

## **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 Technologies Corp., ("XPEL" or "Company") for the three and six months ended June 30, 2016 and 2015.

The MD&A, prepared as of August 29, 2016, should be read in conjunction with the accompanying condensed consolidated unaudited financial statements. These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

These condensed consolidated unaudited interim financial statements should be read in conjunction with our 2015 annual financial statements prepared in accordance with IFRS.

### **Non-IFRS Measures**

In addition to disclosing results in accordance with IFRS as issued by IASB, the Company also provides supplementary non-IFRS measures as a method of evaluating the Company's performance.

Management uses EBITDA as a measure of company-wide performance. EBITDA is defined as earnings before interest, taxes, depreciation, and amortization. Management believes EBITDA is a useful measure to allow period-to-period comparison of the Company's operating performance. EBITDA does not have a standardized meaning under IFRS and is not necessarily comparable to measures presented by other Companies. EBITDA excludes components that are significant in understanding and assessing our results of operations and cash flows. EBITDA does not represent funds available for Management's discretionary use and is not intended to represent cash flow from operations. EBITDA should not be considered a substitute for Net Income prepared in accordance with IFRS as issued by the IASB.

### **Constant Currency**

The Company reports results in U.S. Dollars, but does business on a global basis. Exchange rate fluctuations affect the U.S. Dollar value for foreign currency revenue and expenses and may have a significant effect on reported results. Comparisons are made to the prior year in constant currency terms, which Management believes is helpful in understanding the Company's performance. Constant currency is calculated by converting current period results using the prior year currency exchange rates.

### **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 manage 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 August 30, 2016.

## **Company Overview**

XPEL Technologies Corp. (“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 manufactures, sells and 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 five Company-owned installation centers in the United States, one installation center in the United Kingdom and, beginning in August 2016, one installation center in the Netherlands that serve wholesale and/or retail customers in their respective markets.

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 has operations in the U.S., Canada, the United Kingdom and, beginning in August, 2016, the Netherlands. The Company operates through 100% owned subsidiaries in Canada and the Netherlands and through an 85% owned subsidiary in in the United Kingdom.

## **Strategic Overview**

The Company continues to see strong results from the execution of its core strategic initiatives. Our "Get Close to the Customer" initiative coupled with our increased focus on enhancing our brand will allow us to oversee and manage the delivery model for our products and services. This, in turn, will allow us to efficiently leverage our distribution channels to drive margin. For example, revenues from our window tint product line, which was rolled out during the fourth quarter of last year, now represent approximately 6% of our overall revenues resulting in enhanced incremental EBITDA.

We continue to see strong customer demand in the US and Canada. We will continue to leverage our distribution channels to effectively meet this demand. We will accomplish this by placing inventory closer to our customers by utilizing our six distribution centers that are geographically dispersed across the US as well as leverage our installation center locations to augment support of our various customer segments. Additionally, we will continue to enhance our US and Canadian dealership opportunities.

As a continuation of our "Get close to the Customer" initiative, and pursuant to increasing customer demand in Europe, we have added an additional company owned location in the Netherlands to complement our existing United Kingdom location. We consider Europe to be strategically important as it is the epicenter of the luxury car world. This broadening of our footprint allows us to better meet European demand as well as enhance our brand awareness across all of Europe.

In addition to these core initiatives, we will invest in the development and marketing of film protection product lines outside of the automotive industry. We believe there is significant opportunity to leverage our core competencies to commercialize other uses for film protection as we field daily inquiries from both existing and potential customers about non-automotive uses for our film.

As more fully described below in Results of Operations, revenues for the quarter grew 21.0% vs. prior year quarter and 28.5% on a year to date basis vs. prior period year to date. Sequential quarter growth slowed during the second quarter due mainly to intermittent supply interruptions due to a number of factors. During the third quarter in 2015, we began planning enhancements to our paint protection film products to further strengthen our already industry leading position. We began to execute on these planned changes during the second quarter of this year. We encountered unexpected production issues during the scale-up of these changes causing production delays and lower available inventory. Simultaneously, we experienced quality issues in raw materials used by our existing product, which further reduced available inventory during the planned transition period. These issues are in process of being resolved. We expect that, despite these short-term interruptions, these changes will allow for an even more consistent and higher quality product over the long term and will cement our competitive differentiation in the marketplace.

