



RYU APPAREL INC.
(the “Company” or “RYU”)
Management’s Discussion & Analysis
for the six months ended June 30, 2021
Prepared as of August 30, 2021

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, 2021 and the audited consolidated financial statements for the year ended December 31, 2020. 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 three 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, 2021 was \$397,703, 64.6% lower than revenue of \$1,124,893 during the six months ended June 30, 2020. Our financial results have declined in the first two quarters of 2021 with sales and gross profit down from the same period in 2020. The COVID-19 pandemic is the main driver for the decline in sales as stores were forced to shut down due to health concerns. The Company re-opened three stores in the second quarter of 2021. Inventory items which were deemed to be obsolete were sold at heavily discounted prices in the comparable period, causing gross profit for the six months ended June 30, 2021 to decrease to 13%.

Revenues, cost of sales and gross profit during the three and six months ended June 30, 2021 and 2020 were as follows:

	Three months ended June 30,		
	2021	2020	% Change
Revenue	\$ 198,878	\$ 368,711	(46.1)%
Cost of sales	168,811	251,36	(32.8)%
Gross profit	\$ 30,067	\$ 117,343	(74.4)%
Gross profit %	15%	32%	(53.1)%

	Six months ended June 30,		
	2021	2020	% Change
Revenue	\$ 397,703	\$ 1,124,893	(64.6)%
Cost of sales	344,054	952,783	(63.9)%
Gross profit	\$ 53,649	\$ 172,110	(68.8)%
Gross profit %	13%	15%	(13.3)%

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

	June 30,	January 1,	% Change
	2021	2015	
Assets	\$ 4,161,148	\$ 759,307	448.0%
Liabilities	9,873,931	1,562,739	531.8%
Equity	\$ (5,712,783)	\$ (803,432)	(611.0)%

As at June 30, 2021, RYU had a shareholders' deficiency of \$5,712,783 due to losses incurred during the period being lower than equity raised. When RYU's rebranding began on January 1, 2015, the Company had a shareholders' deficiency of

\$803,432. During this time, our team has grown RYU's assets from \$759,307 to \$4,161,148 with innovative inventory that has net realizable value of \$1,374,587. RYU continues to invest in growth and in implementing efficiencies in its business operations. Of the liabilities of \$9,873,931, \$3,969,252 is related to lease obligations.

As at June 30, 2021, RYU's deficit amounted to \$111,508,888. 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 2020 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 closed two non-brokered private placement financings of \$4.8 million and \$1.1 million to fund its strategy on October 29, 2020 and December 22, 2020, respectively.

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

In July 2021, the Company announced the development of four strategic pillars to set RYU on a sustained growth trajectory. Those four pillars are:

1. **Lean Organization** - Our goal is to achieve an operating ratio of <50% over the next 36 months, without losing sight of the need to build an organization that will drive brand desire. Led by exceptional creative we will craft powerful brand stories that will become the inception of our demand creation process. A newly appointed Brand Executive Creative Director will assume brand creative lead and will work in concert with creative powerhouse Mother LA (pending final engagement agreement) to build an authentic voice and consumer acquisition strategy.
2. **Brand** - “Movement Matters” is our governing mantra, leading to the establishment of brand positioning, target audience and creative voice for all visual assets. Corporate governance for how we talk, how we behave and how we look. This not only filters through consumer facing assets, but also how we recruit, who we recruit and how we act internally. As well as developing and implementing overarching brand guidelines, we have established a creative briefing and internal/external review and production process. This will allow our team to maintain creative integrity, production quality and brand consistency across all marketing and branding campaigns and asset production.
3. **Product** - We have re-imagined the product creation strategy centered on our consumer. This highly productive line architecture will be made up of curated and considered core styles. The product strategy will move RYU from a traditional, seasonal and transactional business model to a design led organization hyper-focused on creating desire in product that sells in volume. We still maintain the need for newness with specific emotional color and art injections, while creating long-lasting and ethical products that perform in multiple activities. This “category killer” business will build into our CULTURE OF MOVEMENT. The newly implemented go-to-market strategy will increase speed to market from 18 months to 9-12 months. The increased frequency of new product introductions will support an enhanced consumer experience in store and online channels. This also allows us to grow our profitability, through a streamlined vendor base and economies of scale on fabric, trims, and labor.
4. **Digital** - Create an online experience that provides consumers with a seamless and consistent brand message across all touchpoints within the RYU ecosystem. We have brought on board seasoned eCommerce industry leadership with a proven track record of sustainable double digital growth with Athletic, Outdoor and Lifestyle brands. The new team will provide advanced analytics, monitor acquisition channels, sales funnels and consumer behavior to meet and exceed brand and sales metrics. Decisive action has already been taken to grow into the areas of paid advertising, SEO and SEM, as well as integrated campaign and eCommerce leadership. These actions have already driven gains of +77% increases in weekly online sales.

