XPEL, Inc.

Consolidated Financial Statements

(Expressed in United States Dollars)

For the Years Ended December 31, 2018 and 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the board of directors of XPEL, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of XPEL, Inc. (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Baker Tilly Virchow Krause, LLP

We have served as the Company’s auditor since 2017.

Minneapolis, Minnesota

March 12, 2019

XPEL, INC
Consolidated Balance Sheets
(Expressed in United States Dollars)
As of December 31, 2018 and 2017

	December 31, 2018	December 31, 2017
Assets		
Current		
Cash and cash equivalents	$ 3,971,226	$ 3,498,904
Accounts receivable, net	5,554,313	5,445,036
Inventory, net	10,799,611	10,520,794
Prepaid expenses and other current assets	706,718	774,762
Total current assets	21,031,868	20,239,496
Property and equipment, net	3,384,206	2,153,233
Intangible assets, net	3,804,026	3,562,772
Goodwill	2,322,788	1,856,642
Total assets	$ 30,542,888	$ 27,812,143
Liabilities		
Current		
Revolving line of credit	$ —	$ 2,000,000
Current portion of notes payable	853,150	1,024,434
Accounts payable and accrued liabilities	6,292,093	9,718,833
Income tax payable	1,337,599	1,171,618
Total current liabilities	8,482,842	13,914,885
Deferred tax liability, net	478,864	474,440
Notes payable	968,237	927,432
Total liabilities	9,929,943	15,316,757
Stockholders' equity		
Preferred stock, $0.001 par value; authorized 10,000,000; none issued and outstanding	—	—
Common stock, $0.001 par value; authorized 100,000,000; as of December 31, 2018 and 2017, 27,612,597 issued and outstanding	27,613	27,613
Additional paid-in-capital	11,348,163	11,348,163
Accumulated other comprehensive loss	(1,190,055)	(596,683)
Retained earnings	10,617,253	1,904,719
	20,802,974	12,683,812
Non-controlling interest	(190,029)	(188,426)
Total stockholders' equity	20,612,945	12,495,386
Total liabilities and stockholders' equity	$ 30,542,888	$ 27,812,143

See accompanying notes to the consolidated financial statements

XPEL, INC
Consolidated Statements of Income
(Expressed in United States Dollars)
As of December 31, 2018 and 2017

	Year Ended December 31,	
	2018	**2017**
Revenue		
Product revenue	$ 95,526,350	$ 56,348,149
Service revenue	14,394,264	10,948,895
Total revenue	109,920,614	67,297,044
Cost of Sales		
Cost of product sales	73,656,389	48,051,461
Cost of service	2,827,620	2,561,751
Total cost of sales	76,484,009	50,613,212
Gross Margin	33,436,605	16,683,832
Operating Expenses		
Sales and marketing	6,802,241	4,945,390
General and administrative	14,802,628	9,526,937
Total operating expenses	21,604,869	14,472,327
Operating Income	11,831,736	2,211,505
Interest expense	168,389	328,402
Loss (gain) on sale of property, plant and equipment	25,733	(13,251)
Foreign exchange loss (gain)	156,309	(252,196)
Income before income taxes	11,481,305	2,148,550
Income tax expense	2,760,073	1,154,220
Net income	8,721,232	994,330
Income (loss) attributed to non-controlling interest	8,698	(53,001)
Net income attributable to stockholders of the Company	$ 8,712,534	$ 1,047,331
Earnings per share attributable stockholders of the Company		
Basic and diluted	$ 0.32	$ 0.04
Weighted Average Number of Common Shares		
Basic and diluted	27,612,597	27,326,261

See accompanying notes to the consolidated financial statements

XPEL, INC
Consolidated Statements of Comprehensive Income
(Expressed in United States Dollars)
Years Ended December 31, 2018 and 2017

	Year Ended December 31,	
	2018	**2017**
Other comprehensive income		
Net income	$ 8,721,232	$ 994,330
Foreign currency translation	(603,673)	238,410
Total comprehensive income	8,117,559	1,232,740
Total comprehensive income attributable to:		
Stockholders of the Company	8,119,162	1,268,409
Non-controlling interest	(1,603)	(35,669)
Total comprehensive income	$ 8,117,559	1,232,740

See accompanying notes to the consolidated financial statements

XPEL, INC
Consolidated Statements of Changes in Equity
(Expressed in United States Dollars)
As of December 31, 2018 and 2017

Year ended December 31, 2018

	Common Stock							
	Shares	Amount	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Equity attributable to Stockholders of the Company	Non-Controlling Interest	Total Stockholders' Equity
Balance as of December 31, 2016	25,784,950	$ 25,785	$ 8,774,478	$ 857,388	$ (817,761)	$ 8,839,890	$ (152,757)	$ 8,687,133
Issuance of common stock	1,827,647	1,828	2,611,701	—	—	2,613,529	—	2,613,529
Common stock issuance costs	—	—	(38,016)	—	—	(38,016)	—	(38,016)
Net income	—	—	—	1,047,331	—	1,047,331	(53,001)	994,330
Foreign currency translation	—	—	—	—	221,078	221,078	17,332	238,410
Balance as of December 31, 2017	27,612,597	27,613	11,348,163	1,904,719	(596,683)	12,683,812	(188,426)	12,495,386
Net income	—	—	—	8,712,534	—	8,712,534	8,698	8,721,232
Foreign currency translation	—	—	—	—	(593,372)	(593,372)	(10,301)	(603,673)
Balance as of December 31, 2018	27,612,597	$ 27,613	$ 11,348,163	$ 10,617,253	$ (1,190,055)	$ 20,802,974	$ (190,029)	$ 20,612,945

