RYU APPAREL INC.
(the "Company" or "RYU")
Management's Discussion & Analysis
for the six months ended June 30, 2018
Prepared as of August 27, 2018

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, 2018 and the audited consolidated financial statements for the year ended December 31, 2017. 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.

MESSAGE FROM THE CEO

Dear Shareholders,

Our financial results from the first half of 2018 come at a very exciting time for RYU as we look forward to the opening of our first three stores in the USA and the launch of our new RYU.com website in the second half of 2018. This is our tenth consecutive quarter of growth and we are confident that we will meet our 2018 retail revenue target of 100% year-over-year growth.

In the first half of 2018 we addressed our cash requirements for the year, strengthened our balance sheet and created a solid foundation for growth. We also significantly invested in world-class talent to design, innovate and expand our product categories through 2020 and beyond. Equally important, we were able to normalize our supply chain and invest strategically in our omni-channel retail and e-commerce platforms. In the second half of 2018 we will see our business infrastructure come together through a series of IT integrations from the design stage of our products through to the end user experience. We are launching a more experiential e-commerce website in October and implementing our new point of sale system at all retail store locations in September. These investments enable scalable growth over the next several years.

Having been in the apparel business for over 35 years, I know that innovative product and great brainpower are the major points of differentiation. RYU has both. I am pleased to say that we have now passed our beta phase and entered, effective July 2018, our growth phase towards global expansion.

Lastly, I am excited to share that RYU is preparing to launch a number of new product categories over the next 12 to 18 months to complement our existing hero and core programs. Stay tuned for what’s next and we thank our shareholders for their continued support.

Respectfully,

Marcello Leone
CEO, President and Chairman

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. Our 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.

RYU is an omni-channel retailer. In Canada, we sell our products at our five retail stores, through strategic wholesale accounts, and online via our e-commerce site that can be reached at www.ryu.com. In the United States we sell our products online via our e-commerce site at www.ryu.com and through strategic wholesale accounts. On August 2, 2018 we opened our first USA retail store location at Venice, California.

OPERATIONAL AND BUSINESS HIGHLIGHTS

Operations highlights

Revenue for the six months ended June 30, 2018 was $2,050,487, 85% higher than revenue of $1,108,234 during the six months ended June 30, 2017. Our financial results have been encouraging with continued sales growth in 2018 and generating a positive 50% gross profit percentage.

Revenues, cost of sales and gross profit during the three and six months ended June 30, 2018 and 2017 were as follows:

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Revenue	$ 1,142,572	$ 641,231	78%	$ 2,050,487	$ 1,108,234	85%
Cost of sales	538,881	346,455	56%	1,026,906	594,202	73%
Gross profit	$ 603,691	$ 294,776	105%	$ 1,023,581	$ 514,032	99%
Gross profit %	53%	46%	7%	50%	46%	9%

Changes to our balance sheet, since RYU Apparel Inc. was incorporated and our team started the new RYU, have been as follows:

	June 30, 2018	January 1, 2015	% Change
Assets	$ 18,982,395	$ 759,307	2,400%
Liabilities	996,341	1,562,739	(36%)
Equity	$ 17,986,054	$ (803,432)	2,339%

As at June 30, 2018, RYU had equity of $17,986,054 following a successful period of capital raising activities in the first half of the year. When RYU's rebranding began on January 1, 2015, the Company had an equity deficiency of $803,432. During this time our team has grown RYU's assets from $759,307 to $18,982,395 with innovative inventory that has net realizable value and a new portfolio of award-winning retail stores. We also cleaned our liabilities by repaying all outstanding debt with related parties. As at June 30, 2018, RYU held $9,023,865 in cash and no debt. RYU continues to **invest** in growth and in the first half of 2018 we spent approximately $1 million to normalize our business operations.

As at June 30, 2018, RYU's deficit amounted to $65,565,739. **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, the Company has **invested** $34,325,302 into 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

Our omni-channel expansion plan is to have nine stores open by the end of 2018 and to continue to execute our digital strategy. We continue to build the brand to have a 70:30 “bricks and clicks” business model by the year 2022.

