RYU APPAREL INC.
(the “Company” or “RYU”)
Management’s Discussion & Analysis
for the three months ended March 31, 2019
Prepared as of May 29, 2019

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 three months ended March 31, 2019 and the audited consolidated financial statements for the year ended December 31, 2018. 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. 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 experiential omni-channel retailer. We sell our products at our nine retail stores in Canada and the United States, through strategic wholesale accounts, and online via our e-commerce site www.ryu.com.

OPERATIONAL AND BUSINESS HIGHLIGHTS

Operations highlights

Revenue for the three months ended March 31, 2019 was $1,209,866, 33% higher than revenue of $907,915 during the three months ended March 31, 2018. Our financial results have been encouraging with continued sales growth in 2019 and generating a 44% gross profit percentage.

Revenues, cost of sales and gross profit during the three months ended March 31, 2019 and 2018 were as follows:

Three months ended March 31,	2019	2018	% Change
Revenue	$1,209,866	$907,915	33%
Cost of sales	676,121	488,025	39%
Gross profit	$533,745	$419,890	27%
Gross profit %	44%	46%	

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

	March 31, 2019	January 1, 2015	% Change
Assets	$22,546,832	$759,307	2,869%
Liabilities	14,044,770	1,562,739	799%
Equity	$8,502,062	($803,432)	1,158%

As at March 31, 2019, RYU had equity of $8,502,062 following a successful period of capital raising activities in the first quarter 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 $22,546,382 (including $9,926,984 right-of-use assets) with innovative inventory that has net realizable value and a new portfolio of award-winning retail stores. As at March 31, 2019, RYU held $350,212 in cash and no debt. RYU continues to **invest** in growth and continues to implement efficiencies in our business operations.

As at March 31, 2019, RYU's deficit amounted to $80,472,068. **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 current management of the Company, which had no ties to the legacy mixed martial arts brand, has **invested** $49,231,631 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

Our omni-channel expansion plan for 2018 was to have nine stores open by the end of the year and to continue to execute our digital strategy, and we accomplished that goal by the third week of January 2019. Our target for the year 2019 is to open two additional stores in California, for a total of 11 locations globally, and to invest heavily in our new digital platform. 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	
New e-commerce platform and design launch date	January 2019
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
Brooklyn, NY – Williamsburg	November 2018
Toronto, ON – Sherway Gardens Shopping Centre	December 2018
Newport Beach, CA – Fashion Island Shopping Center	January 2019
New Stores Under Construction	
Los Angeles, CA – Melrose Ave.	Q3 2019
San Diego, CA – Westfield UTC	Q4 2019

E-commerce

E-Commerce sales increased by 7% over the same quarter of 2018. Significant investment is going into our e-commerce and omni-channel strategies and we have seen improvements in traffic yielding increases in local and international orders.

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

Retail stores

We currently have six stores in operation in Canada and three stores in operation in the USA. We have two under construction in the USA.

Our 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 January 2019 we opened our second California location in Newport Beach. Fashion Island Shopping Center is Orange County's premier coastal shopping experience, featuring exclusive specialty boutiques, world-class department stores and a diverse assortment of restaurants and cafes. With nearly 15 million visitors a year, Fashion Island offers a sophisticated yet relaxed, resort-like atmosphere that is distinctively Southern California, with pristine views of the Pacific Ocean.

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

During the fourth quarter of 2018 and into the first quarter of 2019, we secured the leases to our fourth and fifth USA store locations. These stores are in Los Angeles, CA and San Diego, CA and have targeted opening dates in the third and fourth quarter of 2019 respectively.

This expansion gives RYU exposure in Vancouver, Toronto, NYC and Southern California, the most important urban centers of both coasts of Canada and the USA.

Identifying fewer key and more impactful urban locations to assist in brand building and supporting the bricks and clicks strategy is a key part of the plans for RYU.

Brand experience activation

Since the start of RYU, we are proud to have hosted over 4213 in-store and offsite brand experiences.