See accompanying notes to the consolidated financial statements

XPEL, INC
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)
Years Ended December 31, 2018 and 2017

	Year Ended December 31,	
	2018	**2017**
Cash flows from operating activities		
Net income	$ 8,721,232	$ 994,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	735,983	594,712
Amortization of intangible assets	642,801	537,334
Loss (gain) on sale of property and equipment	25,733	(13,251)
Bad debt expense	190,230	308,891
Deferred income tax	(86,218)	(221,873)
Accretion on notes payable	43,416	78,957
Changes in current assets and liabilities:		
Accounts receivable	(261,256)	(788,524)
Inventory, net	11,148	(2,546,671)
Prepaid expenses and other current assets	132,682	(244,716)
Accounts payable and accrued liabilities	(3,635,246)	3,472,092
Income tax payable	276,280	846,175
Net cash provided by operating activities	6,796,785	3,017,456
Cash flows used in investing activities		
Purchase of property, plant and equipment	(2,030,314)	(1,499,762)
Proceeds from sale of property, plant and equipment	155,277	39,500
Acquisition of subsidiaries, net of cash acquired and notes payable (Note 6)	(831,934)	(659,132)
Development of intangible assets	(386,985)	(207,787)
Net cash used in investing activities	(3,093,956)	(2,327,181)
Cash flows from financing activities		
Net repayments on revolving credit agreement	(2,000,000)	(500,000)
Repayment of bank loan payable	(440,126)	(565,240)
Repayments of notes payable - acquisitions	(658,055)	(468,484)
Proceeds from issuance of common stock	—	2,613,529
Common share issuance costs	—	(38,016)
Net cash (used in) provided by financing activities	(3,098,181)	1,041,789
Net change in cash and cash equivalents	604,648	1,732,064
Foreign exchange impact on cash and cash equivalents	(132,326)	(94,249)
Increase in cash and cash equivalents during the period	472,322	1,637,815
Cash and cash equivalents at beginning of year	3,498,904	1,861,089
Cash and cash equivalents at end of year	$ 3,971,226	$ 3,498,904
Supplemental schedule of non-cash activities		
Notes payable issued for acquisitions	$ 998,668	$ 382,141
Contingent consideration	$ —	$ 157,724
Forgiveness of debt for acquired entities	$ 88,216	$ —
Supplemental cash flow information		
Cash paid for income taxes	$ 2,514,727	$ 452,173
Cash paid for interest	$ 86,417	$ 245,986

See accompanying notes to the consolidated financial statements

(Expressed in United States Dollars)

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Nature of Business - XPEL, Inc. (the "Company") is based in San Antonio, Texas and sells, distributes, and installs after-market automotive products, including automotive paint protection film, headlight protection film, automotive window films and other related products.

The Company was incorporated in the state of Nevada, U.S.A. in October 2003 and its registered office is 618 W. Sunset Road, San Antonio, Texas, 78216.

Basis of Presentation - The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of XPEL, Inc. and its wholly owned or majority owned subsidiaries ("XPEL" or "the Company"). The ownership interest of non-controlling participants in subsidiaries that are not wholly-owned is included as a separate component of stockholders' equity. The non-controlling participants' share of the net income is included as "Income attributable to noncontrolling interest" on the Consolidated Statements of Income and Comprehensive Income. Intercompany accounts and transactions have been eliminated.

The functional currency for the Company is the United States dollar. The assets and liabilities of each of its foreign subsidiaries are translated int U.S dollars using the exchange rate at the end of the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period. Gains and losses from translations are recognized in foreign currency translation included in accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. Foreign currency exchange gains and losses are recorded in other expense, net in the accompanying consolidated statements of income. The ownership percentages and functional currencies of the entities included in these consolidated financial statements are as follows:

Subsidiaries	Functional Currency	% Owned by XPEL, Inc.
XPEL, Ltd.	UK Pound Sterling	85%
Armourfend CAD, LLC	US Dollar	100%
XPEL Canada Corp.	Canadian Dollar	100%
XPEL B.V.	Euro	100%
XPEL de Mexico S. de R.L. de C.V.	Peso	100%
XPEL Acquisition Corp.	Canadian Dollar	100%
Protex Canada, Inc.	Canadian Dollar	100%
Apogee Corp.	New Taiwan Dollar	100%

Fiscal Year - The Company's fiscal year ends on December 31. We report our interim quarterly periods on a calendar quarter basis.

Segment Reporting - Management has concluded that our chief operating decision maker (CODM) is our chief executive officer. The Company's CODM reviews the entire organization's consolidated results as a whole on a monthly basis to evaluate performance and make resource allocation decisions. Management views the Company's operations and manages its business as one operating segment.

Use of Estimates - The preparation of these consolidated financial statements in conformity to U.S. GAAP requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual outcomes may differ from these estimates under different assumptions and conditions.

Foreign Currency Translation - The financial statements of subsidiaries located outside of the U.S. are generally measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at average monthly rates of exchange. The resultant translation adjustments are included in accumulated other comprehensive income, a separate component of stockholders' equity.