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 2020 in collaboration with creative agency metamorphosis from NYC.

In 2020, RYU decommissioned two legacy e-commerce vendors and relaunched it’s two e-commerce stores on the Shopify platform providing improved navigation, enhanced discoverability and pre-ordering capabilities. RYU also launched a loyalty program (the “RYU VIP Program”) whereby customers can earn loyalty points through purchases and social media engagement which can be turned into rewards. E-commerce sales now represent approximately 80% of all RYU sales and the Company expects to see exponential growth with the implementation of it’s new strategic plans.

Retail Locations

In 2020, as part of the Company’s restructuring plan, the Company closed certain retail stores. The Company has three retail locations consisting of two 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 4 th Avenue (Flagship)	November 2015	N/A
West Vancouver, BC – Park Royal South	March 2017	April 2021
Toronto, ON – Queen Street West	September 2017	N/A
Brooklyn, NY – Williamsburg	November 2018	N/A

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. In early 2021, the Company also permanently closed its retail locations at Park Royal and Thurlow Street.

The Company re-opened its flagship store, West 4th Avenue and Williamsburg locations during the second quarter of 2021, where it is piloting the "RYU Studio" concept. A smart store initiative which is targeting the implementation of the latest interactive and immersive technologies to enhance the customer experience. The Company also re-opened its Queen St. West location during the second quarter of 2021 for in-stock pick up.

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 January 28, 2021, the Company announced the appointment of Rob Blair as its new Chief Operational Officer ("COO"), effective January 22, 2021. Mr. Blair brings nearly two decades of experience building high-growth iconic apparel and sportswear brands. As an industry expert in design, merchandising and corporate brand strategy. Mr. Blair has worked with iconic athletic brands Red Bull, Lululemon (NASDAQ: LULU), Gap Body (NYSE: GPS), and Nike (NYSE: NKE) with highlights including being the visionary architect behind the Lululemon men's business resulting in 73% margins in the men's division, executing a full-rebrand strategy to address the needs of the modern male consumer, achieving a 200%

increase in growth while working with performance denim brand DUER, expanding a \$100 million portfolio at Nike Lab including 60% margin growth, and leading the GAP BODY and GAP Fit division, a \$240M growth driver for the GAP Brand.

On February 10, 2021, the Company appointed Stefanie Crosby to the Board of Directors. Ms. Crosby brings a wealth of experience in corporate development to RYU. Through her company Triumspear International, she has executed corporate turn-a-rounds, advised on cross-border mergers & acquisitions, developed business plans and strategies that have helped her clients achieve major corporate milestones. She has developed projects and executed on initiatives through close strategic partnerships with various constituents that include government leaders, heads of state, captains of industry, executives and worldwide family offices. In addition to her work with Triumspear, Ms. Crosby is a consultant for Myseat Media, an innovative fan engagement platform where artists, celebrities, and athletes leverage their social media to generate recurring revenues while maintaining ownership of their data. Ms. Crosby also works as a global sports advisory agent helping to solve key challenges for iconic brands. Ms. Crosby holds an Executive MBA from John Molson School of Business in Montreal, Canada. She will work with RYU's board of directors and leadership team to develop and help implement RYU's strategic direction, financial strategies and global expansion.

Outlook for 2021

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 closed two non-brokered private placement financings of \$4.8 million and \$1.1 million on October 29, 2020 and December 22, 2020, respectively to fund its new strategy.

The 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. In the second quarter of fiscal 2021, the Company successfully re-opened its flagship West 4th. Queen St. West, and Williamsburg locations. E-commerce is available 24/7 at RYU.ca and 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.

On November 12, 2020, the Company announced its entrance into a three-year partnership as the Official High Performance Apparel Provider for Canada Skateboard which will provide RYU the opportunity to develop and outfit Canada Skateboard at the 2021 Tokyo Olympics and training camps, increase brand exposure through social media collaborations, and heighten viewership and brand recognition through participation in National team announcements.

On February 18, 2021, the Company entered into a 12-month advisory agreement with Oak Ridge Financial for services to support the Company's investor relations and financial markets communication strategy, for a monthly fee of \$4,000 payable on the first day of every month.

On February 22, 2021, the Company announced its wholesale distribution agreement with Grupo Pavel, a Mexico-city based fashion, athletic apparel and cosmetic distributor, a key step in the Company's wholesale strategy.

On February 26, 2021, the Company announced its wholesale distribution agreement with Altitude-Sports, a leading Canadian sports apparel retailer based in Montreal. RYU's best-in-class sports apparel will be distributed on a national level by the retailer, in its stores and on its online store.

On March 2, 2021, the Company announced its sponsorship of Canadian Olympic Heavyweight Boxing hopeful Dima Sumchenko on his bid to qualify for the 2021 Tokyo Olympic Games.

