period as a result of the termination and modification of leases for stores that were permanently closed during the period.
Investor relations		30,204		87,234	As a result of COVID-19, investor relations was minimal during the three months ended June 30, 2020.
Office and general		352,473		694,280	We incurred lower office and general expenses due to store closures as a result of COVID-19, and decreased corporate overhead expenses.
Product creation		(1.501)		68,223	Production costs in 2019 related to a design services contract with Squamish Design Studio Ltd and is no longer in place for 2020.
Professional fees		57,451		438,817	Consulting contracts in place during 2019 were either not renewed or were moved in-house in 2020.
Salaries and benefits		526,596		1,791,564	We incurred lower salaries expense due to store closures as a result of COVID-19, and decreased corporate overhead expenses.
Selling and marketing		42,505		173,803	As a result of COVID-19 and the resulting store closures, there were minimal promotional activities held during the three months ended June 30, 2020.
Share-based payments		286,069		35,315	During the three months ending June 30, 2020, the Company recorded share based compensation expense of $421,069 due to the issuance of 5,195,000 new stock options in April 2020. This was partially

					offset by a recovery of $135,000 on 50,000 RSU's issued in Q1 2020 which were adjusted in Q2.
Travel and entertainment		1.087		25,110	As a result of COVID-19, travel was minimal during the three months ended June 30, 2020.
Total	$	1,270,535	$	4,449,104	

Comprehensive loss

Three months ended June 30,		2020		2019	Variance Explanation
Comprehensive loss	$	184,282	$	(3,562,832)	The loss decreased quarter over quarter by 105% due a decrease in operating expenses of $3,178,568. Accounting gains of $951,964 $170,362 and $215,458 recorded on the temination of leases, settlement of debt, and recovery of inventory reseve respectively, also attributed to this change.

For the six months ended June 30, 2020

The following is an analysis of the significant items and variances between the six months ended June 30, 2020 and 2019.

Revenue, cost of sales and gross profit

Six months ended June 30,		2020		2019	Variance Explanation
Revenue	$	1,124,983	$	2,711,413	Decrease of 59% is is largely the result of both permanent and temporary store closures due to the COVID-19 pandemic and selling items at discounted prices.
Cost of sales		952,783		1,442,625	Decrease of 34% in cost of sales is due to: 1) decrease in sales as noted above; 2) increased sales at discounted prices leading to lower gross margins
Gross profit	$	172,110	$	1,268,788	Decrease of 86% is due to reasons noted above.

Expenses

Six months ended June 30,		2020		2019	Variance Explanation
Depreciation	$	41,713	$	2,063,384	The $2,021,671, or 98% decrease is due to right-of use assets being fully impaired at the end of 2019.
Foreign exchange (gain) loss		282,859		(867)	This is the result of fluctuations in the CAD dollar against the US dollar.
Interest and bank charges		473,354		770,684	Interest expense for the six months ended June 30, 2020 was lower than the comparative period as a result of the termination and modification of leases for stores that were permanently closed during the period.
Investor relations		94,001		172,751	As a result of COVID-19, investor relations was minimal during the six months ended June 30, 2020.

Office and general	828,595	1,044,022	We incurred lower office and general expenses due to store closures as a result of COVID-19, and decreased corporate overhead expenses.
Product creation	21,289	194,541	Production costs in 2019 related to a design services contract with Squamish Design Studio Ltd and is no longer in place for 2020.
Professional fees	163,284	804,277	Consulting contracts in place during 2019 were either not renewed or were moved in-house in 2020.
Salaries and benefits	1,654,226	3,852,188	We incurred lower salaries expense due to store closures as a result of COVID-19, and decreased corporate overhead expenses.
Selling and marketing	56,909	630,371	As a result of COVID-19 and the resulting store closures, there were minimal promotional activities held during the six months ended June 30, 2020.
Share-based payments	438,016	254,279	During the six months ending June 30, 2020, the Company recorded share based compensation expense of $421,069 due to the issuance of 5,195,000 new stock options in April 2020.
Travel and entertainment	7,150	99,850	As a result of COVID-19, travel was minimal during the six months ended June 30, 2020.
Total	$ 4,061,396	$ 9,885,480	

Comprehensive loss

Six months ended December 31,	2020	2019	Variance Explanation
Comprehensive loss	$ (951,620)	$ (8,334,048)	The loss decreased quarter over quarter by 89% due a decrease in operating expenses of $5,824,084. Accounting gains of $2,551,846, $170,362 and $215,458 recorded on the temination of leases, settlement of debt, and recovery of inventory reseve respectively, also attributed to this change.

