



RYU APPAREL INC.
(the "Company" or "RYU")
Management's Discussion & Analysis
for the nine months ended September 30, 2017
Prepared as of November 16, 2017

INTRODUCTION

The following management's discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for the Company and should be read in conjunction with the Company's condensed consolidated interim financial statements for the nine months ended September 30, 2017 and audited consolidated financial statements for the year ended December 31, 2016. Readers are encouraged to review the Company's consolidated financial statements in conjunction with this document, copies of which are filed on the SEDAR website at www.sedar.com. The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

As used in this MD&A and unless otherwise indicated, the terms "we", "us", "our", "Company", and "RYU" refer to RYU Apparel Inc. and our wholly-owned subsidiary Respect Your Universe Inc. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

This MD&A contains forward-looking statements. Forward-looking statements may also be made in the Company's other reports filed with or furnished to the Canadian securities commissions. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from such statements. The words "aim," "anticipate," "believe," "continue," "could," "expect," "intend," "likely", "may," "optimistic," "plan," "potential", "predict", "should," "would," and other similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance, and therefore you should not put undue reliance upon them. The material assumptions supporting these forward-looking statements include, among other things the Company's ability to:

- obtain any necessary financing on acceptable terms;
- keep pace with rapid changes in consumer demands;
- compete with other athletic apparel brands;
- rely on third party manufacturers;
- manage expansion effectively;
- enforce its intellectual property rights;
- launch additional product lines;
- retain its skilled personnel;
- manage current tax and regulatory regimes;
- manage the fluctuation in foreign currency exchange rates and interest rates; and
- follow general economic and financial market conditions.

Some of the factors that may cause actual results to differ materially from those indicated in these statements are found in the section "Risk Factors" in this MD&A.

The forward-looking statements contained in this MD&A reflect our views and assumptions only as of the date of this MD&A. The Company undertakes no obligation to update or revise any forward-looking statements after the date on which the statement is made, except as required by applicable laws, including the securities laws of Canada.

OUR BUSINESS

RYU (Respect Your Universe) is an urban athletic apparel brand that engages in the development, marketing, and distribution of apparel, bags and accessories. Our products are engineered for the fitness, training and lifestyle performance of the athletically minded individual. Our products are designed, developed and tested at our corporate headquarters in Vancouver, BC, Canada. Production takes place in factories located in North America and Asia.

The RYU brand was created in 2015 by a team of industry experts that found a gap in the apparel market whereby the male athlete was underserved and the female athletic market was dominated by yoga-inspired brands. This team transformed the RYU brand to focus on the Urban Athletic category. This is defined by the following key words that set the core pillars of our brand: *tailored lifestyle, innovation, and urban athletic*.

RYU is an omni-channel retailer. In Canada, we sell our products at our four retail stores, through wholesale accounts, and online via our e-commerce site that can be reached at www.ryu.com. In the United States we sell our products online via our e-commerce site at www.ryu.com and through wholesale accounts.

OPERATIONAL AND BUSINESS HIGHLIGHTS

Operations highlights

Revenue for the nine months ended September 30, 2017 was \$1,853,460, 108% higher than revenue of \$892,199 during the nine months ended September 30, 2016. Our financial results have been encouraging with continued sales growth in 2017 and generating a positive 46% gross profit percentage. Third quarter results include revenue from our Park Royal location, which opened March 28, 2017, and our Queen Street West location, which opened September 19, 2017.

Revenues, cost of sales and gross profit during the three and nine months ended September 30, 2017 and 2016 were as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2017	2016 (Note1)	% Change	2017	2016 (Note1)	% Change
Revenue	\$ 745,226	\$ 331,700	125%	\$ 1,853,460	\$ 892,199	108%
Cost of sales	406,437	192,348	111%	1,000,639	478,669	109%
Gross profit	\$ 338,789	\$ 139,352	143%	\$ 852,821	\$ 413,530	106%
Gross profit %	45%	42%	3%	46%	46%	0%

Note 1: Revenue and gross profit in 2016 have been updated for an immaterial reclassification relating to the treatment of certain marketing gift cards.

RYU continues to show a balanced ratio of apparel sales between men and women at 52% and 48% respectively in the third quarter of 2017 and at 51% and 49% respectively in the nine months ended September 30, 2017. By identifying an underserved gap in the industry for men, and developing the Beautiful Tough brand positioning that's resonating with women, RYU has achieved an enviable gender balance that is unprecedented in the industry.

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

	September 30, 2017	January 1, 2015	% Change
Assets	\$ 6,017,591	\$ 759,307	693%
Liabilities	957,371	1,562,739	(39%)
Equity	\$ 5,060,220	\$ (803,432)	730%

As at September 30, 2017, RYU had equity of \$5,060,220. When RYU’s rebranding began on January 1, 2015, the Company had an equity deficiency of \$803,432. During this same period of time our team has grown RYU’s assets from \$759,307 to \$6,017,591 with innovative inventory that has net realizable value and a new portfolio of award-winning retail stores. We also reduced our liabilities by repaying all outstanding debt with related parties.