On March 25, 2021, the Company announced its entrance into a two-year in-kind agreement to be the official tailored urban athletic apparel of the NFL Alumni Academy. The Academy is an exclusive and elite training program that develops “NFL Ready” players while providing critical solutions for in-season injury replacement for the NFL. All players and coaches will exclusively wear RYU’s best in class performance apparel when training and while on official business, engage in a co-branded social media campaign, and provide RYU with the use of the NFL Alumni Academy secondary Logo for co-branded apparel and packaging.

On March 24, 2021, the Company entered into a share exchange agreement with Kosan Travel Company Ltd. (“Kosan”), and the shareholders of Kosan, pursuant to which the Company has agreed to acquire all of the issued and outstanding shares of Kosan for a purchase price of \$4,000,000 worth of common shares in RYU, with the number of shares issuable to be based on the volume-weighted average closing price of the common shares on the TSX-V Exchange over the thirty trading-days prior to the closing of the transaction. Closing is subject to Kosan raising at least \$175,000 in equity financings and a number of other conditions common to similar share exchange transactions including approval of the TSX-V. As of June 30, 2021, the transaction is still pending.

In 2018, the Company began investing in world-class talent to design, innovate and expand our product categories through 2021 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 2021, 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 March 1, 2021, the Company issued 620,000 common shares for the exercise of 620,000 warrants at a price of \$0.055 per share, for aggregate gross proceeds of \$34,100, including 200,000 common shares to a company controlled by Alex McAulay, CFO.

On March 3, 2021, the Company issued 1,160,000 common shares for the exercise of 1,160,000 warrants at a price of \$0.055 per share, for aggregate gross proceeds of \$63,800.

On March 4, 2021, the Company entered into an executive employment agreement with the Company’s new Chief Operating Officer (“COO”), Robert Blair. Per the agreement, Rob Blair was granted the following; (a) 2,000,000 options to purchase common shares of the Company at an exercise price of \$0.15 per common shares which vested immediately, and which expire March 9, 2024; and (b) 3,000,000 RSU’s which will vest over three years in 1,000,000 unit increments on each anniversary date beginning on the one year anniversary of the start date, March 9, 2021.

On March 4, 2021, the Company issued 50,000 common shares for the exercise of 50,000 options held by a former employee at a price of \$0.12 per share, for gross proceeds of \$6,000.

On March 5, 2021, the Company issued 1,000,000 common shares for the exercise of 1,000,000 warrants at a price of \$0.055 per share, for gross proceeds of \$55,000.

On March 22, 2021, pursuant to the loan agreement as outlined in Note 8 to the financial statements, and under the terms of the Loan Bonus Agreement, the Company issued 1,306,667 common shares as consideration for the personal guarantee made by a family member of Cesare Fazari, CEO, with a fair value of \$163,333, the fair value of the shares were treated as debt issuance costs in accordance with the loan and are being amortized over the life of the loan.

On March 24, 2021, the Company granted 19,267,506 options to purchase common shares at an exercise price of \$0.12 per common shares to Cesare Fazari, Stefanie Crosby, Director, Bill Marcus, Director, twelve employees, twenty consultants and two charities. Each option granted is exercisable for a period of three years and vests immediately.

On March 25, 2021, the Company issued 4,200,000 common shares for the exercise of 4,200,000 warrants at a price of \$0.055 per share, for gross proceeds of \$231,000.

On April 5, 2021, the Company issued 2,000,000 common shares for the exercise of 2,000,000 warrants at a price of \$0.055 per share, for gross proceeds of \$110,000.

On April 8, 2021, the Company issued 1,000,000 common shares for the exercise of 1,000,000 warrants at a price of \$0.055 per share, for gross proceeds of \$55,000.

On April 20, 2021, the Company issued an aggregate of 1,223,230 common shares for the exercise of 1,223,230 warrants at a price of \$0.055 per share, for aggregate gross proceeds of \$67,277.

On May 18, 2021, the Company issued an aggregate of 2,916,666 common shares for the exercise of 2,916,666 stock options, held by Cesare Fazari and an employee and family member of Cesare Fazari, at an exercise price of \$0.12 for aggregate gross proceeds of \$350,000.

On May 28, 2021, the Company granted 3,766,666 stock options to purchase common shares at an exercise price of \$0.085 to Cesare Fazari and an employee and family member of Cesare Fazari. Each option granted is exercisable for a period of five years, expiring on May 28, 2026, and vesting immediately.

On June 7, 2021, the Company issued an aggregate of 5,000,000 common shares for the exercise of 5,000,000 warrants at a price of \$0.055 per share, for aggregate gross proceeds of \$275,000.

On June 14, 2021, the Company issued 1,000,000 common shares for the exercise of 1,000,000 warrants at a price of \$0.055 per share, for gross proceeds of 55,000.