Bricks and clicks expansion plan	**Opening Date / Target**
E-commerce	
netamorphosis engaged	July 2017
New e-commerce platform and design target launch date	Q4 2018
Retail	
2018 revenue goal	+100% YoY growth
Existing Stores	
Vancouver, BC – West 4th Avenue (Flagship)	November 2015
Vancouver, BC – Thurlow Street	November 2016
West Vancouver, BC – Park Royal South	March 2017
Toronto, ON – Queen Street West	September 2017
Burnaby, BC – Metropolis at Metrotown	November 2017
Venice, CA – Abbot Kinney Boulevard	August 2018
New Stores Under Construction	
Brooklyn, NY – Williamsburg	Q4 2018
Newport Beach, CA – Fashion Island Shopping Center	Q4 2018
Toronto, ON – Sherway Gardens Shopping Centre	Q4 2018

E-commerce

During the six months ended June 30, 2018 e-commerce revenue represented 15% of total revenue and our efforts yielded a 53% growth in e-commerce revenue against the second quarter of 2017. Significant **investment** is going into our e-commerce and omni-channel strategies.

In July 2017, RYU retained award winning digital and creative agency netamorphosis from NYC to facilitate and maximize RYU’s digital and ecommerce business across the United States and globally. Our team is on track to launch a new ryu.com in the fourth quarter of 2018. During the second quarter of 2018 our team completed the website design and initiated development and integration activities of the new platform. The new website will launch with improved performance, speed and integration as RYU continues to progress towards an omni-channel experience for customers.

Retail stores

We currently have five stores in operation in Canada, one store in operation in the USA, two under construction in the USA, and one under construction in Canada. Our most recent location at Venice, California opened in August 2018.

Our six existing 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).

In late 2017 we secured our first USA retail store location in Williamsburg, in the New York City (“NYC”) borough of Brooklyn. The store is in the newly renovated Lewis Steel Building on 76 North 4th St. and it will perfectly connect our brand’s urban aesthetic

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

and appeal with Williamsburg's style and community. During the first quarter of 2018, we secured the leases to our second and third USA store locations in the state of California. This expansion gives RYU exposure in NYC and Los Angeles ("LA"), the most important urban centers of both coasts of the USA.

During the second quarter of 2018 we secured the lease to our second Toronto location at Sherway Gardens Shopping Centre. Sherway Gardens is a solid and powerful shopping destination at the intersection of major highways connecting the western side of the Greater Toronto Area. Attracting millions of visitors annually it offers a wide variety of shopping opportunities and includes some of the most prominent retail brands in the world. The new RYU retail location will be in the North Expansion of the shopping centre that will also include Tesla, Canada Goose, Sandro and Maje, as well as other top tier apparel and lifestyle brands.

Wholesale

During the six months ended June 30, 2018, RYU announced new strategic wholesale accounts that align with our brand value proposition, including:

- Nordstrom: A selection of our menswear and bags are now being carried for sale at select Nordstrom locations in the United States and Canada as well as through Nordstrom.com. Nordstrom is a chain of leading fashion specialty retail stores headquartered in Seattle, Washington. The company has 365 stores operating in 40 states and Canada with annual revenues in excess of 14 billion US dollars.

- Equinox Canada: RYU gear is now available for sale at all Canadian Equinox clubs as part of their regular retail offering in Canada, following the successful showcase of various pop-ups within their fitness clubs. Equinox operates 92 upscale, full-service fitness clubs across the USA as well as international locations in London, Toronto and Vancouver.

- Rise by We: RYU partnered with WeWork to provide apparel for staff, trainers and instructors at WeWork's recently launched social wellness club, Rise by We. In addition to outfitting Rise by We staff and trainers, RYU also has a retail space at the first Rise by We location at 85 Broad Street in NYC, where members can shop the brand's products and apparel. WeWork's idea of the ultimate wellness club, Rise by We, uses social fitness to elevate mind, body and spirit.

- Steve Nash Fitness World & Sports Club ("SNFW"): RYU was chosen by SNFW, the largest fitness club provider in British Columbia, to supply apparel to its 1,000 staff and trainers of all 23 current locations as well as new facilities opening across the province. Apparel styles purchased by SNFW feature selections from the high-performance Vapor collection and include both Vapor Crew Neck tops as well as Vapor Long Sleeve tops for both men and women.

Inventory strategy

During the six months ended June 30, 2018 we received the last of our 2017 buy plan and finished placing our orders for our 2018 buy plan. We are diligently working on achieving a constant flow of new styles at our stores.

As a result of deliveries of finished goods inventory and our continued efforts to refresh our inventory stock, our closing inventory as at June 30, 2018 increased 48% to $3,492,924 from $2,359,681 at December 31, 2017, and our inventory deposits increased 12% to $855,718 from $761,248. We expect these balances to continue to grow as we scale our business.

Community activation

The focus of our community team for 2018 is to build awareness of the RYU brand through community activations and experiences in our two new USA markets in NYC and LA. The aim is to create momentum leading up to our grand openings later this year. To achieve this, we expanded our community team in both geographic locations.