As at September 30, 2017, RYU’s deficit amounted to \$53,138,670. Since January 1, 2015, the Company has incurred \$21,898,233 in comprehensive losses to build the RYU we see today. The balance of \$31,240,437 is the legacy deficit from the old RYU, which targeted the mixed martial arts market and that was completely shut down in the year 2014. The Company absorbed the legacy deficit for the future potential of the tax loss carryforwards.

Business highlights

Our omni-channel expansion plan is to have five stores open by the end of 2017 and to continue to execute our digital strategy. We continue to build the brand to have a 50:50 “bricks and clicks” business model by the year 2021.

Bricks and clicks expansion plan	Opening Date / Target
<i>E-commerce</i>	
netamorphosis engaged	July 2017
New e-commerce platform and design target date	Q2 2018
2020 e-commerce revenue target	\$11 million
<i>Retail</i>	
2018 revenue goal	+100% YoY growth
<i>Existing Stores</i>	
Vancouver – West 4 th Avenue (Flagship)	November 2015
Vancouver – Thurlow Street	November 2016
West Vancouver – Park Royal South	March 2017
Toronto – Queen Street West	September 2017
<i>New Stores Under Construction</i>	
Burnaby – Metropolis at Metrotown	November 2017
Brooklyn NYC - Williamsburg	Q2 2018

E-commerce

Significant investment is going into our e-commerce strategy. During the nine months ended September 30, 2017 e-commerce revenue represented 17% of total revenue.

In July 2017, RYU retained award winning digital and creative agency netamorphosis from NYC to facilitate and maximize RYU’s digital and ecommerce business across the United States and globally. Work has begun to further accelerate and expand e-commerce revenue and performance. High priority tasks will start to deploy in the fourth quarter of 2017 and will continue into the first half of 2018.

RYU accelerated its reach and performance in the e-commerce space during the third quarter of 2017. Overall traffic increased 12.38% versus the prior quarter and 168% versus the third quarter of 2016. In the third quarter of 2017, direct traffic to ryu.com increased 39%, while traffic generated from email marketing increased 31%.

Retail stores

We currently have four stores in operation and one under construction. Our Park Royal South location opened in the last week of March 2017 and our Queen Street West location in Toronto opened in mid-September 2017. In the fourth quarter of 2017 we will see the opening of our first enclosed mall location at Metrotown in Vancouver.

Our four existing retail stores are designed by award-winning architect Tony Robins with the same industrial, yet modern aesthetic look as RYU's award winning flagship store in Kitsilano (2016 - "Best New Store" by London-based trend forecasting website WGSN).

During the third quarter of 2017 we secured our first USA retail store location in Williamsburg, in the New York City (“NYC”) borough of Brooklyn. The 2,800 ft² store in the newly renovated heritage building on 76, North 4th St. will perfectly connect our brand’s urban aesthetic and appeal with Williamsburg’s style and community. As at September 30, 2017 the commencement date on the lease had not yet started.

Williamsburg has emerged in recent years as a pop-culture darling becoming a beacon of Brooklyn creativity and a force in defining NYC trends. Williamsburg is a hip neighborhood that draws the young and the fashionable to its chic boutiques, trendy cafes and top rated restaurants. RYU’s shopping district neighbours include international brands such as Apple, Equinox, Whole Foods, Soulcycle, and RRL, as well as local companies like McNally Jackson and BlueBottle Coffee. It is the perfect environment for RYU to flourish as we expand into the USA.

Inventory strategy

During the nine months ended September 30, 2017 our sales channels started to see a flow of new product following a challenging period of approximately six months during which we experienced shortages in styles and sizes and sold out of bags due to popular demand. In 2017 we have dedicated significant resources to produce innovative new product, place inventory deposits to fill gaps, and restock our core items. Deliveries of our 2017 buy plan began at the end of the second quarter of 2017 and are scheduled to continue into the first quarter of 2018. The goal is to achieve a constant flow of new styles at our stores.

As a result of the recent deliveries of finished goods inventory and our continued efforts to refresh our inventory stock, our closing inventory as at September 30, 2017 increased 74% to \$1,857,378 from \$1,067,560 at December 31, 2016, and our inventory deposits increased 448% to \$630,459 from \$115,017.

Community activation

In the third quarter of 2017 RYU expanded its local community to the Canadian East Coast. We focused on partnering with events specifically in the Greater Toronto Area including CanFit Pro Toronto, The OCourse and sponsoring dozens of fitness classes at prominent facilities, all in preparation for the grand opening celebration of our Queen Street West location in October 2017. In addition to building community on the East Coast, RYU built brand awareness and engagement at numerous other events around North America, most notably the IDEA World Fitness Convention in Las Vegas, NV and Crankworks in Whistler, BC.

