RYU APPAREL INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020
(Expressed in Canadian dollars)

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF RYU APPAREL INC.

Opinion

We have audited the consolidated financial statements of RYU Apparel Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' deficiency for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $10,039,853 during the year ended December 31, 2021 and, as of that date, the Company had an accumulated deficit of $115,416,851 and a working capital deficiency is $3,503,660. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Sukhjit Gill.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia

April 29, 2022

RYU APPAREL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)
As at

	Note		December 31, 2021		December 31, 2020
ASSETS					
Current					
Cash		$	681,215	$	771,174
Trade and other receivables	3		71,933		146,795
Inventory	4		1,812,459		1,841,869
Prepaid expenses and deposits	5, 11		351,010		1,500,608
			2,916,617		4,260,446
Non-current					
Deposits	5		-		80,539
Property and equipment	6		8,588		58,899
Lease asset	9		84,501		69,318
Investment	7		-		1,313,463
		$	3,009,706	$	5,782,665
LIABILITIES AND SHAREHOLDERS' DEFICIENCY					
Current					
Trade and other payables	9, 14, 16	$	4,218,079	$	4,640,663
Accrued liabilities	14		450,256		1,067,001
Loans payable	8, 14		1,006,667		11,393
Current portion of lease obligations	9		679,280		982,280
Deferred revenue	2		65,995		65,990
			6,420,277		6,767,327
Non-current					
Lease obligations	9		3,271,296		3,384,689
Convertible debentures to be issued	11		2,846,000		-
			12,537,573		10,152,016
Shareholders' deficiency					
Share capital	11		90,937,517		88,944,010
Shares to be issued	11, 14		380,917		-
Equity reserve	11		14,503,456		11,996,543
Deficit			(115,416,851)		(105,376,998)
Accumulated other comprehensive income			67,094		67,094
			(9,527,867)		(4,369,351)
		$	3,009,706	$	5,782,665

Nature of operations and going concern (note 1)
Contingencies and provisions (note 16)
Subsequent events (note 17)

Approved and authorized for issue by the Board of Directors on April 29, 2022.

"Bill Marcus" Director   *"Roger Edwards"* Director

The accompanying notes are an integral part of these consolidated financial statements.

RYU APPAREL INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian dollars)
For the years ended December 31,

	Note	2021	2020
Revenue	14	$ 1,272,950	$ 1,567,167
Cost of sales	4	1,276,757	904,628
Gross (loss) profit		(3,807)	662,539
Expenses			
Depreciation	6,9	192,222	149,372
Foreign exchange loss (gain)		25,034	(92,335)
Interest and bank charges	8,9	838,399	795,556
Investor relations		252,384	396,876
Office and general	12, 14	982,154	1,553,689
Product creation		235,374	71,246
Professional fees	14	1,091,457	591,193
Salaries and benefits	12, 14	1,543,181	1,972,735
Selling and marketing	4	1,853,971	367,796
Share-based payments	11, 14	2,838,244	1,262,383
Travel and entertainment		90,682	15,909
		9,943,102	7,084,420
Loss before other items		(9,946,909)	(6,421,881)
Other items			
Change in provision for contingency	16	760,776	-
Gain on settlement of debt	11, 14	-	1,587,710
Gain on lease modifications and terminations	9	464,003	2,976,398
Loss on termination of agreement	11	(45,000)	-
Impairment loss on investment	7	(1,313,463)	-
Other income		40,740	-
Net loss and comprehensive loss for the year		$ (10,039,853)	$ (1,857,773)
Loss per share - basic and diluted		$ (0.05)	$ (0.02)
Weighted average number of common shares outstanding - basic and diluted		196,053,373	85,159,923

The accompanying notes are an integral part of these consolidated financial statements.

RYU APPAREL INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICICIENCY
(Expressed in Canadian dollars)

	Number of common shares	Share capital	Shares to be issued	Equity reserve	Deficit	Accumulated other comprehensive income	Total
Balance, December 31, 2019	62,970,783	$ 82,574,351	$ -	$ 10,226,353	$ (103,519,225)	$ 67,094	$ (10,651,427)
Issuance of common stock for cash	110,874,612	5,955,064	-	-	-	-	5,955,064
Share issuance costs	-	(140,529)	-	-	-	-	(140,529)
Shares for debt	717,896	80,549	-	-	-	-	80,549
Shares for debt – related party	4,613,745	461,375	-	-	-	-	461,375
Shares issued for rounding on share consolidation	1	-	-	-	-	-	-
Warrants issued for services	-	-	-	521,007	-	-	521,007
Share-based payments	-	-	-	1,262,383	-	-	1,262,383
Release of RSUs	16,500	13,200	-	(13,200)	-	-	-
Net loss for the year	-	-	-	-	(1,857,773)	-	(1,857,773)
Balance, December 31, 2020	179,193,537	88,944,010	-	11,996,543	(105,376,998)	67,094	(4,369,351)
Shares issued upon exercise of warrants	21,303,230	1,176,677	-	-	-	-	1,176,677
Shares issued upon exercise of options	2,966,666	687,331	-	(331,331)	-	-	356,000
Shares issued for debt issuance costs	1,306,667	163,334	-	-	-	-	163,334
Share issuance costs	-	(78,835)	-	-	-	-	(78,835)
Share-based payments	-	-	-	2,838,244	-	-	2,838,244
Shares issued on termination of agreement	500,000	45,000	-	-	-	-	45,000
Shares to be issued pursuant to services agreement	-	-	60,917	-	-	-	60,917
Shares to be issued for debt settlement	-	-	320,000	-	-	-	320,000
Net loss for the year	-	-	-	-	(10,039,853)	-	(10,039,853)
Balance, December 31, 2021	205,270,100	$ 90,937,517	$ 380,917	$ 14,503,456	$ (115,416,851)	$ 67,094	$ (9,527,867)

The accompanying notes are an integral part of these consolidated financial statements.

RYU APPAREL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
For the year ended December 31,

		2021		2020
Cash flows used by operating activities				
Net loss for the year	$	(10,039,853)	$	(1,857,773)
Items not affecting cash:				
Depreciation		192,222		149,372
Accretion of debt issuance costs		185,197		-
Share-based payments		2,838,244		1,262,383
Warrants issued for services		-		521,007
Accrued lease interest		500,466		672,701
Unrealized foreign exchange loss		(13,200)		(15,456)
Change in provision for doubtful accounts		3,141		(450)
Change in provision for contingency		(760,776)		-
Change in inventory reserve		(254,169)		(265,502)
Gain on settlement of debt		-		(1,587,710)
Loss on termination of agreement		45,000		-
Impairment loss on investments		1,313,463		-
Gain on lease modifications and terminations		(464,003)		(2,976,398)
Changes in non-cash working capital				
Trade and other receivables		71,721		(42,929)
Inventory		192,768		29,261
Prepaid expenses and deposits		1,283,637		(1,017,117)
Trade and other payables and accrued liabilities		298,809		1,820,659
Deferred revenue		5		(32,254)
Net cash flows used by operating activities		(4,607,328)		(3,340,206)
Cash flows used by investing activities				
Purchase of investment		-		(1,313,463)
Purchase of property and equipment		(3,275)		-
Net cash flows used by investing activities		(3,275)		(1,313,463)
Cash flows from financing activities				
Issuance of common shares		1,532,677		5,955,064
Share issuance costs		(78,835)		(140,529)
Debenture proceeds received in advance		2,846,000		-
Loans received		1,047,010		385,000
Repayment of loans payable		(127,099)		(14,960)
Repayment of lease obligations		(699,109)		(843,070)
Net cash flows from financing activities		4,520,644		5,341,505
Change in cash		(89,959)		687,836
Cash – beginning		771,174		83,338
Cash – ending	$	681,215	$	771,174
Supplemental cash flow disclosure				
Settlement of liabilities with shares	$	380,917	$	441,879
Settlement of loans payable with shares	$	-	$	1,645,040
Settlement of liabilities for consideration of $nil	$	-	$	42,715
Shares issued for termination of agreement	$	45,000	$	-
Shares issued for debt issuance cost	$	163,334	$	-
Initial recognition of lease asset/liability	$	153,819	$	138,637
Unpaid inventory purchases	$	164,092	$	73,281
Unpaid lease obligations	$	1,958,196	$	1,599,827
Unpaid rent included in gain on lease termination	$	-	$	251,539
Prepaid expense paid with loan	$	53,500	$	11,393
Prepaid expense paid with warrants	$	-	$	521,007
Interest paid	$	68,873	$	1,605
Taxes paid	$	-	$	-