## **Results of Operations**

### Three Months Ended June 30, 2016

*Revenues.* Revenues increased approximately \$2.4 million, or 21.0% over the prior year period. The increase in revenues is primarily a result of increases in XPEL protection film and window tint sales. Revenues increased 22.3% over the prior year period to \$13.8 million on a constant currency basis.

*Direct Costs.* Direct Costs of sales increased approximately \$2.0 million over the prior year period and increased as a percentage of revenues from 70.3% to 72.5%. Direct costs include the costs of our physical goods, the costs related to our Design Access Program software, and the costs of labor directly associated with the production of product. Beginning this year, the Company has allocated more personnel cost to Direct Costs reflecting increased dedication of certain employees to the installation business. The effect of this revised methodology for the quarter was to increase direct costs by approximately \$0.3 million.

*Gross Margin.* Gross margin for the quarter was 27.5% vs 29.7% for the prior year quarter. Normalizing for the effect of the aforementioned personnel cost allocation methodology, gross margin for the quarter would have been 29.4%.

*Expenses.* Selling, general and administrative expenses were effectively flat vs. the prior year period and decreased as a percentage of sales to 17.8% of sales from 21.1% of sales in the prior year period. Normalizing for the effect of the aforementioned personnel cost allocation methodology, selling, general and administrative expenses would have increased 14.6% vs. prior year quarter and decreased as a percentage of sales to 20% vs. prior year quarter. This increase

was due mainly to increased personnel costs as we added personnel to support the revenue growth, increased occupancy and insurance costs to support the on-going growth of the business and increased professional fees due mainly to increased legal fees.

*Net income.* Net income before taxes grew approximately \$0.3 million, or 33%, vs. prior year period. Net Income grew approximately \$0.2 million or 26% over the prior year period. On a constant currency basis, net income grew 42.5% to \$0.9 million.

*EBITDA.* EBITDA increased \$0.4 million or 29.5% to \$1.6 million vs. prior year period. On a constant currency basis, EBITDA grew 38.1% to \$1.7 million.

#### Six Months Ended June 30, 2016

*Revenues.* Revenues increased approximately \$5.5 million or 28.5% vs. the prior year period. The increase in revenues is primarily a result of increases in XPEL protection film and window tint sales. Revenues increased 30.3% from the prior year period to \$25.3 million on a constant currency basis.

*Direct Costs.* Direct Costs of sales increased \$4.7 million or 35.6% vs. prior year period and increased as a percentage of revenues from 68.1% to 71.8% vs. prior year. Direct costs include the costs of our physical goods, the costs related to our Design Access Program software, and the costs of labor directly associated with the production of product. Beginning this year, the Company has allocated more personnel cost to Direct Costs reflecting increased dedication of certain employees to the installation business. The effect of this revised methodology for the year was to increase direct costs by approximately \$0.6 million.

*Gross Margin.* Year to date gross margin was 28.2% vs 31.9% for the prior year quarter. Normalizing for the effect of the aforementioned personnel cost allocation methodology, gross margin for the quarter would have been 30.3%.

*Expenses.* Selling, general and administrative expenses increased \$0.4 million or 8.7% vs. the prior year period and decreased as a percentage of sales to 19.2% of sales from 22.7% of sales in the prior year period. Normalizing for the effect of the aforementioned personnel cost allocation methodology, selling, general and administrative expenses would have increased 22.4% vs. prior year quarter and decreased as a percentage of sales to 21.6% vs. prior year quarter. This increase was due mainly to increased personnel costs as we added personnel to support the revenue growth, increased occupancy and insurance costs to support the on-going growth of the business and increased professional fees due mainly to increased legal fees.

*Net income.* Net income before taxes grew approximately \$0.4 million, or 22.2%, vs. prior year period. Net Income grew approximately \$0.2 million or 14.5% over the prior year period. On a constant currency basis, net income grew 32.7% to \$1.7 million.

*EBITDA.* EBITDA increased \$0.5 million or 24.4% to \$2.8 million vs. prior year period. On a constant currency basis, EBITDA grew 36.6% to \$3.0 million.

## EBITDA

The Company has provided a reconciliation of IFRS net income to EBITDA in the following table. EBITDA is defined as net income before interest, taxes, depreciation and amortization. Management believes that EBITDA is a useful measure that facilitates period to period operating comparisons.