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:

	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19
Presentation currency	(C$)	(C$)	(C$)	(C$)
Functional currency	(C$)	(C$)	(C$)	(C$)
Revenue	368,711	756,182	1,433,591	1,473,136
Gross profit	117,343	54,767	544,234	734,242
Operating expenses	1,270,535	2,790,860	18,203,944	4,539,997
Comprehensive loss	184,282	(1,135,901)	(17,413,111)	(3,769,710)
Comprehensive loss per share (Basic and Diluted)	0.00	(0.02)	(0.28)	(0.07)
	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18
Presentation currency	(C$)	(C$)	(C$)	(C$)
Functional currency	(C$)	(C$)	(C$)	(C$)

Revenue	1,501,547	1,209,866	1,773,589	1,223,524
Gross profit	735,043	533,745	659,725	710,545
Operating expenses	4,449,104	5,436,377	5,598,841	4,877,002
Comprehensive loss	(3,865,288)	(5,034,048)	(4,939,116)	(4,166,457)
Comprehensive loss per share (Basic and Diluted)	(0.07)	(0.01)	(0.11)	(0.09)

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 2020 is RYU's fifth year of operations since relaunching the brand on November 27, 2015 when we opened our Flagship Store in Vancouver, BC. As at June 30, 2020 we have been open for business for 52 months.

Up until Q1 of 2020, the preceeding quarters have shown a consistent 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 results of Q1 and Q2 2020 were heavily impacted by the COVID-19 pandemic as stores were forced to shut down.

The first quarter of 2020 marked RYU's first reporting period incorporating revenue from five retail store locations, compared to nine locations in the forth quarter of 2019.

- Q2 2020: Five stores
- Q1 2020: Five stores
- 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 June 30, 2020 was $21,679 compared to $83,338 as of December 31, 2019. As of June 30, 2020, we had current assets of $1,980,838, current liabilities of $7,102,366 and working capital deficit of $5,121,528 compared to working capital deficit of $4,265,937 as of December 31, 2019.

During the six months ended June 30, 2020, our operating activities were funded by:

- Revenue from our sales channels totaling $1,124,893; and
- Short-term loans received from related parties totaling $600,000
- Private placement subscription funds received in advance totaling $317,500

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.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Lease obligations

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

	June 30, 2020	December 31, 2019
Current portion	$ 1,187,326	$ 1,497,289
Non-current portion	4,008,155	6,586,787
	$ 5,195,481	$ 8,084,076

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 June 30, 2020 are as follows:

		June 30, 2020
Less than one year	$	1,723,743
One year to three years		2,508,855
Three to five years		1,779,586
Greater than five years		2,823,316
Total undiscounted lease liabilities		8,835,500
Amount representing implicit interest		(3,640,019)
Lease obligations	$	5,195,481

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

On January 15, 2020, the Company closed it's retail location at Sherway Gardens in Toronto, ON. The Company recognized a gain on the termination of $1,600,192. 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.

On March 15, 2020, the Company permanently closed its retail location at Fashion Island in Newport Beach, CA. No termination agreement was negotiated and accepted by the landlord. In August 2019, litigation was commenced against the Company pertaining to the dispute on the termination and settlement of the lease arrangement. As of June 30, 2020, included in payables is a liability of $519,520 (USD $400,000) based on the estimate of the settlement.

On March 17, 2020, the Company temporarily closed it's remaining retail locations due to the COVID-19 pandemic. They remain closed to date.

On May 28, 2020, the Company permanently closed its retail location at Abbot Kinney Boulevard in Venice, California. The lease was terminated effective June 1, 2020. The Company recognized a gain on the termination of $934,950 (US$691,173). 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.

On July 1, 2020, the Company negotiated a one year lease extension for its retail location at West 4th in Vancouver, BC expiring on June 30, 2021.

On September 18, 2020, the Company entered into an amended lease agreement for its retail location at Queens Street West in Toronto, ON. The provisions of the agreement included basic rent deferral and net rent abatement and are effective retroactively on January 1, 2020. The Company applied the practical expedient for qualified rent concessions directly related to COVID-19 and recognized a loss on the lease modification of $5,827 during the six months ended June 30, 2020. 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.

