MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis ("**MD&A**") describes the operating and financial results of XPEL Inc., ("XPEL" or "Company") for the years ended December 31, 2018 and 2017.

The MD&A, prepared as of March 29, 2019, should be read in conjunction with the accompanying consolidated audited financial statements. These consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP") and its interpretations adopted by the Financial Accounting Standards Board ("FASB").

Non-GAAP Financial Measures

Our management regularly monitors certain financial measures to track the progress of our business against internal goals and targets. We believe that the most important measure to the Company is EBITDA.

EBITDA is a non-GAAP financial measure. We believe EBITDA provides helpful information with respect to our operating performance as viewed by management, including a view of our business that is not dependent on (i) the impact of our capitalization structure and (ii) items that are not part of our day-to-day operations. Management uses EBITDA (1) to compare our operating performance on a consistent basis, (2) to calculate incentive compensation for our employees, (3) for planning purposes including the preparation of our internal annual operating budget, (4) to evaluate the performance and effectiveness of our operational strategies, and (5) to assess compliance with various metrics associated with the agreements governing our indebtedness. Accordingly, we believe that EBITDA provides useful information in understanding and evaluating our operating performance in the same manner as management. We define EBITDA as net income (loss) plus (a) total depreciation and amortization, (b) interest expense, net, and (c) income tax expense, as further adjusted to eliminate non-cash stock-based compensation expense, acquisition accounting adjustments, transaction costs, and other one-time nonrecurring costs. We do not believe these adjustments are indicative of our ongoing performance. EBITDA should not be considered a substitute for Net Income prepared in accordance with GAAP as issued by the FASB.

Forward-Looking Disclaimer

Certain statements in this MD&A contain forward-looking information within the meaning of applicable securities laws including, among others, statements made or implied under the headings "Strategic Overview", "Results of Operations", "Liquidity and Capital Resources", "Accounting Estimates", and "Risk Factors" relating to the Company's objectives, strategies to achieve those objectives, beliefs, plans, estimates, projections and intentions; and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts including, but not limited to: the ability to oversee and mange the delivery model for our products and services; the ability to leverage our distribution channels; enhancement of dealership opportunities; expansion of our presence in Europe; investments in research and development; evaluation of our risk management strategies. Forward-looking statements generally can be identified by words such as "outlook", "believe", "expect", "may", "anticipate", "should", "intend", "estimates" and similar expressions. With respect to forward looking statements contained in this MD&A, assumptions have been made regarding among other things: currency exchange rates, interest rates, expected revenue from operations, the economic in which we operate, results of our customer initiatives and brand focus and continued customer demand.

This MD&A contains certain forward-looking statements in respect of various matters including upcoming events that involve known and unknown risks and uncertainties that are beyond the control of Management. Those risks and uncertainties include, among other things, risks related to: share prices, liquidity, creditworthiness, currency, lease rollover, insurance, dilution, ability to access capital markets, interest rates, dependence on key personnel and environmental matters. Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions and information currently available; however, Management can give no assurance that actual results will be consistent with these forward-looking statements. Factors and assumptions that were applied in drawing conclusions and could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, general economic conditions, changes in interest rates, changes in governmental regulations and the Company's ability to obtain adequate insurance and financing.

Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

Except as required by law, the Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements are made as of March 29, 2018.

Company Overview

XPEL Inc. ("XPEL"), a Nevada corporation, based in San Antonio, Texas, USA is a Canadian reporting issuer whose common shares trade on the TSX Venture Exchange ("TSXV") under the symbol DAP.U.

The Company sells, distributes and installs after-market automotive products, including automotive paint protection film, headlight protection film, automotive window films and other related products.

In the United States, Canada and parts of Europe, the Company operates primarily by selling a complete turn-key solution directly to independent installers and new car dealerships which includes XPEL protection films, installation training, access to the Company's proprietary design software, marketing support and lead generation.

Additionally, the Company operates six Company-owned installation centers in the United States, three in Canada, and one in the United Kingdom that serve wholesale and/or retail customers in their respective markets. In Mexico and the Netherlands, the company operates as a distributor.

In other parts of the world, the Company operates primarily through third party distributors, who operate under agreement with the Company to develop a market or a region under the Company's supervision and direction.

The Company operates through 100% owned subsidiaries in Canada, the Netherlands, Mexico, Taiwan and through an 85% owned subsidiary in the United Kingdom.

Strategic Overview

XPEL is currently pursuing several key strategic initiatives to drive continued growth. Our global expansion strategy focuses on the need to establish a local presence where possible, allowing us to better control the delivery of our products and services. In furtherance of this approach, we established our European headquarters in early 2017 to capture market share in what we believed to be an under-penetrated region. We are continuing to add locally based regional sales personnel, leveraging local knowledge and relationships to expand the markets in which we operate.

We seek to increase global brand awareness in strategically important areas, including seeking high visibility at premium events such as major car shows and high value placement in advertising media consumed by car enthusiasts, to help further expand the Company's premium brand.

XPEL also continues to expand its delivery channels by acquiring select installation facilities in key markets and acquiring international partners to enhance its global reach. As we expand globally, we strive to tailor our distribution model to adapt to target markets. We believe this flexibility allows us to penetrate and grow market share more efficiently. Our acquisition strategy centers around our belief that the closer the Company is to its end customers, the greater its ability to drive increased product sales.

We also continue to drive expansion of our non-automotive product portfolio. The Company launched its new commercial/residential window film product line in 2018, giving us access to a large new market and representing the first non-automotive product line in XPEL's history. While there is some overlap with our existing customers, we believe that this new product line exposes the Company to several new addressable markets.