On June 22, 2021, the Company issued 100,000 common shares for the exercise of 100,000 warrants at a price of \$0.105 per share, for gross proceeds of \$10,500.

In connection with the above share issuances, the Company incurred share issuance costs of \$46,293 in cash.

OVERALL PERFORMANCE

The performance in the six months ended June 30, 2021 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 was also sold at heavily discounted prices.

The following is an analysis of the significant items and variances to our cash flow between the six-months ended June 30, 2021 and 2020, which helps explain our overall performance.

Six months ended June 30,	2021	2020	Variance Explanation
Cash flows used in operating activities	(2,425,872)	\$ 17,596	Until we reach positive earnings, our brand will continue to require investment and our operations will continue to generate a loss. The unfavourable variance of \$2,443,468 is due to a change in comprehensive loss of \$5,180,270. This is largely due to share-based payments made during the six months ending June 30, 2021 totaling \$3,038,740.
Operating cash flows before non-cash items	(2,692,312)	(2,778,336)	Operating cash flows before non-cash items in the six months ended June 30, 2021 were comparable with the same period in 2020. As a result of store closures, the Company spent \$1,154,781 less on salaries and benefits. Due to COVID-19, the Company also spent less overall on operational expenses including \$510,527 less in office and general fees. These decreases were offset by significant increases in spending on selling and marketing (increase of \$939,199) and professional fees (increase of \$533,167).
Changes in non-cash working capital	266,440	2,795,932	Working capital changes in the six months ended June 30, 2021 consumed \$2,529,492 more cash than in the comparative period in 2020. This is largely the result of decreased accounts payable during the six months ended June 30, 2021 versus the comparative period in 2020.
Cash flows used in investing activities	-	-	There were no investing activities during the six months ended June 30, 2021 and 2020.
Cash flows from financing activities	1,752,136	(79,255)	The Company made lease payments of \$467,570 during the six months ended June 30, 2021 offset by cash received for the issuance of common

shares totaling \$1,312,677 and a loan for gross proceeds of \$1,000,000.

Cash – closing balance	97,483	21,679	We opened 2021 with \$771,174 and had a decrease in cash of \$673,736 during the six months ended June 30, 2021. This is largely due to spending on operating activities partially offset by investing activities as described above.
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DISCUSSION OF OPERATIONS

The following table provides selected unaudited financial information for the six months ended June 30, 2021 and 2020, in accordance with IFRS:

(in Canadian dollars (“C\$”), unless noted otherwise)

	Six months ended June 30,	
	2021	2020
Presentation currency	(C\$)	(C\$)
Functional currency	(C\$)	(C\$)
Revenue	397,703	1,124,893
Gross profit (loss)	53,649	172,110
Comprehensive income (loss)	(6,131,890)	(951,620)
Comprehensive income (loss) per share – basic and diluted	(0.03)	(0.01)
Total assets	4,161,148	2,151,394
Total long-term financial liabilities	9,873,931	4,008,155

For the three months ended June 30, 2021

The following is an analysis of the significant items and variances between the three months ended June 30, 2021 and 2020.

Revenue, cost of sales and gross profit

Three months ended June 30,	2021	2020	Variance Explanation
Revenue	\$ 198,878	\$ 368,711	Decrease of 46.1% 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	168,811	251,368	Decrease of 32.8% in cost of sales is due to decrease in sales as noted above.
Gross profit	30,067	117,343	Decrease of 74.4% is the result of decrease in sales as well as mark-downs and wholesale at lower margins.

Expenses

Three months ended June 30,	2021	2020	Variance Explanation
Depreciation	\$ 16,121	\$ 20,673	Depreciation relates to capitalized property and equipment, amounts are expected to be comparable unless additions or disposals occur.
Foreign exchange (gain) loss	(44,779)	(253,681)	This is the result of fluctuations in the CAD dollar against the US dollar.
Interest and bank charges	179,062	208,659	Interest and bank charges or comprised mostly of interest charges on the Company’s lease obligations. As the obligations decrease over time, the same is expected for interest and bank charges.

Investor relations	109,626	30,204	Increased investor relations spending of 263.0% in the second quarter is largely due to the engagement of Hybrid Financial and RedChip Companies in late fiscal 2020 to lead the Company's investor relations and communications strategy in the wake of COVID-19.
Office and general	61,102	352,473	As a result of COVID-19 and the resulting store closures, there were decreased amounts of overall operational spending.
Product creation	78,433	(1,501)	Increased product creation in the second quarter of 2021 is due to the Company's future plans to improve and expand the brand.
Professional fees	336,391	57,451	Increases to professional fees in the second quarter are largely due accounting and consulting fees incurred in the second quarter of 2021.
Salaries and benefits	280,641	526,596	We incurred lower salaries expense due to store closures as a result of COVID-19, decreased corporate overhead expenses, and increased contractor engagement.
Selling and marketing	573,881	42,505	During the three months ended June 30, 2021, selling and marketing costs increased largely due to online marketing expenses incurred totaling \$507,261 to grow the e-commerce business, largely related to the Zoom Media agreement.
Share-based payments	284,746	286,069	During the three months ending June 30, 2021, the Company issued options with a grant date fair value of \$284,746.
Travel and entertainment	9,069	1,087	As a result of COVID-19, travel was minimal during the three months ended June 30, 2021 and 2020.
Total	\$ 1,884,293	\$ 1,270,535	