(Expressed in United States Dollars)

Cash and Cash Equivalents - Cash and cash equivalents consist of cash and highly liquid investments with an original maturity of three months or less at the date of purchase. The balance, at times, may exceed federally insured limits.

Accounts Receivable - Accounts receivable are shown net of an allowance for doubtful accounts of $133,696 and $308,660 as of December 31, 2018 and 2017, respectively. The Company evaluates the adequacy of its allowances by analyzing the aging of receivables, customer financial condition, historical collection experience, the value of any collateral and other economic and industry factors. Actual collections may differ from historical experience, and if economic, business or customer conditions deteriorate significantly, adjustments to these reserves may be required. When the Company becomes aware of factors that indicate a change in a specific customer's ability to meet its financial obligations, the Company records a specific reserve for credit losses.

Inventory - Inventory is comprised of film, film based products and supplies which are valued at lower of cost or net realizable value, with cost determined on a weighted average cost basis. We provide reserves for discontinued and excess inventory based upon historical demand, forecasted usage, estimated customer requirements and product line updates. As of December 31, 2018 and 2017, inventory reserves were $185,056 and $243,888, respectively.

Property, Plant and Equipment - Property and equipment are recorded at cost, except property and equipment acquired in connection with the Company's business combinations, which are recorded at fair value on the date of acquisition. Expenditures which improve or extend the life of the respective assets are capitalized, whereas expenditures for normal repairs and maintenance are charged to operations as incurred. Depreciation expense is computed using the straight-line method as follows:

Furniture and fixtures	- 5 years
Computer equipment	- 3-4 years
Vehicles	- 5 years
Equipment	- 5-7 years
Leasehold improvements	- shorter of lease term or estimate useful life
Plotters	- 4 years

The following table presents geographic property, plant and equipment, net by region as of December 31:

	2018	2017
United States	$ 2,288,792	$ 1,429,829
Canada	421,588	153,206
Europe	475,345	554,236
Other	198,481	15,962
Consolidated	$ 3,384,206	$ 2,153,233

Goodwill - Goodwill represents the excess purchase price over the fair value of tangible net assets acquired in business combinations after amounts have been allocated to intangible assets. Goodwill is not amortized, but is reviewed for impairment during the last quarter of each year, or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, using a discounted cash flow model and comparable market values of each reporting segment. The Company uses push down accounting for acquired assets, and goodwill balances are assessed at the subsidiary level. Measuring the fair value of reporting units is a Level 3 measurement under the fair value hierarchy. See Note 12, Fair Value Measurements, for a discussion of levels.

(Expressed in United States Dollars)

The following table presents geographic Goodwill by region as of December 31:

	2018	2017
United States	$ 617,334	$ 490,788
Canada	1,701,826	1,365,854
Other	3,628	—
Consolidated	$ 2,322,788	$ 1,856,642

Intangible Assets - Intangible assets consist primarily of software, customer relationships, trademarks and non-compete agreements. These assets are amortized on a straight-line basis over the period of time in which their expected benefits will be realized. Indefinite-lived trade names are not amortized but are tested at least annually for impairment. No impairment losses were recorded within the years ended December 31, 2018 and 2017.

The following table presents geographic Intangible assets, net by region as of December 31:

	2018	2017
United States	$ 1,891,479	$ 1,775,273
Canada	1,652,347	1,787,499
Europe	1,773	—
Other	258,427	—
Consolidated	$ 3,804,026	$ 3,562,772

The following table presents the anticipated useful lives of intangible assets:

Trademarks	- 10 years
DAP software platform	- 5 years
Trade name	- 10-15 years
Contractual and customer relationships	- 9-10 years
Non-compete	- 3-5 years
Other	- 10 years

Impairment of Long-Lived Assets - The Company reviews and evaluates long-lived assets for impairment when events or circumstances indicate that the carrying amount of an asset may not be recoverable. When the undiscounted expected future cash flows are not sufficient to recover an asset's carrying amount, the fair value is compared to the carrying value to determine the impairment loss to be recorded. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less the cost to sell. Fair values are determined by independent appraisals or expected sales prices based upon market participant data developed by third party professionals or by internal licensed real estate professionals. Estimates of future cash flows and expected sales prices are judgments based upon the Company's experience and knowledge of operations. These estimates project cash flows several years into the future and are affected by changes in the economy, real estate market conditions and inflation.

There were no impairment charges recorded for identifiable intangible assets in any year presented.

Revenue Recognition - Our revenue is comprised primarily of product and services sales where we act as principal to the transaction. All revenue is recognized when the Company satisfies its performance obligation(s) by transferring the promised product or service to our customer when our customer obtains control of the product or service, with the majority of our revenue being recognized at a point in time. A performance obligation is a promise in a contract to transfer a distinct product or service to a customer. A contract's transaction price is allocated to each distinct performance obligation. Revenue is recorded net of returns and allowances. Sales, value add, and other taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis. Shipping and handling costs are accounted for as a fulfillment obligation, on a net basis, and are included in cost of sales. See Note 2, Revenue Recognition, for additional accounting policies and transition disclosures.

(Expressed in United States Dollars)

Research and Development - Research costs are charged to operations when incurred. Software development costs, including costs associated with developing software patterns, are expensed as incurred unless the Company incurred these expenses in the development of a a new product or long-lived asset. Research and development costs were $223,886 and $0 in the years ended December 31, 2018 and 2017, respectively.

