RYU APPAREL INC.
(the “Company” or “RYU”)
Management’s Discussion & Analysis
for the three and nine months ended September 30, 2022
Prepared as of January 30, 2023

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 unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2022, and the audited consolidated financial statements and MD&A for the year ended December 31, 2021. Readers are encouraged to review the Company’s consolidated financial statements in conjunction with this document, copies of which are filed on the SEDAR website at www.sedar.com. The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”).

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

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

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

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

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

OUR BUSINESS

RYU (Respect Your Universe) is an award winning urban athletic apparel and accessories brand engineered for the fitness, performance and lifestyle of athletically minded individuals. Innovatively designed without compromise and tailored for fit, comfort, and durability, RYU exists to facilitate human performance. RYU's products are designed, tested and developed in Vancouver, BC, Canada. Production takes place in factories located in North America and Asia.

The RYU brand was created in 2015 by a team of industry experts that identified a gap in the apparel market whereby the male athlete was underserved, and the female athletic market was dominated by yoga-inspired brands. This team transformed the RYU brand to create the new category of Urban Athletic Apparel.

Since August 2014, when the Company began to reposition its brand from primarily targeting a mixed martial arts consumer to a broader performance and lifestyle consumer, our team has been able to establish and build a brand that has gained sufficient traction to market and sell products year-round versus traditional retailers.

Overall, RYU continues to be in a stage of investment since we went live with the new RYU on November 27, 2015. In 2016, the Company started to build the scale of the business by operating our Flagship store on West 4th Avenue in Vancouver, BC. RYU is an experiential omni-channel retailer and sells its products through strategic wholesale accounts, retail and online via its e-commerce sites www.ryu.ca and www.ryu.com.

OPERATIONAL AND BUSINESS HIGHLIGHTS

Operations Highlights

Revenue for the three and nine months ended September 30, 2022, was $144,931 and $753,396 respectively compared $313,986 and $711,689 for the three and nine months ended September 30, 2021, respectively. This is a 54% decrease for the three months ended September 30, 2022, and a 6% increase for the nine months, period on period.

Revenues, cost of sales and gross profit during the three months ended September 30, 2022, and 2021 were as follows:

	Three months ended September 30,		
	2022	2021	% Change
Revenue	$ 144,931	$ 313,986	-54%
Cost of sales	97,252	223,915	-57%
Gross profit	$ 47,679	$ 90,071	-47%
Gross profit %	33%	29%	

Revenues, cost of sales and gross profit during the nine months ended September 30, 2022, and 2021 were as follows:

	Nine months ended September 30,		
	2022	2021	% Change
Revenue	$ 753,396	$ 711,689	6%
Cost of sales	554,784	567,969	-2%
Gross profit	$ 198,612	$ 143,720	38%
Gross profit %	26%	20%	

As at September 30, 2022, RYU had a shareholders' deficiency of ($7,754,076) due to accumulated losses incurred being lower than equity raised. RYU continues to invest in growth and is implementing efficiencies in its business operations. The total liabilities balance of $9,715,187 includes $2,813,671 that is related to convertible debentures. As at September 30, 2022, RYU's deficit amounted to $115,239,191.

Business Highlights

The Company underwent an omni-channel expansion plan in 2018 and 2020 which included expanding to a total of nine retail locations in North America and investing substantially in its new digital platform. The Company intended to build the brand to have a 70:30 "bricks and clicks" business model by the year 2022, but in 2020 and 2021, the Company revised its business plan to instead focus on growing its e-commerce operations and close most of its retail stores.

Under the restructuring plan announced on February 26, 2020, the Company continues to take steps to manage its inventory, reduce overall costs, increase its focus on e-commerce, and to gain significant strategic partners. The Company closed a convertible debenture private placement on March 24, 2022, for gross proceeds of $3.7 million to continue to fund this strategy.

In July 2021, the Company announced the development of four strategic pillars to set RYU on a sustained growth trajectory. Those four pillars, which are described in greater detail in our MD&A for the year ended December 31, 2021, are:

1. **Lean Organization** - Our goal is to achieve an operating ratio of <50% over the next 36 months, without losing sight of the need to build an organization that will drive brand desire.

2. **Brand** - "Movement Matters" is our governing mantra, leading to the establishment of brand positioning, target audience and creative voice for all visual assets.