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

RYU Apparel Inc. (the "Company") is an urban athletic apparel brand that engages in the development, marketing, and distribution of apparel, bags and accessories. The Company's products are engineered for the fitness, training and performance of the multi-discipline athlete. The Company's products are designed, developed and tested at the Company's corporate headquarters in Vancouver, British Columbia, Canada. Production takes place in factories located in North America and Asia and the Company's products are sold through retail, e-commerce and wholesale channels.

The Company was incorporated in the Province of British Columbia ("BC"), Canada on December 4, 2014 and its registered address is 1745 West 4th Ave, Vancouver, BC, V6J 1M2, Canada. The Company's shares are listed on the TSX-Venture Exchange ("TSX-V") under the symbol "RYU.V", in the United States on the OTCQB under symbol "RYPPF", and in Germany on the Frankfurt Stock Exchange under the symbol "RYAA".

As at December 31, 2021, the Company has a working capital deficiency of $3,503,660 (2020 - $2,506,881) and had an accumulated deficit of $115,416,851 (2020 - $105,376,998). Furthermore, the Company incurred a net loss of $10,039,853 during the year ended December 31, 2021 (2020 - $1,857,773). Since inception, the Company has incurred losses and has had negative cash flows from operations that have primarily been funded through financing activities. The Company will need to raise additional capital during the next twelve months and beyond to support current operations and planned development. These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash on hand and through the private placement of common shares.

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

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGMENTS

Basis of presentation and statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Issues Committee ("IFRIC"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These consolidated financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGMENTS (cont'd)

Consolidation

These consolidated financial statements include the accounts of the Company and its controlled entity. Control occurs when the Company is exposed to, or has right to, variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Details of controlled entities are as follows:

		Percentage owned	
Entity	Country of incorporation	December 31, 2021	December 31, 2020
Respect Your Universe Inc.	United States	100%	100%

Inter-company balances and transactions are eliminated on consolidation.

Financial instruments

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

(ii) Measurement

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of comprehensive loss in the period in which they arise.

Debt investments at FVTOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income (loss) ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGMENTS (cont'd)

Financial instruments (cont'd)

(iv) Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

Inventory

Inventory consists primarily of finished goods and raw materials. Inventory is valued at the lower of cost and net realizable value with cost based upon the weighted average method of inventory costing. The net realizable value of finished goods is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of finished goods inventory is based on landed cost, which includes all costs incurred to bring inventory to the Company's distribution centers including product costs, inbound freight and duty. If the Company determines that the estimated net realizable value of its inventory is less than the carrying value of such inventory, it records a charge to cost of sales.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. The cost of repairs and maintenance is expensed as incurred. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated on a straight-line basis over the lesser of the length of the lease and the estimated useful life of the assets, to a maximum of five years. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from property and equipment and any gain or loss is reflected in profit or loss.

The estimated useful lives are:

Leasehold improvements	1- 5 years
Computers and software	1- 3 years
Furniture and equipment	1- 3 years
Vehicles	4 years
Lease asset	Lease terms

Impairment of assets

The Company performs impairment tests on its long-lived assets, including property and equipment, lease asset and investment when new events or circumstances occur, or when new information becomes available relating to their recoverability. When the recoverable amount of each separately identifiable asset or cash-generating unit ("CGU") is less than its carrying value, the asset or CGU's assets are written down to their recoverable amount with the impairment loss charged against profit or loss. A reversal of the impairment loss in a subsequent period will be charged against profit or loss if there is a significant reversal of the circumstances that caused the original impairment. The impairment will be reversed up to the amount of depreciated carrying value that would have otherwise occurred if the impairment loss had not occurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGMENTS (cont'd)

Impairment of assets (cont'd)

The CGU's recoverable amount is evaluated using fair value less costs to sell calculations. In calculating the recoverable amount, the Company utilizes discounted cash flow techniques to determine fair value when it is not possible to determine fair value from active markets or a written offer to purchase. Management calculates the discounted cash flows based upon its best estimate of a number of economic, operating, engineering, environmental, political and social assumptions. Any changes in the assumptions due to changing circumstances may affect the calculation of the recoverable amount.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax:

Deferred tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that future taxable income will be available to allow all or part of the temporary differences to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted and are expected to apply by the end of the reporting period. Deferred tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Leases

At inception, the Company assesses whether a contract contains an embedded lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company, as lessee, is required to recognize a lease asset, representing its right to use the underlying asset, and a lease obligation, representing its obligation to make lease payments. The Company may elect to not apply IFRS 16 *Leases* ("IFRS 16") to leases with a term of less than 12 months or to low value assets, which is made on an asset by asset basis.

The Company recognizes a lease asset and a lease obligation at the commencement of the lease. The lease asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated depreciation, impairment losses and adjusted for certain remeasurements of the lease obligation. The lease asset is depreciated from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The lease asset is subject to testing for impairment if there are any indicators of impairment.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The incremental borrowing rate is the rate which the operation would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the lease asset in a similar economic environment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGMENTS (cont'd)

Leases (cont'd)

Lease payments included in the measurement of the lease obligation are comprised of:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Company is reasonably certain to exercise;
- Lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- Penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease obligation is subsequently increased by the interest cost on the lease obligation and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the lease asset and lease obligation are recognized as an expense in the consolidated statement of comprehensive loss in the period in which they are incurred.

Deferred revenue

Receipts from the sale of gift cards are treated as deferred revenue. Revenue is recognized by the Company when the gift card is redeemed for product purchases. As at December 31, 2021, $65,995 (2020 - $65,990) is included in deferred revenue for outstanding gift card balances.

Revenue recognition

The Company sells product through its retail stores, wholesale accounts and has e-commerce sales through its websites ryu.ca and ryu.com. Retail store sales are recognized at the point of sale, whereas e-commerce and wholesale account sales are recognized when the goods are shipped. Revenue from the sale of gift cards is recognized when the gift card is redeemed for product purchases. Revenue excludes sales tax and is recorded net of discounts and an allowance for estimated returns unless the terms of the sale are final.