RYU has identified that sustained growth in the active lifestyle category focuses on driving the customer experience. That's why we prioritize Customer 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 Customer 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 city. These elite trainers are handpicked by RYU to deliver an amazing customer 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. During the first quarter of 2019 RYU hosted approximately 288 of these tailored in-store experiences we were able to connect and share the brand with over 2500 people who came to our stores for events, workshops, sweats, seminars and fundraisers.

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 actively engaged in the community we are part of. During the first quarter we hosted 25 intentional community impact initiatives, 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

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 Changes

In February 2019, the Company appointed Ryan Lindholm as the new SVP of Marketing and Innovation. Ryan Lindholm is a veteran in the industry, having strategically positioned, built, and launched brands globally for the last 20 years. In his current role, he is responsible for leading the marketing discipline into a new dimension of innovation and design through the lens of a brand, design thinking, product development, marketing and business strategy. In advance of RYU, Ryan spent 10 years working with Nike leading Advanced Concepts. Previously Ryan held senior positions at AKQA, and Razorfish focusing on driving business results through design, world building, data and technology at scale in Asia, the Americas, Europe and the Middle East.

On April 24, 2019, Pedro Villa left his position of CFO and Secretary. The Company, appointed Brett Pawson, as interim Chief Financial Officer and interim Corporate Secretary, effective April 24, 2019, for the transition period, while a new CFO will be appointed by the company within the next 30 – 60 days. Brett holds a Bachelor of Commerce degree in accounting from the University of Saskatchewan and is an Ernst & Young alumni. Brett has been the SVP of Retail and Operations since March 2017 and previously the VP of Retail beginning March 2015. His management competencies encompass organizational leadership, corporate finance, financial modelling, mergers and acquisitions.

Outlook for 2019

We continue to build the brand to have a 70:30 “bricks and clicks” business model by the year 2022.

The year 2019 will be a very exciting time for RYU as we complete our first full year of retail store operations in the USA and create a stronger footprint in California with a second location in Los Angeles and our first location in San Diego. Construction is underway at both store locations and they have targeted openings in the third and fourth quarters of 2019 respectively.

We are making significant strides in Southern California, which is one of the most densely populated urban hubs in the USA, by making our products available both online and physically in the greater Los Angeles, Orange County and now San Diego areas.

In late January 2019 we launched our new RYU.com website and we will invest additional efforts throughout 2019 to continue to improve the omni-channel customer experience. In conjunction with these efforts, we will launch further Search Engine Optimization and Search Engine Marketing strategies to drive traffic to RYU.com.

We have begun 2019 with a solid foundation for growth. In 2018, we invested in world-class talent to design, innovate and expand our product categories through 2020 and beyond and complement our existing hero and core programs. Equally important, in 2018 we saw our business infrastructure come together through a series of IT integrations from the design stage of our products through to the end user experience. In 2019 we will continue to build and streamline these new systems and continue to make investments that will enable scalable growth over the next several years.

Equity

During the three months ended March 31, 2019 we completed the following capital raising activities to fund our growth plans:

- On February 12, 2019, the Company closed a non-brokered private placement financing of $2,863,257 consisting of the issuance of 38,176,764 units of the Company at a price of $0.075 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 $0.15 for a period of three years. The fair value of the warrants was determined to be $nil. In connection with the private placement the Company paid a cash finder’s fee of $33,101.

- On February 28, 2019, the Company closed a non-brokered private placement financing of $779,900 consisting of the issuance of 10,398,663 units of the Company at a price of $0.075 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 $0.15 for a period of three years. The fair value of the warrants was determined to be $nil. In connection with the private placement the Company paid a cash finder’s fee of $58,250.

- On March 28, 2019, the Company closed a non-brokered private placement financing of $637,447 consisting of the issuance of 8,499,290 units of the Company at a price of $0.075 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 $0.15

for a period of three years. The fair value of the warrants was determined to be $nil. In connection with the private placement the Company paid a cash finder's fee of $3,960.