Back in Vancouver, BC, RYU continued to connect and support the local community with many larger activations at citywide events such as the Khatsalano Street Festival, Kits Fest and the renowned Vancouver Pride Parade. RYU was also a major sponsor at multiple athletic competitions including the North American Parkour Championships, Ruben's Throwdown, and the CanWest Games. In total, RYU participated in 13 off-site events during the third quarter of 2017, introducing the brand to over 200,000 people.

Outlook for 2017

The principal business objective that we expect to accomplish in 2017 is to continue to build the RYU brand and deliver our products to a larger audience through an expanded geographic presence. This will be accomplished by continued improvements to our e-commerce platform and by opening one additional retail store in Canada located at Metrotown, Burnaby, British Columbia, Canada with a targeted opening in the fourth quarter of 2017.

RYU will require additional capital in 2017 to fulfill our objectives and the net proceeds from those financings will be used to invest in capital expenditures, to design and procure the inventory needed to supply our sales channels, to launch our global omni-channel marketing plan in the second quarter of 2018, and to support our operating activities as we continue to build the scale of the business to a sustainable level.

Equity

During the nine months ended September 30, 2017 we completed the following capital raising activities to fund our growth plans:

- On February 2, 2017, the Company closed a short form prospectus offering, raising gross proceeds of \$3,734,441 for the Company. Canaccord Genuity Corp. (the “Agent”) acted as an agent for the Company with respect to the sale of 24,896,271 common shares of the Company (the “Shares”) at a price of \$0.15 per Share. The Shares were sold pursuant to an agency agreement dated January 24, 2017 between the Company and the Agent (the “Agency Agreement”).

In consideration of the services performed by the Agent under the Agency Agreement, the Company: (i) paid the Agent a commission of \$261,411 in cash; and (ii) issued to the Agent and members of its selling group an aggregate of 1,742,739 warrants entitling the Agent and members of its selling group to acquire up to an aggregate of 1,742,739 common shares of the Company at a price of \$0.20 per common share until February 2, 2019. In addition, the Company paid the Agent a corporate finance fee of \$125,000, consisting of \$62,500 in cash and \$62,500 in common shares of the Company (the "Corporate Finance Shares"), issued at a price equal to \$0.15 per Share, being equal to 416,666 Corporate Finance Shares. The Company has also reimbursed the Agent for expenses incurred by the Agent in connection with the Offering in the amount of \$81,500.

- On May 18, 2017, the Company settled amounts owing for services through the issuance of 113,036 common shares valued at \$11,304.
- On May 31, 2017, the Company settled amounts owing for services through the issuance of 138,155 common shares valued at \$11,743.
- On June 22, 2017, the Company closed a non-brokered private placement financing of \$2,252,841 consisting of the issuance of 25,031,570 units of the Company at a price of \$0.09 per unit. Each unit consists of one common share of the Company and one share purchase warrant. Each Warrant is exercisable into one common share at a price of \$0.135 for a period of two years.
- On June 28, 2017, the Company settled amounts owing for services through the issuance of 124,340 common shares valued at \$12,434.
- On July 25, 2017, the Company raised gross proceeds of \$3,737,500 through a short form prospectus. The Agent acted for the Company with respect to the sale of 41,527,778 units of the Company (the "Units") at a price of \$0.09 per Unit. Each Unit consists of one common share of the Company (a "Share") and one transferable common share purchase warrant (each, a "Warrant"). Each Warrant is exercisable into one Share until July 25, 2019, at an exercise price of \$0.135. The Units were sold pursuant to an agency agreement dated July 10, 2017 between the Company and the Agent (the "Agency Agreement").

In consideration for the services performed by the Agent under the Agency Agreement, the Company: (i) paid the Agent a commission of \$245,569 in cash; and (ii) issued to the Agent and a member of its selling group an aggregate of 2,728,540 warrants entitling the Agent and a member of its selling group to acquire up to an aggregate of 2,728,540 common shares of the Company at a price of \$0.135 per common share until July 25, 2019. In addition, the Company paid the Agent a corporate finance fee of \$25,000, consisting of \$12,500 in cash and \$12,500 in common shares of the Company (the "Corporate Finance Shares"), issued at a deemed price equal to \$0.09 per Share, being equal to 138,888 Corporate Finance Shares. The Company has also reimbursed the Agent for expenses incurred by the Agent in connection with the Offering in the amount of \$73,500.

OVERALL PERFORMANCE

Since August 2014, when our current management took over RYU, our team has been able to establish and build a brand that has gained sufficient traction to market and sell products at full price year-round versus traditional retailers.