	Three Months Ended June 30 2016	Three Months Ended June 30 2015	Six Months Ended June 30 2016	Six Months Ended June 30 2015
<b>Net Income</b>	765,793	605,653	1,462,974	1,277,861
<b>Interest</b>	52,489	62,700	118,501	100,864
<b>Taxes</b>	498,957	345,000	649,614	451,000
<b>Depreciation</b>	73,271	54,264	142,580	99,677
<b>Amortization</b>	204,337	163,548	396,619	296,757
<b>EBITDA</b>	1,594,847	1,231,165	2,770,288	2,226,159

## Summary of Quarterly Results

The financial information set out below presents the required financial information for the eight most recently completed fiscal quarters of the Company. Quarterly information below has been prepared under IFRS.

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
<b>Revenues</b>	13,661.4	11,299.2	11,171.9	10,874.3	11,290.0	8,133.9	7,599.9	8,410.1
<b>Net Income Before Taxes</b>	1,264.7	847.8	103.1	602.1	950.7	778.2	414.9	726.2
<b>Net Income</b>	765.8	697.2	(205.3)	398.1	605.7	672.2	1,542.3	473.3
<b>Net Income per Share</b>	0.030	0.027	(.008)	0.015	.023	0.026	0.060	0.018
Amounts in thousands, except per share amounts								

## Liquidity and Capital Resources

Cash flows provided by operating activities during the six months ended June 30, 2016 were approximately \$1.3 million and exceeded capital expenditures by approximately \$0.5 million. Cash provided by operations was relatively flat vs. prior period.

Cash flows used in investing activities totaled approximately \$0.7 million during the six months ended June 30, 2016, a decrease of approximately \$1.7 million vs. prior period due primarily to the cash outflow from our acquisition of our Canadian subsidiary in 2015.

Cash flows used in financing activities during the period totaled approximately \$1.5 million, an increase of \$3.8 million vs. prior period due primarily to increased debt repayments in the current year offset by receipt of acquisition funding during the prior year period related to our Canadian subsidiary acquisition.

Debt obligations at June 30, 2016 totaled approximately \$4.7 million compared with \$6.0 million at December 31, 2015. The decrease is due to debt repayments including a reduction in our line of credit of \$1.0 million.

## **Legal Proceedings**

### 3M Lawsuit

On December 29, 2015, 3M Company and 3M Innovative Properties Company filed a suit in the United States District Court for the District of Minnesota alleging that the Company has been and is infringing United States Patent No. 8,765,263 and are seeking a permanent injunction to prevent the Company from selling the allegedly infringing product. On May 16, the Company filed an answer to the suit denying infringement and challenging the validity of the patent in question. The Company strongly disagrees with 3M's allegations and will defend itself vigorously in court.

## **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.

## **Share Capital**

The Company is authorized to issue up to 100,000,000 common shares and 10,000,000 preferred shares. At June 30, 2016, the Company has issued 25,784,950 common shares of common stock and no preferred shares. As of the date of this filing, the Company has issued 25,784,950 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 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 a business.

Significant judgments in connection with these consolidated financial statements include the determination of the acquisition date of business combinations and determination of functional currency.

## **Recent Accounting Pronouncements Issued and Not Yet Applied**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after December 31, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

- (a) IFRS 9 Financial Instruments was issued by the IASB on July 24, 2014 as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets and liabilities. This amendment completes the IASB's financial instruments project and the standard is effective for reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company is in the process of assessing the impact of the adoption of this interpretation on its consolidated financial statements.
- (b) In May 2014, IASB issued IFRS 15 Revenue from Contracts with Customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the



consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue—Barter Transactions Involving Advertising Services.

- (c) IFRS 16 Leases was issued by the IASB in January 2016 and will replace IAS 17 Leases. It is effective for annual periods beginning on or after January 1, 2019. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. Earlier application is permitted only if the Company early adopts IFRS 15.

## **Risk Factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### **Fair Value**

The carrying value of the Company's cash and cash equivalents, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities, approximate fair values due to the relatively short term maturities of the instruments. The notes payable and bank loan payable approximate their fair values as the contract rates approximate current market rates.

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and vendor and bank references. While the Company does not require collateral in respect of trade and other receivables, on certain product lines, the

Company requires a valid credit card as back-up for any amount purchased on terms. The Company has no significant concentration of credit risk arising from customers.