- On May 21, 2019, the Company closed a non-brokered private placement financing of $1,869,772 consisting of the issuance of 37,395,443 units of the Company at a price of $0.05 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 $0.10 for a period of three years. The fair value of the warrants was determined to be $nil. In connection with the private placement the Company paid a cash finder's fee of $20,000.

- During May 2019, the Company issued 4,816,301 shares to settle debts for professional services amounting to $240,915.

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 March 31, 2019 our current management team has created value for its shareholders by growing equity by 1,158%, our assets by 2,869% and our liabilities by 799%.

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, as of today, we have 6 store locations in Canada and 3 store locations in the USA, the most recent one opening in Newport Beach, California in January 2019. The results of the new RYU have been encouraging with continued sales growth for the three months ended March 31, 2019 and by generating a 44% gross profit.

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

Three months ended March 31,	2019	2018	Variance Explanation
Cash flows from operating activities	($2,579,788)	($5,766,898)	Until we reach positive earnings, our brand will continue to require investment and our operations will continue to generate losses. The variance in cash flows from operating activities of $3,187,110 is explained below.
Net loss before non-cash items	(3,700,577)	(3,476,142)	Net loss before non-cash items in the quarter ended March 31, 2019 consumed $224,435 more cash than in the comparative period in 2018. The Company benefited from additional gross profit of $113,855 from new stores plus a $1,034,660 reduction in marketing expenses in the quarter ended March 31, 2019. These were offset by an $883,313 increase in salaries & benefits for marketing & design personnel, a $317,873 increase in interest expenses due to a change in accounting policy, and a $394,202 increase in realized foreign exchange losses.
Changes in working capital	1,165,986	(2,287,400)	Working capital changes in the quarter ended March 31, 2019 consumed $3,453,386 less cash than in the comparative period in 2018. This improvement is the result of benefiting from the delivery of prepaid inventory, collection of accounts receivable and increased accounts payable and accruals tied to a larger business operation. These were offset in part by an increase in security deposits for leases on new store locations.

Other	(45,197)	(3,355)	Immaterial
Cash flows used in investing activities	(821,079)	(436,017)	Investing activities included payment for store builds at our New York and Newport Beach locations along with smaller leasehold improvements at various other locations.
Cash flows from financing activities	2,549,139	19,179,289	The Company continued to fund operations by raising capital through the issuance of common shares for gross proceeds of $2,980,629. This was much less than was raised in the comparative quarter last year when $9,294,753 was raised from the issuance of shares and $10,089,488 was raised from the exercise of warrants. Our team continues to diligently work to raise the capital needed to build the business.
Cash – closing balance	$350,212	$13,443,184	We opened 2019 with $1,205,446 and had a change in cash of $855,234 during the first quarter. Much of the cash that we ended Q1 of 2018 with was used to fund operations, and, for the continued expansion of the business and the building of the brand.

DISCUSSION OF OPERATIONS

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

(in Canadian dollars, unless noted otherwise)

	Three months ended March 31,	
	2019	**2018**
Presentation currency	(C$)	(C$)
Functional currency	(C$)	(C$)
Revenue	1,209,866	907,915
Gross profit (loss)	533,745	419,890
Comprehensive income (loss)	(5,034,048)	(5,930,405)
Comprehensive income (loss) per share – basic and diluted	(0.01)	(0.02)
Total assets	22,546,832	21,636,671
Total long-term financial liabilities	9,600,231	65,868

For the three months ended March 31, 2019

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

Three months ended March 31,	2019	2018	Variance Explanation
Revenue	$1,209,866	$907,915	Increase of 34% is due to an increase in the number of stores operating in Q1 2019 compared to Q1 2018.
Cost of sales	676,121	488,025	Increase of 39% in cost of sales is due to increase in sales as noted above.
Gross profit	$533,745	$419,890	Increase of 27% due to increase in sales as noted above.