As at September 30, 2017, RYU had equity of \$5,060,220. When RYU's rebranding began on January 1, 2015, the Company had an equity deficiency of \$803,432. During this same period of time our team has grown RYU's assets from \$759,307 to \$6,017,591 with innovative inventory that has net realizable value and a new portfolio of retail stores, and reduced our liabilities by repaying all outstanding debt with related parties.

As at September 30, 2017, RYU's deficit amounted to \$53,138,670. Since January 1, 2015, the Company has incurred \$21,898,233 in comprehensive losses to build the RYU we see today. The balance of \$31,240,437 is the legacy deficit from the old RYU, which targeted the mixed martial arts market and that was completely shut down in the year 2014. The Company absorbed the legacy deficit for the future potential of the tax loss carryforwards.

Overall, RYU continues to be in a stage of investment since we went live with the new RYU on November 27, 2015. In 2016, we started to build the scale of the business by operating our Flagship store on West 4th Avenue in Vancouver and by opening our second retail store location on 805 Thurlow Street in Vancouver. Now into our second year of operations, in 2017 we have opened our third location in Park Royal, our fourth location in Queen Street in Toronto and we have one store under construction at Metrotown Mall in Vancouver. We also entered into our first lease location in New York with a targeted opening of mid-2018. The results of the new RYU have been encouraging with continued sales growth for the nine months ended September 30, 2017 and by generating a 46% gross profit.

Until we reach the break-even level, our operations will continue to generate a loss and as a result net cash flows used in operating activities for the nine months ended September 30, 2017 and 2016 were \$7,561,572 and \$4,525,667 respectively. The Company also generated a comprehensive loss for the nine months ended September 30, 2017 and 2016 of \$6,647,661 and \$3,840,465 respectively.

Cash flows from investing activities during the nine months ended September 30, 2017 and 2016 were \$1,140,493 and \$218,161 respectively. During the nine months ended September 30, 2017 we built our third and fourth retail stores and started to build our fifth location while during the nine months ended September 30, 2016 we did not spend significantly on leasehold improvements due to capital constraints.

As at September 30, 2017 and December 31, 2016 we had working capital of \$2,484,477 and \$1,186,222 respectively and cash of \$701,582 and \$767,263 respectively. During the nine months ended September 30, 2017 we funded operations by raising capital through the issuance of common shares for gross proceeds of \$9,724,782 while in the nine months ended September 30, 2016 we funded operations with the continued support of our related parties with short-term and long-term loans, by issuing shares for debt, and by raising capital via private placements. Our team is diligently working to raise the capital needed to build the business. As a result, for the nine months ended September 30, 2017 and 2016, net cash flows provided from financing activities were \$8,636,384 and \$4,861,226 respectively.

DISCUSSION OF OPERATIONS

The following table provides selected unaudited financial information for the nine months ended September 30, 2017 and 2016, in accordance with IFRS:

(in Canadian dollars, unless noted otherwise)

	Nine months ended September 30,	
	2017	2016 (Note 1)
Presentation currency	(C\$)	(C\$)
Functional currency	(C\$)	(C\$)
Revenue	\$ 1,853,460	\$ 892,199
Gross profit (loss)	852,821	413,530
Other comprehensive income (loss)	(6,647,661)	(3,840,465)
Other comprehensive income (loss) per share – basic and diluted	(0.03)	(0.04)
Total assets	6,017,591	2,855,517
Total long-term financial liabilities	48,360	92,104
Cash dividend	-	-

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

For the three months ended September 30, 2017

Revenue

Revenue during the three months ended September 30, 2017 and 2016 was \$745,226 and \$331,700, respectively. Revenue increased by 125% in 2017 from 2016. Third quarter revenue in 2016 comprised primarily of sales from the Flagship retail store and e-commerce sales, whereas third quarter revenue in 2017 included additional sales from the Thurlow and Park Royal retail stores. Our Toronto retail store at Queen Street West opened in mid-September 2017.

Cost of sales

Cost of sales during the three months ended September 30, 2017 and 2016 was \$406,437 and \$192,348, respectively. The increase of 111% is aligned with the increase in revenue.

Gross profit

Gross profit during the three months ended September 30, 2017 and 2016 was \$338,789 and \$139,352 respectively, an increase of 143%, in line with the increase in revenue. Gross profit of 45% was achieved in the third quarter of 2017 versus 42% in 2016.