The Company competes mainly against other product companies. We believe we are highly differentiated by the suite of services that surrounds our leading protective films. Our state of the art software leads the industry with over 70,000 patterns. This design software is updated daily with new vehicle patters often before the vehicle is offered to the public. This software ensures a superior quality installation with minimal film waste which is highly valuable for our customers. Our customer service center is available 24 hours per day, 7 days a week and can answer any support question regarding our products and services. We also provide substantial marketing and lead generation for our customers by supporting them at various shows and events and advertising their locations on our company web site.

Results of Operations

Comparison of Year Ended December 31, 2018 to year ended December 31, 2017

Revenues

Revenues increased approximately $42.6 million to $109.9 million, or 63.3% over the prior year to date period. The following table summarizes revenue results for fiscal years 2018 and 2017:

	Year Ended December 31,		%	% of Total Revenue	
	2018	2017	Inc (Dec)	2018	2017
Product Revenue					
Paint protection film	$ 85,495,382	$ 49,489,430	72.8 %	77.8%	73.5%
Window film	7,309,773	5,103,080	43.2 %	6.7%	7.6%
Other	2,721,195	1,755,639	55.0 %	2.5%	2.6%
Total	$ 95,526,350	$ 56,348,149	69.5 %	87.0%	83.7%
Service Revenue					
Software	$ 2,566,960	$ 2,820,709	(9.0)%	2.3%	4.2%
Cutbank credits	6,197,250	4,145,745	49.5 %	5.6%	6.2%
Installation labor	5,211,633	3,709,517	40.5 %	4.7%	5.5%
Training	418,421	272,924	53.3 %	0.4%	0.4%
Total	$ 14,394,264	$ 10,948,895	31.5 %	13.0%	16.3%
Total	$ 109,920,614	$ 67,297,044	63.3 %	100.0%	100.0%

Product Revenue. Product revenue grew 69.5% over 2017 product revenue and represented 87.0% of our total revenue. Revenue from our paint protection film product line increased 72.8% and represented 77.8% and 73.5% of our total 2018 and 2017 revenue, respectively. Revenue from our window film product line grew 43.2% and represented 6.7% and 7.6% of our total 2018 and 2017 revenue, respectively. These increases were due to continued strong demand for our products throughout the world.

Service revenue. Service revenue consists of revenue from fees for DAP software access, cutbank credit revenue which represents per cut fees charged for the use of our DAP software, revenue from the labor portion of installation sales in our company-owned installation centers and revenue from training services provided to our customers. Service revenue grew 31.5% over 2017 service revenue and represented 13.0% and 16.3% of our total 2018 and 2017 revenue, respectively. Software revenue decreased (9.0)% and represented 2.3% and 4.2% of our total 2018 and 2017 revenue, respectively. This decrease was due mainly to the restructuring of DAP access fees commensurate with the implementation of our cutbank program. Cutbank credit revenue grew 49.5% and represented 5.6% and 6.2% of our total 2018 and 2017 revenue, respectively, due mainly to our growth in product revenue and the aforementioned restructuring of DAP access fees. Software and cutbank credit revenue combined grew 25.8% due mainly to the increased demand for our products and services. Installation labor increased 40.5% due mainly to increased strong demand in the areas in which our company-owned stores operate. Training revenue increased 53.3% versus 2017 due to increased demand consistent with the growth of the business.

Total installation revenue (labor and product combined) increased 40.5% versus 2017 due mainly to increased demand for our products and services in our company-owned installation facilities. This represented 5.6% and 6.6% of our total 2018 and 2017 revenue, respectively. Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, grew 68.2% versus 2017 due to an overall increase in demand for our products and services in most of the regions in which we operate.

Cost of Sales

Cost of sales consists of product costs and the costs to provide our services. Product costs consist of material costs, personnel costs related to warehouse personnel, shipping costs, warranty costs and other related costs to provide products to our customers. Cost of service includes the labor costs associated with installation of product in our Company-owned facilities, costs of labor associated with pattern design for our cutting software and the costs incurred to provide training for our customers. Cost of product sales in 2018 grew 53.3% over 2017 and represented 67.0% and 71.4% of total revenue in 2018 and 2017, respectively, commensurate with the growth in revenue. Cost of service grew 10.4% in 2018 due mainly to the increased installation labor costs associated with increased installation sales.

Gross *Margin*

Gross margin for 2018 grew $16.8 million, an improvement of 100.4% from 2017 and represented 30.4% of revenue. This improvement in gross margin percentage was due mainly to reductions in per unit material cost and reductions in non-product related costs.

Operating Expenses

Sales and marketing expenses increased $1.9 million in 2018, or 37.5% over 2017, and represented 6.2% and 7.3% of 2018 and 2017 total revenue, respectively. This increase was primarily attributable to increases in sales staff and other marketing related expenses incurred to support the on-going growth of the business.

General and administrative expenses grew $5.3 million in 2018, or 55.4% over 2017, and represented 13.5% and 14.2% of 2018 and 2017 total revenue, respectively. The increase was due mainly to increases in personnel, occupancy costs, information technology costs and travel related costs to support the on-going growth of the business.

Other (Income) Expense, Net

Other expense increased $0.3 million from 2017, primarily due to the impact from exchange rate fluctuations partially offset by reductions in interest cost due to overall lower debt levels in 2018.

Income Tax Expense

Income tax expense increased $1.6 million from 2017, primarily due to increased profitability in 2018. 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.