Expenses

Three months ended March 31,	2019	2018	Variance Explanation
Depreciation	$983,091	$194,788	The variance due to the adoption of IFRS 16 where leases previously recorded as rent expense are now recorded as depreciation and interest expense
Foreign exchange loss (gain)	367,498	(26,704)	This is the result of the CAD dollar strengthening against the US dollar in Q1 2019.
Interest and bank charges	347,855	29,982	The variance due to the adoption of IFRS 16 where leases previously recorded as rent expense are now recorded as depreciation and interest expense.
Investor relations	85,517	56,018	Immaterial
Office and general	349,742	698,936	This favourable variance due to the adoption of IFRS 16 where leases previously recorded as rent expense are now recorded depreciation and interest expense.
Product creation	126,318	61,841	Immaterial.
Professional fees	365,460	325,729	Immaterial
Salaries and benefits	2,060,624	1,177,311	We increased our retail operations team to staff nine stores by the end of Q1 2019 compared to only five stores in Q1 2018. We also converted certain manpower in our design and marketing departments from contractors to employees.
Selling and marketing	456,568	1,491,228	Marketing programs in place during Q1 2018 were either not renewed and or were moved in-house.
Share-based payments	218,964	2,257,467	The large expense in 2018 relates to stock options and RSUs for salaried staff, our board of directors, and certain consultants for their service to date and to incentivize them to continue to grow the Company. This was not repeated in Q1 2019.
Travel and entertainment	74,740	83,699	Immaterial
Total	$5,436,377	$6,350,295	

Comprehensive loss

Three months ended March 31,	2019	2018	Variance Explanation
Comprehensive loss	(5,034,048)	($5,930,405)	The loss decreased quarter over quarter due to an increase in gross profit and a decrease in expenses as noted above.

SUMMARY OF QUARTERLY RESULTS

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

	March 31, 2019	**December 31, 2018**	**September 30, 2018**	**June 30, 2018**
Presentation currency	(C$)	(C$)	(C$)	(C$)
Functional currency	(C$)	(C$)	(C$)	(C$)
Revenue	1,209,866	1,773,589	1,223,524	1,142,572
Gross profit	533,475	659,725	710,545	603,691
Operating expenses and other items	5,436,377	5,598,841	4,877,002	4,547,158
Comprehensive loss	(5,034,048)	(4,939,116)	(4,166,457)	(3,943,467)
Comprehensive loss per share (Basic and Diluted)	(0.01)	(0.01)	(0.01)	(0.01)
	March 31, 2018 (Note 1)	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**
Presentation currency	(C$)	(C$)	(C$)	(C$)
Functional currency	(C$)	(C$)	(C$)	(C$)
Revenue	907,915	1,166,126	745,226	641,231
Gross profit	419,890	529,472	338,789	294,776
Operating expenses and other items	6,350,295	3,082,668	2,705,913	2,475,870
Comprehensive loss	(5,930,405)	(2,553,196)	(2,367,124)	(2,181,094)
Comprehensive loss per share (Basic and Diluted)	(0.02)	(0.01)	(0.01)	(0.01)

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

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

Fiscal 2019 is RYU's fourth year of operations since relaunching the brand on November 27, 2015 when we opened our Flagship Store in Vancouver, BC. As at March 31, 2019 we have been open for business for 40 months.

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

The first quarter of 2019 marked RYU's first reporting period incorporating revenue from nine retail store locations, compared to five locations in the first quarter of 2018. We have been consistently opening new stores and capturing additional revenue and gross profit as follows:

- 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 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, 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 March 31, 2019 was $350,212 compared to $1,205,446 as of December 31, 2018. As of March 31, 2019, we had current assets of $6,227,581, current liabilities of $4,444,539 and working capital of $1,783,042 compared to a working capital of $5,551,975 as of December 31, 2018.