Expenses

Expenses for the three months ended September 30, 2017 and 2016 were \$2,705,913 and \$1,791,632 respectively. The increase of 51% is primarily due to the following factors:

- Depreciation increased 78% to \$117,709 from \$65,972 as we are now depreciating leasehold improvements for four retail stores versus one.
- Foreign exchange expense decreased by 125% to a gain of \$9,167 from a loss of \$37,333 due to the fluctuation of the Canadian dollar against the US dollar.
- Interest and bank charges decreased by 46% to \$20,859 from \$38,293 as we settled all our interest bearing debt in the fourth quarter of 2016.
- Investor relations increased by 130% to \$36,970 from \$16,077, an immaterial variance, as we did not partake in material investor relation activities during the quarter. Our current investor relation expenditures comprise press release dissemination services, product promotion, and distribution branding services for our TSX Venture listing. \$15,000 of the expense in the 2017 period is the recognition of a prepaid expenditure for a contract entered into in early-2016 that ended in the third quarter of 2017.
- Office and general expenses increased by 142% to \$720,079 from \$297,232 as our retail operating costs, particularly rent, and warehousing costs increased with the scale of our operations. Effective June 1, 2017 the Company is paying rent for all of its five retail locations.
- Product creation expenses decreased by 13% to \$121,354 from \$139,119 as some of our contract design team from 2016 was replaced with salaried employees.
- Professional fees increased by 4% to \$164,178 from \$158,005, an immaterial variance, as we are now properly classifying the cost of our consultants based on the substance of their services. Our professional fees are currently a mix of legal, accounting, and corporate consulting fees.
- Salaries and benefits increased by 61% to \$1,030,507 from \$638,951 because we increased our retail operations team to staff our Thurlow, Park Royal and Queen Street West stores versus one store at West 4th.

- Selling and marketing expenses increased by 61% to \$396,156 from \$245,657. In the third quarter of 2017 we continued to develop our marketing strategy. We invest in print media, public relations, social media, community events, product promotion, and digital marketing.
- Share based payments decreased 69% to \$35,686 from \$114,002 due to the graded vesting conditions of stock options granted in previous periods. In the third quarter of 2017 RYU granted stock options for the purchase of up to 225,000 common shares of the Company, at a price of \$0.10 per common share versus nil in the third quarter of 2016.

Comprehensive loss

During the third quarter of 2017 we recognized a comprehensive loss of \$2,367,124 whereas in the third quarter of 2016 we recognized comprehensive loss of \$1,420,175. The loss was 67% higher than in 2016 due to the 2016 recovery of the warrant derivative of \$232,105 related to warrants denominated in US currency which are now reported in Canadian dollars. Without this outlier, comprehensive loss in the third quarter of 2017 and 2016 would have been \$2,367,124 and \$1,652,280 respectively, a 43% increase over the periods. This increase quantified as \$714,844 is mostly due to variances in gross profit net of higher occupancy costs and depreciation from running four retail stores versus one.

For the nine months ended September 30, 2017

Revenue

Revenue during the nine months ended September 30, 2017 and 2016 was \$1,853,460 and \$892,199, respectively. Revenue increased by 108% in 2017 from 2016. Revenue in 2016 comprised primarily of sales from the Flagship retail store that opened November 2015 and e-commerce sales that started December 2015 whereas revenue in 2017 included additional sales from the Thurlow and Park Royal retail stores and e-commerce sales from our improved website that had a higher visitor traffic than in early 2016. Our Toronto retail store at Queen Street West opened in mid-September 2017.

Cost of sales

Cost of sales during the nine months ended September 30, 2017 and 2016 was \$1,000,639 and \$478,669, respectively. The increase of 109% is aligned with the increase in revenue.

Gross profit

Gross profit during the nine months ended September 30, 2017 and 2016 was \$852,821 and \$413,530 respectively, an increase of 106%. Gross profit of 46% in 2017 was in line with gross profit of 46% in 2016.

Expenses

Expenses for the nine months ended September 30, 2017 and 2016 were \$7,508,185 and \$5,968,224 respectively. The increase of 26% is primarily due to the following factors:

- Depreciation increased 67% to \$308,318 from \$184,618 as we are now depreciating leasehold improvements for four retail stores versus one and we accelerated the depreciation of our Squamish lab. The physical location of the Squamish lab was no longer needed because our contract designers secured their own space and we moved the equipment to our corporate office for our design team to use. The 37.5 lab concept prevails.
- Foreign exchange expense increased by 126% to a loss of \$24,347 from a gain of \$93,636 due to the fluctuation of the Canadian dollar against the US dollar.
- Interest and bank charges decreased by 61% to \$57,176 from \$145,506 as we settled all our interest bearing debt in the fourth quarter of 2016.
- Investor relations decreased by 74% to \$172,081 from \$657,215 as we did not partake in material investor relation activities. Our current investor relation expenditures comprise press release dissemination services, product promotion, and distribution branding services for our TSX Venture listing. \$65,000 of the expense in the 2017 period is the recognition of a prepaid expenditure for a contract entered into in early-2016 that ended in the third quarter of 2017.