Net Income

Net income for the period increased by $7.7 million from 2017, to $8.7 million in 2018 owing mainly to the aforementioned increases in revenue and gross margin.

Non-GAAP Financial Measures

Our management regularly monitors certain financial measures to track the progress of our business against internal goals and targets. We believe that most important measure to the Company is EBITDA. The following table reconciles this non-GAAP measure to our Consolidated Statements of Income for the years ended December 31, 2018 and 2017:

	Twelve Months Ended Dec 31 2018	Twelve Months Ended Dec 31 2017
Net Income	8,721,232	994,330
Interest	168,389	328,402
Taxes	2,760,073	1,154,220
Depreciation*	735,983	594,712
Amortization*	642,801	537,334
EBITDA	13,028,478	3,608,998

*Depreciation and amortization amounts are translated for foreign currency purposes at average for their respective periods.

Liquidity and Capital Resources

Operations

The primary source of liquidity for our business is cash flows provided by operations. We expect to continue to have cash requirements to support working capital needs, capital expenditures, and to pay interest and service debt, if applicable. We believe we have the ability and sufficient capacity to meet these cash requirements by using available cash and internally generated funds and borrowing under committed credit facilities. We are focused on continuing to generate positive operating cash to fund our operational and capital investment initiatives. We have sufficient liquidity to operate for at least the next 12 months from the date of this filing.

Operating activities. Cash flows provided by operations totaled approximately $6.8 million for the year, compared to $3.0 million in 2017 primarily as a result of strong positive cash flow due mainly to cash generated from increased revenues and gross margins.

Investing activities. Cash flows used in investing activities totaled approximately $3.1 million during the year compared to $2.3 million in the prior year. This increase includes approximately $0.8 million attributable to our acquisitions during the year ended December 31, 2018. Investments in property and equipment also increased by $0.5 million compared to prior year capital expenditures.

Financing activities. Cash flows used in financing activities during the year totaled approximately $3.1 million compared to a source of funds of $1.0 million in the prior year due primarily to $1.5 million in additional net principal reductions on the Company's revolving line of credit and the prior year net proceeds of $2.6 million from the issuance of Common Stock.

Debt obligations at December 31, 2018 totaled approximately $1.8 million compared with $4.0 million at December 31, 2017.

Credit Facilities

Our credit facilities consist of a $8.5 million revolving line of credit agreement with The Bank of San Antonio and a revolving credit facility maintained by our Canadian subsidiary. The Bank of San Antonio facility is utilized to fund our working capital needs and is secured by a security interest in substantially all of our current and future assets. The line has a variable interest rate of the Wall Street Journal prime rate plus 0.75% with a floor of 4.25% and matures in May 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 was $2.0 million.

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 plus 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.

During 2018, XPEL Canada Corp., a wholly-owned subsidiary of XPEL, Inc. entered into an Canadian Dollar (“CAD”) $4.5 million revolving credit facility through HSBC Bank Canada. This facility is utilized to fund our working capital needs in Canada. This facility bears interest at HSBC Canada Bank’s prime rate plus .25% per annum and is guaranteed by the parent company. As of December 31, 2018, no balance was outstanding on this facility.

Legal Proceedings

From time to time, we are made parties to actions filed or have been given notice of potential claims relating to the ordinary conduct of our business, including those pertaining to commercial disputes, product liability, patent infringement and employment matters.

While we believe that a material impact on our financial position, results of operations or cash flows from any such future claims or potential claims is unlikely, given the inherent uncertainty of litigation, it is possible that an unforeseen future adverse ruling or unfavorable development could result in future charges that could have a material adverse impact. We do and will continue to periodically reexamine our estimates of probable liabilities and any associated expenses and receivables and make appropriate adjustments to such estimates based on experience and developments in litigation. As a result, the current estimates of the potential impact on our financial position, results of operations and cash flows for the proceedings and claims described in the notes to our consolidated financial statements could change in the future.

Disclosure Controls

The Company’s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining its disclosure controls and procedures.

The CEO and CFO have concluded that the Company’s disclosure controls and procedures were adequate and effective to ensure that the material information relating to the Company would have been known to them.

2017 Private Placement

In January 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 resulting in the issuance of 1,659,182 Common Shares at a price of $1.43 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.

On March 22, 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.

Share Capital

The Company is authorized to issue up to 100,000,000 common shares and 10,000,000 preferred shares. At December 31, 2017, the Company has issued 27,612,597 common shares of common stock and no preferred shares. As referenced above, 1,827,647 common shares were issued commensurate with the January 2017 private placement. As of the date of this filing, the Company has issued 27,612,597 common shares of common stock and no preferred shares.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Financial and Other Instruments

The Company's operations did not require the use of derivative financial instruments such as swaps, futures or hedging contracts. The Company is in process of evaluating and/or implementing certain risk management strategies. This evaluation could result in the use of derivative financial instruments in the future.

Accounting Estimates

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the 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.

Significant estimates made by the Company include determination of allowances for potentially doubtful account, the useful life of property, plant and equipment and intangible assets, measurement of warranty provision, recognition of deferred tax assets and liabilities, valuation of intangible assets for impairment, fair value of financial instruments and the determination of the fair value of assets and liabilities relating to acquisition of certain assets.

Significant judgments in connection with these consolidated financial statements include the determination of the acquisition assets meet the definition of a business combination and determination of functional currency.

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 FASB 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, 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.

Risk Factors

Risks Related to Our Business and Industry

The after-market automotive product supply business is highly competitive. Competition presents an ongoing threat to the success of our Company.