The primary goal of the RYU community 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. During the six months ended June 30, 2018, RYU hosted approximately 680 of these tailored in-store experiences and we were able to connect and share the brand with approximately 6,340 people who came to our stores for events, workshops, sweats, seminars and fundraisers.

The secondary goal of the RYU community 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 actively engaged in the community we are part of. In the first half of 2018 we hosted just under 100 activations, sponsorships and pop up shops out in the community in all four of our current markets including Vancouver, Toronto, LA, and NYC. The intention was to provide opportunities for people who do not live near a store to meet the brand and experience the product.

Awards and Recognition

During the six months ended June 30, 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).

We were honoured that RYU was one of only two Canadian companies that qualified as finalists among many global retailers across all the World Retail Awards categories. Launched in 2007, the World Retail Awards have been recognizing the very best retailers and retail initiatives across a range of categories for 10 years.

New business relationships

During the six months ended June 30, 2018, we announced new relationships with THRSXTY/Exposure, the Jeremy Bieber Group and Canaccord Genuity Corp. ("Canaccord").

- RYU appointed THRSXTY/Exposure, co-owned by Exposure Group and a member of the Exposure Group network of international agencies, as our new global Agency of Record for creative strategy and marketing services. THRSXTY is a marketing services agency based in London, Tokyo, New York, and Paris, specializing in fashion, retail and lifestyle brands. THRSXTY/Exposure is providing creative strategy, marketing and public relations services across multiple territories and is supporting the launches of RYU's planned new stores across North America. This creative support is complementing some of RYU's existing public relations and digital marketing agency relationships.
- The Jeremy Bieber Group is acting in a Global Chief Influencer role for RYU.
- RYU joined the Canaccord Genuity Opportunities for the Longer-Term Program (the "COLTS Program"). The COLTS Program is a capital markets initiative that will profile high growth and small-cap companies, such as RYU. The strategic aim of RYU's participation in the COLTS Program is to support RYU's growth and broaden its exposure to investors, both retail and institutional.

  Ongoing COLTS Program services will include:

  - assisting with RYU's market communications strategy;
  - building RYU's market profile domestically and offshore;
  - publishing company profiles on RYU under the Canaccord COLTS banner;
  - providing investment banking expertise and capital markets advisory services; and
  - providing investor relations support, such as introductions to relevant institutional and strategic investors.

Outlook for 2018

The principal business objective that we expect to accomplish in 2018 is to continue to build the RYU brand and deliver our products to a larger audience through an expanded geographic presence. This will be accomplished by continued improvements to our e-commerce platform and by opening four additional retail stores located in Brooklyn, NY, Venice, CA, Newport Beach, CA, and Toronto, ON with targeted openings in the third and fourth quarters of 2018. Construction is underway at all store locations.

Equity

During the six months ended June 30, 2018 we completed the following capital raising activities to fund our growth plans:

- On January 19, 2018, the Company closed a non-brokered private placement financing of $5,651,945, of which $355,000 was received during the year ended December 31, 2017, consisting of the issuance of 80,742,068 units of the Company at a price of $0.07 per unit. Each unit consists of one common share of the Company and one share purchase warrant. Each warrant is exercisable into one common share at a price of $0.20 for a period of five years. In connection with the private placement the Company paid a cash finder's fee of $125,000 and issued 1,785,714 finder warrants on the same terms of the warrants issued in the financing.

- On February 19, 2018, the Company closed a non-brokered private placement financing of $3,997,808 consisting of the issuance of 33,315,070 common shares of the Company at a price of $0.12 per common share. In connection with the private placement the Company issued 1,104,167 common shares to a certain finder.

In addition, during the six months ended June 30, 2018 we administered the following transactions that resulted in the issuance of common stock of RYU:

- 59,215,115 warrants were exercised for proceeds of $11,061,780;

- 287,500 stock options were exercised for proceeds of $43,125; and

- 642,856 RSUs were released.

OVERALL PERFORMANCE

Since August 2014, when our current management took over RYU, 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.

Since January 1, 2015 and to the end of June 30, 2018 our current management team has created value for its shareholders by growing equity by 2,339%, our assets by 2,400% and reduced our liabilities by 36%.

Overall, RYU continues to be in a stage of **investment** since we went live with the new RYU on November 27, 2015. In 2016, we started to build the scale of the business by operating our Flagship store on West 4th Avenue in Vancouver and by opening our second retail store location on 805 Thurlow Street in Vancouver. In 2017, our second year of operations, we opened our third location in Park Royal, our fourth location on Queen Street in Toronto and our fifth location in Metrotown in Burnaby. Now into our third year of operations, in 2018 we are entering the USA market with retail store openings in NYC and LA with targeted openings in the second half of the year. We are also building our second retail store location in Toronto. The results of the new RYU have been encouraging with continued sales growth for the six months ended June 30, 2018 and by generating a 50% gross profit.