- Office and general expenses increased by 127% to \$1,756,584 from \$774,836 as our retail operating costs, particularly rent and warehousing costs, increased with the scale of our operations. Effective June 1, 2017 the Company is paying rent for all of its five retail locations.
- Product creation expenses increased by 35% to \$437,138 from \$323,598 as we have spent approximately \$100K more in design costs for the development of our fall 2017 and spring 2018 product lines.
- Professional fees decreased by 64% to \$352,182 from \$991,450 as we are now properly classifying the cost of our consultants based on the substance of their services and we also issued less shares for services in the period. During the nine months ended September 30, 2017 and 2016 we issued shares for services valued at \$35,481 and \$140,600 respectively. Our professional fees are currently a mix of legal, accounting, and corporate consulting fees whereas in the first nine months of 2016 we had not yet classified contractor services based on substance so this line incorporated some marketing, merchandising, and design fees.
- Salaries and benefits increased by 32% to \$2,691,296 from \$2,032,972 because we increased our retail operations team to staff our Thurlow, Park Royal and Queen Street West stores versus one store at West 4th. We also converted or replaced certain contractors for employees during 2016 and 2017.
- Selling and marketing expenses increased by 106% to \$1,255,778 from \$608,705 as we continued to develop our marketing strategy for the 2017 year and because 2017 expenses also incorporate contractor costs that were improperly classified as professional fees during 2016. We invest in print media, public relations, social media, community events, product promotion, and digital marketing.
- Share-based payments increased 9% to \$291,454 from \$267,076 as a result of granting 3,625,000 stock options in 2017 versus 2,885,000 in 2016 and the different valuations and vesting conditions attached to those grants.
- Travel and entertainment increased by 113% to \$161,832 from \$75,884 due to our retail expansion plan in Toronto and NYC and our participation in certain trade shows and other marketing activities in Canada and the USA.

Comprehensive loss

During the nine months ended September 30, 2017 and 2016 we recognized a comprehensive loss of \$6,647,661 and \$3,840,465 respectively. The 2017 loss was 73% higher than in 2016 due to the 2016 recovery of the warrant derivative of \$1,499,609 related to warrants denominated in US currency which are now reported in Canadian dollars and the \$214,620 gain on settlement of debt in 2016. Without these outliers, RYU's comprehensive loss during the nine months ended September 30, 2017 and 2016 would have been \$6,655,364 and \$5,554,694 respectively, a 20% increase over the periods. This increase quantified as \$1,100,670 is mostly due to the higher occupancy costs attached to running four versus one retail stores, net of the additional gross profit generated.

Total assets

Assets as at September 30, 2017 and December 31, 2016 were \$6,017,591 and \$3,799,602 respectively. Assets in 2017 increased primarily due to changes in current assets and investing in leasehold improvements at our new store locations. We had \$472,233 higher prepaid expenses and deposits from placing new deposits on inventory purchases and \$789,818 higher inventory as a result of the recent deliveries of finished goods inventory. We also placed deposits of \$224,785 for new retail store locations and invested \$1,089,064 in leasehold improvements and computers in the nine months ended September 30, 2017.

Long term liabilities

Long term liabilities as at September 30, 2017 and December 31, 2016 were \$48,360 and \$70,999 respectively. As at September 30, 2017, our long-term liabilities consist solely of our finance lease for ryu.com. We no longer recognize a warrant derivative liability as the amount is immaterial.

SUMMARY OF QUARTERLY RESULTS

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

	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Presentation currency	(C\$)	(C\$)	(C\$)	(C\$)
Functional currency	(C\$)	(C\$)	(C\$)	(C\$)
Revenue	745,226	641,231	467,003	474,844
Gross profit (loss)	338,789	294,776	219,256	214,336
Operating expenses (recovery)	2,705,913	2,475,870	2,326,402	1,995,533
Comprehensive Income (loss)	(2,367,124)	(2,181,094)	(2,099,443)	(1,781,197)
Comprehensive loss per share (Basic and Diluted)	(0.01)	(0.01)	(0.01)	(0.01)
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
	(Note 1)	(Note 1)	(Note 1)	
Presentation currency	(C\$)	(C\$)	(C\$)	(C\$)
Functional currency	(C\$)	(C\$)	(C\$)	(C\$)
Revenue	331,700	300,773	259,727	254,664
Gross profit (loss)	139,352	139,185	134,994	(428,933)
Operating expenses (recovery)	1,559,527	1,819,379	875,090	(2,196,410)
Comprehensive Income (loss)	(1,420,175)	(1,680,194)	(740,096)	1,767,477
Comprehensive Income (loss) per share (Basic and Diluted)	(0.01)	(0.02)	(0.01)	0.03

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

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

The last eight quarters show a consistent growth trend in revenue and this is RYU's ninth consecutive quarter of increasing gross profit. Our fourth retail store location opened September 19, 2017 at Queen Street West, in Toronto, ON and our third retail location opened on March 28, 2017 at Park Royal South, in West Vancouver, BC. Therefore, the third quarter in 2017 is RYU's second reporting period incorporating revenue from our three retail store locations in Vancouver and our e-commerce site. Operating expenses have increased with the additional occupancy costs and depreciation attached to these locations.