CLAIMS AND LAWSUITS

Neither the Company nor any of its property was a party to, or the subject of, any material legal proceeding since January 1, 2019, nor is the Company currently party to any material legal proceeding to its business. From time to time, however, 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 at UTC Westfield in La Jolla, California, but in August 2019, did not proceed. No termination agreement was negotiated nor accepted by the landlord. In August 2019, litigation was commenced against the Company pertaining to the dispute on the termination and settlement of the lease arrangement. As of June 30, 2020, the Company recorded a liability of $545,120 (USD $400,000) based on the estimate of the settlement. As of October 13, 2020, the Company is in the midst of negotiation with the counter party on the settlement.

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 June 30, 2020 and December 31, 2019 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 2020 consisted of:

Cesare Fazari, CEO and Director
Brett Pawson, Interim CFO (resignation July 14, 2020)
Alex McAulay, CFO (effective July 14, 2020)
Bill Marcus, Director
Roger Edwards, Director
Marcello Leone, former CEO and former Director
Pedro Villa, former CFO
Maria Leone, former 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 June 30, 2020 and 2019 was as follows:

		June 30, 2020		June 30, 2019
Salaries and benefits	$	549,256	$	269,306
Share-based payments**		61,164		161,842
	$	610,420	$	431,148

The Company entered into the following related party transactions with key management personnel during the six months ended June 30, 2020:

a) The Company paid or accrued salaries to Marcello Leone, the former CEO and Director, of $86,154 (2019 - $160,000), accrued a termination benefit of $320,000 and made share-based payments of $Nil (2019 - $160,080);
b) The Company paid or accrued salaries to Pedro Villa, the former CFO, of $Nil (2019 - $40,806) and made share-based payments of $Nil (2019 - $(6,579));
c) The Company paid or accrued salaries to Brett Pawson, the former Interim CFO, of $73,769 (2019 - $68,500) and made share-based payments of $8,644 (2019 - $4,624);
d) The Company paid or accrued salaries to Cesare Fazari, the CEO, of $69,333 (2019 - $Nil);
e) The Company made share-based payments to Bill Marcus, Director, of $Nil (2019 - $1,239);
f) The Company made share-based payments to Tony Longo, former Director, of $16,211 (2019 - $Nil);
g) The Company made share-based payments to Camilo Lyon, former Director, of $19,453 (2019 - $Nil);
h) The Company made share-based payments to Maria Leone, former Director, of $323 (2019 - $1,239); and
i) The Company made share-based payments to Martino Ciambrelli, former Director, of $323 (2019 - $1,239).

Other transactions with related parties:

The remuneration paid to related parties other than key management personnel during the six months ended June 30, 2020 and 2019 was as follows:

		June 30, 2020		June 30, 2019
Consulting fees (included in professional fees)	$	13,500	$	125,700
Salaries and benefits		-		8,400
Share-based payments**		38,905		-
	$	52,405	$	134,540

The Company entered into the following additional related party transactions with during the six months ended June 30, 2020:

a) The Company paid or accrued salaries to a family members of Marcello Leone, former CEO and Director, of $Nil (2019 - $8,840);
b) The Company paid or accrued consulting fees to family members of Marcello Leone, former CEO and Director, totalling $13,500 (2019: $79,200);
c) The Company paid or accrued consulting fees to family members of Martino Ciambrelli, former Director, totalling $Nil (2019: $15,000);
d) The Company paid or accrued consulting fees to a company controlled by Martino Ciambrelli, former Director, of $Nil (2019 - $45,000).
e) The Company made share-based payments to a family member of Camilo Lyon, former Director, of $38,905 (2019 - $Nil)

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

During the six months ended June 30, 2020, the Company had sales to a company owned by Marcello Leone of $55,931 (2019 - $14,916) and purchased goods and services from the same company totaling $8,685 (2019 –$74,995).

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 six months ended June 30, 2020, the Company recorded rent expense of $69,187 (2019 – $74,261) to the related party.

Trade and other payables:

As at June 30, 2019, the following is included in trade and other payables and loans payable in relation to transactions with related parties, which are non-interest bearing, unsecured and due on demand:

i. Included in trade and other payables at June 30, 2020 is $Nil (December 31, 2019 - $174,462) due to a company controlled by Marcello Leone, for products and services provided.

ii. Included in trade and payables at June 30, 2020 is $2,856 (December 31, 2019 - $Nil) due to Brett Pawson, for operations expense reimbursements.

iii. Included in accrued liabililities at June 30, 2020 is a termination benefit of $320,000 pursuant to the Termination Agreement with Marcello Leone.

iv. Included in trade and other payables at June 30, 2020 is $69,333 in unpaid executive compensation owing to Cesare Fazari.

Loans from related parties:

During the six months ended June 30, 2020, the Company obtained loans of $215,000 (2019 – $Nil) from Cesare Fazari. The loans are non-interest bearing, unsecured and due on demand.

During the six months ended June 30, 2020, the Company obtained loans of $335,000 (2019 – $Nil) from a family member of Marcello Leone. In April 2020, this loan was settled in shares as part of a share settlement agreement to settle outstanding debts of $1,845,498 owed by the Company to two family members of and a Company controlled by Marcello Leone, see consolidated financial statements note 8.

During the six months ended June 30, 2020, the Company also entered into a loan agreement for a $50,000 (2019 - $Nil) loan 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 interest of $Nil (December 31, 2019 - $4,331). In April 2020, this loan was settled in shares as part of a share settlement agreement to settle outstanding debts of $1,845,498 owed by the Company to two family members of and a Company controlled by Marcello Leone, see consolidated financial statements note 8.

Equity:

Six months ended June 30, 2020:

On April 14, 2020, as part of the April 2020 Grant, the Company granted 1,220,000 stock options at an exercise price of $0.50 per common share to the following related parties pursuant to its stock option plan. Each stock option granted is exercisable for a period of five years. The stock options vest immediately. The Company recorded share-based payments for an aggregate total of $98,884 to related parties pursuant to this stock option grant.

Related party	Stock Options Granted
Brett Pawson	100,000
Cesare Fazari	200,000
Tony Longo	200,000
Camilo Lyon	240,000
Consultant, family member of Camilo Lyon	480,000
	1,220,000

On April 20, 2020, the Company entered into a settlement agreement with Marcello Leone 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. Included in accrued liabililities at June 30, 2020 is $320,000 to account for this termination settlement.

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 with relation to Marcello Leone, to settle debt in the amount of $1,845,498 owed by the Company.

Six months ended June 30, 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 470,596 common shares of the Company at a price of $0.75 per unit to Marcello Leone, one family member of Marcello Leone and to a company owned by Marcello Leone, for gross proceeds of $352,947. 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 774,000 and 13,300,000 common shares of the Company at a price of $0.05 per unit to two family members of the CEO 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 $0.10 for a period of three years.

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:

	October 13, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Share price – closing (C$)	$0.06	$0.20	$0.10	$0.30	$0.30
Market capitalization (C$)	$ 4,081,616	$13,605,387	$6,298,728	$18,891,235	$17,466,510
Outstanding					
Shares	68,026,932	68,026,933	62,987,283	62,970,783	58,221,701
Options	6,057,250	6,747,250	1,887,500	1,947,500	1,985,625
RSUs	50,000	50,000	500,000	16,500	21,500
Warrants	26,805,024	26,805,024	26,805,024	26,805,024	22,272,751

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 June 30, 2020:

a) On July 1, 2020, the Company negotiated a one year lease extension for its retail location at West 4th in Vancouver, BC expiring on June 30, 2021.

b) On September 18, 2020, the Company entered into an amended lease agreement for its retail location at Queens Street West in Toronto, ON. The provisions of the agreement included basic rent deferral and net rent abatement and are effective retroactively on January 1, 2020. The impact of this amendment has been reflected retroactively in these consolidation interim financial statements (see Note 7) and MD&A for the period ended June 30, 2020. 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.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied, on a consistent basis, in the preparation of these condensed consolidated interim 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 condensed consolidated interim financial statements, except as noted below.

ACCOUNTING CHANGES

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

In 2020, the Company applied the practical expedient for specified rent concessions as a direct result of the COVID-19 pandemic. Refer to Note 2 of the accompanying consolidated interim financial statements for the six months ended June 30, 2020 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.