The Company has cash and cash equivalents. The Company's current policy is to invest excess cash in money market accounts in credit worthy banking institutions. The Company periodically monitors the accounts and is satisfied with the credit ratings of its banks.

### **Interest Rate Risk**

The Company is exposed to interest rate risk since the Company's credit facilities are bearing interest at a variable rate. Interest rates for notes payable, bank loan payable and note payable-vendor loan are fixed.

### **Currency Risk**

The Company's functional currency is the US dollar. Through its subsidiaries with foreign functional currencies, the Company is exposed to foreign currency risk. In respect of the monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level.

### **Additional Financing**

Our ability to continue to maintain operating profitability and growth is dependent upon our ability to generate sufficient cash flows to meet our obligations on a timely basis and our ability to secure long-term financing as required. Additional financing may be required to develop the Company's products and services.

### **Liquidity**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

### **Litigation**

In the normal course of the Company's operations, it may become involved in, be named as a party to, or be the subject of various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Company and as a result, could have a material adverse effect on the Company's assets, liabilities, business, financial condition and results of operations. Even if the Company prevails in any such legal proceeding, the proceeding could be costly and time-consuming and may divert the attention of management and key personnel from the Company's business operations. For specific disclosure of current legal proceedings, see "*Legal Proceedings*" in this MD&A.

## **Additional Risk Factors**

There are various risks associated with investing in the business of the Company including those described below that should be considered in conjunction with the other information included in this MD&A. There may be additional risks and uncertainties in addition to those listed below, including those that are unknown to the Company at this time or believed by the Company to be unimportant at this time that could, in the future, have a material adverse effect on the business, financial condition or results of operations of the Company.

### *Market Penetration*

There can be no assurance that the Company can generate sufficient interest in its products to permit the Company to achieve its required level of market penetration. There are many products competing for the consumer's aftermarket products dollars and the Company may not be able to make its products a priority for consumers.

### *Demand for Company's Products*

There can be no assurance that the Company will be able to maintain or increase demand for its products. Any significant shortfall of demand in relation to expectation for the Company's products would have an adverse impact on the Company.

### *Economic*

The Company's sales are partially tied to the success of the automotive industry, specifically new car sales. While new car sales have recovered off their low during the recession, there is no guarantee current sales levels will continue. A decline in new car sales globally could negatively impact the Company's performance.

### *Competition*

The Company is experiencing competition for its products. The Company continues to see new entrants in to the paint protection market and increased emphasis on the paint protection film marketplace from existing competitors. The Company believes it has significant competitive advantages through its database of products, proprietary product distribution software, training curriculum and facilities, and established sales channels; however, the Company must continually upgrade and improve its products, or develop new products. The Company will be negatively affected if other products similar to those of the Company with similar or superior features at lower prices become available.

### *Vulnerability to Substitutes*

The Company's products, once installed, are generally virtually invisible and without branding, allowing for substitution and bait-and-switch tactics by the installer base not known to the consumer. This could create a false negative perception of the Company's products if the substitutes are inferior in quality or reduce the return on the Company's sales and marketing activities if the quality is acceptable.

The Company's revenue is derived primarily from the sale of automotive paint protection film. Should alternative technologies provide suitable paint protection in another manner, or should automotive paint technology improve in a material fashion so as to not need protection, the market for the Company's products may diminish.

#### *Reliance on Suppliers*

The Company is dependent on its suppliers and partners, their knowledge, ability and equipment to continue to manufacture its paint protection film at sufficient quantities and of acceptable quality. The manufacture of paint protection film requires the use of equipment and facilities and other supply chain elements that are highly specialized and not widely available. As the Company's products advance technologically, the Company is increasingly more reliant on these suppliers and partners and their specialized technology. Any disruption to these facilities, relationships or to the supply chain could adversely affect the Company's ability to produce product. Suitable alternatives for the Company's suppliers, partners, production facilities or other supply chain elements may not exist or may not be available to the Company. Any disruption in the source of supplies, internally or externally, could adversely affect the Company's business.

#### *Reliance on Raw Materials or Indirect Suppliers*

The Company's suppliers are reliant on raw and finished materials from other suppliers that may be discontinued, on allocation, of questionable quality or suffer wild price fluctuations. These components may have few alternate suppliers. Due to the indirect nature of these suppliers, the Company may have limited visibility to these problems and may have limited ability to mitigate them. Additionally, due the indirect nature of the supplier, the Company may have little advance notice regarding supply disruptions or any other problems that ultimately affect the Company's business.