Cost of sales

Cost of sales includes the expenses incurred to acquire and produce inventory for sale, including product costs, inbound freight and duty costs, as well as provisions related to product shrinkage, excess or obsolete inventory, or lower of cost and net realizable value adjustments as required.

Selling and marketing costs

Selling and marketing costs are expensed as incurred. Advertising costs include expenses associated with sales and product catalogues, sponsorships of events and other consumer publication related activities. The cost of consulting and sponsorship agreements is based upon the specific contract provisions and is expensed as the services are provided.

Foreign currency translation

The functional currency of each entity is determined using the currency of the primary economic environment in which that entity operates. The functional and presentation currency, as determined by management, of the Company and its subsidiary is the Canadian dollar.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGMENTS (cont'd)

Foreign currency translation (cont'd)

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge. During the years ended December 31, 2021 and 2020 the Company did not have any hedging arrangements.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Government assistance

Government assistance is recognized in the statement of loss and comprehensive loss over the periods in which the Company recognizes as expenses the related costs for which the assistance is intended to reimburse. Government assistance is offset against the related expenses for which it has been received.

Share-based payments

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to equity reserve. The fair value of options is determined using the Black–Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Any consideration paid by plan participants on the exercise of stock options is credited to share capital and the related share-based compensation in equity reserve is transferred to share capital. For stock options that expire or are cancelled, the recorded value remains in equity reserve.

The Company operates a Long Term Performance Incentive Plan (the "LTIP") that allows the Company to grant Restricted Share Units ("RSUs"), Performance Share Units ("PSUs"), and Deferred Share Units ("DSUs") to directors, officers, and key employees. The fair value of the RSUs, PSUs and DSUs are estimated using the value on the grant date and are recognized as an expense over the vesting period. As the RSUs, PSUs and DSUs are redeemed and common shares are issued, the amount previously recognized in reserves is recorded as an increase to share capital.

Unit offerings

Proceeds received on the issuance of units, consisting of common shares and warrants, are first allocated to the fair value of the common shares with any residual value then allocated to warrants. Consideration received on the exercise of warrants is recorded as share capital and any related reserve is transferred to share capital. For warrants that expire or are cancelled, the recorded value remains in equity reserve.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated to the extent that it is not antidilutive by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGMENTS (cont'd)

Critical accounting estimates and significant management judgments

The preparation of consolidated financial statements in accordance with IFRS requires the Company to use judgment in applying its accounting policies and make estimates and assumptions about reported amounts at the date of the consolidated financial statements and in the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Share-based payments

The cost of share-based payment transactions with employees are measured by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, risk-free interest rate, expected forfeiture rate and dividend yield of the stock option.

Inventory

Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined with reference to the estimated selling price. The Company estimates selling price based upon assumptions about future demand and current and anticipated retail market conditions.

Useful lives of property and equipment

Estimates of the useful lives of property and equipment are based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, not electing to exercise renewal options on leases, and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of the relevant assets may be based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the non-current assets.

Sales returns

Revenue is recorded net of discounts. The Company offers a 14-day return policy. An allowance is made for returns related to e-commerce and retail sales based on the historical 3-month average levels of returns, prorated to 14 days.

Allowance for doubtful accounts

Estimates are inherent in the on-going assessment of the recoverability of trade and other receivables. The Company maintains an allowance for doubtful accounts to reflect the expected credit losses. Uncertainty relates to the actual collectability of customer balances that can vary from the Company's estimation.

Impairment of long-lived assets

Judgment is required in assessing whether certain factors would be considered an indicator of impairment. The Company considers both external and internal sources of information in assessing whether there are any indications that a long-lived asset is impaired, or reversal of impairment is needed. Factors considered include current and forecasted economic conditions, internal projections and the Company's market capitalization relative to its net asset carrying amounts.

(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGMENTS (cont'd)

Critical accounting estimates and significant management judgments (cont'd)

Income taxes

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilise recognized deferred tax assets. Assumptions about the generation of future taxable profits depends on management's estimate of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted.

Lease obligations

The Company uses estimation in determining the incremental borrowing rate used to measure the lease obligation, specific to the asset, underlying currency, and geographic location. Where the rate implicit in the lease is not readily determinable, the discount rate of the lease obligations is estimated using a discount rate similar to the Company's specific borrowing rate. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security inn a similar environment.

Other significant judgments

The preparation of these consolidated financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's consolidated financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- The classification of financial instruments;
- The classification of leases as either operating or finance type leases; and
- The determination of the functional currency of the Company and its subsidiary.

3. TRADE AND OTHER RECEIVABLES

	December 31, 2021	December 31, 2020
Trade receivables	$ 66,772	$ 18,910
GST input tax credits	5,161	127,885
	$ 71,933	$ 146,795

At December 31, 2021, the Company had recorded an allowance for doubtful accounts of $11, 535 (2020 - $8,394) on trade receivables.

4. INVENTORY

Inventory consisted primarily of ready to wear clothing, bags and accessories, which were either at retail locations or in a third-party logistics warehouse, inventory in transit and raw materials.

	December 31, 2021	December 31, 2020
Finished goods	$ 1,679,920	$ 2,394,499
Inventory in transit	423,974	-
Raw materials	23,104	16,078
	2,126,998	2,410,577
Less: provision for inventory reserve	(314,539)	(568,708)
	$ 1,812,459	$ 1,841,869

(Expressed in Canadian dollars)

4. INVENTORY (cont'd)

At December 31, 2021, the Company had an inventory reserve of $314,539 (2020 - $568,708) on finished goods inventory to recognize its estimated net realizable value. The Company recognized a net decrease in the provision for inventory reserve totaling $254,169 (2020 - $265,502), which was recognized net of cost of sales.

During the year ended December 31, 2021, $1,530,926 (2020 - $1,170,130) of inventory was sold and recognized in cost of sales and $nil (2020 - $40,147) of inventory was used for promotional purposes and recognized in selling and marketing expenses.

5. PREPAID EXPENSES AND DEPOSITS

	December 31, 2021	December 31, 2020
Prepaid expenses	$ 205,009	$ 1,387,042
Deposits and other current assets	146,001	113,566
	351,010	1,500,608
Long-term lease deposits	-	80,539
	$ 351,010	$ 1,581,147

Included in prepaid expenses is $nil (2020 - $12,500) for prepaid Marine Cargo and Directors & Officers insurance; see note 8.

During the year ended December 31, 2021, lease deposits of $50,437 (2020 - $112,069) were expensed in relation to lease settlements and terminations (note 16).

6. PROPERTY AND EQUIPMENT

	Leasehold improvements	Furniture and Equipment	Computers and Software	Total
Cost				
Balance at January 1, 2020	$ 24,865	$ 163,798	$ 173,614	$ 362,277
Disposal/Write-off	(24,865)	-	(1,114)	(25,979)
Balance at December 31, 2020	$ -	$ 163,798	$ 172,500	$ 336,298
Additions	-	-	3,275	3,275
Balance at December 31, 2021	$ -	$ 163,798	$ 175,775	$ 339,573
Accumulated depreciation				
Balance at January 1, 2020	$ 24,865	$ 85,752	$ 111,594	$ 222,211
Depreciation	-	45,320	34,733	80,053
Write-off	(24,865)	-	-	(24,865)
Balance at December 31, 2020	$ -	$ 131,072	$ 146,327	$ 277,399
Depreciation	-	28,676	24,910	53,586
Balance at December 31, 2021	$	$ 159,748	$ 171,237	$ 330,985
Net book value				
December 31, 2020	$ -	$ 32,726	$ 26,173	$ 58,899
December 31, 2021	$ -	$ 4,050	$ 4,538	$ 8,588

7. INVESTMENT

On November 9, 2020, the Company entered into an Assignment Agreement with Fortunate Films, Ltd. ("Fortunate Films"), whereby Fortunate Films agreed to assign to the Company all its rights and interests and any other benefits to be derived therefrom a subscription agreement (the "Subscription Agreement") with Branded Entertainment, Inc. ("BEI"), to source an equity placement in The Count-The Series, LLC ("TCTS") which was executed concurrently with a product integration agreement (the "Product Integration Agreement"). Together, the Subscription Agreement and Product Integration Agreement encompass the aggregate deal (the "Aggregate Deal").

(Expressed in Canadian dollars)

7. INVESTMENT (cont'd)

TCTS intends to create an episodic television program (the "Series") and intends to generate revenue from licensing content, product and brand integration, and sale of marketing and its products.

Under the terms of the Aggregate Deal, the Company agrees to purchase 50 Class A Units (each a "Unit") in TCTS at a price of USD $100,000 per Unit for a total purchase price of USD $5,000,000. This will represent a 16.67% ownership interest in TCTS. The Company will also give TCTS the right to sell RYU products online. Investors in TCTS shall be paid 80% of the income of TCTS up to the original invested capital amount. Following this, investors in TCTS are entitled to 40% of the income of TCTS. The Company shall also retain a 10% equity position in TCTS, in perpetuity, and integration of RYU products into episode four of the Series plus four additional episodes of the six remaining episodes.

During the year ended December 31, 2021, the Company determined that the Aggregate Deal was no longer a viable investment and wrote down its capitalized cash consideration of $1,313,463 (USD $1,000,000) to $nil, resulting in an unrealized fair value loss of $1,313,463 which was recognized in the statements of comprehensive loss. The Company has no intention or obligation to invest the remaining USD $4,000,000 as stipulated under the terms of the Aggregate Deal.

8. LOANS PAYABLE

Loans payable		
As at January 1, 2020	$	-
Additions		12,500
Interest expense		65
Repayments		(1,172)
As at December 31, 2020		11,393
Additions		1,053,500
Debt issuance costs		(185,197)
Accretion of debt issuance costs		185,197
Interest expense		68,873
Repayments		(127,099)
As at December 31, 2021	$	1,006,667

On November 1, 2020, the Company received a short-term loan of $12,500 for prepaid marine cargo insurance, financed at an interest rate of 6.25% whereby the Company agreed to pay $1,172 in 11 monthly instalments beginning on December 1, 2020. During the year ended December 31, 2021, the Company incurred interest expense of $329 (2020 - $65) and repaid $11,722 (2020 - $1,172). As at December 31, 2021, the loan has been repaid in full (2020 – balance of $11,393).

On January 22, 2021, the Company received a short-term loan of $53,500 for prepaid directors & officers insurance, financed at an interest rate of 7.15% whereby the Company agreed to pay $1,500 upfront and $4,898 in 11 monthly instalments beginning on February 22, 2021. During the year ended December 31, 2021, the Company incurred interest expense of $1,877 and repaid $55,377. As at December 31, 2021, the loan has been repaid in full.

On March 8, 2021, the Company entered into a loan agreement, pursuant to which a third-party company agreed to loan the Company the principal amount of $1,000,000, for a term of 12 months, accruing simple interest of 8% per annum to be paid quarterly. The loan was subject to a 2% debt issuance cost, which was deducted directly from the principal amount. The loan is being guaranteed via a personal guarantee by an existing shareholder. As consideration for the personal guarantee, the Company entered into a Loan Bonus Agreement whereby the Company issued the guarantor an aggregate of 1,306,667 common shares in the Company, issued on March 22, 2021, with a fair value of $163,334 (note 11). Total debt issuance costs of $185,197 were recorded as a debt issuance costs against the face value of the loan and are being amortized over the term of the loan using the effective interest rate method. The Company used an effective interest rate of 396% per annum. During the year ended December 31, 2021, the Company accrued interest expense of $66,667, recorded accretion of the debt issuance costs of $185,197, and repaid interest of $60,000. As at December 31, 2021, $1,006,667 is included in loans payable. As of April 29, 2022, the loan is still outstanding, due on demand, and the Company continues to pay interest monthly.

(Expressed in Canadian dollars)

9. LEASES

On July 1, 2021, the Company negotiated a one-year lease extension for its retail location at West 4th in Vancouver, BC expiring on June 30, 2022. The Company's lease asset as at December 31, 2021 relates to the lease of this retail space.

Lease asset		
As at December 31, 2019	$	-
Additions		138,637
Depreciation expense		(69,319)
As at December 31, 2020		69,318
Additions		153,819
Depreciation expense		(138,636)
As at December 31, 2021	$	84,501

The Company's lease liabilities consists of retail stores, equipment, and domain name. The leases have imputed interest rates between 5.45% and 12% per annum.

Lease obligations		**Total**
Balance as at December 31, 2019	$	8,084,076
Additions		138,637
Modifications and terminations		(2,724,859)
Interest expense		672,701
Lease payments		(1,787,016)
Effects of movements in exchange rates		(16,570)
As at December 31, 2020		4,366,969
Additions		153,819
Interest expense		500,466
Lease payments		(1,057,478)
Effects of movements in exchange rates		(13,200)
As at December 31, 2021	$	3,950,576

Lease obligations		**December 31, 2021**
Current portion	$	679,280
Long-term portion		3,271,296
Total lease obligations	$	3,950,576

During the year ended December 31, 2020 the Company terminated five leases and recognized a gain on the termination of $2,650,027. No leases were terminated during the year ended December 31, 2021. The Company also recognized a gain of $253,479 (2020 - $251,539) for unpaid rent included in trade and other payables which was forgiven.

During the year ended December 31, 2021, the Company received qualifying rent concessions including basic rent deferrals and net rent abatements directly related to COVID-19 and recognized a gain of $210,524 (2020 - $74,832). The Company applied the practical expedient as a result of the COVID-19 pandemic under IFRS 16 to account for rent concessions that are a direct consequence of COVID-19 as though they are not lease modifications.

At December 31, 2021, the Company is committed to minimum lease payments as follows:

Maturity analysis		**December 31, 2021**
Less than one year	$	1,110,506
One year to three years		1,896,073
Four to five years		1,729,515
Greater than five years		1,107,895
Total undiscounted lease liabilities		5,843,989
Amount representing implicit interest		(1,893,413)
Lease obligations	$	3,950,576

(Expressed in Canadian dollars)

10. INCOME TAXES

The provision for income taxes differs from the amount that would have resulted in applying the combined federal statutory tax rate as follows:

	December 31, 2021	December 31, 2020
Net loss	$ (10,039,853)	$ (1,857,773)
Statutory income tax rate	26.88%	27.00%
Expected in tax recovery at statutory income tax rates	(2,698,713)	(501,599)
Permanent differences	513,185	(1,192,439)
Effect of change in tax rates	95,745	-
Adjustment to prior year versus statutory tax return	42,678	(337,260)
Difference in tax rates, foreign exchange, and other	(1,468)	14,007
Origination and reversal of temporary differences	363,941	-
Change in valuation allowance	1,684,632	2,017,291
Income tax recovery	$ -	$ -

Temporary differences that give rise to the following deferred tax assets and liabilities at are:

	December 31, 2021	December 31, 2020
Deferred tax assets		
Non-capital loss carry forwards – US	$ 7,620,235	$ 7,373,070
Non-capital loss carry forwards – Canada	14,233,131	12,518,384
Share issuance costs	82,152	204,698
Investment	176,526	-
Equipment	1,527,238	1,858,498
	23,639,282	21,954,650
Valuation allowance	(23,639,282)	(21,954,650)
	$ -	$ -

As at December 31, 2021, the Company has approximately $52,855,000 (2020 - $45,640,000) of non-capital losses in Canada that may be used to offset future taxable income, expiring between 2035 and 2041. In addition, the Company has US non-capital losses of approximately USD $23,977,000 (2020 – USD $18,140,000) which may be carried forward indefinitely.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

11. SHAREHOLDERS' DEFICIENCY

Common shares

The authorized capital of the Company consists of an unlimited number of common shares without par value.

On July 22, 2020, the Company completed a consolidation of its outstanding common shares on the basis of one post-consolidation common share for every ten pre-consolidated common share. The references to the number of common shares, warrants, options, weighted average number of common shares and loss per share have been adjusted retroactivity to reflect the share consolidation. The exercise or conversion price of, and the number of common shares issuance under any securities of the Company has been adjusted proportionally.

Common shares issued for cash

Year ended December 31, 2021:

- On March 1, 2021, the Company issued an aggregate of 620,000 common shares for the exercise of 620,000 warrants at a price of $0.055 per share, for aggregate gross proceeds of $34,100.
- On March 3, 2021, the Company issued an aggregate of 1,160,000 common shares for the exercise of 1,160,000 warrants at a price of $0.055 per share, for aggregate gross proceeds of $63,800.

11. SHAREHOLDERS' DEFICIENCY (cont'd)

Common shares issued for cash (cont'd)

Year ended December 31, 2021 (cont'd):

- On March 4, 2021, the Company issued 50,000 common shares for the exercise of 50,000 options at a price of $0.12 per share, for gross proceeds of $6,000 which resulted in a transfer from equity reserve to share capital of $5,805. The Company's trading share price on the date of exercise was $0.14.
- On March 5, 2021, the Company issued 1,000,000 common shares for the exercise of 1,000,000 warrants at a price of $0.055 per share, for gross proceeds of $55,000.
- On March 25, 2021, the Company issued 4,200,000 common shares for the exercise of 4,200,000 warrants at a price of $0.055 per share, for gross proceeds of $231,000.
- On April 5, 2021, the Company issued 2,000,000 common shares for the exercise of 2,000,000 warrants at a price of $0.055 per share, for gross proceeds of $110,000.
- On April 8, 2021, the Company issued 1,000,000 common shares for the exercise of 1,000,000 warrants at a price of $0.055 per share, for gross proceeds of $55,000.
- On April 20, 2021, the Company issued an aggregate of 1,223,230 common shares for the exercise of 1,223,230 warrants at a price of $0.055 per share, for aggregate gross proceeds of $67,277.
- On May 18, 2021, the Company issued an aggregate of 2,916,666 common shares for the exercise of 2,916,666 stock options, held by an officer and an employee and family member of an officer, at an exercise price of $0.12 for aggregate gross proceeds of $350,000 which resulted in a transfer from equity reserve to share capital of $325,526. The Company's trading share price on the date of exercise was $0.08.
- On June 7, 2021, the Company issued an aggregate of 5,000,000 common shares for the exercise of 5,000,000 warrants at a price of $0.055 per share, for aggregate gross proceeds of $275,000.
- On June 14, 2021, the Company issued 1,000,000 common shares for the exercise of 1,000,000 warrants at a price of $0.055 per share, for gross proceeds of $55,000.
- On June 22, 2021, the Company issued 100,000 common shares for the exercise of 100,000 warrants at a price of $0.105 per share, for gross proceeds of $10,500.
- On July, 22, 2021, the Company issued 4,000,000 common shares for the exercise of 4,000,000 warrants at a price of $0.055 per share, for gross proceeds of $220,000.
- The Company incurred share issuance costs in connection with the above share issuances of $78,835.

Year ended December 31, 2020:

- On October 29, 2020, the Company closed a non-brokered private placement financing consisting of 97,165,000 units of the Company at a price of $0.05 per unit for gross proceeds of $4,858,280. Each unit consists of one common share and one transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of $0.055 per common share for a period of two years. The fair value of the warrants was determined to be $nil.
- On December 22, 2020, the Company closed a non-brokered private placement financing consisting of 13,709,612 units of the Company at a price of $0.08 per unit for gross proceeds of $1,096,784. Each unit consists of one common share and one transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of $0.105 per common share for a period of two years. The fair value of the warrants was determined to be $nil.
- The Company incurred share issuance costs in connection with the above share issuances of $140,529.

11. SHAREHOLDERS' DEFICIENCY (cont'd)

Common shares issued for debt issuance costs

On March 22, 2021, pursuant to the loan agreement with Alladin Ventures as outlined in note 8, and under the terms of the Loan Bonus Agreement, the Company issued 1,306,667 common shares as consideration for the personal guarantee made by a family member of the CEO, with a fair value of $163,334; the fair value of the shares were treated as debt issuance costs in accordance with the loan and are being amortized over the life of the loan.

Common shares issued on termination of agreement

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

On August 5, 2021, the Company terminated the agreement with Kosan. As a result of the termination, on August 31, 2021, the Company issued 500,000 common shares for the break-fee at a fair value of $0.09 per share based on the closing price per share from that date, resulting in a loss on termination of agreement of $45,000.

Common shares issued for settlement of debts

On April 30, 2020, the Company issued 4,613,745 common shares at a deemed price of $0.40 per common share to three related party creditors to settle debt in the amount of $1,845,498 owed by the Company. The Company's common shares had a fair value of $0.10 on the date of the grant. The Company recorded a gain of $1,384,213 on the settlement of this debt.

On June 15, 2020, the Company issued 425,904 common shares at a deemed price of $0.50 per share to settle debt in the amount of $212,952 owed by the Company. The Company's common shares had a fair value of $0.10 on the date of grant. The Company recorded a gain of $170,362 on the settlement of this debt.

On November 18, 2020, the Company issued 291,992 common shares to settle outstanding debt of $28,469 owed by the Company. The Company's common shares had a fair value of $0.13 on the date of grant. The Company recorded a loss of $9,490 on the settlement of this debt.

Common shares to be issued

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

On June 19, 2021, the Company entered into a service agreement with Deal Box, Inc. As a part of the agreement, the Company will issue common shares valued at USD $50,000 ($60,917). As of the date of this report, the shares have not yet been issued.

Convertible debentures to be issued

As at December 31, 2021, the Company was obligated to issue 2,846 convertible debenture units in exchange for $2,846,000 of cash proceeds received. Each debenture unit consists of a $1,000 unsecured principal bearing interest at 8%, with a maturity of three years, and a conversion price of $0.15 per share, and 2,000 transferable common share purchase warrants. Each warrant entitles the holder to acquire an additional common share at a price of $0.10 per warrant for a period of three years, subject to an acceleration provision. Subsequent to year end on March 25, 2022, the Company closed the debenture financing (note 17).

Of the $2,846,000 of cash proceeds received during the year ended December 31, 2021, $2,796,000 was received from the CEO of the Company (note 14).

(Expressed in Canadian dollars)

11. SHAREHOLDERS' DEFICIENCY (cont'd)

Stock options

On June 9, 2014, January 27, 2015, November 30, 2016, December 12, 2018, and February 26, 2021 the Board of Directors approved certain revisions to the 2013 Stock Option Plan, resulting in the Company's revised 2014 stock option plan (the "revised 2014 Plan") and Long Term Incentive Plan ("LTIP") whereby the aggregate number of securities reserved for issuance set aside and made available for issuance under the revised 2014 Plan and LTIP was increased from a fixed amount of 11,687,701 to 35,838,707 shares of the Company's common stock. Each stock option permits the holder to purchase one share at the stated exercise price. The options vest at the discretion of the Board of Directors.

Year ended December 31, 2021:

On March 9, 2021, the Company granted 2,000,000 stock options at an exercise price of $0.15 per common share to an officer of the Company. Each stock option granted is exercisable for a period of three years, vesting immediately upon grant. The Company recorded a share-based payment expense of $270,254 on the grant date.

On March 24, 2021, the Company granted 19,267,506 stock options at an exercise price of $0.12 per common share to directors, officers, employees, and contractors. Each stock option granted is exercisable for a period of three years, vesting immediately upon grant. The Company recorded a share-based payment expense of $2,045,270 on the grant date.

On May 28, 2021, the Company granted 3,766,666 stock options at an exercise price of $0.085 per common share to an officer of the Company. Each stock option granted is exercisable for a period of five years, vesting immediately upon grant. The Company recorded a share-based payment expense of $274,968 on the grant date.

Year ended December 31, 2020:

On April 14, 2020, the Company granted 5,195,000 stock options at an exercise price of $0.50 per common share to two employees, one officer, two directors, and nine consultants, pursuant to its stock option plan. Each stock option granted is exercisable for a period of five years, vesting immediately upon grant. The Company recorded a share-based payment expense of $421,069 at the grant date.

On November 9, 2020, the Company granted 7,397,201 stock options to sixteen employees, two officers, two directors, and eighteen consultants, pursuant to its stock option plan, at an exercise price of $0.12 per common share. Each stock option granted is exercisable for a period of three years and vest immediately, except 425,000 options which vest 25% quarterly starting on February 9, 2021. The Company recorded a share-based payment expense of $824,367 at the grant date.

During the year ended December 31, 2021, the Company incurred $36,687 (2020 - $16,947) for the vesting of previously granted options.

The following is a summary of the Company's stock option activities:

	Number of Options		Weighted Average Exercise Price
Outstanding at January 1, 2020	1,947,500	$	2.33
Granted	12,592,201		0.28
Cancelled/Forfeited	(2,777,500)		1.29
Expired	(91,000)		3.38
Outstanding at December 31, 2020	11,671,201		0.35
Granted	25,034,172		0.12
Cancelled/Forfeited	(4,500,000)		0.20
Exercised	(2,966,666)		0.12
Expired	(53,500)		2.50
Outstanding at December 31, 2021	29,185,207	$	0.19
Exercisable at December 31, 2021	29,078,957	$	0.19

(Expressed in Canadian dollars)

11. SHAREHOLDERS' DEFICIENCY (cont'd)

Stock options (cont'd)

Stock options at December 31, 2021 were as follows:

	Outstanding		Exercisable	
Exercise Price ($)	**Number of Options**	**Weighted Average Remaining Contractual Life (years)**	**Number of Options**	**Weighted Average Remaining Contractual Life (years)**
$0.085	3,766,666	4.41	3,766,666	4.41
$0.12	20,198,041	2.13	20,091,791	2.12
$0.15	2,000,000	2.19	2,000,000	2.19
$0.50	2,775,000	3.29	2,775,000	3.29
$1.50	57,500	3.72	57,500	3.72
$2.90	380,000	5.12	380,000	5.12
$3.00 USD	8,000	2.12	8,000	2.12
	29,185,207	2.58	29,078,957	2.57

Estimated fair value of stock options:

Share-based payments relating to options vesting during the period ended December 31, 2021 using the Black-Scholes option pricing model was $2,627,179 (2020 - $1,245,436).

Details of the fair value of options granted and the assumptions used in the Black-Scholes option pricing model are as follows:

	December 31, 2021	December 31, 2020
Weighted average fair value of options granted	$ 0.11	$ 0.10
Risk-free interest rate	0.25%	0.45%
Estimated life	3.30 years	3.85 years
Expected volatility	238.51%	206.53%
Expected dividend yield	0.00%	0.00%
Forfeiture rate – for the first year	0.00%	0.00%
Forfeiture rate – after the first year	0.00%	0.00%

Option pricing models require the use of highly subjective estimates and assumptions. The expected volatility assumption is based on the historical and implied volatility of the Company's common shares on the TSX-V. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life. The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model.

Restricted Share Units

At the 2017 Annual General Meeting, the Company's shareholders approved a Long-Term Incentive Performance Plan (the "LTIP") that allows the Company to grant Restricted Share Units ("RSUs"), Performance Share Units ("PSUs"), and Deferred Share Units ("DSUs") to consultants, directors, officers, and key employees. The aggregate number of common shares issuable under the LTIP is shared with the Company's stock options. Therefore, it cannot exceed the amount approved under the revised 2014 Plan. The RSUs, DSUs and PSUs vest at the discretion of the Board of Directors.

(Expressed in Canadian dollars)

11. SHAREHOLDERS' DEFICIENCY (cont'd)

Restricted Share Units (cont'd)

As at December 31, 2021, only RSUs have been granted under the LTIP and the following is a summary of their activity:

	Number of RSUs
Outstanding at January 1, 2020	16,500
Granted	50,000
Converted	(16,500)
Outstanding at December 31, 2020	50,000
Granted	3,025,000
Outstanding at December 31, 2021	3,075,000

On March 9, 2021, the Company granted 3,000,000 RSUs to an officer (note 14). The RSUs vest annually in three equal tranches beginning on the first anniversary of the grant. On the date of grant, the Company's share price was $0.14 resulting in share-based payments of $419,998. Of this amount, $208,815 was recognized in the current year and $211,183 will be recognized as the RSUs subsequent vest. Subsequent to year-end, 1,000,000 of these RSUs were converted into common shares of the Company (note 17).

On August 31, 2021, the Company granted 25,000 RSUs to a contractor. The RSUs fully vest on August 31, 2022. On the grant date, the Company's share price was $0.09 resulting in share-based payments of $2,250.

Total share-based payments relating to RSUs granted during the period were $211,065 (2020 - $16,947).