The year ended December 31, 2016 marked the first full year of operations for the new RYU as the rebranded RYU product line was launched on November 27, 2015 when we opened our Flagship Store in Vancouver, BC. Our second retail store location opened on November 25, 2016 at 805 Thurlow Street, in Vancouver, BC. This resulted in a consistent increasing trend in revenue.

The scale of our retail operations does not yet match our level of spending and as a result we reported comprehensive losses in each of the quarters in 2016 and the first three quarters of 2017. We continue to work on building the scale of our business and brand and we intend to open an additional retail store in the fourth quarter of 2017. We also intend to continue to invest in our omni-channel strategy. Since the first quarter of 2016 our operating expenses have increased with the scale of the business and by the end of the second quarter of 2017 the Company was paying rent for two retail store locations that had not yet opened for business.

To understand quarterly gross profit (loss) in 2015 we note that we significantly wrote down the inventory on-hand at December 31, 2015 for old RYU items received in 2015 as its fair market value was deemed to be less than its net realizable value.

In the fourth quarter of 2015 we also recorded a \$2,679,309 recovery of the warrant derivative liability in connection with our US dollar denominated warrants, thus reporting a recovery in our operating expenses and comprehensive income for the quarter.

LIQUIDITY AND CAPITAL RESOURCES

To build RYU into an iconic global brand, we need to continue to raise capital. The proceeds will be used to develop our omni-channel strategic plan that uses a balanced approach of investment between building our e-commerce business and opening a select number of new retail stores. As a young growth company we are cognizant that as at September 30, 2017 we were not capable of sustaining our working capital requirements. In order to reach sustainable business operations, we will continue our plan of opening additional retail stores and building authentic brand awareness in our communities, which in turn is anticipated to result in higher demand for our products and a positive return to our shareholders.

Our cash balance as of September 30, 2017 was \$701,582 compared to \$767,263 as of December 31, 2016. As of September 30, 2017, we had current assets of \$3,393,488 current liabilities of \$909,011 and working capital of \$2,484,477 compared to a working capital of \$1,186,224 as of December 31, 2016.

During the nine months ended September 30, 2017 our operating activities were funded by:

- Retail sales of our Flagship, Thurlow and Park Royal retail stores and e-commerce totaling \$1,853,460;
- A short form prospectus offering that closed on February 2, 2017, raising gross proceeds of \$3,734,441;
- A non-brokered private placement that closed on June 22, 2017, raising gross proceeds of \$2,252,841; and
- A short form prospectus offering that closed on July 26, 2017, raising gross proceeds of \$3,737,500.

We manage the capital structure and make 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 the 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.

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

CONTRACTURAL OBLIGATIONS AND COMMITMENTS

Finance lease

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

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

	September 30, 2017	December 31, 2016
Current portion	\$ 13,930	\$ 14,779
Non-current portion	48,360	63,296
	<u>\$ 62,290</u>	<u>\$ 78,075</u>

Operating leases

The Company has obligations under operating leases for its corporate office facility and for its retail store. The leases expire at various dates through 2022.

Year	Operating leases
2017	\$ 365,311
2018	1,810,807
2019	1,975,376
2020	1,702,454
2021	1,528,205
Thereafter	3,526,036
Total	<u>\$ 10,908,189</u>

On August 31, 2017 the Company entered into an unconditional guaranty of payment and performance in relation to the ten-year lease agreement between Respect Your Universe Inc. and its landlord for its upcoming NYC retail store location. As at September 30, 2017, the Company's undiscounted obligation under this lease totaled \$5,094,151.

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

CLAIMS AND LAWSUITS

Neither the Company nor any of its property was a party to, or the subject of, any material legal proceeding since January 1, 2017, nor is the Company currently party to any material legal proceeding to its business. From time to time, however, the Company may be subject to various claims and legal actions arising in the course of its business.

CONTINGENT LIABILITY

None.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The fair value of our cash, accounts receivable, deposits, and accounts payable as at September 30, 2017 and December 31, 2016 approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

Financial liabilities measured at fair value at September 30, 2017 and December 31, 2016 consisted of the derivative financial liability, which is measured using level 3 inputs, which are inputs that are not based on observable market data. The fair value of the derivative liability was determined by the Black-Scholes option pricing model using the historical volatility as an estimate of future volatility.

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the nine months ended September 30, 2017 and 2016 was as follows:

	September 30, 2017	September 30, 2016
Consulting fees (included in professional fees)	\$ -	\$ 12,000
Salaries and benefits	330,865	232,577
Share based payments	162,804	30,670
	\$ 493,669	\$ 275,247

Remuneration paid to related parties other than key personnel during the nine months ended September 30, 2017 and 2016 was as follows:

	September 30, 2017	September 30, 2016
Consulting fees (included in professional fees)	\$ 40,500	\$ 79,074
Salaries and benefits	24,330	59,718
Share based payments	-	13,515
	\$ 64,830	\$ 152,307

Accounts payable and accrued liabilities:

As at September 30, 2017, \$9,565 (December 31, 2016 - \$33,311), is included in accounts payable for amounts owing for products and services provided by Naturo Group Investments Inc. (“Naturo”), a company owned by the CEO.

Transactions with related parties:

During the nine months ended September 30, 2017, the Company had sales to Naturo of \$11,145 (2016 - \$44,088) and purchased goods and services from the same totaling \$122,184 (2016 – \$23,698). Through Naturo, RYU entered into a marketing partnership with the Vancouver Canucks.

On November 1, 2014, the Company entered into a sublease agreement with Naturo for its corporate office at 1672 W 2nd Avenue in Vancouver, BC. Under the agreement, the Company is required to make lease payments for a term of 5 years. During the nine months ended September 30, 2017, the Company recorded rent expense of \$102,371 (2016 – \$109,938) to the related party.

During the nine months ended September 30, 2017 the Company received and repaid \$154,000 in advances from the CEO and Naturo.

Equity:

On July 26, 2016 the Company issued 2,988,889 units of the Company at a price of \$0.09 per Unit to Alberto Leone, a family member of the CEO of the Company, Carla Leone, a family member of the CEO of the Company, and Maria Leone, a director of the Company, for gross proceeds of \$269,000. Each Unit consists of one common share and one transferable common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.135 for a period of two years.

DISCLOSURE OF OUTSTANDING SHARE DATA

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

As at:

	November 16, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Share price – closing (C\$)	\$0.065	\$0.09	\$0.10	\$0.14	\$0.14
Market capitalization (C\$)	\$16,444,031	\$22,768,659	\$21,131,843	\$26,027,586	22,477,615
Outstanding					
Shares	252,985,099	252,985,099	211,318,433	185,911,332	160,554,395
Options	11,812,500	11,960,000	12,856,250	13,076,250	10,391,250
Warrants	152,863,518	152,913,518	108,707,200	100,925,630	105,829,994

PROPOSED TRANSACTIONS

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

SUBSEQUENT EVENTS

On October 31, 2017 the Company received an unsecured non-interest bearing advance of \$350,000 from the CEO of the Company.

On November 1, 2017 the Company received an unsecured non-interest bearing advance of \$120,000 from an individual.

On November 10, 2017 the Company entered into a Promissory Note with Klondike Contracting Corporation for \$96,424. The Promissory Note carries an annual interest rate that is the greatest of 10% and the TD Canada Trust Prime Rate plus 6%. The Promissory Note matures on February 1, 2018.

On November 14, 2017 the Company received unsecured non-interest bearing advances totaling \$1,035,000 from Gaby Leone and Patrizia Leone, family members of the CEO of the Company.

NEW ACCOUNTING STANDARDS NOT YET ADOPTED

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

New standard IFRS 9 “Financial Instruments”

This new standard is a partial replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

New standard IFRS 15 “Revenue from Contracts with Customers”

This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s consolidated financial statements.

New standard IFRS 16 “Leases”

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

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Third parties may oppose the Company's trademark applications or otherwise challenge the Company's use of the trademarks.

Lululemon Athletica Canada Inc. has sought and received an extension of time to June 11, 2017 from the Canadian Intellectual Property Office to consider whether it wishes to oppose the Company's trademark application for RYU (Stylized). The Company has consented to a nine month extension of time from the Canadian Intellectual Property Office for Lululemon Athletica Canada Inc. to consider whether it wishes to oppose the Company's trademark application for RYU (Stylized). In the event that the Company's trademarks are successfully challenged, the Company could be forced to rebrand its products, which could result in loss of brand recognition and could require the Company to devote resources to advertising and marketing new brands and the Company's competitive position may suffer, which could have a material adverse effect on its financial condition.

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

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

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

Successful new store openings may also be affected by the Company's ability to initiate its marketing efforts in advance of opening additional stores in new markets. The Company typically relies on its marketing efforts to build awareness of its brand and demand

for its products. There can be no assurance that the Company will be able to successfully implement its marketing efforts in a particular market in a timely manner, if at all. Additionally, the Company may be unsuccessful in identifying new markets where its apparel and other products and brand image will be accepted or the performance of its stores will be considered successful.

The Company plans to open a store in California, USA, but the store location has not been secured at this time and may not be identified on reasonable commercial terms.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ADDITIONAL INFORMATION

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

APPROVAL

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