Until we reach positive earnings, our brand will continue to require **investment** and our operations will continue to generate a loss.

The following is an analysis of the significant items and variances to our cash flow between the six months ended June 30, 2018 and 2017, which helps explain our overall performance.

Six months ended June 30,	2018	2017	Variance Explanation
Cash flows from operating activities	$ (10,443,377)	$ (4,726,341)	Until we reach positive earnings, our brand will continue to require **investment** and our operations will continue to generate a loss. The variance of $5,717,036 is due to:
Comprehensive loss before non-cash items	(7,008,974)	(3,841,863)	Comprehensive loss before non-cash items in the first half of 2018 consumed $3,167,111 more cash than in the comparative period in 2017. This variance is mostly from $1,438,881 higher selling and marketing

			expenditures in relation to our THRSXTY/Exposure global advertising and branding campaign, higher occupancy and overhead costs of $674,930 from running five versus two retail stores; and the required human capital and professional fees of $1,632,969 needed for our business expansion, offset by higher gross profit of $509,549.
Changes in working capital	(3,429,695)	(884,478)	Working capital changes in the first half of 2018 consumed $2,549,925 more cash than in the comparative period in 2017 as the business has grown. We recognized increases in inventory to meet our demand, prepaid expenses and retail store lease deposits for services and additional locations and decreases in accounts payable to get caught up with vendors.
Interest paid	(4,708)	-	Immaterial.
Cash flows from investing activities	(1,153,817)	(463,235)	During the six months ended June 30, 2018 we finished paying for leasehold improvements at Metrotown and Queen Street and started building our USA locations. Meanwhile, during the six months ended June 30, 2017, we built and opened our Park Royal location.
Cash flows from financing activities	20,154,250	5,304,824	During the six months ended June 30, 2018 we funded operations by raising capital through the issuance of common shares for gross proceeds of $9,294,753 and the exercise of warrants totaling $11,061,780, whereas during the six months ended June 30, 2017 we raised capital via a short-form prospectus and a private placement, raising gross proceeds of $5,987,282. Our team has been and continues to diligently work to raise the capital needed to build the business.
Cash – closing balance	$ 9,023,865	$ 882,511	We opened 2018 with $466,809 and had a change in cash of $8,557,056 during the period, whereas we opened 2017 with $767,263 and had a change in cash of $115,248 during the comparative period.

DISCUSSION OF OPERATIONS

The following table provides selected unaudited financial information for the six months ended June 30, 2018 and 2017, in accordance with IFRS:

(in Canadian dollars, unless noted otherwise)

	Six months ended June 30, 2018	2017
Presentation currency	(C$)	(C$)
Functional currency	(C$)	(C$)
Revenue	$ 2,050,487	$ 1,108,234
Gross profit (loss)	1,023,581	514,032
Other comprehensive income (loss)	(9,873,874)	(4,280,539)
Other comprehensive income (loss) per share – basic and diluted	(0.02)	(0.02)
Total assets	18,982,395	5,334,717
Total long-term financial liabilities	61,764	53,932
Cash dividend	-	-

For the three months ended June 30, 2018

The following is an analysis of the significant items and variances between the three months ended June 30, 2018 and 2017.

Revenue, cost of sales and gross profit

Three months ended June 30,	2018	2017	Variance Explanation
Revenue	$ 1,142,572	$ 641,231	Increase of 78% as second quarter revenue in 2017 comprised primarily of sales from the Flagship and Thurlow retail stores and e-commerce sales, whereas second quarter revenue in 2018 included additional sales from the Metrotown, Queen Street West, and Park Royal retail stores.
Cost of sales	538,881	346,455	The increase in cost of sales is correlated with the increase in revenue.
Gross profit	$ 603,691	$ 294,776	The increase of 105% is in line with the increase in revenue. Gross profit increased to 53% from 46% due to improving starting margins on our products.