Comprehensive loss

Three months ended June 30,	2021	2020	Variance Explanation
Comprehensive loss	\$ (2,197,267)	\$ 184,282	The loss increased quarter over quarter by \$2,381,549 largely due to increased spending on operating expenses as described above, impairment loss on inventory during the current period, and gains on debt settlement of \$951,654 in the comparative period.

For the six months ended June 30, 2021

The following is an analysis of the significant items and variances between the six months ended June 30, 2021 and 2020.

Revenue, cost of sales and gross profit

Six months ended June 30,	2021	2020	Variance Explanation
Revenue	\$ 397,703	\$ 1,124,983	Decrease of 64.6% 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	344,054	952,783	Decrease of 63.9% in cost of sales is due to decrease in sales as noted above.
Gross profit	53,649	172,110	Decrease of 68.8% is the result of decrease in sales as well as mark-downs and wholesale at lower margins.

Expenses

Six months ended June 30,	2021	2020	Variance Explanation
Depreciation	\$ 32,844	\$ 41,713	Depreciation relates to capitalized property and equipment, amounts are expected to be comparable unless additions or disposals occur.
Foreign exchange (gain) loss	(48,678)	282,859	This is the result of fluctuations in the CAD dollar against the US dollar.
Interest and bank charges	333,941	473,354	Interest and bank charges comprised mostly of interest charges on the Company's lease obligations. As the obligations decrease over time, the same is expected for interest and bank charges.
Investor relations	184,730	94,001	Increased investor relations spending of 96.5% in the first two quarters is largely due to the engagement of Hybrid Financial and RedChip Companies in late fiscal 2020 to lead the Company's investor relations and communications strategy in the wake of COVID-19.
Office and general	318,068	828,595	As a result of COVID-19 and the resulting store closures, there were decreased amounts of overall operational spending.
Product creation	152,821	21,289	Increased product creation in the first quarter of 2021 is due to the Company's future plans to improve and expand the brand.
Professional fees	696,451	163,284	Increases to professional fees in the first two quarters are largely due to legal fees incurred in various transactions which occurred in the first quarter of 2021 and increased accounting and consulting fees.
Salaries and benefits	499,445	1,654,226	We incurred lower salaries expense due to store closures as a result of COVID-19, decreased corporate overhead expenses, and increased contractor engagement.

Selling and marketing	996,108	56,909	During the six months ended June 30, 2021, selling and marketing costs increased largely due to online marketing expenses incurred totaling \$641,798 to grow the e-commerce business, largely related to the Zoom Media agreement.
Share-based payments	3,038,740	438,016	During the six months ending June 30, 2021, the Company issued options with a grant date fair value of \$2,618,743, and RSU's with a grant date fair value of \$419,997.
Travel and entertainment	23,647	7,150	As a result of COVID-19, travel was minimal during the six months ended June 30, 2021 and 2020.
Total	\$ 6,228,117	\$ 4,061,396	

Comprehensive loss

Three months ended June 30,	2021	2020	Variance Explanation
Comprehensive loss	\$ (6,131,890)	\$ (951,620)	The loss increased period over period by \$5,018,270 largely due to increased spending on operating expenses as described above, impairment loss on inventory during the current period, and gains on debt settlement of \$2,551,846 in the comparative period.

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-21	31-Mar-21	31-Dec-20	30-Sep-20
Presentation currency	(C\$)	(C\$)	(C\$)	(C\$)
Functional currency	(C\$)	(C\$)	(C\$)	(C\$)
Revenue	197,878	198,825	339,016	103,258
Gross profit	30,067	23,582	424,657	65,772
Operating expenses	1,884,293	4,343,824	2,172,997	850,028
Comprehensive income (loss)	(2,197,267)	(3,934,623)	(143,739)	(762,415)
Comprehensive loss per share (Basic and Diluted)	(0.01)	(0.02)	(0.00)	(0.01)
	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	(289,976)	734,242
Operating expenses	1,270,535	2,790,860	3,463,692	4,539,997
Comprehensive income (loss)	184,282	(1,135,901)	(16,224,941)	(3,769,710)
Comprehensive loss per share (Basic and Diluted)	0.00	(0.02)	(0.28)	(0.07)

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 2021 is RYU's sixth year of operations since relaunching the brand on November 27, 2015 when we opened our Flagship Store in Vancouver, BC. As at June 30, 2021 we have been open for business for 64 months.