3. **Product** - We have re-imagined the product creation strategy centered on our consumer. This highly productive line architecture is made up of curated and considered core styles.

4. **Digital** - Create an online experience that provides consumers with a seamless and consistent brand message across all touchpoints within the RYU ecosystem. We have brought on board seasoned eCommerce industry leadership with a proven track record of sustainable double digital growth with Athletic, Outdoor and Lifestyle brands.

E-commerce

The Company has invested significantly in its e-commerce and omni-channel strategies and the Company has seen improvements in traffic yielding increases in local and international orders. Under the restructuring plan announced on February 26, 2020, the Company intends to focus on growing its e-commerce operations.

The Company has been running its two e-commerce stores, ryu.ca and ryu.com, on the Shopify platform which provides improved navigation, enhanced discoverability and pre-ordering capabilities. RYU also runs a loyalty program (the "RYU VIP Program") whereby customers can earn loyalty points through purchases and social media engagement which can be turned into rewards. The Company is currently on the process of consolidating its online stores to facilitate greater click through and make it easier to market and promote. E-commerce sales now represent approximately 76% of all RYU sales and the Company expects to see exponential growth with the implementation of its new strategic plans.

Retail Locations

In 2022, as part of the Company's continued restructuring plan, now has closed all of its retail stores.

Retail Locations	Opening Date	Date Closed (if applicable)
Vancouver, BC – West 4th Avenue (Flagship)	November 2015	July 2022
Toronto, ON – Queen Street West	September 2017	March 2022
Brooklyn, NY – Williamsburg	November 2018	February 2022

Management and Board Changes

On May 3, 2022, the Company announced the resignation of Alex McAulay as Chief Financial Officer ("CFO").

On June 3, 2022, the Company announced Robert Lelovic, CPA, CA as the successor. Mr. Lelovic has served as CFO for numerous public companies and has a big 4 accounting firm pedigree. Mr. Lelovic resigned from the Company on September 12, 2022.

On July 27, 2022, Stephanie Crosby stepped down as a board member.

On August 4, 2022, the Company announced Daphna Edwards Ziman had joined the board. Ms. Ziman brings extensive experience which aligns with RYU as a lifestyle brand and their values of Respect, Integrity, Strength and Sustainability.

On August 10, 2022, the Company strengthened its advisory board by adding Roderick M. Sherwood III. Mr. Roderick is a Harvard and a Stanford University graduate.

Outlook

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 continue to 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 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 and experienced supply chain challenges. The closure of the Company's retail locations has led to some inventory items becoming obsolete and sold at heavily discounted prices.

Under the leadership guidance of Cesare Fazari, the Company is focusing its efforts on growing its e-commerce as well as wholesale sales channels. In January 2019, the Company launched its new RYU.com and RYU.ca websites and will continue to invest additional efforts to improve the omni-channel customer experience. In conjunction with these efforts, RYU will continue with further search engine optimization and search engine marketing strategies to drive traffic to RYU.ca and RYU.com and eventually to the new consolidated site.

On January 20, 2022, the Company announced the hiring of Zachary Beers as Marketing Director to lead the Company's omni-channel marketing efforts to attract and retain consumers in support of the Company's four-pillared growth strategy.

On February 11, 2022, the Company announced its decision to close two of its remaining three retail locations in Toronto and Brooklyn.

On March 3, 2022, the Company announced the hiring of DJM Sales Consulting "DJM" to lead global sales and oversee the company's wholesale strategy. DJM will be tasked with scaling RYU's wholesale business through the company's Three Phase Plan: digital, premium brand partners and volume retail partnership, with digital leading the way. This important part of the overall sales strategy for 2022 and beyond will play off the company's strengths of digital, brand and product. DMJ's first action was to retain Caraway & Company to act as the Company's exclusive wholesale representative in the US, effective March 3, 2022. Retaining Caraway & Company will help scale the business through nation- wide premium brand partners and volume retail partnerships that share the company's core values.

On March 15, 2022, the Company announced Careway & Company ("Careway") will act as the Company's wholesale representative across the US, promoting and wholesale RYU products to strategic retailers nationwide. Retaining Careway will help scale the business through nation-wide premium brand partners and volume retail partnerships that share the Company's core values.

On May 9, 2022, the Company announced its intent to continue with the Canada Skateboard's docu series "Keep Pushing".