#### *Susceptibility to Fluctuations and Structural Changes to the Automotive Industry*

The majority of the Company's sales are ultimately targeted towards new cars. Should the sale of new cars decline for any temporary reason, such as: supply disruption, lack of credit availability or for any longer term reason such as: structure changes to the transportation industry due to self-driving cars, ride-sharing services or changing consumer preferences, the Company's sales may be impacted. If such changes are dramatic enough, it could materially impact the Company's sales or profitability.

### *Risk Associated with Intellectual Property*

The Company sells a variety of products (both physical and electronic) that are applied and used in a variety of ways. The products sold, the manner in which they are used and the mechanisms by which they are applied may all potentially infringe on other's intellectual property. While the Company attempts to monitor such intellectual property filings and, where appropriate, protect its own, given the broad scope and nature of the products and their uses, it is not possible to guarantee perfect knowledge or interpretation of all intellectual property risks.

### *Reliance on Ability to Forecast and Manage Supply Chain*

The company must accurately forecast and schedule production of its products. Due to lack of personnel, historical data or for other unforeseen circumstances it may not be possible to forecast demand accurately. This could result in the Company having incorrect inventory levels to meet demand, including inventory levels higher than needed which could create cash-flow challenges for the Company or inventory levels lower than needed which could inhibit the Company's ability to make sales and deliver product on-time and at the quantity requested. If the Company fails to meet customer demand for products, it may lose customers to competitors.

### *UK/European Union*

As a result of the U.K.'s decision to leave the European Union through a negotiated exit over a period of time, it is possible there will be increased regulatory complexities, as well as potential referenda in the U.K. and/or European Union countries that could cause uncertainty in European or worldwide economic conditions. In the short term, the decision created volatility in certain foreign currency exchange rates, which may continue. Any of these effects, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

### *Information Technology System Failures*

We are increasingly reliant on technological systems as well as technologies which facilitate communication and collaboration internally, with affiliated entities, or with independent third parties to conduct our business, including technology-enabled solutions provided to us by third parties. Any failure of these systems and solutions could significantly impact our operations and customer perception. Despite the implementation of security measures, those technology systems and solutions could become vulnerable to damage, disability or failures due to theft, fire, power loss, telecommunications failure or other catastrophic events. The third party solutions also present the risks faced by the third party's business. If those systems or solutions were to fail or otherwise be unavailable, and we were unable to recover in a timely way, we could experience an interruption in our operations. Furthermore, security breaches involving our systems, the systems of the parties we communicate or collaborate with or those of third party providers may occur, such as unauthorized access, denial of service, computer viruses and other disruptive problems caused by hackers. Our information

technology systems contain personal, financial and other information that is entrusted to us by our customers and employees as well as financial, proprietary, and other confidential information related to our business. An actual or alleged security breach could result in system disruptions, shutdowns, theft or unauthorized disclosure of confidential information. The occurrence of any of these incidents could result in adverse publicity, loss of customer confidence, reduced sales and profits and criminal penalties or civil liabilities.

#### *Increasing Legal Complexity*

Increasing legal complexity will continue to affect our operations and results in material ways. We could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations, employment and personal injury claims, landlord/tenant disputes, disputes with current or former suppliers and intellectual property claims. Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to litigation.

#### *Key Personnel*

The Company is currently heavily reliant on the experience and expertise of its senior management. If any of these should cease to be available to manage the affairs of the Company, its activities and operations could be adversely affected. In addition, the Company may require additional management employees to develop its business.

#### *Challenge to Profitability*

The Company has produced an operating profit since 2009. Prior to 2009, the Company produced consistent losses. The Company anticipates continued profitability; however, market opportunities may produce circumstances in the future where profitability is challenged or intentionally reduced to increase sales.

#### *Fluctuations in its Quarterly Results*

The Company may experience fluctuations in its quarterly operating results due to a number of factors, including the level of the Company's expenses, the degree to which the Company encounters competition in its markets, seasonality factors of the automotive aftermarket industry and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

#### *Dividends*

The Company does not anticipate paying dividends in the foreseeable future.

**Additional Information**

Additional information relating to the Company may be accessed on the Internet at [www.sedar.com](http://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