Up until Q1 of 2020, the preceding 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 fiscal 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 fourth quarter of 2019. The remainder of 2020 saw no revenues from its five active retail locations. During the second quarter of 2021, the Company as negotiated the termination of leases for two further locations and has re-opened its three remaining locations.

- Q2 2021: Three stores, re-opened
- Q1 2021: Five stores, temporarily closed
- Q4 2020: Five stores, temporarily closed
- Q3 2020: Five stores, temporarily closed
- Q2 2020: Five stores, temporarily closed
- 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, 2021 was \$97,438 compared to \$771,174 as of December 31, 2020. As of June 30, 2021, we had current assets of \$2,741,476, current liabilities of \$6,429,572 and working capital deficit of \$3,688,096 compared to working capital deficit of \$2,506,881 as of December 31, 2020.

During the six months ended June 30, 2021, our operating activities were funded by:

- Revenue from our sales channels totaling \$397,703;
- Short-term loans received totaling \$1,000,000; and
- Funds from the exercise of warrants and options totaling \$1,312,677.

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. The Company did not change its approach to capital management during the three months ended June 30, 2021. The Company is not subject to externally imposed capital requirements.

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, 2021	December 31, 2020
Current portion	\$ 524,893	\$ 982,280
Non-current portion	3,444,359	3,384,689
	<u>\$ 3,969,252</u>	<u>\$ 4,366,969</u>

Effective January 1, 2019, the Company 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, 2021 are as follows:

	June 30, 2021
Less than one year	\$ 1,124,010
One year to three years	1,856,071
Three to five years	1,720,510
Greater than five years	1,514,837
Total undiscounted lease liabilities	6,215,428
Amount representing implicit interest	(2,246,176)
Lease obligations	<u>\$ 3,969,252</u>

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

CLAIMS AND LAWSUITS

From time to time, the Company may be subject to various claims and legal actions arising in the course of its business.

The Company signed a lease for a retail location to be located in La Jolla, CA, but did not proceed. No termination agreement was negotiated nor accepted by the landlord. In August 2019, the Company was 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. Estimated settlement of the liability is \$400,000 USD. As of August 30, 2021, the Company is in the midst of negotiation with the counter party on the settlement.

At the beginning of the COVID-19 pandemic, the Company delivered layoff notice to an employee. A claim was commenced against the Company pertaining to an employment dispute with a maximum claim amount of \$35,000. Trial was scheduled to proceed for two days commencing July 29, 2021. As at June 30, 2021, the claim was resolved and discharged.

During the year ended December 31, 2020, litigation was commenced against the Company pertaining to a dispute on the termination and settlement of a lease arrangement for one of its retail locations located in Newport, CA. Estimated settlement of the liability is the full value of the lease obligation. As of August 30, 2021, the Company is in the midst of negotiation with the counter party on the settlement.

On February 4, 2021, litigation was commenced against the Company pertaining to rent in arrears for one of its retail locations, located in Vancouver, BC, from January 1, 2020 onwards for a maximum claim amount of \$240,000 plus costs and interest. As of August 30, 2021, the Company is in the midst of negotiation with the counter party on the settlement.

On August 24, 2021, the Company was served with a claim in which it was named as a defendant pertaining to a direct claim against the Company of unjust enrichment related to the construction of its stores in Toronto, New York, California. As of August 30, 2021, the Company is consulting with legal counsel to determine next steps.

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 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, 2021, included in trade and other payables is a liability of \$506,000 (USD \$400,000) (December 31, 2020 - \$519,520 or USD \$400,000) based on the estimate of the settlement.

During the year ended December 31, 2020, a claim was commenced against the Company pertaining to an employment dispute with a maximum claim amount of \$35,000. Prior to June 30, 2021, no amount was accrued in the consolidated statements of financial position for this claim as the likelihood of loss is unknown. As at June 30, 2021, the claim was resolved and discharged.

During the year ended December 31, 2020, litigation was commenced against the Company pertaining to a dispute on the termination and settlement of a lease arrangement. As at June 30, 2021, included in payables is a liability of \$393,781 (USD \$314,396) (December 31, 2020 - \$400,289 or USD \$314,396) based on the estimate of the settlement.