We face significant competition from a number of companies, many of whom have greater financial, marketing and technical resources than us, as well as regional and local companies and lower-cost manufacturers of automotive and other products. Such competition may result in pressure on our profit margins and limit our ability to maintain or increase the market share of our products.

Additionally, as we introduce new products and as our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition. Our principal competitors have significantly greater resources than us. This may allow our competitors to respond more effectively than we can to new or emerging technologies and changes in market requirements. Our competitors may also develop products, features, or services that are similar to ours or that achieve greater market acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. Certain competitors could use strong or dominant positions in one or more markets to gain a competitive advantage against us.

We believe that our ability to compete effectively depends upon many factors both within and beyond our control, including:

- the usefulness, ease of use, performance, and reliability of our products compared to our competitors;
- the timing and market acceptance of products, including developments and enhancements to our products or our competitors' products;
- customer service and support efforts;
- marketing and selling efforts;
- our financial condition and results of operations;
- acquisitions or consolidation within our industry, which may result in more formidable competitors;
- our ability to attract, retain, and motivate talented employees;
- our ability to cost-effectively manage and grow our operations;
- our ability to meet the demands of local markets in high-growth emerging markets, including some in which we have limited experience; and
- our reputation and brand strength relative to that of our competitors.

If we are unable to differentiate or successfully adapt our products, services and solutions from competitors, or if we decide to cut prices or to incur additional costs to remain competitive, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A material disruption from the primary supplier could cause us to be unable to meet customer demands or increase our costs.

Pursuant to an Amended and Restated Supply Agreement dated as of March 21, 2017, between us and our primary supplier, which we refer to as the Supply Agreement, we have engaged the primary supplier to act as the primary source of our automotive paint protection film products. In 2018, approximately 87% of our inventory purchases were purchased from the primary supplier.

Any failure by the primary supplier to perform its obligations under the Supply Agreement, including a failure to provide sufficient supply of our products to satisfy customer demand, could have a material adverse effect on our revenue, operating results and operating cash flows.

Additionally, if our relationship with the primary supplier were to terminate or if operations at its manufacturing facility were to be disrupted as a result of significant equipment failures, natural disasters, earthquakes, power outages, fires, explosions, terrorism, adverse weather conditions, labor disputes or other reasons, we may be unable to fill customer orders or otherwise meet customer demand for our products, and such disruption could increase our costs and reduce our sales, any of which could have a material adverse effect our business, financial condition, results of operations and cash flows.

We rely on one distributor of our products and services in China. The loss of this relationship, or a material disruption in sales by this distributor, could severely harm our business.

The Company distributes all of its products in China through one distributor, with sales to such distributor representing 29.2% of total 2018 revenue. The China Distributor places orders with us on a prepaid basis at a price set by us, which we may change with 30 days' notice. The China Distributor then generates orders, sells and distributes our products to its end customers in China.

Any failure by the China Distributor to perform its obligations, including a failure to procure sufficient orders of our products to satisfy customer demand or a failure to adequately market our products, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Because of our dependence on the China Distributor, any loss of our relationship or any adverse change in the financial health of such distributor that would affect its ability to distribute our products may have a material adverse effect on our business, financial condition, results of operations and cash flows.

A significant percentage of our revenue is generated from our business in China, a market that is associated with certain risks.

Our business in China is operated through a single distributor. In 2018, approximately 29.2% of our revenue was generated in China, more than any other country in which we operate, and we expect such portion will increase with the expansion of our business in China. However, there are risks generally associated with doing business in China, including:

Significant political and economic uncertainties

Historically, the Chinese government has exerted substantial influence over the business activities of private companies. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice. Furthermore, the Chinese government continues to exercise significant control over the Chinese economy through regulation and state ownership. Changes in China's laws, regulations or policies, including those affecting taxation, currency, imports, or the nationalization of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Furthermore, government actions in the future could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

Possible trade dispute

A growing trade dispute between the United States and China could increase the sales price of our products or decrease our profits, if any, in China. The current U.S. and China administrations have recently imposed tariffs on imports from the other country, and the current U.S. administration has indicated that it may impose additional tariffs on imported Chinese goods. These tariffs may escalate to a trade conflict between China and the United States, which may affect our business in China. If such a dispute were to escalate or if tariffs were imposed on any of our products, we could be forced to increase the sales price of our products, reduce margins, or otherwise suffer from trade restrictions levied by the Chinese government that may have a material adverse effect on our business.

Limited recourse in China

While the Chinese government has enacted a legal regime surrounding corporate governance and trade, its experience in implementing such laws and regulations is limited. It is unclear how successful any attempt to enforce commercial claims or resolve commercial disputes will be. The resolution of any such dispute may be subject to the exercise of considerable discretion by the Chinese government and its agencies and forces unrelated to the legal merits of a particular matter or dispute may influence their determination.

Additionally, any rights we may have to specific performance, or to seek an injunction under China law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

Uncertain interpretation of law

There are substantial uncertainties regarding the interpretation and application of the laws and regulations in the greater China area, including, but not limited to, the laws and regulations governing our business. China's laws and regulations are frequently subject to change due to rapid economic and social development and many of them were newly enacted within the last 10 years. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

The Chinese government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business permits and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to our Company by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new Chinese laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found to be in violation of any current or future Chinese laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

General global economic and business conditions affect demand for our products.