Expenses

Three months ended June 30,	2018	2017	Variance Explanation
Depreciation	$ 180,719	$ 123,922	We are now depreciating leasehold improvements for five retail stores versus two.
Foreign exchange (gain) loss	4,405	7,539	Immaterial.
Interest and bank charges	26,435	6,151	Immaterial.
Investor relations	209,610	81,663	Increase due to investor relations services provided by AktienCheck de AG and Integral Wealth Securities Ltd., as disclosed in our June 11, 2018 press release.
Office and general	1,012,499	579,337	Our retail operating costs, particularly rent, and variable warehousing costs increased with the scale of our operations.
Product creation	25,950	113,303	A reduction in certain contractor costs offset design costs for the development of our spring 2018 and fall 2017 product lines. We have continued to recruit and retain full-time top talent in design and innovation that is now incorporated in salaries and benefits
Professional fees	411,246	165,604	Increase due to a combination of additional needs for legal and accounting services as our business expands to multiple geographies, and service agreements with certain key consultants engaged in 2018.
Salaries and benefits	1,567,476	906,320	We increased our retail operations team to staff five stores in 2018 versus two stores in 2017. We also converted certain manpower in our design and marketing departments from contractors to employees.
Selling and marketing	807,275	374,578	We invest in print media, photography, videography, public relations, social media, community events, product promotion, and digital marketing. Marketing investment is critical for global branding and awareness. In the second quarter of 2018 we continued the work on our global advertising and branding campaign with THRSXTY/Exposure. The global advertising and branding campaign '#YourUniverse' launched in August 2018 in conjunction with our first USA retail store launch in Venice, CA. 8% of the annual marketing budget was invoiced in the second quarter of 2018, for total invoicing of 63% by quarter end.

Share-based payments	229,918	52,686	Refers to graded vesting conditions of stock options and Restricted Share Units ("RSUs") granted to our employees, our board of directors, and certain consultants. No stock options or RSUs were granted in the second quarter of 2018 and 2017 respectively.
Travel and entertainment	71,625	64,767	Immaterial.
Total	$ 4,547,158	$ 2,475,870	The increase of $2,071,288 is broken down as follows: non-cash items of $234,029 comprised by stock option and RSU share-based payments and depreciation of our fixed assets; selling and marketing expenditures for our 2018 global marketing campaign of $432,697 (representing 8% of the annual marketing budget); occupancy costs (primarily rent) on 5 vs 2 stores of $433,162, and the required human capital and professional fees of $906,798 needed for our business expansion

Comprehensive loss

Three months ended June 30,	2018	2017	Variance Explanation
Comprehensive loss	$ (3,943,467)	$ (2,181,094)	The increase of $1,762,373 is mostly due to higher share-based payments $177,232 (a non-cash item), higher selling and marketing expenses of $432,697, and variances in gross profit net of higher occupancy costs and depreciation from running five retail stores versus two as well as additional professional and manpower needs. Without the effect of non-cash items, comprehensive loss in the three months ended June 30, 2018 increased by 76% (vs 81%) to $3,532,830, from $2,004,486.

For the six months ended June 30, 2018

The following is an analysis of the significant items and variances between the six months ended June 30, 2018 and 2017.

Revenue, cost of sales and gross profit

Six months ended June 30,	2018	2017	Variance Explanation
Revenue	$ 2,050,487	$ 1,108,234	Revenue increased by 85% in 2018 from 2017. Revenue in 2017 comprised primarily of sales from the Flagship and Thurlow retail stores and e-commerce sales, whereas revenue in 2018 included additional sales from the Metrotown, Queen Street West, and Park Royal retail stores.
Cost of sales	1,026,906	594,202	The increase of 73% correlates with the increase in revenue.
Gross profit	$ 1,023,581	$ 514,032	The increase of 99% correlated with the increase in revenue. Gross profit grew to 50% in 2018 from 46% in 2017 due to improving starting margins on our products.

Expenses

Six months ended June 30,	2018	2017	Variance Explanation
Depreciation	$ 375,507	$ 190,609	We are now depreciating leasehold improvements for five retail stores versus two.
Foreign exchange (gain) loss	(22,299)	33,514	Immaterial