In February 2021, litigation was commenced against the Company pertaining to rent in arrears for January 1, 2020 onwards for a maximum claim amount of \$240,000. As at June 30, 2021, included in trade and other payables is \$229,410 (December 31, 2020 - \$152,730) based on the estimate of 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, 2021 and December 31, 2020 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 2021 and the comparable period consisted of:

Cesare Fazari, CEO and Director
Alex McAulay, CFO
Rob Blair, COO
Bill Marcus, Director
Roger Edwards, Director
Stefanie Crosby, Director
Brett Pawson, former Interim CFO
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 six months ended June 30, 2021 and 2020 was as follows:

	June 30, 2021	June 30, 2020
Salaries and benefits	\$ 232,673	\$ 549,256
Consulting fees (included in professional fees)	210,301	-
Share-based payments	1,558,744	61,164
	\$ 2,001,718	\$ 610,420

The Company entered into the following related party transactions with key management personnel during the six months ended June 30, 2021:

- a) The Company paid or accrued salaries to Marcello Leone, the former CEO and Director, of \$Nil (2020 - \$86,154). The Company had previously accrued a termination benefit of \$320,000. During the period, the Company agreed to settle the full amount through the issuance of 800,000 shares. As of the date of this report, the shares have not yet been issued;
- b) The Company paid or accrued consulting fees to Brett Pawson, the former Interim CFO, of \$71,456 (2020 - \$73,769), and made share-based payments of \$42,461 (2020 - \$8,644);
- c) The Company paid or accrued salaries to Cesare Fazari, the CEO, of \$160,000 (2020 - \$69,333) and made share-based payments of \$666,805 (2020 - \$Nil);
- d) The Company paid or accrued salaries to Robert Blair, the COO, of \$72,673 (2020 - \$Nil) and made share-based payments of \$690,252 (2020 - \$Nil);
- e) The Company paid or accrued consulting fees to ACM Management, a company owned and controlled by Alex McAulay, CFO, of \$138,845 (2020 - \$Nil);
- f) The Company made share-based payments to Bill Marcus, Director, of \$79,613 (2020 - \$Nil);
- g) The Company made share-based payments to Stefanie Crosby, Director, of \$79,613 (2020 - \$Nil).

Other transactions with related parties:

	June 30, 2021	June 30, 2020
Consulting fees (included in professional fees)	\$ -	\$ 13,500
Salaries and benefits	55,744	-
Share-based payments	292,043	38,905
	\$ 347,787	\$ 52,405

The Company entered into the following additional related party transactions with during the six months ended June 30, 2021:

- a) The Company paid or accrued consulting fees to family members of Marcello Leone, former CEO and Director, totaling \$Nil (2020 - \$13,500);
- b) The Company paid or accrued salaries to a family member of Cesare Fazari, of \$55,744 (2020 - \$Nil) and made share-based payments of \$292,043 (2020 - \$Nil);
- c) The Company made shares-based payments to a family member of Camilo Lyon, former Director, of \$Nil (2020 - \$38,905).

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

Trade and other payables:

As at June 30, 2021, 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 payables at June 30, 2021 is \$18,972 (December 31, 2020 - \$21,520) due to Brett Pawson for consulting fees.
- ii. Included in trade and payables at June 30, 2021 is \$63,792 (December 31, 2020 - \$46,216) due to ACM Management, a company controlled by Alex McAulay, for consulting fees.
- iii. Included in trade and payables at June 30, 2021 is \$Nil (December 31, 2020 - \$10,224) due to a company controlled by Roger Edwards, Director, for fashion design consulting fees.
- iv. Included in accrued liabilities at June 30, 2021 is a termination benefit of \$320,000 (December 31, 2020 - \$320,000) pursuant to the Termination Agreement with Marcello Leone.
- v. Included in trade and other payables and accrued liabilities at June 30, 2021 is \$Nil (December 31, 2020 - \$239,262) in gross unpaid executive compensation and accrued vacation owing to Cesare Fazari.

Loans from related parties:

During the three months ended June 30, 2020, the Company obtained loans of \$40,000 and \$335,000 from Marcello Leone and a family member of Marcello Leone. The loans are non-interest bearing, unsecured and due on demand. 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.

During the three months ended June 30, 2020, the Company also entered into a loan agreement for a \$50,000 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, 2020 - \$Nil). 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 and a company controlled by Marcello Leone. During the three months ended June 30, 2021, the Company also repaid loan and interest payable of \$Nil (2020 - \$Nil).

Transactions with related parties:

During the three months ended June 30, 2021, the Company had sales to a company owned by the former CEO of \$Nil (2020 - \$35,821) and purchased goods and services from the same company totaling \$Nil (2020 - \$9,127).

On November 1, 2014, the Company entered into a sublease agreement with a company owned by the former CEO for its corporate office at 1672 W 2nd Avenue in Vancouver, BC. Under the agreement, the Company is required to make lease payments for a term of 5 years (note 8). During the three months ended June 30, 2021, the Company recorded rent expense of \$Nil (2020 - \$41,512) to the related party, including in office and general. In July 2020, the Company moved out of the premises and the lease was terminated.

On February 26, 2021, the shareholders of the Company approved the settlement of a \$320,000 severance liability, included in shares to be issued and owing to the former CEO of the Company, for 800,000 common shares. As of the date of this report, the shares have not yet been issued.