On July 27, 2022, the Company announced that it, is experiencing dramatic growth in its new wholesale strategy in Q2, 2022, exceeding previous forecast expectations. The Company has forged new partnerships with several best-in-class wholesale accounts such as Nordstroms, Urban Outfitters, and Zappos. These key accounts supplement a strong wholesale roster which currently includes large partners such as Altitude Sports and Winners.

On August 3, 2022, the Company announced that it had entered the Esports Arena as the official apparel partner of the Canada Esports association.

On September 30, 2022, the company announced that it had entered Strategic Partnerships with onboarding Session Games, Playbooked and the NFL Alumni Academy to access new markets and drive innovation. The company is focusing on key areas of growth including esports, team sports and entertainment and these partnerships will expand RYU's brand awareness with qualified new audiences and drive growth into new market opportunities.

On October 5, 2022, the Company announced its relationship with Tailgate Royal to engage Football fans with football Tailgate culture, an original mobile esport as a new mobile game from Session Games.

The Company plans to re-invigorate product lines through its new culture of movement brand position with the mantra of movement matters to open up its audience to a wide range of guests and introducing them to product solutions and unique brand experiences. To empower these efforts the Company is doubling down on content creation internally. Using digital as our leading edge to drive new awareness, to achieve this the Company has on boarded a number of creative talents to support new and engaging storytelling opportunities.

With an emphasis on digital, there's a lot of potential stacking on the Company's claim in the metaverse. Web3 and its basket of technologies is here and should not be ignored. The Company is uniquely positioned to leverage its movement-based storytelling to merge online and offline experiences leveraging metaverse concepts. The Company aims to be a pioneer that sets the precedents on how direct-to- consumer brands use blockchain, NFTs, Augmented Reality and other emerging technologies and not simply follow others.

Equity

On August 10, 2022, the Company received TSX Venture approval to settle $49,574.50 of debt by issuing 991,490 common shares.

During the three months ended June 30, 2022, 900,000 warrants were exercised for 900,000 common shares.

On March 9, 2022, the Company issued 1,000,000 common shares for the release of 1,000,000 restricted share units to Rob Blair, the COO.

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 a 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 (CAD$60,917). As of the date of this report, the shares have not yet been issued.

Convertible debentures issued

On March 24, 2022, the Company closed the first tranche of its 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%. The convertible debt has 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 3 years, subject to an acceleration provision.

Out of $876,000 cash proceeds received during the three months ended March 31, 2022 (December 31, 2021, $2,846,000), $154,000 was received from the CEO of the Company (December 31, 2021 $1,796,000).

In connection with the above convertible debenture issuances, the Company incurred issuance costs of $68,634 during the three months ended March 31, 2022. A total of $62,040 was allocated to debt with remaining balance of $6,594 allocated to equity component.

On April 13, 2022, the Company had decided to terminate the offering and not proceed to close a second tranche.

OVERALL PERFORMANCE

The following is an analysis of the significant items and variances to our cash flow between the nine months ended September 30, 2022 and 2021, which helps explain our overall performance.

Nine months ended September 30,	**2022**	**2021**	**Variance Explanation**
Cash flows used in operating activities	$ (2,582,311)	$ (3,646,306)	Until we reach positive earnings, our brand will continue to require investment and our operations will continue to generate a loss. Cash used in operating activities for the nine months ended September 30, 2022, were lower when compared to the nine months ended September 30, 2021. Key contributing items which impacted the change period over period were significant differences in share-based payments as well as gain on lease modifications and terminations.
Operating cash flows before working capital changes	(3,041,919)	(2,984,377)	Operating cash used before non-cash items in the nine months ended September 30, 2022 increased versus decreased year over year.
Changes in non-cash working capital	459,608	661,929	Working capital changes in the nine months ended September 30, 2022 provided $202,321 less cash than in the comparative period in 2021. This is largely due to decreased spending on inventory and changes in accounts payable compared to the comparative period.
Cash flows used in investing activities	(686)	(2,456)	Cash flows used in investing activities represent spending on computer equipment in the nine months ended September 30, 2022.
Cash flows from financing activities	1,933,945	3,287,666	Cash flows from financing activities decreased by $1,353,722 compared to the same period in 2021. During the nine months ended September 30, 2022, cash flows from financing activities were mostly comprised of the net proceeds received for the issuance of convertible debentures representing net inflows of $843,965 and a loan received of $447,477. During the nine months ended September 30, 2021, the Company received $1,532,677 through the issuance of common shares and $1,026,828 from loans received. These amounts were partially offset by $407,839 of lease and loan payments.
Cash – closing balance	32,163	410,078	We opened 2022 with $681,215 and had a decrease in cash of $649,052 during the nine months ended September 30, 2022. This is largely due to spending on operating activities partially offset by financing activities as described above.

DISCUSSION OF OPERATIONS

The following table provides selected unaudited financial information for the nine months ended September 30, 2022, and 2021, in accordance with IFRS:

	Nine months ended September 30, 2022	2021
Presentation currency	(C$)	(C$)
Functional currency	(C$)	(C$)
Revenue	753,369	711,689
Gross profit	198,612	143,720
Comprehensive income (loss)	177,660	(9,074,909)
Comprehensive income (loss) per share – basic and diluted	0.00	(0.05)

	As at September 30, 2022	As at December 31, 2021
Total assets	1,961,111	3,009,706
Total financial liabilities	9,715,187	12,537,573

For the three months ended September 30, 2022

The following is an analysis of the significant items and variances between the three months ended September 30, 2022, and 2021.

Revenue, cost of sales and gross profit

Three months ended September 30,	2022	2021	Variance Explanation
Revenue	$ 144,931	$ 313,986	Decrease of 54% is the result of in the move to Toronto and the restructuring of the Company, as well as Covid-19 pandemic restrictions.
Cost of sales	97,252	223,915	Decrease of 57% is due to the decrease in revenue for the reasons mentioned above.
Gross profit	47,679	90,071	The decrease in gross profit is due to the decrease in revenue for the reasons mentioned above.

Expenses

Three months ended September 30,	2022	2021	Variance Explanation
Depreciation	$ 36	$ 46,886	Depreciation is a non-cash expense and will vary depending on level of assets and leased assets and expected life.
Foreign exchange loss	102,167	222,001	This is the result of fluctuations in the CAD dollar against the US dollar.
Interest and bank charges	163,033	159,280	Interest and bank charges are comprised mostly of interest charges on the Company's lease obligations. Amounts have increased comparatively because of the unpaid lease settlement liabilities.
Investor relations	17,569	73,414	The Company has streamlined its investor relations function and focused on similar results with cost reductions.
Office and general	168,015	229,461	The decrease is due to the closing of certain retail stores which have contributed to office and general expenses decreasing period on period.

Product creation	21,489	36,992	Decreased product creation for the three month ended September 30, 2022, is largely due to the timing of expenses, the existing product line and the need for modifications period on period.
Professional fees	127,745	265,690	Professional fees are decreased because the company terminated some consulting services for the restructuring and the consolidation of business activities in Toronto during the three months ended September 30, 2022.
Salaries and benefits	361,777	404,944	The decreased Salaries and benefits are related to the restructuring and the consolidation of business activities in Toronto during the three months ended September 30, 2022.
Selling and marketing	132,832	286,670	Selling and marketing costs decreased largely due to significant spending on online marketing that occurred during the comparative period as well as timing as to when expenses are incurred.
Share-based payments	-	7,121	Changes in share-based payments period over period is a result of timing of issuances, timing of vesting and inputs into the Black-Scholes pricing model which is used to determine the value of awards given.
Travel and entertainment	543	46,638	The decrease in travel costs is due to the closure of retail outlets and the restructuring and the consolidation of business activities in Toronto during the three months ended September 30, 2022
Total	$ 1,095,206	$ 1,779,097	

Comprehensive loss

Three months ended September 30,	**2022**	**2021**	**Variance Explanation**
Comprehensive loss	$ 998,092	$ 2,943,019	The comprehensive loss during the three months ended September 30, 2022 is lower than for the three months ended September 30, 2021 for a variety of reasons which include the gain on lease modification and termination.

For the nine months ended September 30, 2022

The following is an analysis of the significant items and variances between the nine months ended September 30, 2022 ,and 2021.

Revenue, cost of sales and gross profit

Nine months ended September 30	2022		2021	Variance Explanation
Revenue	$753,396	$	711,689	Increase is the result of an increased focus on e-commerce and wholesaling activities in combination with relaxing Covid-19 pandemic restrictions.
Cost of sales	554,784		567,969	Decrease is due to increased e-commerce and wholesaling activities during the period.
Gross profit	198,612		143,720	The increase in gross profit is partially attributed to increased activities as mentioned above as well as inventory reserve calculation differences between the two periods.

Expenses

Nine months ended September 30,		2022		2021	Variance Explanation
Depreciation	$	89,787	$	149,049	Depreciation is a non-cash expense and will vary depending on level of assets and leased assets and expected life.
Foreign exchange gain		(229,412)		173,323	This is the result of fluctuations in the CAD dollar against the US dollar.
Interest and bank charges		373,635		676,785	Interest and bank charges are comprised mostly of interest charges on the Company's lease obligations. Amounts have decreased comparatively as the Company has terminated several of its leases.
Investor relations		219,574		258,144	The decrease is principally due to timing of when expenses are incurred period on period.
Office and general		463,153		547,528	Office expenses are commensurate with each other period over period.
Product creation		101,597		189,813	Decreased product creation for the nine months ended September 30, 2022, is largely due to the timing of expenses, the existing product line and the need for modifications period on period.
Professional fees		584,023		962,141	Decrease in professional fees is due to significant decreased spending for accounting, consulting, and legal fees compared to the nine months ended September 30, 2021.
Salaries and benefits		1,182,320		904,389	The increase is largely due to decreased Covid-19 benefits received in the nine months ended September 30, 2022 compared to the same period in 2021.
Selling and marketing		497,496		1,282,778	During the nine months ended September 30, 2022, selling and marketing costs decreased largely due to significant spending on online marketing that occurred during comparative period.
The Share-based payments		577,562		3,045,861	Changes in share-based payments period over period is a result of timing of issuances, timing of vesting and inputs into the Black-Scholes pricing model which is used to determine the value of awards given.

Travel and entertainment	34,566	70,285	The decrease in travel costs is due to the closure of retail outlets and the restructuring and the consolidation of business activities in Toronto during the nine months ended September 30, 2022
Total	$ 3,894,301	$ 8,260,096	

Comprehensive loss

Nine months ended September 30,	2022	2021	Variance Explanation
Comprehensive income (loss)	$ 177,660	$ (9,074,909)	The comprehensive income during the nine months ended September 30, 2022 is largely due to a significant accounting gain on lease modifications and terminations of $3,927,509. There were no such gains in the comparative period and, as discussed above, operating expenditures were higher for the nine months ended September 30, 2021.

SUMMARY OF QUARTERLY RESULTS

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

	30-Sept-22	30-June-22	31-Mar-22	31-Dec-21
Presentation currency	(C$)	(C$)	(C$)	(C$)
Functional currency	(C$)	(C$)	(C$)	(C$)
Revenue	144,931	260,527	347,938	561,261
Gross profit (loss)	47,679	64,314	86,619	(147,527)
Operating expenses	1,095,206	1,467,524	1,331,570	1,683,006
Comprehensive (loss) income	(998,082)	(1,431,991)	2,604,394	(964,944)
Comprehensive (loss) income per share (Basic and Diluted)	(0.01)	(0.01)	0.01	(0.01)

	30-Sept-21	30-Jun-21	31-Mar-21	31-Dec-20
Presentation currency	(C$)	(C$)	(C$)	(C$)
Functional currency	(C$)	(C$)	(C$)	(C$)
Revenue	313,986	198,878	198,825	339,016
Gross profit	90,071	30,067	23,582	424,657
Operating expenses	1,779,097	1,884,293	4,424,740	2,172,997
Comprehensive (loss) income	(2,943,019)	(2,197,267)	(3,934,623)	(143,739)
Comprehensive (loss) income per share (Basic and Diluted)	(0.01)	(0.01)	(0.02)	(0.00)

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 results of fiscal 2020, 2021 and the first nine months of 2022 were heavily impacted by the COVID-19 pandemic as stores were forced to shut down in 2020. While COVID-19 restrictions were lessened during fiscal 2021, the pandemic had a negative impact on financial results as impaired inventory may have been sold at a heavily discounted price resulting in a negative gross margin.

While the majority of 2020 saw no revenues from its five active retail locations due to pandemic restrictions. During the second quarter of 2021, the Company negotiated the termination of leases for two further locations and re-opened its three remaining locations. Subsequent to the year ended December 31, 2021, the Company closed all of the three remaining retail locations on February 20, 2022, March 27, 2022, and July 3, 2022.

- Q3 2022: E-Commerce
- Q2 2022: One store
- Q1 2022: One store
- Q4 2021: Three stores
- Q3 2021: Three stores
- Q2 2021: Three stores, re-opened
- Q1 2021: Five stores, temporarily closed
- Q4 2020: Five stores, temporarily closed
- Q3 2020: Five stores, temporarily closed
- Q2 2020: Five stores, temporarily closed

Our operating expenses and comprehensive losses reflect the investment required to build the RYU brand from nothing into an omni-channel business that can compete on a global scale. Our investment in the business is underway including investments in e-commerce, innovative high-quality products that are easily identifiable as RYU, and a brand value proposition that connects with consumers at an emotional level. Our team is working hard to reach a break-even level of operations.

LIQUIDITY AND CAPITAL RESOURCES

To build RYU into an iconic global brand, we will continue to raise capital. The proceeds will be used to execute our omni-channel strategic plan that uses a balanced approach of investment between building our e-commerce business. To reach sustainable business operations, we will continue our plan of investing in digital marketing strategies, and building authentic brand awareness in our communities, which in turn is anticipated to result in higher demand for our products and a positive return to our shareholders.

Our cash balance as of September 30, 2022 was $32,163 compared to $681,215 as of December 31, 2021. As of September 30, 2022, we had current assets of $1,961,111 current liabilities of $6,727,956 and working capital deficit of $4,766,845 compared to working capital deficit of $3,503,660 as of December 31, 2021.

During the nine months ended September 30, 2022, our operating activities were primarily funded by:

- Revenue from our sales channels totaling $753,396;
- Net cash received from convertible debenture issuances totaling $843,965; and
- Warrants exercised which provided $49,500
- Loans from related party of $447,477.

We manage the capital structure and adjust it considering changes in economic conditions and the risk characteristics of the underlying assets. As a young growth company, issuance of equity has been the primary source of capital to date. Debt and/or equity financing may be pursued in the future as deemed appropriate to balance debt and equity. To maintain or adjust the capital structure, our Company may issue new shares, take on debt or sell assets to reduce debt. The Company did not change its approach to capital management during the nine months ended Septemer30, 2022. The Company is not subject to externally imposed capital requirements.

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Lease obligations

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

	September 30, 2022		December 31, 2021	
Current portion	$	-	$	679,280
Non-current portion		-		3,271,296
	$	-	$	3,950,576

Lease Settlement Obligations

The following is the summary of the Company's lease settlement liabilities

	September 30, 2022		December 31, 2021	
Current portion	$	352,996	$	-
Non-current portion		173,560		-
	$	526,556	$	-

CLAIMS AND LAWSUITS

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.

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. Included in trade and other payables is a provision of $229,410 (December 31 2021 - $229,410) 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. 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.

On June 13, 2022, the Company was served a claim specific to certain leased property to which it had previously reached terms of settlement as it pertains to lease costs. The Company is disputing the claim, feels that its counterclaim has merit and as such has not accrued amounts between the settled amount and the new claimed amount.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The fair value of our cash, trade and other receivables, deposits, trade and other payables, accrued liabilities, loans payable, and lease obligations as at September 30, 2022, and December 31, 2021 approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel for the nine months of 2022 and the comparable period consisted of:

Cesare Fazari, CEO, CFO and Director
Alex McAulay, former CFO (resigned May 3, 2022)
Robert Lelovic, (started June 1, 2022 and resigned September, 12 2022)
Rob Blair, COO resigned September 23 2022
Bill Marcus, Director
Roger Edwards, Director
Stefanie Crosby, Director (resigned July 27, 2022)

The remuneration of directors and key management personnel during the six months ended September 30, 2022, and 2021 was as follows:

	September 30, 2022	September 30, 2021
Salaries and benefits	$ 374,615	$ 369,981
Consulting fees (included in professional fees)	244,075	293,817
Share-based payments	139,454	1,558,744
	$ 758,144	$ 2,222,542

Other transactions with related parties:

Remuneration paid to related parties other than key personnel during the period ended September 30, 2022 and 2021 was as follows:

	September 30, 2022	September 30, 2021
Salaries and benefits	$ 80,220	$ 85,696
Consulting fees (included in professional fees)	33,829	-
Share-based payments	152,309	292,043
	$ 266,358	$ 377,739

Trade, other payables and accrued liabilities:

As at September 30, 2022, 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 September 30, 2022 is $81,333 (December 31, 2021 –$14,924) due to a company controlled by the former CFO for consulting fees.
ii. Included in trade and other payables and accrued liabilities at September 30, 2022 is $ 156,062 (December 31, 2021- $27,345) in accrued vacation owing to the CEO.

Loans from related parties:

iii. Included in loans payable is $447,477 advance from the CEO (December 31, 2021 - $nil). This is advance is non-interest bearing, unsecured, and due on demand.

Transactions with related parties:

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 a former CEO of the Company, for 800,000 common shares.

Convertible Debt:

Of the cash proceeds received in relation to the convertible debenture financing during the nine months ended September 30, 2022, $204,000 was received from the CEO of the Company.

As at September 30, 2022, convertible debentures with a total principal balance of $3,000,000 were held by the CEO of the Company and his family.

Equity:

On August 11, 2022, the Company issued 991,490 of common shares to settle debt in the amount of $49,574.50. The common shares were deemed at $0.05.

During the period ended June 30, 2022, the Company issued 900,000 shares upon the exercise of 900,000 warrants for gross proceeds of $49,500.

On June 1, 2022, the Company granted 3,500,000 options to related parties. The options are exercisable at $0.055, expire on June 1, 2027, and vest immediately.

On March 9, 2022, the Company issued 1,000,000 common shares for the release of 1,000,000 restricted share units to the COO of the Company.

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

On March 4, 2021, the Company entered into an executive employment agreement with the Company's new Chief Operating Officer ("COO"). Per the agreement, the COO was granted the following: (a) 2,000,000 options to purchase common shares of the Company at an exercise price of $0.15 per common shares vested immediately and expire on March 9, 2024. The options were fair valued at $270,254; and (b) 3,000,000 RSU's which will vest over three years in 1,000,000 unit increments on each anniversary date beginning on the one year anniversary of March 9, 2021. The RSU's were fair valued at $419,998.

On March 22, 2021, pursuant to the loan agreement with a company, 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 $163,333, the fair value of the shares were treated as debt issuance costs and are being amortized over the life of the loan.

On March 24, 2021, the Company granted 8,342,506 options to purchase common shares at an exercise price of $0.12 per common shares to one officer, two directors, and one former officer. Each option granted is exercisable for a period of three years, expiring on March 2024, and vesting immediately.

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

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

DISCLOSURE OF OUTSTANDING SHARE DATA

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

As at:

	January 27, 2023	September 30, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Share price, closing (C$)	$0.025	$0.06	$0.06	$0.07	$0.14	$0.12
Market capitalization (C$)	$5,305,706	$12,674,206	$12,316,206	$14,368,907	$28,107,814	$22,503,624
Outstanding						
Shares	212,228,256	211,236,766	205,270,100	205,270,100	200,770,100	187,530,204
Options	35,639,707	35,639,707	29,185,207	32,485,207	32,485,207	31,838,707
RSUs	2,075,000	2,075,000	3,075,000	3,075,000	3,050,000	3,050,000
Warrants	116,983,875	117,749,643	120,542,408	120,542,408	124,542,408	134,865,638

PROPOSED TRANSACTIONS

The Company continues to engage in discussions with several financing groups and intends to provide a market update when the Company's management and board decide to proceed with any such financing. As of the date of this report, there are no proposed transactions.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied, on a consistent basis, in the preparation of the consolidated financial statements are included in the Company's audited consolidated financial statements for the year ended December 31, 2021. Those accounting policies have been used throughout all periods presented in the consolidated financial statements, except as noted below.

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company does not manufacture its products or the raw materials for them and relies instead on third-party suppliers. Due to its financial condition, the Company has in the past delayed payments to its manufacturers 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 manufacturers, those manufacturers may refuse to work for the Company and it may have difficulties finding other manufacturers that are willing to make its products on terms acceptable to the Company, or which are competitive in the marketplace.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ADDITIONAL INFORMATION

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

APPROVAL

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