Interest and bank charges	56,419	36,317	Immaterial
Investor relations	265,628	135,111	Increase due to investor relations services provided by AktienCheck de AG and Integral Wealth Securities Ltd., as disclosed in our June 11, 2018 press release.
Office and general	1,711,435	1,036,505	Our retail operating costs, particularly rent, and variable warehousing costs increased with the scale of our operations.
Product creation	87,791	315,784	A reduction in certain contractor costs offset increasing design costs for the development of our spring 2018 and fall 2017 product lines. We have continued to recruit and retain full-time top talent in design and innovation that is now incorporated in salaries and benefits.
Professional fees	736,975	188,004	Increase due to a combination of additional needs for legal and accounting services as our business expands to multiple geographies, and service agreements with certain key consultants engaged in 2018.
Salaries and benefits	2,744,787	1,660,789	We increased our retail operations team to staff five stores in 2018 versus two stores in 2017. We also converted certain manpower in our design and marketing departments from contractors to employees.
Selling and marketing	2,298,503	859,622	We invest in print media, photography, videography, public relations, social media, community events, product promotion, and digital marketing. Marketing investment is critical for global branding and awareness. In the first half of 2018 we continued the work on our global advertising and branding campaign with THRSXTY/Exposure. The global advertising and branding campaign '#YourUniverse' launched in August 2018 in conjunction with our first USA retail store launch in Venice, CA. 63% of the annual marketing budget was invoiced in the first half of 2018.
Share-based payments	2,487,385	255,768	Refers to the graded vesting conditions of stock options and RSUs granted to our employees, our board of directors, and certain consultants. In the first half of 2018 RYU granted 11.5 million stock options, at a price of $0.29 per common share and 0.8 million RSUs, whereas in the first half of 2017 RYU granted 3.4 million stock options at a price of $0.15 per common share.
Travel and entertainment	155,324	90,249	Immaterial.
Total	$ 10,897,455	$ 4,802,272	The increase of $6,095,183 is broken down as follows: non-cash items of $2,416,515 comprised by stock option and RSU share-based payments and depreciation of our fixed assets; selling and marketing expenditures for our 2018 global marketing campaign of $1,438,881 (representing 63% of the annual marketing budget); higher occupancy costs of $674,930; and the required human capital and professional fees of $1,632,969 needed for our business expansion.

Comprehensive loss

Six months ended June 30,	2018	2017	Variance Explanation
Comprehensive loss	$ (9,873,874)	$ (4,280,537)	The increase in comprehensive loss is due to **investment** in the scale of our business. This increase quantified as $5,593,337 is mostly due to higher share-based payments $2,231,617 (a non-cash item), higher selling and marketing expenses of $1,438,881, and variances in gross profit net of higher occupancy costs and depreciation from running five retail stores versus two as well as additional manpower needs. Without the effect of non-cash items, comprehensive loss in the six months ended June 30, 2018 increased by 83% (vs 131%) to $7,010,982, from $3,834,160. The increase is due to **investment** in the scale of our business.

Total assets and long-term liabilities

The following is an analysis of the significant items and variances as at June 30, 2018 and December 31, 2017.

As at	June 30, 2018	December 31, 2017	Variance Explanation
Total assets	$ 18,982,395	$ 6,951,533	Assets in 2018 increased primarily due to changes in current assets and **investing** in new retail store locations. We had $8,557,056 more cash from the capital raising activities in the year, $771,425 higher prepaid expenses from entering into certain prepaid service agreements, $478,876 higher deposits from placing new deposits on inventory purchases and from reclassifying certain lease deposits as current as they will be applied as rent within the next 12 months, and $1,133,243 higher inventory because of deliveries of finished goods. We also placed long-term lease deposits of $281,928 for new retail store locations in the USA. Our **investment** in property & equipment and intangible assets was offset by depreciation expense recognized in the six-month period ended June 30, 2018.
Long-term liabilities	$ 61,764	$ 45,070	As at June 30, 2018, our long-term liabilities consist solely of our finance leases for ryu.com and our company vehicle.

SUMMARY OF QUARTERLY RESULTS

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

	June 30, 2018	March 31, 2018 (Note 2)	December 31, 2017	September 30, 2017
Presentation currency	(C$)	(C$)	(C$)	(C$)
Functional currency	(C$)	(C$)	(C$)	(C$)
Revenue	1,142,572	907,915	1,166,126	745,226
Gross profit	603,691	419,890	529,472	338,789
Operating expenses and other items	4,547,158	6,350,295	3,082,668	2,705,913
Comprehensive loss	(3,943,467)	(5,930,405)	(2,553,196)	(2,367,124)
Comprehensive loss per share (Basic and Diluted)	(0.01)	(0.02)	(0.01)	(0.01)
	June 30, 2017	**March 31, 2017**	**December 31, 2016**	**September 30, 2016 (Note 1)**
Presentation currency	(C$)	(C$)	(C$)	(C$)
Functional currency	(C$)	(C$)	(C$)	(C$)
Revenue	641,231	467,003	474,844	331,699
Gross profit	294,776	219,256	214,336	139,351
Operating expenses and other items	2,475,870	2,318,699	1,995,533	1,559,526
Comprehensive loss	(2,181,094)	(2,099,443)	(1,781,197)	(1,420,175)
Comprehensive loss per share (Basic and Diluted)	(0.01)	(0.01)	(0.01)	(0.01)

Note 1: Revenue, gross profit and operating expenses have been updated for an immaterial reclassification relating to the treatment of certain marketing gift cards.

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

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

Fiscal 2018 is RYU’s third year of operations since relaunching the brand on November 27, 2015 when we opened our Flagship Store in Vancouver, BC. As at June 30, 2018 we have been open for business for 31 months.

The last eight quarters show a consistent growth trend in revenue, gross profit and 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 first quarter in 2018 marked RYU’s first reporting period incorporating revenue from five retail store locations. We have been consistently opening new stores and capturing their additional revenue, gross profit and operating expenses as follows:

- 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 2016: One store, Thurlow St. opens
- Q3 2016: One store (Flagship in Kitsilano)

Operating expenses have continued to increase through the second quarter of 2018 with the additional occupancy costs, manpower and depreciation attached to the store count. We are also **investing** heavily in the human capital required to grow our business, in digital marketing, and in our global branding and advertising campaign with THRSXTY/Exposure 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 and we are building award-winning stores, 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 need to 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 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, 2018 was $9,023,865 compared to $466,809 as of December 31, 2017. As of June 30, 2018, we had current assets of $15,151,719 current liabilities of $934,577 and working capital of $14,217,142 compared to a working capital of $2,275,781 as of December 31, 2017.

During the six months ended June 30, 2018 our operating activities were funded by:

- Revenue from our sales channels totaling $2,050,487;

- A non-brokered private placement that closed on January 19, 2018, raising gross proceeds of $5,651,945;

- A non-brokered private placement that closed on February 19, 2018, raising gross proceeds of $3,997,808;

- Warrant exercises totaling $11,061,780; and

- Stock option exercises totaling $43,125.

We manage the capital structure and adjust it in light of changes in economic conditions and the risk characteristics of the underlying assets. As a young growth company, issuance of equity has been the primary source of capital to date. Debt and/or equity financing may be pursued in the future as deemed appropriate to balance debt and equity. To maintain or adjust the capital structure, our Company may issue new shares, take on debt or sell assets to reduce debt.

While our management plans to generate increased revenues and to continue financing our Company through the issuances of additional equity securities or debt instruments, there can be no assurance that sufficient 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 a number of 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 debt or equity financing will be available in sufficient amount, on acceptable terms, or in a timely basis.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Finance leases

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

	June 30, 2018	December 31, 2017
Current portion	$ 21,541	$ 14,068
Non-current portion	61,764	45,070
	$ 83,305	$ 59,138

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

On January 15, 2018, the Company entered into a four-year finance lease for a Company vehicle containing a purchase option at the end of the lease term.

Operating leases

The Company has obligations under operating leases for its corporate office facility and for its retail stores. The leases expire at various dates through 2028.

Year	Operating leases
2018	$ 1,317,698
2019	3,048,935
2020	2,798,652
2021	2,651,028
2022	1,900,570
Thereafter	6,571,835
Total	$ 18,288,718

As at June 30, 2018, the Company has entered into three unconditional guaranties of payment and performance in relation to the lease agreements for its retail stores in the United States. As at June 30, 2018, the Company's commitment under these leases totaled $10,442,276. The commitment is already included in the above overall obligation under operating leases for its corporate office facility and for its retail stores.

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

CLAIMS AND LAWSUITS

Neither the Company nor any of its property was a party to, or the subject of, any material legal proceeding since January 1, 2018, nor is the Company currently party to any material legal proceeding to its business. From time to time, however, the Company may be subject to various claims and legal actions arising in the course of its business.

CONTINGENT LIABILITY

None.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The fair value of our cash, accounts receivable, deposits, and accounts payable as at June 30, 2018 and December 31, 2017 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 consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the six months ended June 30, 2018 and 2017 was as follows:

		June 30, 2018		June 30, 2017
Salaries and benefits	$	339,423	$	219,615
Share based payments (note 1)		952,856		151,635
	$	1,292,279	$	371,250

Remuneration paid to related parties other than key personnel during the six months ended June 30, 2018 and 2017 was as follows:

		June 30, 2018		June 30, 2017
Consulting fees (included in professional fees)	$	112,500	$	27,000
Salaries and benefits		17,840		19,910
Share based payments (note 1)		103,277		-
	$	233,617	$	46,910

Note 1: Share-based payments are comprised of stock options, which are non-cash expenditures.

Transactions with related parties:

During the six months ended June 30, 2018, the Company had sales to Naturo Group Investments Inc. ("Naturo") of $15,782 (2017 - $10,371) and purchased goods and services from the same totaling $23,874 (2017 – $110,391).

On November 1, 2014, the Company entered into a sublease agreement with Naturo 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. During the six months ended June 30, 2018, the Company recorded rent expense of $71,702 (2017 – $67,699) to the related party. During the six months ended June 30, 2018, the Company received notice from Naturo that rent for the rest of the 2018 financial year needed to be prepaid. As at June 30, 2018, $74,695 remained in prepaid expenses.

DISCLOSURE OF OUTSTANDING SHARE DATA

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

As at:

	August 27, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Share price – closing (C$)	$0.135	$0.175	$0.26	$0.105	$0.09
Market capitalization (C$)	$62,347,761	$80,821,171	$117,997,856	$30,085,491	$22,768,659
Outstanding					
Shares	461,835,263	461,835,263	453,837,907	286,528,487	252,985,099
Options	21,356,250	21,638,750	22,278,750	11,806,250	11,960,000
RSUs	360,000	200,000	842,856	-	-
Warrants	201,065,743	201,065,743	208,220,243	186,586,906	152,913,518

PROPOSED TRANSACTIONS

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

SUBSEQUENT EVENT

Subsequent to June 30, 2018, 160,000 RSUs were granted to consultants.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied, on a consistent basis, in the preparation of these condensed consolidated interim financial statements are included in the Company's audited financial statements for the year ended December 31, 2017. Those accounting policies have been used throughout all periods presented in the condensed consolidated interim financial statements, except as noted below.

New standard IFRS 9 "Financial Instruments"

The Company has adopted IFRS 9, Financial Instruments (IFRS 9) effective January 1, 2018 on a retrospective basis and applied the transitional provisions, so that any adjustments would be recorded in opening retained earnings at January 1, 2018. IFRS 9, addresses the classification, measurement and recognition of financial assets and financial liabilities. The adoption of IFRS 9 supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: (i) those measured at fair value through profit and loss, (ii) those measured at fair value through other comprehensive income and (iii) those measured at amortized cost. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the IFRS 9 requirements are similar to those of IAS 39. The main distinction is that, in cases where the fair value option is chosen for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 introduces a single expected credit loss model for calculating impairment for financial assets, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's condensed consolidated interim financial statements and did not result in a transitional adjustment.

The Company has no hedges on its condensed consolidated interim financial statements for the reporting period.

The Company has concluded that the adoption of IFRS 9 did not require any transitional adjustments to the classification or measurement of the Company's financial assets and financial liabilities.

New standard IFRS 15 "Revenue from Contracts with Customers"

The Company has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") effective January 1, 2018 on a retrospective basis and applied the transitional provisions, so that any adjustments would be recorded in opening retained earnings at January 1, 2018.

IFRS 15 supersedes IAS 18– Revenue, IAS 11 – Construction Contracts, and other revenue related interpretations. The standard outlines the principles that must be applied to measure and recognize revenue and the related cash flows. Revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 will be applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligation in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Company has concluded that the recognition and measurement of the sale of products in all contracts is consistent with the current revenue recognition practice and therefore does not expect any transitional adjustment.

NEW ACCOUNTING STANDARDS NOT YET ADOPTED

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

New standard IFRS 16 "Leases"

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

RISK FACTORS

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

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

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

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

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

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

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

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

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

Many of the Company's products may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions, particularly those in North America and other factors such as consumer confidence in future economic conditions, fears of recession, the availability of consumer credit, level of unemployment, tax rates and the cost of consumer credit. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remains unpredictable and subject to reductions due to credit constraints and uncertainties about the future. The current volatility in the North America economy in particular has resulted in an overall slowing in growth in the retail sector because of decreased consumer spending, which may remain depressed for the foreseeable future. These unfavorable economic conditions may lead consumers to delay or reduce purchases of its products.

Consumer demand for the Company's products may not reach its sales targets, or may decline, when there is an economic downturn or economic uncertainty in its key markets, particularly in North America. The Company's sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on its financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company has eight utility patent applications pending in Canada and the United States that are directed to the construction and operation of bag products and exercise tights garments, and top garments. The Company has nine 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. The Company has five design applications pending in Canada, the United States and China directed to the visual aesthetics of bag products and exercise tights products. However, the Company owns no patents or exclusive intellectual property rights in the technology, fabrics or processes underlying its products, such as utility patents. Accordingly, the Company's current and future competitors are able to manufacture and sell products with performance characteristics, fabrication techniques and styling similar to its products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ADDITIONAL INFORMATION

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

APPROVAL

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