Equity:

Six months ended June 30, 2021:

On March 1, 2021, the Company issued 200,000 common shares for the exercise of 200,000 warrants held by a company controlled by Alex McAulay for gross proceeds of \$11,000.

On March 4, 2021, the Company entered into an executive employment agreement with Rob Blair. Per the agreement, the COO was granted the following: (a) 2,000,000 options to purchase common shares of the Company at an exercise price of \$0.15 per common shares vested immediately and expire on March 9, 2024. The options were fair valued at \$270,254; and (b) 3,000,000 RSU's which will vest over three years in 1,000,000 unit increments on each anniversary date beginning on the one-year anniversary of March 9, 2021. The RSU's were fair valued at \$419,997.

On March 22, 2021, pursuant to the loan agreement as outlined in Note 8, and under the terms of the Loan Bonus Agreement, the Company issued 1,306,667 common shares as consideration for the personal guarantee made by a family member of Cesare Fazari, with a fair value of \$163,333, the fair value of the shares were treated as debt issuance costs and are being amortized over the life of the loan.

On March 24, 2021, the Company granted 8,342,506 options to purchase common shares at an exercise price of \$0.12 per common shares to Cesare Fazari, Bill Marcus, Stefanie Crosby and Brett Pawson. Each option granted is exercisable for a period of three years, expiring on March 2024, and vesting immediately.

On May 18, 2021, the Company issued an aggregate of 2,916,666 common shares for the exercise of 2,916,666 stock options, held by Cesare Fazari and an employee and family member of Cesare Fazari, at an exercise price of \$0.12 for aggregate gross proceeds of \$350,000.

On May 28, 2021, the Company granted 3,766,666 stock options to purchase common shares at an exercise price of \$0.085 to Cesare Fazari and an employee and family member of Cesare Fazari. Each option granted is exercisable for a period of five years, expiring on May 28, 2026, and vesting immediately.

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 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Share price, closing (C\$)	\$0.08	\$0.14	\$0.12	\$0.15	\$0.06
Market capitalization (C\$)	\$16,381,608	\$28,107,814	\$22,503,624	\$26,879,031	\$4,081,616
Outstanding					
Shares	204,770,100	200,770,100	187,530,204	179,193,537	68,026,933
Options	29,685,207	32,485,207	31,838,707	11,671,201	4,301,500
RSUs	3,050,000	3,050,000	3,050,000	50,000	50,000
Warrants	120,542,408	124,542,408	134,865,638	141,845,638	26,805,024

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.

On March 24, 2021, the Company entered into a share exchange agreement with Kosan Travel Company Ltd. ("Kosan"), and the shareholders of Kosan, pursuant to which the Company has agreed to acquire all of the issued and outstanding shares of Kosan for a purchase price of \$4,000,000 worth of common shares in RYU, with the number of shares issuable to be based on the volume-weighted average closing price of the common shares on the TSX-V Exchange over the thirty trading-days prior to the closing of the transaction. Closing is subject to Kosan raising at least \$175,000 in equity financings and a number of other conditions common to similar share exchange transactions including approval of the TSX-V.

On August 5, 2021, the Company terminated the agreement with Kosan. As a result of the termination, RYU will issue 500,000 common shares at a deemed price of \$0.15 per share for a total value of \$75,000 representing the break-fee.

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, 2020. Those accounting policies have been used throughout all periods presented in the consolidated financial statements, except as noted below.

ACCOUNTING CHANGES

In 2020 and 2021, 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 consolidated financial statements for the year ended December 31, 2020 for more information.

SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2021:

- On March 24, 2021, the Company entered into a share exchange agreement with Kosan Travel Company Ltd. ("Kosan"), and the shareholders of Kosan, pursuant to which the Company has agreed to acquire all of the issued and outstanding shares of Kosan for a purchase price of \$4,000,000 worth of common shares in RYU, with the number of shares issuable to be based on the volume-weighted average closing price of the common shares on the TSX-V Exchange over the thirty trading-days prior to the closing of the transaction. Closing is subject to Kosan raising at least \$175,000 in equity financings and a number of other conditions common to similar share exchange transactions including approval of the TSX-V.
- On August 5, 2021, the Company terminated the agreement with Kosan. As a result of the termination, RYU will issue 500,000 common shares at a deemed price of \$0.15 per share for a total value of \$75,000 representing the break-fee.
- On July 22, 2021, the Company issued 4,000,000 common shares as a result of the exercise of 4,000,000 warrants for gross proceeds of \$220,000.
- On August 11, 2021, the Company cancelled 2,800,000 options which were previously issued on March 24, 2021.

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 American 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 Company 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 Company'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 Company to a risk of loss or misuse of this information and potential liability. The Company may not be able to anticipate or prevent rapidly evolving types of cyber-attacks. Actual or anticipated attacks may cause the Company 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 Company 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 Company 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 Company's reputation, and a loss of confidence in its security measures, which could have a material adverse effect on the Company'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.