Warrants

	Number of Warrants		Weighted Average Exercise Price
Outstanding at January 1, 2020	26,805,026	$	1.11
Issued	115,040,612		0.06
Outstanding at December 31, 2020	141,845,638		0.26
Exercised	(21,303,230)		0.06
Outstanding at December 31, 2021	120,542,408	$	0.30

Warrants outstanding at December 31, 2021 were as follows:

Exercise Price	Expiration Date	Number of Warrants Outstanding
$19.60	February 1, 2022*	750
$1.50	February 11, 2022*	3,817,677
$1.50	February 28, 2022*	1,039,866
$1.50	March 27, 2022*	645,999
$1.50	March 28, 2022*	203,929
$1.00	May 17, 2022*	3,739,544
$1.00	June 6, 2022	499,000
$1.00	July 8, 2022	765,768
$0.055	October 29, 2022	75,961,770
$0.13	November 26, 2022	4,166,000
$1.20	December 4, 2022	2,557,829
$0.50	December 20, 2022	4,532,273
$1.20	December 22, 2022	779,613
$0.105	December 22, 2022	13,609,612
$1.20	January 19, 2023	8,222,778
		120,542,408

(Expressed in Canadian dollars)

11. SHAREHOLDERS' DEFICIENCY (cont'd)

Warrants (cont'd)

The weighted average remaining contractual life of warrants outstanding as of December 31, 2021 was 0.82 years (2020 – 1.82 years).

*Subsequent to year-end, 5,708,221 warrants expired unexercised.

During the year ended December 31, 2020, the Company entered into a Media Purchase and Collaboration Agreement with Zoom Media Corp., in which the Company paid or accrued consideration of $586,000 and issued 4,166,000 warrants. These warrants have an exercise price of $0.13 and expire on November 26, 2022. These warrants were determined to have a fair value of $521,007 using the Black-Scholes pricing model using the following assumptions:

	December 31, 2020
Fair value of warrants granted	$ 0.13
Risk-free interest rate	0.38%
Estimated life	2 years
Expected volatility	293.23%
Expected dividend yield	0.00%
Forfeiture rate	0.00%

As at December 31, 2021, $nil (2020 - $1,020,128) is recorded as prepaid expenses and deposits.

11. GOVERNMENT ASSISTANCE

During the year ended December 31, 2021, the Company received the Canada Emergency Wage Subsidy ("CEWS") totaling $729,633 (2020 - $nil). The CEWS provided a subsidy of up to 75% eligible remuneration paid by and eligible corporation and employee up to $847 per week. The CEWS has been netted against salaries and benefits on the consolidated statements of comprehensive loss.

During the year ended December 31, 2021, the Company received the Canada Emergency Rent Subsidy ("CERS") totaling $550,499 (2020 - $nil). The CERS provided a subsidy of up to 65% of a Company's rent or mortgage interest, property tax and insurance if the business was required to shut down due to public health restrictions. The CERS has been netted against office and general on the consolidated statements of comprehensive loss.

12. GEOGRAPHIC INFORMATION

The Company operates in one reportable operating segment, being the development, marketing, and distribution of apparel, bags and accessories. Geographic information related to the Company's assets and location of its customers is as follows:

	December 31, 2021			December 31, 2020		
	Canada	United States	Total	Canada	United States	Total
Revenue	$ 794,524	$ 478,426	$ 1,272,950	$ 1,143,779	$ 423,388	$ 1,567,167
Inventory	$ 1,796,969	$ 15,490	$ 1,812,459	$ 1,424,540	$ 417,329	$ 1,841,869
Property and equipment	$ 6,116	$ 2,472	$ 8,588	$ 45,836	$ 13,063	$ 58,899
Lease asset	$ 84,501	$ -	$ 84,501	$ 69,318	$ -	$ 69,318

(Expressed in Canadian dollars)

13. 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 years ended December 31, 2021 and 2020 was as follows:

	December 31, 2021	December 31, 2020
Salaries and benefits	$ 497,673	$ 734,411
Consulting fees (included in professional fees)	201,828	250,704
Share-based payments[1]	1,349,810	377,556
	$ 2,049,311	$ 1,362,671

During the year ending December 31, 2020, included in salaries and benefits was a $320,000 termination benefit pursuant to the Termination Agreement with former CEO.

Remuneration paid to related parties other than key personnel during the years ended December 31, 2021 and 2020 was as follows:

	December 31, 2021	December 31, 2020
Consulting fees (included in professional fees)	$ -	$ 13,500
Salaries and benefits	111,488	2,000
Share-based payments[1]	292,043	91,150
	$ 403,351	$ 106,650

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

Trade and other payables:

As at December 31, 2021, the following is included in trade and other payables and loans payable in relation to transactions with related parties, which are non-interest bearing, unsecured and due on demand:

i. Included in trade and other payables at December 31, 2021 is $nil (2020 - $21,520) due to the former interim CFO for consulting fees.

ii. Included in trade and other payables at December 31, 2021 is $14,924 (2020 - $46,216) due to a company controlled by the CFO for consulting fees.

iii. Included in trade and other payables at December 31, 2021 is $nil (2020 - $10,224) due to a company controlled by a Director for fashion design consulting fees.

iv. Included in trade and other payables and accrued liabilities at December 31, 2021 is $27,345 (2020 - $239,262) in accrued vacation owing to the CEO.

Advances from related parties:

During the year ended December 31, 2020, the Company obtained loans of $40,000 and $335,000 from the former CEO and a family member of the former CEO. The loans are non-interest bearing, unsecured and due on demand. In April 2020, this loan was settled in shares as part of a share settlement agreement to settle outstanding debts of $1,845,498 owed by the Company to three related party creditors (note 11).

(Expressed in Canadian dollars)

14. RELATED PARTY TRANSACTIONS (cont'd)

Advances from related parties (cont'd):

During the year ended December 31, 2020, the Company also entered into a loan agreement for a $50,000 loan with a company controlled by a family member of the former CEO. The loan bears interest at an annual interest rate of 2% compounded monthly and is secured by all assets of the Company. In April 2020, this loan was settled in shares as part of a share settlement agreement to settle outstanding debts of $1,845,498 owed by the Company to three related party creditors (note 11).

Transactions with related parties:

During the year ended December 31, 2021, the Company had sales to a company owned by the former CEO of $nil (2020 - $33,939) and purchased goods and services from the same company totaling $nil (2020 – $9,127).

On November 1, 2014, the Company entered into a sublease agreement with a company owned by the former CEO for its corporate office at 1672 W 2nd Avenue in Vancouver, BC. During the year ended December 31, 2021, the Company recorded rent expense of $nil (2020 – $69,187) to the related party, included in office and general. In July 2020, the Company moved out of the premises and the lease was terminated.

On February 26, 2021, the shareholders of the Company approved the settlement of a $320,000 severance liability, included in shares to be issued and owing to the former CEO of the Company, for 800,000 common shares; see note 11.

15. FINANCIAL INSTRUMENT RISK MANAGEMENT

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	December 31, 2021	December 31, 2020
Amortized cost:		
Cash	$ 681,215	$ 771,174
Trade and other receivables	71,933	146,795
Deposits (current and long-term)	351,010	193,965
Lease asset	84,501	69,318
Fair value through profit or loss:		
Investment (long-term)	-	1,313,463
	$ 1,188,659	$ 2,494,715

Financial liabilities included in the statement of financial position are as follows:

	December 31, 2021	December 31, 2020
Amortized cost:		
Trade and other payables	$ 4,218,079	$ 4,640,663
Accrued liabilities	450,256	1,067,001
Loans payable	1,006,667	11,393
Lease obligations (current and long-term)	3,950,576	4,366,969
	$ 9,625,578	$ 10,086,026

(Expressed in Canadian dollars)

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (cont'd)

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The carrying value of Company's financial assets and liabilities as at December 31, 2021 and 2020 approximate their fair value due to their short terms to maturity.

Lease assets and lease obligations are measured as a Level 2 financial instrument. Investment is measured as a Level 3 financial instrument.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures.

Credit risk

The Company's principal financial assets are cash and trade accounts receivable. The Company's credit risk is primarily concentrated in its cash which is held with institutions with a high credit worthiness. Trade receivables are generally insignificant.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

Historically, the Company's primary source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at December 31, 2021:

	Within one year	Between one and five years	More than five years
Trade and other payables	$ 4,218,079	$ -	$ -
Accrued liabilities	450,256	-	-
Loans payable	1,006,667	-	-
Lease obligations	1,110,506	3,625,588	1,107,895
	$ 6,785,508	$ 3,625,588	$ 1,107,895

The following is an analysis of the contractual maturities of the Company's financial liabilities as at December 31, 2020:

	Within one year	Between one and five years	More than five years
Trade and other payables	$ 4,640,663	$ -	$ -
Accrued liabilities	1,067,001	-	-
Loans payable	11,393	-	-
Lease obligations	1,445,993	3,384,210	1,993,889
	$ 7,165,050	$ 3,384,210	$ 1,993,889

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (cont'd)

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as it has sales to the United States and it incurs certain expenditures that are denominated in US dollars while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

The Company has net financial liabilities of approximately $3,658,000 (2020 - $3,479,000) that are denominated in US dollars. If the US dollar had changed against the Canadian dollar by 10 basis points (US $0.10) at year end, the Company's net loss and comprehensive loss after taxes would change by approximately $366,000 (2020 - $348,000), resulting from the translation of the US dollar denominated financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Based on borrowings that accrue interest as at December 31, 2021, a 1% change in interest rates would change its net loss and comprehensive loss by approximately $6,000 (2020 - $nil).

Capital Management

In the management of capital, the Company includes components of shareholders' deficiency. The Company aims to manage its capital resources to ensure financial strength and to maximize its financial flexibility by maintaining strong liquidity and by utilizing alternative sources of capital including equity, debt and bank loans or lines of credit to fund continued growth. The Company sets the amount of capital in proportion to risk and based on the availability of funding sources. The Company manages the capital structure and makes adjustments to 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. Additional debt and/or equity financing may be pursued in future as deemed appropriate to balance debt and equity. To maintain or adjust the capital structure, the Company may issue new shares, take on additional debt or sell assets to reduce debt. The Company did not change its approach to capital management during the year ended December 31, 2021. The Company is not subject to externally imposed capital requirements.

16. CONTINGENCIES AND PROVISIONS

In the ordinary course of business, the Company and its subsidiaries may become involved in various legal and regulatory actions. The Company establishes legal provisions when it becomes probable that the Company will incur a loss and the amount can be reliably estimated.

- The Company signed a lease for a retail location to be located at UTC Westfield in La Jolla, California, but in August 2019, did not proceed. No termination agreement was negotiated and accepted by the landlord. In August 2019, litigation was commenced against the Company pertaining to the dispute on the termination and settlement of the lease arrangement.

  On February 28, 2022, the Company reached a settlement agreement with the counter party for USD $175,000 to be paid as follows:
  - USD $25,000 upon execution of the agreement (paid March 2, 2022); and
  - USD $150,000 to be paid in thirty equal instalments of $5,000 on the first day of each month from April 2022 (paid April 1, 2022) to September 2024.

  As of December 31, 2021, included in trade and other payables is a provision of $189,547 (USD $149,508) (2020 - $519,520 or USD $400,000) which represents the present value of the future payments using a discount rate of 12%.

16. CONTINGENCIES AND PROVISIONS (cont'd)

- During the year ended December 31, 2020, litigation was commenced against the Company pertaining to a dispute on the termination and settlement of a lease arrangement for a retail location located at Newport Beach, California.

  On February 20, 2022, the Company reached a settlement agreement with the counter party for USD $175,000 to be paid as follows:
  - USD $25,000 paid within 10 days of the counterparty returning a fully executed copy of the agreement to the Company (paid March 9, 2022); and
  - USD $150,000 to be paid in thirty equal instalments of $5,000 on the first day of each month from April 2022 (paid April 1, 2022) to September 2024.

  As of December 31, 2021, included in trade and other payables is a provision of $189,547 (USD $149,508) (2020 - $400,289 or USD $314,396) which represents the present value of the future payments using a discount rate of 12%.

- As a result of the two above-mentioned lease settlements, the Company recognized a change in provision for contingencies of $760,776 (USD $606,909) (2020 -$nil) for the year ended December 31, 2021.

- During the year ended December 31, 2020, a claim was commenced against the Company pertaining to an employment dispute with a maximum claim amount of $35,000. During the year ended December 31, 2021, the claim was resolved and discharged for $18,200.

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

- On August 24, 2021, the Company was served with a claim in which it was named as a defendant pertaining to a direct claim against the Company of unjust enrichment related to the construction of its stores in Toronto, New York, and California. As of the date of these consolidated financial statements, the likelihood of loss is unknown and no amounts have been accrued.

- On April 20, 2022, the Company was served a claim by the previous CEO related to the severance liability (note 11). In addition to the issuance of $320,000 of the Company's common shares, the Company will need to re-issue $20,000 of the Company's gift cards. As at December 31, 2021, these amounts are included in shares to be issued and deferred revenue, respectively.

17. SUBSEQUENT EVENTS

<u>Leases</u>

On March 22, 2022, the Company, entered into a lease termination and settlement agreement for its Williamsburg retail location after its closure on February 20, 2022. As of the date of the agreement the Company owed the landlord USD $510,338 which is comprised of USD $662,005 of rent arrears less a deposit of USD $151,667. Under the terms of the agreement the Company is to pay USD$150,000 as follows:
- USD $10,000 upon execution of the agreement (paid April 1, 2022)
- USD $140,000 to be paid in thirteen instalments on the final day of each month from April 2022 to March 2023.

Included in the settlement agreement are obligations to satisfy mechanic's liens totaling USD $136,378.

17. SUBSEQUENT EVENTS (cont'd)

Equity

On March 9, 2022, 1,000,000 RSUs were converted into common shares of the Company.

On March 24, 2022, the Company closed the first tranche of its previously announced convertible debenture private placement. The Company issued 3,722 units of $1,000 for gross proceeds of $3,722,000, convertible into 24,813,333 common shares. Each unit consists of a $1,000 unsecured convertible debenture bearing interest at 8% with a maturity of three years and convertible into 6,667.67 shares at $0.15 per share, and 2,000 transferable common share purchase warrants. Each warrant entitles the holder to acquire an additional common share at a price of $0.10 per warrant for a period of three years, subject to an acceleration provision. On April 13, 2022, the Company announced the termination of the offering and will not proceed with a second tranche.

In the event that the common shares trade at a volume weighted average price on the TSX Venture Exchange of $0.25 or more for a period of 10 consecutive trading days after 4 months and 1 day from the closing date, the Company may accelerate the expiry of the Warrants by giving notice to the holders whereby the expiry date would be 10 days from this notice.

Other

In March 2022, the Company received a $200,000 loan from the CEO. The loan is unsecured, non-interest bearing, and due on demand. As of April 29, 2022, $50,000 of this loan remains outstanding.