We compete in various geographic regions and markets around the world. We expect to experience fluctuations in revenues and results of operations due to economic and business cycles. Important factors for our business and the businesses of our customers include the overall strength of the economy and our customers' confidence in the economy, unemployment rates, availability of consumer financing and interest rates. While we attempt to minimize our exposure to economic or market fluctuations by offering a balanced mix of end markets and geographic regions, any of the above factors, individually or in the aggregate, or a significant or sustained downturn in a specific end market or geographic region could reduce demand for our products and services, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If changes to our existing products or introduction of new products or services do not meet our customers' expectations or fail to generate revenue, we could lose our customers or fail to generate any revenue from such products or services and our business may be harmed.

We may introduce significant changes to our existing products or develop and introduce new and unproven products or services, including using products with which we have little or no prior development or operating experience. The trend of the automotive industry towards autonomous vehicles and car- and ride-sharing services may result in a rapid increase of new and untested products in the aftermarket automotive industry. If new or enhanced products fail to attract or retain customers or to generate sufficient revenue, operating margin, or other value to justify certain investments, our business may be adversely affected. If we are not successful with new approaches to monetization, we may not be able to maintain or grow our revenue as anticipated or recover any associated development costs.

If we were unable to maintain our network of sales and distribution channels, it could adversely affect our net sales, profitability and the implementation of our growth strategy.

Our ability to continue to grow our business depends on our ability to maintain effective sales and distribution channels in each of the markets in which we operate. We make use of a variety of distribution channels, including independent installers, new car dealerships, distributors and franchisees. We believe that this network of distribution channels enables us to efficiently reach consumers at a variety of points of sale. If we are not able to maintain our sales and distribution channels, we could experience a decline in sales, as well as reduced market share, as consumers may decide to purchase competing products that are more easily obtainable. The failure to deliver our products in accordance with our delivery schedules could harm our relationships with independent installers and new car dealerships, distributors and franchisees, which could adversely affect our net sales, profitability and the implementation of our growth strategy.

We depend on our relationships with independent installers and new car dealerships and their ability to sell and service our products. Any disruption in these relationships could harm our sales.

The largest portion of our products are distributed through independent installers and new car dealerships. We do not have direct control over the management or the business of these independent installers and new car dealerships, except indirectly through terms as negotiated with us. Should the terms of doing business with them change, our business may be disrupted, which could have an adverse effect on our business, financial condition and results of operations.

Because some of our independent installer and new car dealership customers also may offer our competitors' products, our competitors may incent the independent installers and new car dealerships to favor their products. We do not have long-term contracts with a majority of the independent installers and new car dealerships, and the independent installers and new car dealerships are not obligated to purchase specified amounts of our products. In fact, all of the independent installers and new car dealerships buy from us on a purchase order basis. Consequently, with little or no notice, the independent installers and new car dealerships may terminate their relationships with us or materially reduce their purchases of our products. If we were to lose any significant independent installers or new car dealerships, for among other reasons that the independent installers and new car dealerships acquired or were acquired by a competitor such that they became a direct competitor, then we would need to obtain one or more new independent installers or new car dealerships to cover the particular location or product line, which may not be possible on favorable terms or at all.

The Company may incur material losses and costs as a result of product liability and warranty claims.

The Company faces an inherent risk of exposure to product liability claims if the use of its products results, or is alleged to result, in personal injury and/or property damage. If the Company manufactures a defective product, it may experience material product liability losses. Whether or not its products are defective, the Company may incur significant costs to defend product liability claims. It also could incur significant costs in correcting any defects, lose sales and suffer damage to its reputation. Product liability insurance coverage may not be adequate for the liabilities and may not continue to be available on acceptable terms.

The Company is also subject to product warranty claims in the ordinary course of business. If the Company sells poor-quality products or uses defective materials, the Company may incur unforeseen costs in excess of what it has reserved in its financial statements. These costs could have a material adverse effect on the Company's business, financial condition, operating cash flows and ability to make required debt payments.

We sell our products under limited warranties. We have established a liability reserve under these warranties based on a review of historical warranty claims. Our liability for warranties as of December 31, 2018 and 2017 was $70,250 and $95,882, respectively. The warranty reserves may not be sufficient to cover the costs associated with future warranty claims. A significant increase in these costs could adversely affect the Company's operating results for future periods in which these additional costs materialize. Warranty reserves may need to be adjusted from time to time in the future if actual warranty claim experience differs from estimates. Any of the foregoing matters could have a material adverse effect on the Company's business, financial condition, operating cash flows and ability to make required debt payments.

Harm to our reputation or the reputation of one or more of our products could have an adverse effect on our business.

We believe that maintaining and developing the reputation of our products is critical to our success and that the importance of brand recognition for our products increases as competitors offer products similar to our products. We devote significant time and incur substantial marketing and promotional expenditures to create and maintain brand loyalty as well as increase brand awareness of our products. Adverse publicity about us or our brands, including product safety or quality or similar concerns, whether real or perceived, could harm our image or that of our brands and result in an adverse effect on our business, as well as require resources to rebuild our reputation.

We may not be able to identify, finance and complete suitable acquisitions and investments, and any completed acquisitions and investments could be unsuccessful or consume significant resources.