Advertising costs - Advertising costs are charged to operations when incurred. Advertising costs were $572,218 and $286,442 in the years ended December 31, 2018 and 2017, respectively.

Provisions and Warranties - We provide a warranty on our products. Liability under the warranty policy is based on a review of historical warranty claims. Adjustments are made to the accruals as claims data experience warrant. Our liability for warranties as of December 31, 2018 and 2017, was $70,250 and $95,882, respectively.

Income Taxes - Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred and other tax assets and liabilities.

Accumulated Other Comprehensive Income (Loss) ("AOCI") - The Company reports comprehensive income (loss) that includes net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to expenses, gains and losses that are not included in net earnings. These amounts are also presented in the consolidated statements of comprehensive income. As of December 31, 2018 and December 31, 2017, AOCI relates to foreign currency translation adjustments.

Earnings Per Share - Basic earnings per share amounts are calculated by dividing net income for the year attributable to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net income attributable to common stockholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

Business Combinations - Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. Acquisition-related expenses are recognized separately from the business combination and are recognized as general and administrative expense as incurred.

Fair Value - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date:

Level 1:	Valuation is based on observable inputs such as quoted market prices (unadjusted) for identical assets or liabilities in active markets.
Level 2:	Valuation is based on inputs such as quoted market prices for similar assets or liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3:	Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

In making fair value measurements, observable market data must be used when available. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

RECENTLY ADOPTED ACCOUNTING STANDARDS

On January 1, 2018, we adopted Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers", and all related amendments, using the full retrospective transition method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Topic 606 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance. This new standard requires an entity to recognize revenue for the transfer of promised goods or services to a customer in an amount that reflects the consideration that the entity expects to receive and consistent with the delivery of the performance obligation described in the underlying contract with the customer. There was no impact to the amount or timing of revenue that the Company had recognized in prior periods.

In November 2016, the FASB issued new standards on the statement of cash flows and restricted cash that change the presentation of restricted cash and cash equivalents on the statement of cash flows. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted this standard effective January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations – Clarifying the Definition of a Business." ASU 2017-01 narrows the definition of a business and provides a screen to determine when a set of the three elements of a business – inputs, processes, and outputs – are not a business. The screen requires that when substantially all the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. We adopted this standard effective January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial statements.

In January 2017, the FASB issued new guidance on goodwill impairment intended to simplify the testing for goodwill impairment by the elimination of Step 2 in the determination on whether goodwill should be considered impaired. The annual and/or interim assessments are still required to be completed. This guidance is effective for fiscal years (including interim periods) beginning after December 15, 2019, which is the Company's fiscal year ending December 31, 2020. We adopted this standard effective January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, "Leases" ("the new lease standard" or "ASC 842"), which requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. The new lease standard requirements are effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and early adoption is permitted. The Company has begun evaluating the new lease standard, including the review and implementation of the necessary changes to our existing processes and systems that will be required to implement this new standard. While we are unable to quantify the impact at this time, we expect the primary impact to our consolidated financial position upon adoption will be the recognition, on a discounted basis, of our minimum commitments under noncancelable operating leases on our consolidated balance sheets resulting in the recording of right of use assets and lease obligations. While the Company is still in the process of evaluating the effect of adoption on our financial statements, it is expected the adoption of this standard will lead to a material increase in the assets and liabilities recorded on the consolidated balance sheets. The Company expects to use the effective date of this standard as the date of initial application with no retrospective adjustments to prior comparative periods.

In August 2018, the FASB issued ASU 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract" in order to provide additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. This is an amendment to ASU 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is still assessing this guidance and the impact it will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement*, to amend the disclosure requirements related to fair value measurements. These amendments include, but are not limited to, additional disclosures related to the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The standard has an effective date for annual periods beginning after December 15, 2019, and interim periods within those annual periods, with early adoption permitted. The Company is still assessing this guidance and the impact it will have on its consolidated financial statements.

2. REVENUE

Revenue recognition

The Company recognizes revenue when it satisfies a performance obligation by transferring control of the promised goods and services to a customer, in an amount that reflects the consideration that it expects to receive in exchange for those goods or services. This is achieved through applying the following five-step model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company generates substantially all of its revenue from contracts with customers, whether formal or implied. Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions and are excluded from sales revenue as the Company considers itself a pass-through conduit for collecting and remitting sales taxes, with the exception of taxes assessed during the procurement process of select inventories. Shipping and handling costs are included in cost of sales.

Revenues from product and services sales are recognized when control of the goods is transferred to the customer which occurs at a point in time typically upon shipment to the customer or completion of the service. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments.

Based upon the nature of the products the Company sells, its customers have limited rights of return which are immaterial. Discounts provided by the Company to customers at the time of sale are recognized as a reduction in sales as the products are sold.

Warranty obligations associated with the sale of our products are assurance-type warranties that are a guarantee of the product's intended functionality and, therefore, do not represent a distinct performance obligation within the context of the contract. Warranty expense is included in cost of sales.

We apply a practical expedient to expense direct costs of obtaining a contract when incurred because the amortization period would have been one year or less.

(Expressed in United States Dollars)

Under its contracts with customers, the Company stands ready to deliver product upon receipt of a purchase order. Accordingly, the Company has no performance obligations under its contracts until its customers submit a purchase order. The Company does not receive pre-payment from its customers, or enter into commitments to provide goods or services that have terms greater than one year. As the performance obligation is part of a contract that has an original expected duration of less than one year, the Company has applied the practical expedient under ASC 606 to omit disclosures regarding remaining performance obligations.

When the Company transfers goods or services to a customer, payment is due - subject to normal terms - and is not conditional on anything other than the passage of time. Typical payment terms range from due upon receipt to 30 days, depending on the type of customer and relationship. At contract inception, the Company expects that the period of time between the transfer of goods to the customer and when the customer pays for those goods will be less than one year, which is consistent with the Company's standard payment terms. Accordingly, the Company has elected the practical expedient under ASC 606 to not adjust for the effects of a significant financing component. As such, these amounts are recorded as receivables and not contract assets.

The Company had no material contract assets or liabilities for any period presented.

The table below sets forth the disaggregation of revenue by product category:

	Year Ended December 31,	
	2018	2017
Product Revenue		
Paint protection film	$ 85,495,382	$ 49,489,430
Window film	7,309,773	5,103,080
Other	2,721,195	1,755,639
Total	95,526,350	56,348,149
Service Revenue		
Software	$ 2,566,960	2,820,709
Cutbank credits	6,197,250	4,145,745
Installation labor	5,211,633	3,709,517
Training	418,421	272,924
Total	14,394,264	10,948,895
Total	$ 109,920,614	$ 67,297,044

(Expressed in United States Dollars)

Because many of our international customers require us to ship their orders to freight forwarders located in the United States, we cannot be certain about the ultimate destination of the product. The following table represents our estimate of sales by geographic regions based on our understanding of ultimate product destination based on customer interactions, customer locations and other factors:

	Year Ended December 31,	
	2018	**2017**
United States	$ 46,077,624	$ 33,134,851
China	32,279,335	11,873,582
Canada	15,146,869	10,693,002
Continental Europe	5,734,925	2,751,718
United Kingdom	2,725,925	1,690,664
Asia Pacific	2,754,495	2,293,285
Latin America	1,799,180	829,378
Middle East/Africa	2,806,502	3,331,376
Other	595,759	699,188
Total	$ 109,920,614	$ 67,297,044

Our largest customer accounted for 29.2% and 17.0% of our net sales during the year ended December 31, 2018 and 2017, respectively.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2018	**December 31, 2017**
Furniture and fixtures	$ 956,467	$ 691,799
Computer equipment	939,979	729,288
Vehicles	730,765	647,200
Equipment	1,079,503	895,223
Leasehold improvements	941,627	696,023
Plotters	544,080	392,111
Construction in Progress	646,576	—
Total property and equipment	5,838,997	4,051,644
Less accumulated depreciation	2,454,791	1,898,411
Property and equipment, net	$ 3,384,206	$ 2,153,233

Depreciation expense for the years ended December 31, 2018 and 2017 was $735,983 and $594,712, respectively.

(Expressed in United States Dollars)

4. INTANGIBLE ASSETS

For the years ended December 31, 2018 and 2017, intangible assets are comprised of the following balances:

	December 31, 2018	December 31, 2017
Trademarks	$ 289,734	$ 286,812
DAP software platform	1,635,731	1,244,397
Trade name	457,766	465,670
Contractual and customer relationships	2,947,264	2,496,963
Non-compete	261,914	274,074
Other	150,267	148,135
Total cost	5,742,676	4,916,051
Less: Accumulated amortization	1,938,650	1,353,279
Intangible assets, net	$ 3,804,026	$ 3,562,772

Amortization expense for the years ended December 31, 2018 and 2017 was $642,801 and $537,334, respectively. Based on the carrying value of definite-lived intangible assets as of December 31, 2018, we estimate our future amortization expense will be as follows:

2019	$ 674,772
2020	577,263
2021	487,205
2022	426,043
2023	392,190
Thereafter	$ 1,246,553

5. GOODWILL

The following table summarizes goodwill transactions for the years ended December 31, 2018 and 2017:.

Balance December 31, 2016	$ 1,365,158
Additions	406,013
Foreign Exchange	85,471
Balance December 31, 2017	1,856,642
Additions	576,173
Foreign Exchange	(110,027)
Balance December 31, 2018	$ 2,322,788

(Expressed in United States Dollars)

6. ACQUISITION OF BUSINESSES

The Company completed the following acquisitions during the years ended December 31, 2018 and 2017:

Acquisition Date	Name/Location	Acquisition Type	Acquisition Purpose
April 1, 2017	Stratashield Customs, LLC, Dallas, TX, USA	Asset Purchase	Local market expansion
November 1, 2017	Transguard, Inc., Boise, ID, USA	Asset Purchase	Local market expansion
November 30, 2017	Protex Canada, Inc., Montreal, Quebec, Canada	Share Purchase	Add distribution channel
April 1, 2018	9352-4692, Quebec, Inc., Quebec City, Quebec, Canada	Share Purchase	Local market expansion
June 1, 2018	eShields, LLC, La Verne, CA, USA	Asset Purchase	Product line expansion
August 1, 2018	9341-9182 Quebec, Inc., Pointe Claire, Quebec, Canada	Share Purchase	Local market expansion
August 1, 2018	9846905 Canada, Inc., Calgary, Alberta, Canada	Share Purchase	Local market expansion
November 1, 2018	Apogee, Corp., Yilan City, Yilan County, Taiwan	Share Purchase	Local market expansion

The total purchase price for acquisitions completed during the years ended December 31, 2018 and 2017 are as follows:

	December 31,			
	2018	2017		
	2018 Acquisitions	Protex Canada, Inc.	Other 2017 Acquisitions	Total
Purchase Price				
Cash	$ 831,934	$ 434,132	$ 225,000	$ 659,132
Promissory note	998,668	382,141	—	382,141
Contingent payable agreements	—	—	157,724	157,724
Forgiveness of debt	88,216	—	—	—
	$ 1,918,818	$ 816,273	$ 382,724	$ 1,198,997
Allocation				
Cash	$ 41,407	$ 32,378	$ 409	$ 32,787
Accounts receivable	155,434	44,454	767	45,221
Inventory	494,663	17,843	5,963	23,806
Prepaid expenses and other assets	78,631	10,142	—	10,142
Property and equipment	167,622	30,339	7,500	37,839
Non-compete	—	—	15,000	15,000
Customer relationships	609,751	444,985	173,000	617,985
Trade name	—	187,607	—	187,607
Goodwill	576,173	215,516	190,497	406,013
Accounts payable	(126,715)	(69,866)	(4,065)	(73,931)
Other accrued liabilities	(78,148)	(97,125)	(6,347)	(103,472)
	$ 1,918,818	$ 816,273	$ 382,724	$ 1,198,997

Intangible assets acquired in 2018 have estimated useful lives of 9 years with the same weighted average life. Intangible assets acquired in the Protex acquisition have useful lives of between 9 and 15 years with a weighted average amortization period of 10 years. Acquired intangible assets for other 2017 acquisitions have estimated useful lives of between 5 and 9 years with a weighted-average amortization period of 8 years.

(Expressed in United States Dollars)

Goodwill for these acquisitions relates to the expansion into new geographical areas as well as the addition of a new distribution channel. The goodwill represents the acquired employee knowledge of the various markets, distribution knowledge by the employees of the acquired businesses, as well as the expected synergies resulting from the acquisitions.

Acquisition costs incurred related to these acquisitions were immaterial and were included in selling, general and administrative expenses.

The Company entered into contingent payable agreements in conjunction with a 2017 acquisition. According to this agreement, the Company will make future payments for the acquired business if certain revenue thresholds were met by the acquired entity. The maximum amount that can be paid under this arrangement is $157,724. These liabilities are recorded within accounts payables and accrued liabilities as of December 31, 2018 and 2017.

The acquired companies were consolidated into our financial statements on their respective acquisition dates. The aggregate revenue and operating income (loss) of these acquisitions consolidated into our financial statements since the respective dates of acquisition were $613,701 and $43,030 and $341,290 and $(64,229), respectively, for the years ended December 31, 2018, and 2017. The following unaudited financial information presents our results, including the estimated expenses relating to the amortization of intangibles purchased, as if the acquisitions during the years ended December 31, 2018 and 2017 had occurred on January 1, 2018 and 2017, respectively:

	Twelve Months Ended December 31,	
	2018 (Unaudited)	2017 (Unaudited)
Revenue	$ 111,048,518	$ 70,596,459
Net income	$ 8,480,919	$ 1,027,217

The pro forma unaudited results do not purport to be indicative of the results which would have been obtained had the acquisition been completed as of the beginning of the earliest period presented or of results that may be obtained in the future. In addition, they do not include any benefits that may result from the acquisition due to synergies that may be derived from the elimination of any duplicative costs.

7. DEBT

BANK TERM NOTE PAYABLE

In 2015, the Company entered into a loan agreement with the Company's primary lender, The Bank of San Antonio, to help fund its acquisition of its Canadian business in the principle amount of $1,900,000. This loan had a fixed interest rate of 4.25% and matured on September 3, 2018 at which time it was fully paid. The Bank of San Antonio was granted a security interest in substantially all of the Company's current and future assets.

REVOLVING FACILITIES

The Company has entered into a $8,500,000 revolving line of credit agreement with The Bank of San Antonio to support its continuing working capital needs. The Bank of San Antonio has been granted a security interest in substantially all of the Company's current and future assets. The line of credit has a variable interest rate of the Wall Street Journal prime rate plus 0.75% with a floor of 4.25% and matures on May 5, 2020. The interest rate at December 31, 2018 and 2017 was 6.25% and 5.25%, respectively. As of December 31, 2018, no balance was outstanding on this line. As of December 31, 2017, the balance outstanding on this line was $2,000,000.

(Expressed in United States Dollars)

The credit agreement contains customary covenants including covenants relating to complying with applicable laws, delivery of financial statements, payment of taxes and maintaining insurance. The credit agreement also requires that XPEL must maintain debt service coverage (EBITDA divided by the current portion of long-term debt +interest) of 1.25:1 and debt to tangible net worth of 4.0:1 on a rolling four quarter basis. The credit agreement also contains customary events of default including the failure to make payments of principal and interests, the breach of any covenants, the occurrence of a material adverse change, and certain bankruptcy and insolvency events.

At December 31, 2018 and 2017, the Company was in compliance with all debt covenants.

XPEL Canada, Corp., a wholly owned subsidiary of XPEL, Inc. has also entered into a CAD $4,500,000 revolving line of credit agreement with HSBC Bank Canada to support its continuing working capital needs. The line has a variable interest rate of the HSBC Canada Bank's prime rate plus 0.25%. The interest rate at December 31, 2018 was 5.75%. As of December 31, 2018, no balance was outstanding on this line of credit. This facility is guaranteed by the parent company.

NOTES PAYABLE – ACQUISITIONS

As part of its acquisition strategy, the Company uses a combination of cash and unsecured non-interest bearing promissory notes payable to fund its business acquisitions. The Company issued non-interest bearing notes with fair values of $998,668 and $382,141 in relation to acquisition activity in the years ended December 31, 2018 and 2017, respectively. The Company discounts the promissory note to fair value using market interests rates at the time of the acquisition. See Note 6, "Acquisition of Businesses" for a more details.

Notes payable are summarized as follows:

	Weighted Average Interest Rate	Matures	December 31, 2018	December 31, 2017
Bank Term Note Payable	4.25%	—	$ —	$ 440,126
Acquisition Notes Payable	4.49%	2022	1,821,387	1,511,740
Total Debt			1,821,387	1,951,866
Current Portion			853,150	1,024,434
Total Long-term debt			$ 968,237	$ 927,432

The approximate future principal payments on the notes payable are as follows:

2019	$ 853,150
2020	612,523
2021	355,551
2022	115,446
2023	—
Thereafter	—
	$ 1,936,670

The approximate future principal payments include $115,283 which will be recognized as interest expense and represent the difference between the fair value and carrying value.

8. EMPLOYEE BENEFIT PLAN

The Company sponsors defined contribution plans for substantially all employees. Annual Company contributions under the plans are discretionary. Company contribution expense during the years ended December 31, 2018 and 2017 was $124,431 and $65,132, respectively.

(Expressed in United States Dollars)

9. INVENTORIES

The components of inventory are summarized as follows:

	December 31, 2018	December 31, 2017
Film and film based products	$ 9,399,067	$ 9,781,486
Other products	1,264,862	750,657
Packaging and supplies	320,738	232,539
Inventory Reserve	(185,056)	(243,888)
	$ 10,799,611	$ 10,520,794

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table presents significant accounts payable and accrued liability balances as of December 31,

	2018	2017
Trade payables	$ 3,905,187	$ 6,475,224
Payroll liabilities	1,194,237	304,741
Customer deposits	136,213	1,701,356
Other liabilities	1,056,456	1,237,512
	$ 6,292,093	$ 9,718,833

11. CAPITAL STOCK

Issued and outstanding – common shares:

	Number of shares	Amount
Balance, December 31, 2016	25,784,950	$ 25,785
Issuance of common shares	1,827,647	1,828
Balance, December 31, 2017	27,612,597	$ 27,613
Issuance of common shares	—	—
Balance, December 31, 2018	27,612,597	$ 27,613

During the year ended December 31, 2017, the Company announced its intention to issue, by way of a non-brokered private placement up to 2,097,903 of its Common Shares at a purchase price of $1.43 USD per share for gross proceeds of up to $3,000,000. The Company completed a first tranche of this private placement in February 2017 resulting in the issuance of 1,659,182 Common Shares at a price of $1.43 USD per share for gross proceeds of $2,372,630. In connection with this offering,1,260,000 Common Shares were issued to certain directors and officers of the Company.

In March 2017 the Company completed a second tranche of this private placement resulting in the issuance of an additional 168,465 Common Shares at a price of $1.43 USD per share for gross proceeds of $240,899.

Total direct issuance costs related to this private placement were $38,016.

(Expressed in United States Dollars)

12. STOCK OPTIONS

The Company has an Incentive Stock Option Plan (the "Plan"). The Plan provides for options to be granted to the benefit of employees, directors and third parties. The maximum number of shares allocated to and made available to be issued under the Plan shall not exceed 10% of the common shares issued and outstanding (on a non-diluted basis) at any time. The exercise price of options granted under the Stock Option Plan will be determined by the directors, but will at least be equal to the closing trading price of the common shares on the last trading day prior to the grant and otherwise the fair market price as determined by the Board of Directors. The term of any option granted shall not exceed ten years. Except as otherwise provided elsewhere in the Stock Option Plan, the options shall be cumulatively exercisable in installments over the option period at a rate to be fixed by the Board of Directors. The Company will not provide financial assistance to any optionee in connection with the exercise of options. The Company has not issued stock options during the years ended December 31, 2018 and 2017, respectively.

13. FAIR VALUE MEASUREMENTS

Financial instruments include cash and cash equivalents (level 1), accounts receivable, accounts payable and long-term debt. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximate fair value because of the near-term maturities of these financial instruments. For discussion of the fair value measurements related to goodwill refer to Note 5, Goodwill. At December 31, 2018 and 2017, the book value and estimated fair value of the Company's debt instruments were as follows:

Notes payable	December 31, 2018	December 31, 2017
Current maturities of notes payable	$ 853,150	1,024,434
Long-term portion of notes payable	968,237	927,432
Fair Value of notes payable	$ 1,821,387	$ 1,951,866

The estimated fair value of debt is based on market quotes for instruments with similar terms and remaining maturities (Level 2 inputs and valuation techniques).

ASC 820 prioritizes the inputs to valuation techniques used to measure fair value into the following hierarchy:

Level 1 – Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than the quoted prices in active markets that are observable either directly or indirectly, including: quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market data and require the reporting entity to develop its own assumptions.

14. INCOME TAXES

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax cuts and Jobs Act or Tax Reform Act. The Tax Reform Act made broad and complex changes to the U.S. tax code that affected the Company , including but not limited to, a permanent reduction of the U.S. corporate income tax rate from 34% to 21% effective January 1, 2018.

(Expressed in United States Dollars)

Income Tax Expense

The provision for income taxes differs from the United States federal statutory rate as follows:

	2018	2017
Income before income taxes	$ 11,481,305	$ 2,148,550
Statutory rate	21%	34%
	2,411,074	730,507
State taxes net of federal benefit	183,468	49,533
Foreign tax rate differential	81,474	151,085
Other	84,057	223,095
Income tax expense	$ 2,760,073	$ 1,154,220

The components of the income tax provision (benefit) are as follows:

	Years ended December 31	
	2018	2017
Current Income Tax Expense/(Benefit)		
Federal	$ 2,182,415	$ 1,039,363
Foreign	431,638	261,680
State	232,238	75,050
Total Current Income Tax Expense/(Benefit)	2,846,291	1,376,093
Deferred Income Tax Expense/(Benefit)		
Federal	(65,801)	7,503
Foreign	(20,417)	(229,376)
Total Deferred Income Tax Expense/(Benefit)	(86,218)	(221,873)
Total	$ 2,760,073	$ 1,154,220

(Expressed in United States Dollars)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows:

	Years ended December 31	
	2018	2017
DEFERRED TAX ASSETS:		
Allowance for Doubtful Accounts	$ 16,823	$ 27,868
263(A) Adjustment	17,421	15,779
Accrued Expenses	9,485	—
Inventory Reserve	34,978	—
Accretion of Acquisition Notes	8,156	—
State Tax Credit	48,770	—
NOL Carryforward and Other	249,772	352,743
Deferred tax assets	385,405	396,390
Less valuation allowance	—	—
Total deferred tax assets	$ 385,405	$ 396,390
DEFERRED TAX LIABILITIES:		
Fixed and Intangible Assets	$ 824,822	$ 811,642
Unrealized Gain	14,146	30,197
Accretion	8,639	—
Allowance for Doubtful Accounts	16,662	28,991
Total deferred tax liabilities	864,269	870,830
Total net deferred tax assets/(liabilities)	$ (478,864)	$ (474,440)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company regularly assesses the likelihood tha the deferred tax assets will be recovered from future taxable income. The Company considers projected future taxable income and ongoing tax planning strategies, then records a valuation allowance, if deemed necessary, to reduce the carrying value of the net deferred taxes to an amount that is more likely than not able to be realized. Based upon the Company's assessment of all available evidence, including the previous two years of taxable income and loss after permanent items, estimates of future profitability, and the Company's overall prospects of future business, the Company determined that it is more likely than not that the Company will realize all of its deferred tax assets in the future. The Company will continue to assess the potential realization of deferred tax assets on an annual basis, or an interim basis if circumstances warrant. If the Company's actual results and updated projections vary significantly from the projections used as as basis for this determination, the Company may need to change the valuation allowance against the gross deferred tax assets.

The Company, through XPEL Ltd. and XPEL B.V., has net operating losses of approximately $1,112,785 and $566,396, respectively, available to apply against future taxable income. The losses in XPEL Ltd. have no expiration date. If not utilized, the net operating losses in XPEL B.V. will expire in 2027.

Uncertain Tax Positions

The Company recognizes the tax effects of an uncertain tax position only if it is more likely than not to be sustained based solely upon its technical merits at the reporting date. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense. The unrecognized tax benefit is the difference between the tax benefit recognized and the tax benefit claimed on the Company's income tax return. The Company has reviewed its prior year returns and believes that all material tax positions in the current and prior years have been analyzed and properly accounted for and that the risk that additional material uncertain tax positions have not been identified is remote.

(Expressed in United States Dollars)

Goodwill and other intangibles acquired in taxable asset purchases are amortized for tax purposes over allowable periods as prescribed by applicable regulatory jurisdictions.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is still subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years 2011 and after. There are no on-going or pending IRS, state or foreign examinations.

15. COMMITMENTS AND CONTINGENCIES

(a) Operating Lease Commitment

The Company has entered into lease agreements for premises housing warehousing, installation, administrative, and sales operations. The remaining term for these leases ranges from between one to ten years. Monthly payments for these agreements range between $1,295 and $18,591. Rent expense incurred for the years ended December 31, 2018 and 2017 was $1,209,208 and $796,497, respectively. The combined future minimum payments for the following five years are as follows:

2019	$ 869,492
2020	736,169
2021	667,551
2022	601,593
2023	528,427
Thereafter	1,372,388
	$ 4,775,620

(b) Contingencies

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

(c) Supply Agreement

Through our Amended and Restated Supply Agreement that we entered into with our primary supplier in March 2017, we have exclusive rights to commercialize, market, distribute and sell its automotive aftermarket products through March 21, 2020, which term automatically renews for successive two year periods thereafter unless terminated at the option of either party with two months' notice. During such term, we have agreed to use commercially reasonable efforts to purchase a minimum of $5,000,000 of products quarterly from this principal supplier, with a yearly minimum purchasing requirement of $20,000,000.