During the three months ended March 31, 2019 our operating activities were funded by:

- Revenue from our sales channels totaling $1,209,866;

- A non-brokered private placement that closed on February 12, 2019, raising gross proceeds of $2,863,257;

- A non-brokered private placement that closed on February 28, 2019, raising gross proceeds of $779,900;

- A non-brokered private placement that closed on March 28, 2019, raising gross proceeds of $637,447;

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

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Lease obligations

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

	March 31, 2019	December 31, 2018
Current portion	$ 1,728,133	$ 22,222
Non-current portion	9,600,231	52,800
	$ 11,328,364	$ 75,022

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

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

Less than 1 year	$ 3,215,407
1-3 Years	6,079,043
4-5 Years	4,085,171
Beyond 5 Years	7,114,407
Total lease payments	20,494,028
Amount representing implicit interest	7,106,116
Lease obligations	$ 13,387,912

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, 2019, nor is the Company currently party to any material legal proceeding to its business. From time to time, however, the Company may be subject to various claims and legal actions arising in the course of its business.

CONTINGENT LIABILITY

None.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The fair value of our cash, accounts receivable, deposits, and accounts payable as at March 31, 2019 and December 31, 2018 approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the three months ended March 31, 2019 and 2018 was as follows:

	March 31, 2019	March 31, 2018
Salaries and benefits	$ 141,750	$ 111,250
Share based payments (note 1)	166,765	944,140
	$ 308,515	$ 1,055,390

Remuneration paid to related parties other than key personnel during the three months ended March 31, 2019 and 2018 was as follows:

	March 31, 2019	March 31, 2018
Consulting fees (included in professional fees)	$ 89,700	$ 100,050
Salaries and benefits	4,760	13,420
Share based payments (note 1)	-	103,277
	$ 94,460	$ 216,747

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

Accounts payable and accrued liabilities:

As at March 31, 2019, the following is included in accounts payable in relation to transactions with related parties, which are non-interest bearing, unsecured and due on demand:

i. $59,542 (December 31, 2018 - $6,302), is included in accounts payable from amounts owing for products and services provided by a company owned by the CEO.

Transactions with related parties:

During the three months ended March 31, 2019, the Company had sales to a company owned by the CEO of $4,392 (2018 - $7,510) and purchased goods and services from the same company totaling $34,206 (2018 – $6,182).

On November 1, 2014, the Company entered into a sublease agreement with a company owned by the CEO for its corporate office at 1672 W 2nd Avenue in Vancouver, BC. Under the agreement, the Company is required to make lease payments for a term of 5 years. The Company made rent payments of $37,130 (2018 – $35,569) to the related party.

Equity:

On February 12, 2019 the Company issued 29,399,999 units of the Company at a price of $0.075 per unit to the CEO of the Company, two family members of the CEO and to a company owned by the CEO, for gross proceeds of $2,205,000. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share at a price of $0.15 for a period of three years.

On March 28, 2019, the Company issued 4,705,957 common shares of the Company at a price of $0.075 per unit to the CEO of the Company, one family member of the CEO and to a company owned by the CEO, for gross proceeds of $352,947. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share at a price of $0.15 for a period of three years.

DISCLOSURE OF OUTSTANDING SHARE DATA

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

As at:

	May 29, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Share price – closing (C$)	$0.06	$0.07	$0.115	$0.155	$0.175
Market capitalization (C$)	$33,679,940	$36,661,582	$53,666,149	$71,584,466	$80,821,171
Outstanding					
Shares	561,332,327	523,736,884	466,662,167	461,835,263	461,835,263
Options	20,536,250	20,536,250	20,911,250	21,127,500	21,638,750
RSUs	1,504,000	1,079,000	557,000	360,000	200,000
Warrants	276,822,867	239,427,424	189,078,839	201,065,743	201,065,743

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.

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, 2018. Those accounting policies have been used throughout all periods presented in the condensed consolidated interim financial statements, except as noted below.

ACCOUNTING CHANGES

In 2018, the Company adopted IFRS 15 Revenue from contracts with customers and IFRS 9, financial instruments. Refer to the consolidated financial statements for the year ended December 31, 2019 for more information.

In 2019, the Company adopted IFRS 16 Leases. Refer to the unaudited condensed interim financial statements for the three-months ended March 31, 2019 for more information.

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ADDITIONAL INFORMATION

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

APPROVAL

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