Our business strategy is expected to include acquiring businesses and making investments that complement our existing business. We expect to analyze and evaluate the acquisition of strategic businesses or product lines with the potential to strengthen our industry position or enhance our existing set of product and service offerings. We may not be able to identify suitable acquisition candidates, obtain financing or have sufficient cash necessary for acquisitions or successfully complete acquisitions in the future. Acquisitions and investments may involve significant cash expenditures, debt issuance, equity issuance, operating losses and expenses. Acquisitions involve numerous other risks, including:

- diversion of management time and attention from daily operations;
- difficulties integrating acquired businesses, technologies and personnel into our business;
- difficulties in obtaining and verifying the financial statements and other business information of acquired businesses;
- inability to obtain required regulatory approvals;
- potential loss of key employees, key contractual relationships or key customers of acquired companies or of ours;
- assumption of the liabilities and exposure to unforeseen liabilities of acquired companies; and
- dilution of interests of holders of our common stock through the issuance of equity securities or equity-linked securities.

Our revenue and operating results may fluctuate, which may make our results difficult to predict and could cause our results to fall short of expectations.

As a result of the rapidly changing nature of the markets in which we compete, our quarterly and annual revenue and operating results may fluctuate from period to period. These fluctuations may be caused by a number of factors, many of which are beyond our control. For example, changes in industry or third-party specifications may alter our development timelines and consequently our ability to deliver and monetize new or updated products and services. Other factors that may cause fluctuations in our revenue and operation results include but are not limited to:

- any failure to maintain strong customer relationships;
- any failure of significant customers, including distributors, to renew their agreements with us;
- variations in the demand for our services and products and the use cycles of our services and products by our customers;
- changes in our pricing policies or those of our competitors; and
- general economic, industry and market conditions and those conditions specific to our business.

For these reasons and because the market for our services and products is relatively new and rapidly changing, it is difficult to predict our future financial results.

If we are unable to retain and acquire new customers, our financial performance may be materially and adversely affected.

Our financial performance and operations are dependent on retaining our current customers and acquiring new customers. A number of factors could negatively affect our customer retention or acquisition. For example, potential customers may request products or services that we currently do not provide and may be unwilling to wait until we can develop or source such additional features.

Other factors that affect our ability to retain or acquire new customers include customers' increasing use of competing products or services, our failure to develop and introduce new and improved products or new products or services not achieving a high level of market acceptance, changes in customer preference or customer sentiment about the quality or usefulness of our products and services, including customer service, consolidation or vertical integration of our customers, adverse changes in our products mandated by legislation, regulatory authorities, or litigation, including settlements or consent decrees, and technical or other problems preventing us from delivering our products in a rapid and reliable manner.

If we are unable to retain and acquire new customers, our financial performance may be materially and adversely affected.

We are exposed to political, regulatory, economic and other risks that arise from operating a multinational business.

Sales outside of the U.S. for the year ended December 31, 2018 accounted for approximately 58% of our revenue. Accordingly, our business is subject to the political, regulatory, economic and other risks that are inherent in operating in numerous countries. These risks include:

- changes in general economic and political conditions in countries where we operate, particularly in emerging markets;
- relatively more severe economic conditions in some international markets than in the U.S.;
- the difficulty of enforcing agreements and collecting receivables through non-U.S. legal systems;
- the difficulty of communicating and monitoring standards and directives across our global facilities;
- the imposition of trade protection measures and import or export licensing requirements, restrictions, tariffs or exchange controls;
- the possibility of terrorist action affecting us or our operations;
- the threat of nationalization and expropriation;
- difficulty in staffing and managing widespread operations in non-U.S. labor markets;
- changes in tax treaties, laws or rulings that could have a material adverse impact on our effective tax rate;
- limitations on repatriation of earnings;
- the difficulty of protecting intellectual property in non-U.S. countries; and
- changes in and required compliance with a variety of non-U.S. laws and regulations.

Our success depends in part on our ability to anticipate and effectively manage these and other risks. We cannot assure you that these and other factors will not have a material adverse effect on our international operations or on our business as a whole.

Volatility in currency exchange rates could have a material adverse effect on our financial condition, results of operations and cash flows.

Our financial statements reflect translation of items denominated in non-U.S. currencies to U.S. dollars. Therefore, if the U.S. dollar strengthens in relation to the principal non-U.S. currencies from which we derive revenue as compared to a prior period, our U.S. dollar-reported revenue and income will effectively be decreased to the extent of the change in currency valuations and vice-versa. Fluctuations in foreign currency exchange rates, most notably the strengthening of the U.S. dollar against other various foreign currencies in markets where we operate, could continue to have a material adverse effect on our reported revenue in future periods. In addition, currency variations could have a material adverse effect on margins on sales of our products in countries outside of the U.S.

The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business.

We currently depend on the continued services and performance of our executive officers, Ryan L. Pape, our President and Chief Executive Officer, and Barry R. Wood, our Senior Vice President and Chief Financial Officer, neither of whom has an employment agreement. Loss of key personnel, including members of management as well as key product development, marketing, and sales personnel, could disrupt our operations and have an adverse effect on our business. As we continue to grow, we cannot guarantee that we will continue to attract the personnel we need to maintain our competitive position. As we grow, the incentives to attract, retain, and motivate employees may not be as effective as in the past. If we do not succeed in attracting, hiring, and integrating effective personnel, or retaining and motivating existing personnel, our business could be adversely affected.

If we fail to manage our growth effectively, our business, financial condition and results of operations may suffer.

We have experienced rapid growth over the last five years and we believe we will continue to grow at a rapid pace. This growth has put significant demands on our processes, systems and personnel. We have made and we expect to make further investments in additional personnel, systems and internal control processes to help manage our growth. In addition, we have sought to, and may continue to seek to grow through strategic acquisitions. Our growth strategy may place significant demands on our management and our operational and financial infrastructure. Our ability to manage our growth effectively and to integrate new technologies and acquisitions into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees. Growth could strain our ability to develop and improve our operational, financial and management controls, enhance our reporting systems and procedures, recruit, train and retain highly skilled personnel, maintain our quality standards; and maintain our customer satisfaction.

Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows or if we are unable to successfully manage and support our rapid growth and the challenges and difficulties associated with managing a larger, more complex business, this could cause a material adverse effect on our business, financial position and results of operations, and the market value of our shares could decline.

We may seek to incur substantial indebtedness in the future.

Our business strategy may include incurring indebtedness in the future. If this occurs, our degree of leverage could have important consequences for the holders of our Common Stock, including increasing our vulnerability to general economic and industry conditions; requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities; restricting us from making strategic acquisitions or causing us to make non-strategic divestitures; limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged. Any of the above consequences could result in a material adverse effect on our business, financial condition and results of operations.

We cannot be certain that additional financing will be available on reasonable terms when required, or at all.

From time to time, we may need additional financing. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, the condition of the capital markets, and other factors. To the extent we draw on credit facilities, if any, to fund certain obligations, we may need to raise additional funds and we cannot assure investors that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our Common Stock, and existing stockholders may experience dilution.

The preparation of our financial statements will involve the use of estimates, judgments and assumptions, and our financial statements may be materially affected if such estimates, judgments and assumptions prove to be inaccurate.

Financial statements prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP") require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions reasonably could be used that would have a material effect on the consolidated financial statements, and changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. Significant areas of accounting requiring the application of management's judgment include, but are not limited to, determining the fair value of our assets and the timing and amount of cash flows from our assets. These estimates, judgments and assumptions are inherently uncertain and, if they prove to be wrong, we face the risk that charges to income will be required. Any such charges could significantly harm our business, financial condition, results of operations and the price of our securities. Estimates and assumptions are made on an ongoing basis for the following: revenue recognition, capitalization of software development costs, impairment of long-lived assets, inventory reserves, allowances for doubtful accounts, revenue recognition, fair value for business combinations, and impairment of goodwill. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the accounting estimates, judgments and assumptions that we believe are the most critical to an understanding of our future plan of operations.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would likely negatively affect our business and the market price of our Common Stock.

Effective internal control over financial reporting is necessary for us to provide reliable financial reports and prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing conducted by us, or any testing conducted by our independent registered public accounting firm may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our consolidated financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which is likely to negatively affect our business and the market price of our Common Stock.

Management is responsible for establishing and maintaining adequate internal control over our financial reporting. We have discovered certain financial statement reporting errors that, while not material, indicated a significant deficiency in internal controls over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of financial reporting. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the significant deficiency, our management concluded that the Company's internal control over financial reporting was insufficiently rigorous and developed and implemented remediation plans designed to address the significant deficiency. If our remedial measures are insufficient to address the significant deficiency, or if additional significant deficiencies or material weaknesses in internal control are discovered or occur in the future, the Company's consolidated financial statements could contain material misstatements. If we are unable to remediate a material weakness or significant deficiency in a timely manner, our investors, regulators, customers and other business partners may lose confidence in our business or our financial reports, and our access to capital markets may be adversely affected. Any of the foregoing effects could have a material adverse effect on the Company's business, financial condition and operating cash flows.

We will be required to disclose changes made in our internal controls and procedures on a quarterly basis and our management will be required to assess the effectiveness of these controls annually. However, for as long as we are an "emerging growth company" under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). We could be an "emerging growth company" for up to five years. An independent assessment of the effectiveness of our internal controls could detect problems that our management's assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation.

Violations of the U.S. Foreign Corrupt Practices Act and similar anti-corruption laws outside the U.S. could have a material adverse effect on us.

The Foreign Corrupt Practices Act, or FCPA, and similar anti-corruption laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials or other persons for the purpose of obtaining or retaining business. Recent years have seen a substantial increase in anti-bribery law enforcement activity, with more frequent and aggressive investigations and enforcement proceedings by both the U.S. Department of Justice and the SEC, increased enforcement activity by non-U.S. regulators and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that are recognized as having governmental and commercial corruption and in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We cannot assure you that our internal control policies and procedures will always protect us from reckless or criminal acts committed by our employees or third-party intermediaries. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may require self-disclosure to governmental agencies and result in criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, business, financial condition, results of operations and cash flows.

Our failure to satisfy international trade compliance regulations, and changes in U.S. government sanctions, could have a material adverse effect on us.

Our global operations require importing and exporting goods and technology across international borders on a regular basis. Our policy mandates strict compliance with U.S. and non-U.S. trade laws applicable to our products. Nonetheless, our policies and procedures may not always protect us from actions that would violate U.S. or non-U.S. laws. Any improper actions could subject us to civil or criminal penalties, including material monetary fines, or other adverse actions including denial of import or export privileges, and could damage our reputation and business prospects.

Changes in U.S. administrative policy, including changes to existing trade agreements, could have a material adverse effect on us.

As a result of changes to U.S. administrative policy, there may be changes to existing trade agreements, greater restrictions on free trade generally or other possible changes. Changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently sell products, and any resulting negative sentiments towards the U.S. as a result of such changes, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Intellectual property challenges may hinder our ability to develop and market our products, and we may incur significant costs in our efforts to successfully avoid, manage, defend and litigate intellectual property matters.

Proprietary technologies, customer relationships, trademarks, trade names and brand names are important to our business. Intellectual property protection, however, may not preclude competitors from developing products similar to ours or from challenging our names or products. Further, as we expand on a multi-national level and in some jurisdictions where the protection of intellectual property rights is less robust, the risk of competitors duplicating our proprietary technologies increases. We may need to spend significant resources monitoring our intellectual property rights, and we may or may not be able to detect infringement by third parties. Assertions by or against us relating to intellectual property rights, and any inability to protect these rights, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may face design limitations or liability associated with the use of products for which patent ownership or other intellectual property rights are claimed.

From time to time we are subject to claims or inquiries regarding alleged unauthorized use of a third party's intellectual property and cannot be certain that the conduct of our business does not and will not infringe the intellectual property rights of others. An adverse outcome in any intellectual property litigation could subject us to significant liabilities to third parties, require us to license technology or other intellectual property rights from others, require us to comply with injunctions to cease marketing or using certain products or brands, or require us to redesign, re-engineer, or re-brand certain products or packaging, any of which could affect our business, financial condition and operating results. Third-party intellectual property rights may also make it more difficult or expensive for us to meet market demand for particular product or design innovations. If we are required to seek licenses under patents or other intellectual property rights of others, we may not be able to acquire these licenses on acceptable terms, if at all. In addition, the cost of responding to an intellectual property infringement claim, in terms of legal fees and expenses and the diversion of management resources, whether or not the claim is valid, could have a material adverse effect on our business, results of operations and financial condition.

If the model of selling vehicles through dealerships in North America changes dramatically, our revenue could be impacted.

Generally, most vehicles in North America are sold through franchised new car dealerships. These dealerships have a strong profit motive and are historically very good at selling accessories and other products. Going forward, if the dealership model were to change in the form of fewer franchised dealerships, or the possibility of manufacturer owned distribution, the prospects in this channel may diminish. Manufacturer-owned sales of new cars might become harder to penetrate or more streamlined with fewer opportunities to sell accessories. This would make us more reliant on our independent installer, retail-oriented channel, which requires more work to create consumer awareness.

If ride-sharing or alternate forms of vehicle ownership gain in popularity, our revenue could be impacted.

If ride-sharing or alternate forms of vehicle ownership including rental, ride-sharing, or peer-to-peer car sharing gain in popularity, consumers may own fewer vehicles per household, which would reduce our revenue. More vehicles entering a ride-sharing or car-sharing fleet could have an uncertain impact on our revenue as consumers are more or less interested in accessorizing vehicles they own that are in the ride-sharing fleet.

Environmental regulation, changing fuel-economy standards and/or a drive toward electric vehicles could impact our revenue.

Many manufacturers have announced plans to transition from internal-combustion engines into electric vehicle platforms over the coming years. There is no assurance that consumers will respond positively to this fundamental shift in the auto industry, should it occur. If the change results in vehicles that are more utilitarian or otherwise less interesting to a large portion of our customers who are automotive enthusiasts, our revenue could be impacted.

Technology could render the need for some of our products obsolete.

We derive the majority of our revenue from surface and paint protection films, with the majority of products applied on painted surfaces of vehicles. If automotive paint technology were to improve substantially, such that newer paint did not chip, scratch or was generally not as susceptible to damage, our revenue could be impacted.

Similarly, our automotive and architectural window films could be impacted by changes or enhancements from automotive manufacturers or window manufacturers that would reduce the need for our products.

Risks Relating to our Securities

Our Common Stock price has been volatile in recent years and may continue to be volatile.

Our Common Stock trades in Canada on the TSX Venture Exchange under the trading symbol “DAP.U” and the over-the-counter market in the United States under the trading symbol “XPLT”. A number of factors could influence the volatility in the trading price of our Common Stock, including changes in the economy or in the financial markets, after market automotive product industry related developments, and the impact of material events and changes in our operations. Each of these factors could lead to increased volatility in the market price of our Common Stock.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our common share price, notwithstanding our operating results. We expect that the market price of our securities will fluctuate and there can be no assurances about the levels of the market prices for our securities.

We have not paid any cash dividends in the past and have no plans to issue cash dividends in the future, which could cause our Common Stock to have a lower value than that of similar companies which do pay cash dividends.

We have not paid any cash dividends on our Common Stock to date and do not anticipate any cash dividends being paid to holders of our Common Stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board.

While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that any earnings will be retained to finance our future expansion. As we have no plans to issue cash dividends in the future, our Common Stock could be less desirable to other investors and as a result, the value of our Common Stock may decline, or fail to reach the valuations of other similarly situated companies that pay cash dividends.

Your percentage of ownership in our Common Stock may be diluted in the future.

In the future, your percentage ownership in our Common Stock may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise, including equity awards that we expect to be granting to our directors, officers and employees. Such issuances may have a dilutive effect on our earnings per share, which could materially adversely affect the market price of our ordinary shares.

Anti-takeover provisions could make a third party acquisition of us difficult.

Our bylaws eliminate the ability of stockholders to call special meetings or take action by written consent. These provisions in our bylaws could make it more difficult for a third party to acquire us without the approval of our board. In addition, the Nevada corporate statute also contains certain provisions that could make an acquisition by a third party more difficult.

Our directors and officers have substantial control over us.

Our directors and executive officers, together with their affiliates and related persons, beneficially owned, in the aggregate, approximately 40.2% of our outstanding Common Stock as of December 31, 2018. These stockholders have the ability to substantially control our operations and direct our policies including the outcome of matters submitted to our stockholders for approval, such as the election of directors and any acquisition or merger, consolidation or sale of all or substantially all of our assets.

Additional Information

Additional information relating to the Company may be accessed on the Internet at www.sedar.com.

Cautionary Note

Some of the statements contained in this report are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements