



Supplier Requirements

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Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 2 of 38

Approvals:

Greg Tooke

VP Product & Supply Chain

Kelly Smith

Quality Manager



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 4 of 38

Table of Contents

1	Introduction.....	7
1.1	Purpose & Scope.....	7
2	Communication and contacts.....	7
2.1	Who to contact.....	8
2.2	Methods of communication.....	8
2.3	Types of communication.....	9
3	Legal and Ethical Conduct.....	10
3.1	General responsibilities.....	10
3.2	Improper Payments.....	10
3.3	Child Labor.....	10
3.4	Forced Labor.....	10
3.5	Compensation and Working Hours.....	10
3.6	Discrimination.....	11
3.7	Health and Safety.....	11
3.8	Confidential Information.....	11
3.9	Environmental, Safety, and Regulatory Compliance.....	11
4	Supplier Management Process.....	12
4.1	General.....	13
4.2	Requirement definition.....	14
4.2.1	Expectations.....	14
4.2.2	Supplier scope.....	14
4.2.3	Categorization.....	15
4.3	Request for quotation (RFQ).....	16
4.4	Supplier evaluation.....	17
4.4.1	Risk assessment.....	18
4.4.2	Product/service package.....	18
4.4.3	Quality management.....	19
4.5	Award.....	19
4.6	Supplier selection.....	19
4.6.1	Supplier audit.....	20
4.6.2	Supplier set-up.....	20
4.6.3	Contract / Terms & Conditions.....	21
4.7	Product delivery.....	21
4.7.1	Packaging & Logistics.....	21
4.7.1.1	Packaging.....	21
4.7.1.2	Labeling and identification.....	22
4.7.1.3	Shipping.....	22
4.7.1.4	ESD Protection.....	22
4.7.1.5	Shelf Life.....	22



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 5 of 38

4.7.1.6 NAFTA Requirements 23

4.7.2 PPAP Submission 23

4.7.3 Special Characteristics 24

4.7.3.1 Symbols..... 24

4.7.3.2 Lot Traceability..... 24

4.7.4 Supplier Request for Engineering Approval (SREA)..... 25

4.7.5 Nonconforming Material 25

4.7.6 Corrective Action Request (CAR)..... 26

4.7.6.1 Supplier Response..... 26

4.7.6.2 Failure to Respond 26

4.8 Supplier monitoring & development 27

4.8.1 Metrics & KPI’s..... 27

4.8.2 Accreditations and awards 29

4.8.3 Assessment / audit..... 29

Appendix A – Supplier Qualification Criteria30

Appendix B – Distributor Specific Requirements.....31

Appendix C – Supplier acknowledgement.....32

Appendix D – SmarTire standard Terms & Conditions of purchase33

1. Applicable Terms33

2. Ordering33

3. Prices, Payment.....33

4. Delivery and Delivery Dates, Late Delivery, Penalty.....34

5. Confidentiality.....34

6. Inventions, Industrial Property Rights35

7. Packaging, Delivery Note, Invoice, Country of Origin of Goods35

8. Force Majeure.....35

9. Liability for Defects35

10. Other Liabilities.....36



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 6 of 38

11. *Third Party Industrial Property Rights*36

12. *Assignment and Set-Off*36

13. *Retention of Title*36

14. *Quality and Documentation*37

15. *Safety and Environmental Protection*37

16. *Replacement Parts and Availability*37

17. *Final Provisions*37

Appendix E – SREA form38



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 7 of 38

1 Introduction

Since its inception in 1987 SmarTire has been at the forefront of delivering wireless sensing and control products to its customers in the transportation industry. This could not have been accomplished without the knowledge, support and delivery of materials, products and services provided by its suppliers. SmarTire sets high standards that it expects from all its partners and suppliers and aims to encourage a collaborative approach to ensure these are met for the benefit of all parties.

1.1 Purpose & Scope

This manual sets out the minimum expectations and requirements for all SmarTire's suppliers that provide development and production materials, products and services, including printed matter. It provides guidance for all supplier activities throughout SmarTire's organization and establishes general policy. The manual describes the minimum activities, deliverables and performance required of the supplier's quality management system, however, additional responsibilities may be outlined to suppliers within the relevant RFQ, Purchase Order or separate Supply Agreement.

All sections may not be applicable to all suppliers. Refer also to the relevant Appendices as necessary.

2 Communication and contacts

SmarTire places a lot of emphasis on communication. We aim to provide every supplier and prospective supplier a clear understanding of our expectations and an ongoing update of the current status. It is our belief that this helps to foster better relationships as well as helping to prevent any unexpected events.

We also expect this same attitude from our suppliers and as such will continuously evaluate this aspect throughout our supplier management process. It is imperative that we are kept informed of any event that could affect the delivery of quality products to our customers.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 8 of 38

While problems or unexpected events can happen, we encourage open communication with our suppliers to enable us both to resolve the situation.

2.1 Who to contact

All questions or discussions regarding Supplier Quality Requirements should be addressed to the SmarTire Quality Manager.

All questions or discussions regarding RFQ's, orders, forecasting, documentation or new supplier introduction should be addressed to SmarTire Purchasing.

In the event that neither can be contacted or to escalate your enquiry, please contact VP Product & Supply Chain.

Greg Tooke
 VP Product & Supply Chain
gtooke@smartire.com
 T: 604-249-3884

Kelly Smith
 Quality Manager
ksmith@smartire.com
 T: 604-249-3864

Kathy Farrar
 Purchasing
kfarrar@smartire.com
 T: 604-249-3863

Fax: 604-276-2350 / 604-276-0864

2.2 Methods of communication

In most cases SmarTire's preferred method of communication is via phone or e-mail. Information can be sent via the fax numbers above, however, we would prefer as much as possible to be sent as a PDF document to the relevant e-mail contact.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 9 of 38

2.3 Types of communication

- **CAR** (Corrective Action Request) – see section 4.7.6. This is used by SmarTire to inform the supplier of late deliveries that have resulted in a line shutdown, when the overall supplier rating has dropped below an acceptable level for the relevant supplier type and category or as a result of reoccurring nonconforming situations that have not been corrected.
- **NCR** (Non-Conformance Report) – see section 4.7.5 and 4.76. This is used by SmarTire to inform the supplier of the detection of non-conforming material detected at incoming inspection or returned from SmarTire's customers
- **PPAP** (Production Parts Approval Process) – see section 4.7.2. The relevant level PPAP submission as defined in AIAG PPAP 4th Edition Manual is used by the supplier to inform SmarTire of the product and process details of the material or product to be supplied.
- **RCA** (Root Cause Analysis) – see section 4.7.6.1. This is required by SmarTire in response to NCR's and CAR's issued to the supplier.
- **RFQ** (Request For Quotation) - see section 4.3. This is issued by SmarTire to prospective suppliers following the requirement definition process to outline the material, product or service need.
- **SREA** (Supplier Request for Engineering Assistance) – see section 4.7.4 & Appendix E. This is used as a communication tool for the supplier to request a change to be made in the material or service that has previous been outlined in the relevant submission to SmarTire. It is imperative that this be used for all supplies covered under PPAP and in all other cases whenever possible.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 10 of 38

3 Legal and Ethical Conduct

3.1 General responsibilities

All suppliers to SmarTire must have policies and practices that ensure adherence to “best practices” for legal and ethical conduct. Suppliers are expected to be aware of the business practices of their supply chain and ensure that they operate within the guidelines of this requirement. This conduct is essential to strong relationships between SmarTire and each of its suppliers.

3.2 Improper Payments

Business at SmarTire is conducted ethically and with a high level of integrity. Bribery and kickbacks are illegal and payments of such or any other enticements to SmarTire employees or those working on behalf of SmarTire are prohibited and may be subject to criminal penalties.

3.3 Child Labor

SmarTire’s suppliers are expected to comply with applicable local labor laws and employ only those individuals that meet the minimum age requirement. In any case it is SmarTire’s policy not to purchase products, materials or services from any company employing personnel under the age of 16 on a full time or equivalent full time basis..

3.4 Forced Labor

SmarTire does not support the use of forced or involuntary labor. SmarTire will not purchase products, materials or services where forced labor is practiced.

3.5 Compensation and Working Hours

SmarTire’s suppliers are expected to meet all applicable local laws and regulations pertaining to employee compensation and hours worked.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 11 of 38

3.6 Discrimination

SmarTire supports an inclusive culture that promotes diversity and equal opportunity in employment. SmarTire does not tolerate unlawful or harmful discrimination in the workplace and expects all suppliers to comply with all applicable local laws concerning discrimination in hiring and employment practices.

3.7 Health and Safety

SmarTire is committed to meeting all applicable legislation regarding the health and safety of its employees and workplace operations. Suppliers are expected to provide a safe work environment that promotes accident prevention and the minimization of exposure to health risks. Suppliers are expected to meet all applicable health and safety legislation and regulations for the countries in which they operate.

3.8 Confidential Information

SmarTire is committed to the compliance of all applicable legislation regarding the protection of personal, proprietary and confidential information. Suppliers are also expected to meet all applicable legislation and regulations governing the protection, use and disclosure of SmarTire proprietary, confidential and personal information as well as standard practice in the industry. The supplier may be requested to sign a Confidentiality agreement as part of the RFQ or approval process.

3.9 Environmental, Safety, and Regulatory Compliance

Suppliers are expected to demonstrate their commitment to the environment by implementing a system or plan to become compliant to ISO 14001:2004. Suppliers must ensure compliance of their products to all current applicable government regulations. Suppliers may use certificates, warrants, product labels, material specification reports, etc. to demonstrate that their products or materials comply with government regulations.

Suppliers must ensure that the product meets all international, federal and local laws of the area in which it is manufactured. Additionally, suppliers must ensure that all government and safety constraints on restricted, toxic and hazardous substances have been complied with prior to



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 12 of 38

shipment of any products that fall into this category as well as providing substance listing in the International Material Database System (IMDS) available at <http://www.mdssystem.com>. Suppliers may be required to meet EU legislation or other regional requirements depending on the application of the material, product or service – this will be outlined in the RFQ or separate supply contract as necessary.

4 Supplier Management Process

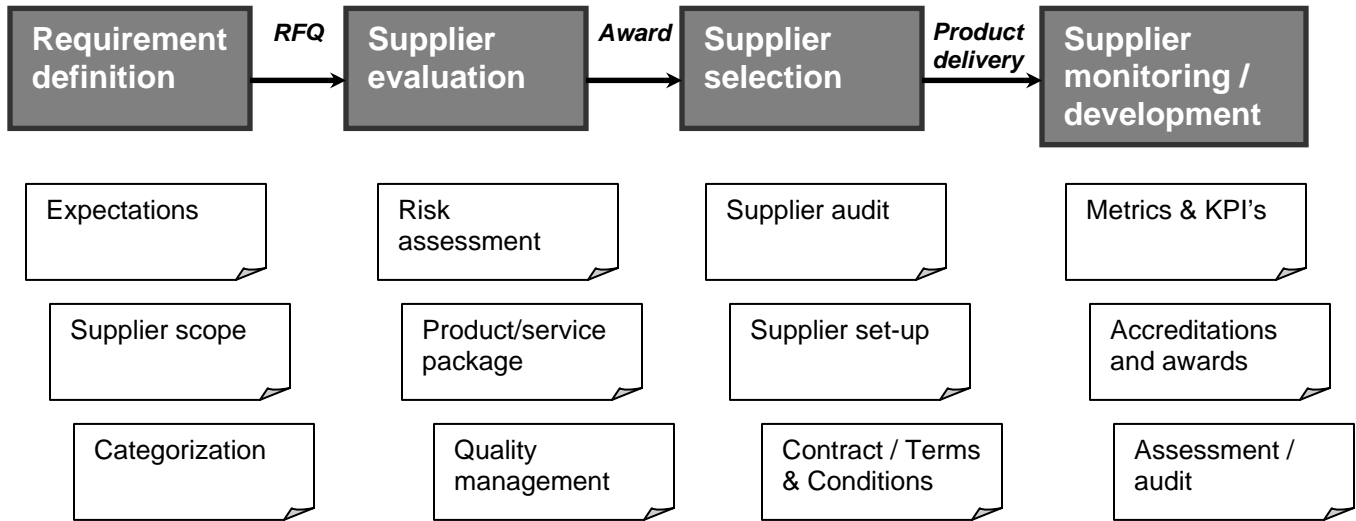
The SmarTire supplier management process is broadly outlined below and encompasses four main areas to allow SmarTire to qualify, monitor and aid in the development of supplier performance:

- **Requirement definition** – this is generally an internal process that evaluates the need, determines the best method for delivering the solution and identifies the specific type of supplier required. This will lead to the compilation of an RFQ which will outline the expectations required for delivering the material, product or service.
- **Supplier evaluation** – this stage reviews the proposals by the supplier(s), identifying any risks, evaluating the material, product or service offering and assessing the capabilities of the supplier and their quality management processes. This will lead to notification of award, subject to successful contractual and more in-depth assessment as necessary.
- **Supplier selection** – the selection is the finalization of terms & conditions for supply, including relevant detailed auditing as necessary. SmarTire will collaborate with the supplier at this stage to determine the best method for delivery of the material, product or service should there be any changes required from the details outlined in the RFQ.
- **Supplier monitoring & development** – throughout the development and delivery of the material, product or service SmarTire continuously evaluates the performance of its suppliers. Depending on categorization, this could include on-site auditing, formal reviews and ongoing



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 13 of 38

statistical analysis to determine if the supplier is meeting expectations. Where necessary, SmarTire will work with the supplier to improve materials, services or processes, but expects the supplier to proactively exhibit continuous improvement methodologies throughout.



4.1 General

All suppliers providing production materials, parts or assemblies must be registered to ISO9001:2000 as a minimum requirement with the goal of demonstrating conformity to the additional requirements of ISO/TS 16949:2002 within 2 years of becoming a SmarTire supplier. In exceptional circumstances, SmarTire Systems Inc. reserves the right to qualify a category B supplier by a method acceptable to SmarTire Systems Inc. or its customers, for example onsite audit.

All suppliers providing calibration and/or testing services must also be accredited to ISO/IEC 17025:2005 at the time of providing the service.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 14 of 38

4.2 Requirement definition

SmarTire has a continuous need to work in close cooperation with its suppliers, and although the process for requirements definition is mainly an internal function, in certain circumstances SmarTire will work with a prospective supplier to define the expectations for delivery of a specific material, product or service.

4.2.1 Expectations

SmarTire takes a collaborative approach with its suppliers in all aspects of material, product and service delivery to ensure we deliver high quality products on time to our customers.

Continuous improvement is an important aspect of this and suppliers are expected to proactively communicate alternative methods to improve processes, product quality and facilitate cost savings to SmarTire throughout the entire supplier selection, definition, development and delivery process.

We encourage the supplier to make us aware of any issues or potential issues that may have arisen, to allow us to help towards a positive resolution. We will not tolerate situations where the supplier actively holds back information or does not communicate an issue until it is too late – this is viewed negatively within SmarTire and could affect the supplier's rating and ultimately the ongoing business relationship.

It is also critical that the supplier maintain a high level of communication with SmarTire at all times – it is as much the suppliers' responsibility as SmarTire's to ensure both parties have a clear understanding of anything that could affect the ongoing relationship or supply of materials, products or services. This includes understanding the latest requirements, standards and processes that are in place within SmarTire and with its customers as necessary.

4.2.2 Supplier scope

Suppliers will be sourced due to a material, product or service need, and this may include defined limits applicable to the selection criteria. Examples of this may be volume, market or specific customer limitations that allow supply only within certain boundaries or for specific projects.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 15 of 38

Alternatively, suppliers may be selected for a specific role within the supply chain that has little or no boundaries other than the delivery of the type of material, product or service – this allows for a broader remit and will remove the need to re-qualify as a supplier for other projects.

SmarTire will communicate any of these limitations to the supplier in the award letter or throughout the supplier monitoring process.

4.2.3 Categorization

Suppliers are categorized in the following broad manner and this determines both initial requirements and ongoing monitoring aspects:

- **Category A – Essential material supplier**

This refers to a supplier of a key product or material that is integral to SmarTire's core product delivery.

- All suppliers in this category will be required to provide a PPAP level 3 documentation package, as defined in AIAG PPAP 4th Edition Manual, with the initial production run for all products or materials (see also section 4.7.2). Additionally this documentation will be necessary for any significant product or process changes, including Revision and Release levels.
- All suppliers in this category will be audited at least once per year – this could be an on-site visit, but at minimum will include a formal collaborative review of delivery and quality performance to develop an ongoing improvement plan
- All suppliers in this category will need to commit to a formal review process every 6 months – this normally includes a conference call with the SmarTire supplier review board to evaluate performance, highlight any concerns or issues and discuss ongoing collaboration.

- **Category B – Commodity supplier**

This refers to a supplier of a product or material that is not integral to product delivery, can be relatively easily sourced from numerous suppliers or has an easily obtainable substitute.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 16 of 38

- All suppliers in this category will be required to provide a PPAP supporting documentation package with all products or materials to the relevant level as determined by SmarTire Quality Manager.
- All suppliers in this category will be audited at least once every three years – this could be an on-site visit, but normally will include a formal collaborative paperwork review of delivery and quality performance to develop an ongoing improvement plan

- **Category C – Service supplier**

This refers to a supplier of a service, such as a test laboratory or consultant that is integral to product realization and/or homologation.

- All suppliers in this category will need to provide the relevant accreditation for the service they provide. This may include registration certificates, or similar proof of ability to perform the service.
- All suppliers will provide a Statement of Work or similar scope of service to define the boundaries for delivery of the service. Additionally, where the supplier is performing calibration services a Laboratory Scope must be submitted.
- All suppliers in this category will need to commit to a formal review process every 12 months – this normally includes a conference call with the SmarTire supplier review board to evaluate performance, highlight any concerns or issues and discuss ongoing collaboration.

Suppliers in all categories will need to provide the information requested in the supplier quality system questionnaire – see section 4.6.2.

4.3 Request for quotation (RFQ)

The requirement definition process will result in the generation of the RFQ. This document will be communicated to relevant qualified and prospective suppliers to provide guidance for the delivery of the material, product or service that SmarTire needs.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 17 of 38

Outlined in the RFQ will be all the applicable aspects that will allow either an indicative or defined quotation to be provided by the supplier. Items covered will include the following requirements as a minimum:

- Proposal delivery and format
- Product, material or service details
- Quantity
- Timing
- Cost
- Quality
- Manufacturing
- Packaging & logistics
- General Terms & Conditions

4.4 Supplier evaluation

The supplier evaluation process takes into account numerous aspects of the proposed material, product or service as well as the company and its ability to deliver those items. Quality is of the utmost importance to SmarTire and it is imperative that suppliers highlight how they aim to maintain the highest quality standards throughout the definition, development and delivery stages.

Cost reduction is also an integral part of the long term success of SmarTire and its suppliers. In order to remain competitive and become stronger in the marketplace, SmarTire and its suppliers must implement a focused systematic approach to reduce the cost of goods sold, thereby reducing purchase prices. SmarTire will develop its supply base from suppliers who intend to become and remain leaders in their field of expertise and have the desire and ability to offer price reductions on an ongoing basis through a process of continuous improvement that embraces cost reductions.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 18 of 38

4.4.1 Risk assessment

SmarTire conducts a risk assessment based on the criticality of the item as well as the supplier's ability to deliver it. This includes many factors, with the weighting of these determined by the supplier review board, depending on the material, product or service requirement.

Some of the aspects that will be evaluated are the following:

- *Corporate* – Cultural alignment, communication, location, financial stability, resources
- *Quality* – Accreditations and awards, quality commitment, knowledge of TS16949 requirements
- *Application understanding* – Market and customer alignment, new product introduction processes
- *Technical resources* – Product and development expertise, support staff, opportunities for technical collaboration, intellectual property

This is not intended to be an exhaustive list and may change depending on the material, product or service.

4.4.2 Product/service package

Suppliers should outline as much detail as possible in their response to the RFQ to enable SmarTire to evaluate the relevant benefits of the material, product or service, as well as the prospective supplier. Although SmarTire will ask for additional information as necessary, suppliers should proactively seek to clarify any specifics of the RFQ that are unclear prior to responding and should add any background information that they feel is relevant.

Suppliers are also encouraged to outline any additional benefits that are not specifically asked for within the RFQ, but are thought to be advantageous to the overall delivery of the material, product or service.

The responses to the RFQ will be evaluated by the sourcing team from the relevant departments, taking into account all aspects of the proposal.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 19 of 38

4.4.3 Quality management

Suppliers are required to be accredited to ISO 9001:2000 as a minimum requirement by a recognized third party certification body with the goal of demonstrating conformity to the additional requirements of ISO/TS 16949:2002 within 2 years of becoming a SmarTire supplier. Demonstration of an implemented quality management system will be required at the discretion of the SmarTire Quality Manager. This may include an on-site visit, questionnaire or paper audit, submission of capability metrics or demonstration of continuous improvement.

A waiver will be required for customer-driven suppliers who do not meet the Quality System Requirements of SmarTire. Depending on the level of risk, an assessment by SmarTire may be required to approve the processes and/or Quality System.

4.5 Award

Following the supplier evaluation stage, SmarTire will issue an award notification to the chosen supplier. In many cases, this award will be subject to further investigative or assessment work, such as an audit.

Additionally, the award could also be subject to other terms and conditions to be agreed within a formal contract or purchase order, such as cost reduction strategies or quality targets.

We understand that committing to a supply partnership results in expending resources and as such we would rather show our intent to work with a particular supplier prior to expecting them to commit their time or effort. Once we have issued an award, it is always our intention to move forward with that particular supplier, however, we cannot predict all aspects that may affect this intention, and as such the supplier should wait for confirmation via the final purchase order or supply contract prior to committing significant resources.

The final requirements will be clarified within the supplier selection process, but if anything is unclear or the supplier is unsure as to what extent they should prepare their supply chain, they should contact SmarTire purchasing for clarification.

4.6 Supplier selection

The supplier selection process enables SmarTire to clarify their understanding of the supplier and their specific proposal. It also provides a method for us to set the correct expectations and



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 20 of 38

undertake further, more in-depth assessment to determine if both parties have the correct level of information related to the definition, development and delivery of the material, product or service.

4.6.1 Supplier audit

A formal on-site audit or quality review may be required at the discretion of the SmarTire Quality Manager upon qualification as an approved vendor. On-site audits review the quality processes used to ensure the conformity of delivered product to SmarTire.

4.6.2 Supplier set-up

A supplier will be set up as an approved vendor to SmarTire once the appropriate requirements have been submitted and signed-off. This may include completion of a supplier questionnaire, submission of the applicable ISO certifications, submission of the supplier quality manual or policy and supplier set up information through SmarTire Purchasing.

A supplier quality system questionnaire will be provided to the supplier via an online survey or electronically by SmarTire purchasing or quality. The questionnaire is intended to give SmarTire history about the supplier with regards to the following:

- General quality system information
- Process control
- Document control
- Measurement and test control
- Procurement and service control
- Control of non-conforming materials
- Product verification and deviation

Suppliers are expected to complete a questionnaire when requested. Failure to do so may result in a downgrading of a supplier or rejection of vendor approval.

Any questions related to the supplier quality system questionnaire should be directed to the SmarTire Quality Manager.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 21 of 38

4.6.3 Contract / Terms & Conditions

SmarTire's standard terms and conditions will form part all contracts of purchase (see Appendix D). Any exceptions to this or additional items outside SmarTire's standard terms and conditions will be outlined in the specific purchase order or identified in a separate supply contract.

4.7 Product delivery

Throughout the entire product delivery stage it is imperative that the supplier pays attention to these items. The delivery of the correct supporting documentation in conjunction with following the correct processes are as important as providing high quality product on time.

There may be occasions when our customers have additional specific product delivery requirements, and these will be identified on the relevant purchase order or supply contract.

4.7.1 Packaging & Logistics

It is important to SmarTire that our goods are protected during transit and that SmarTire and the relevant shipping and customs personnel can efficiently identify materials or products throughout the entire delivery process. We do not want to force suppliers into introducing excessive packaging requirements, but we must ensure that the following minimum standards are followed.

As much as possible SmarTire encourages the use of recycled materials, and suppliers should feel free to make any suggestions to improve the overall Packaging & Logistics methods if this helps with the goal of reducing waste.

4.7.1.1 Packaging

Suppliers are required to use double walled cardboard boxes for easily damaged components and for box weights exceeding 30lbs. This also includes boxes in large shipments of freight requiring the use of skids/pallets. Additionally, skids must be shrink-wrapped and corner pads and metal ties should be used to ensure protection of the material or product.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 22 of 38

4.7.1.2 Labeling and identification

All shipping containers for electronic components must be labeled with the SmarTire part number and purchase order number, description, quantity, unit of measure, lot number, and date of manufacture.

Suppliers of all other production materials to SmarTire are expected to identify shipping containers with SmarTire part number and purchase order, description, quantity, unit of measure, and date of manufacture.

Production materials provided by the supplier that do not conform to requirements and have been approved by SmarTire must have a label on the container indicating "On Concession".

There must be a separate packing slip provided independent of the customs documentation package. The packing slip is to be attached to the outside of box No.1 or inside a box with printed indication on the outside of box that packing slip is enclosed.

Suppliers are expected to keep current with their relevant tariff codes. SmarTire should be notified of any changes to the code and suppliers need to ensure the proper tariff code is being used in customs documents when shipping.

4.7.1.3 Shipping

Suppliers are required to use the approved freight carriers shown on SmarTire's purchase order. SmarTire will not be responsible for freight costs resulting from the use of a non approved or premium carrier/service without prior authorization.

It is imperative that you inform SmarTire purchasing as soon as possible with the details of the shipment, such as delivery date, carrier, tracking number etc. This also includes notification of any delay, including the reasons for the delay and any additional details that may help resolve the situation.

4.7.1.4 ESD Protection

All processing, handling and packaging of Electrostatic Discharge Sensitive items or assemblies shall conform to MIL-STD-1686.

4.7.1.5 Shelf Life

If an item is defined as having a specific shelf life then a Certificate of Conformance must be supplied which identifies date of manufacture, batch/lot number, specification number(s), and



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 23 of 38

storage conditions. No more than 10% of the shelf life shall be expired at the time of receipt by SmarTire.

4.7.1.6 NAFTA Requirements

SmarTire is obligated by customer requirements and Canadian law to obtain, on an annual basis, information on the country of origin of assemblies or finished products. These requirements are a result of the North American Free Trade Agreement (NAFTA). Each supplier must supply NAFTA with each shipment or submit blanket NAFTA to SmarTire annually, on the appropriate forms, documentation which fulfills the requirements of NAFTA. Should the part status change (i.e. sourcing, process, etc.) or a new part number be supplied, the supplier must submit the appropriate new documentation to SmarTire.

4.7.2 **PPAP Submission**

All PPAP submissions should be as per AIAG PPAP 4th Edition Manual with all requirements to be listed on the purchase order/contract and its attachments or other written notification.

Submission requirements for any process or product changes will be listed on both the SREA (Supplier Request for Engineering Approval) form and the purchase order/contract.

Submission samples and documentation shall be sent to SmarTire; "Attention: Quality Department". The quantity of samples required from each position of a multiple cavity die, mold, tool or pattern will be specified on the purchase order / contract. The samples are to be randomly chosen from a minimum run size of 300 pieces from each production stream, unless otherwise specified.

Shipping cartons that contain submission samples are to be identified accordingly as 'PPAP Samples'

Dimensional reports must be in the same measurement units as the part print. It is the supplier's responsibility to meet applicable specifications. Any results that are outside specifications are cause for the supplier not to submit the parts and/or documentation. Every effort must be made to correct the process so that all design record requirements are met. If the supplier is unable to meet any of these requirements, SmarTire is to be contacted for further instructions. The supplier is to initiate a SREA (Supplier Request for Engineering Approval) form under such circumstances.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 24 of 38

Dimensions that are designated with a special characteristic must meet a Ppk >1.6 based on a capability study performed with a minimum of 30 pieces from a minimum 300 piece run from each production stream. This data must be submitted with the initial submission.

EXCEPTIONS: For processes with where related elements such as stamping, forging, die casting, and molding the initial tooling dimensions should be skewed toward the appropriate specification limit to allow maximum tool life. A computation of Pp is to be made in place of Ppk.

Once a supplier has started production shipments to SmarTire, the supplier will continue to monitor the Ppk or Pp values, as applicable, for critical and safety characteristics to demonstrate the ongoing capability and continuous improvement of special product characteristics. Data submission requirements to SmarTire will be specified on the purchase order / contract, part print, product specification, or other written notice.

While it is preferred that any documentation related to PPAP, capability or product conformity be provided electronically to the SmarTire Quality Manager, any hard copies included in shipments should be clearly identified as such and address the attention to who it should go to upon receipt.

Any questions should be directed to the SmarTire Purchasing or Quality department.

4.7.3 Special Characteristics

4.7.3.1 Symbols

Symbols are used on SmarTire drawings to highlight special product/process/test features where verification is MANDATORY. The verification and submission requirements will be described/referenced on the part print or in the purchase order / contract.

4.7.3.2 Lot Traceability

All lot and material traceability numbers must be maintained by the supplier. The traceability must be to the component level and be able to be identified to a specific SmarTire purchase order.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 25 of 38

4.7.4 Supplier Request for Engineering Approval (SREA)

SmarTire must be notified of **ANY** process, tooling, material, design, equipment, etc., change in writing by the supplier. This form may also be used to approve any temporary changes. The supplier must submit a Supplier Request for Engineering Approval (SREA) form to SmarTire Purchasing and receive written approval from SmarTire prior to any change being implemented. The tracking of the request is performed by SmarTire Purchasing. The SmarTire Quality Department must be contacted if potential line shut down conditions for pre-disposition. After receiving pre-disposition the supplier is to immediately submit the proper SREA paperwork to SmarTire Purchasing. Material shipped without authorization will be rejected by SmarTire. Such a rejection will affect the supplier's rating. PPAP submission may be required as the result of the change.

Suppliers may use their own SREA forms for submission to SmarTire of the one provided in Appendix E.

All costs and expenses incurred by SmarTire as a result of unauthorized changes will be billed to the supplier.

4.7.5 Nonconforming Material

If material received from the supplier is not suitable for use, an NCR (Nonconformance Report) will be issued to the supplier. The supplier will then be expected to accept responsibility based on the disposition in a timely manner. At a minimum, SmarTire expects Root Cause Analysis to be provided to the SmarTire Quality Manager within 2 weeks of the NCR initiation explaining how the nonconformance occurred, what actions will be taken to correct the issue and prevent its reoccurrence in the future. Any costs associated with scrap, rework, sort or shipping will be charged back to the supplier.

If additional defects following permanent corrective action implementation are detected for the same failure mode previously identified, a CAR will be issued and containment measures will be imposed.

In the event that the supplier wishes to ship product other than which is specified and qualified by SmarTire or is potentially nonconforming, SmarTire must authorize the supplier to do so. This can be done via an SREA or the supplier's internal waiver process. Product shipped to



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 26 of 38

SmarTire under waiver must be identified as such on the outside of the shipping container and on the shipping paperwork. Shipment of unauthorized nonconforming or potentially nonconforming product will be rejected at SmarTire incoming inspection.

4.7.6 Corrective Action Request (CAR)

4.7.6.1 Supplier Response

A Nonconformance Report (NCR) will be issued to the supplier upon the detection of non-conforming material and will call for a written response identifying root cause and corrective action. A Corrective Action Request (CAR) may be issued to a supplier when a late delivery results in a line shutdown, or when an overall supplier rating drops into the "Marginal" or "Unsatisfactory" category. An 8D Root Cause Analysis problem-solving technique must be used to respond to both instances. Supplier specific forms may be utilized as long as the SmarTire CAR or NCR number is identified.

Immediate containment of suspect material is required. When a supplier receives an NCR or CAR from SmarTire the following documentation must be submitted within the timelines specified below:

- Acknowledgement/Response to the NCR or CAR within 48 hours of receipt (email to SmarTire Quality is acceptable).
- Return completed CAR response within 10 days from receipt for SmarTire approval and acceptance. Target dates to implement planned corrective actions must be shown. The permanent corrective action may take longer than 10 days to actually implement. The lot number for the permanent corrective action implementation date must be identified. Any updates to the corrective action plan, such as actual completion dates, must be communicated to SmarTire.

Corrective action requests will also be made for "Unsatisfactory" quarterly ratings and for non-conformances observed during an audit of the supplier's quality system or process. Formal corrective action plans for audit or rating deficiencies are due within 30 days from notification

4.7.6.2 Failure to Respond

Suppliers failing to respond to NCR's or CAR's on time will be penalized on their supplier rating. SmarTire's Quality Assurance department will review the CAR response for completeness and



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 27 of 38

acceptability and will return an acknowledgment to the supplier. The CAR response will be rejected if root cause, corrective action, and prevention are not adequately identified. An unacceptable response to the CAR will be counted as a late response on the supplier rating system.

4.8 Supplier monitoring & development

Registration or Accreditation by a recognized body to the applicable standard is evidence of conformance by the supplier. SmarTire reserves the right to perform on-site supplier assessments. Any non-conformances identified as a result of assessments must have formal corrective actions initiated within 30 days of the finding.

This requirements manual is part of the purchase order or contract issued by SmarTire. Acceptance of the purchase order or supply contract constitutes acceptance of the requirements of this manual. Additional quality requirements for materials, products and services specified on the purchase order, contract, drawings or specifications must be satisfied and take precedence over the requirements of this manual.

Failure to comply with quality system requirements may result in supplier status being downgraded or terminated.

SmarTire reserves the right to revise this manual at any time without prior notice. We will aim to inform all relevant suppliers of applicable changes, but it is the supplier's responsibility to understand the latest requirements of SmarTire and it's customers as necessary.

An Acknowledgment (fax or email) must be submitted, for each revision, to verify that the supplier has reviewed, understood and accepted in principle the contents of the manual and its related documents. See Appendix C for details of supplier acknowledgement.

4.8.1 Metrics & KPI's

Suppliers are evaluated and monitored to ensure their ability to meet SmarTire requirements. This is achieved, as applicable, by supplier surveys, quality, delivery, cost, communication, and other specified requirements indicated to the supplier by appropriate methods which provide a record of the evaluation/monitoring and any actions required.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 28 of 38

A Supplier rating will be performed quarterly on all suppliers on the SmarTire approved vendor list. These ratings will be provided to suppliers upon request. The Supplier Rating Criteria is available to suppliers through SmarTire Purchasing and is used as a quantitative and qualitative measurement of supplier performance.

The supplier rating criteria measures and evaluates the following aspects of a suppliers' performance:

- On time delivery
- Non-conforming products
- Communication
- Responsiveness
- General quality
- Logistics

The calculation for the supplier score is dependent on the various aspects listed above and using any qualitative adjustments defined by the supplier review board. Additionally, the outcome of the score has a different impact, depending on the initial supplier categorization:

Category A suppliers

90+ no action required

75-89 feedback to supplier for follow-up and discussion

0-74 Corrective Action Request required

Category B/C suppliers

75+ no action required

50-74 feedback to supplier for follow-up and discussion

0-49 Corrective Action Request required

An on-time delivery performance target of 100% is a requirement for all suppliers with the aim of zero defects. Supplier performance is also demonstrated by continuous improvement trends



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 29 of 38

that proactively provide cost reduction opportunities by reducing waste and non-value added operations from the supplier's processes.

4.8.2 Accreditations and awards

SmarTire is interested in understanding any accreditations or awards the supplier may receive, even if these are outside the scope of delivery of the particular material, product or service to our customers, or within our specific markets. This helps to provide evidence of superior product delivery performance and demonstrates ongoing commitment to quality as assessed by third parties. Additional understanding of other applicable customer audit approvals is also useful in these circumstances.

Knowledge of additional accreditations or awards may allow for increased supplier scope or may positively impact the risk assessment or additional qualitative aspects that are appraised throughout the supplier evaluation process.

4.8.3 Assessment / audit

At the discretion of the SmarTire or its customers, and as defined by the supplier's categorization, an on-site process, product or system audit at the supplier may be deemed necessary. This may depend on the criticality of the part or process or as a result of poor product quality. The supplier's internal controls under their quality management system may be utilized to evaluate the processes which affect SmarTire product. In the event that a supplier visit is required, the supplier will be given as much notice where possible. Visits requested by SmarTire's customers may occur with little or no notice.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 30 of 38

Appendix A – Supplier Qualification Criteria

1. Registration to ISO 9001:2000 or TS 16949 – if registered the following must be submitted
 - 1.1 Completed Supplier Questionnaire
 - 1.2 Quality certificate
 - 1.3 Quality Manual (if able to submit)
 - 1.4 Demonstrated compliance to TS within 2 years of becoming a SmarTire supplier
 - 1.5 Ability to provide certificate of conformity of shipped product to SmarTire.

2. If not registered to ISO 9001:2000 the following must be submitted
 - 2.1 Submission of a plan for registration to ISO or TS
 - 2.2 Completed Supplier Questionnaire
 - 2.3 Quality Manual if available (if able to submit)
 - 2.4 Agreement to a supplier audit performed by a SmarTire representative to waive the registration requirement for qualification
 - 2.5 Ability to provide certificate of conformity of shipped product to SmarTire.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 31 of 38

Appendix B – Distributor Specific Requirements

1. Distributor is licensed
2. Registered to latest version of ISO 9001
3. Ability to stock and manage inventory or pipeline material without PO
4. Provide engineering support for sourcing and crossing
5. Accountable for nonconforming products
6. 100% on time delivery (at SmarTire facility)
7. Ability to provide QMS certificate from manufacturer if distributor not registered to ISO 9001
8. Ability to provide certificate of conformity of shipped product to SmarTire



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 32 of 38

Appendix C – Supplier acknowledgement

This is confirmation that “**XYZ Supplier**” has read and understands the processes and obligations contained within the contents of the SmarTire supplier requirements manual.

Supplemental supply conditions may be detailed on the relevant purchase order or supply contract, and may include additional requirements as agreed. These will take precedence over the supplier requirements manual in the event of any conflict. Additionally, this supplier requirements manual does not supersede any long-term supply agreements or contracts that may already be in place between SmarTire and the supplier.

Signed on behalf of the supplier:

Name: _____

Position: _____

Date: _____



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 33 of 38

Appendix D – SmarTire standard Terms & Conditions of purchase

These general terms and conditions apply to all contractual relationships between companies providing materials, products or services (hereinafter referred to as “Supplier”) and affiliate companies of SmarTire Systems Inc. (hereinafter referred to as “Purchaser”). Exceptions to this shall be defined only within an individual supply contract as agreed between the parties or as specifically itemized on the relevant purchase order.

1. *Applicable Terms*

The legal relationship between the Supplier and the Purchaser shall be governed exclusively by the following:

- a. Terms and Conditions of Purchasing and Ordering (hereinafter "Terms").
- b. Any terms to the contrary are hereby expressly excluded.
- c. The unconditional acceptance of the goods or services (hereinafter consistently referred to as "goods/services") or payment by the Purchaser shall in no case constitute acceptance of the Terms and Conditions of the Supplier.
- d. The Terms shall also apply for all future transactions of this kind with the Supplier.

2. *Ordering*

- a. All contracts for delivery (purchase orders, supply contracts and confirmations) shall require being in the written form. Purchase and release orders may also be sent in electronic form (fax, e-mail, EDI).
- b. Any verbal agreements after conclusion of the contract or any collateral agreements require the written confirmation of the purchaser.
- c. Any cost estimates shall be binding and free of charge.
- d. The purchaser may demand reasonable changes of the goods/services in terms of construction and design. The consequences of such changes, in particular with regard to additional or lower costs and delivery dates, shall be mutually and reasonably regulated between the parties.
- e. Should the Supplier fail to accept an individual order within two weeks of the order date, the Purchaser shall be entitled to cancel the order. Should these Terms be integrated into a framework agreement, an individual contract that is based on this framework agreement also comes into existence if the Supplier does not object immediately and justifiably; the date stated in the release order shall be met.
- f. The Purchaser's supplier requirements manual shall be an integral part of the delivery requirements.

3. *Prices, Payment*

- a. Without special agreement, all prices are “delivered duty paid” (DDP according to Incoterms 2000) including packaging.
- b. Should the Supplier undertake installation or assembly, he shall, failing a written agreement to the contrary, bear all necessary additional costs.
- c. Unless otherwise agreed, the Purchaser shall pay within 60 days of the claim for payment and after receipt of a due invoice as well as receipt of the goods/services. Any payment is subject to invoice verification.
- d. Should early delivery of the goods and services (hereinafter referred to as “consignment”) be accepted, any claim for payment shall become due not earlier than on the agreed date of payment, in case of doubt not earlier than the agreed delivery date. The right to assert compensation claims for additional costs, in particular with regard to storage costs is reserved.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 34 of 38

4. Delivery and Delivery Dates, Late Delivery, Penalty

- a. Any agreed delivery dates and terms shall be binding. On-time delivery shall be the date the goods are received at the delivery address agreed with or designated by the Purchaser.
- b. Failing an agreement to the contrary, delivery shall be made "delivered duty paid". In all other respects the Supplier shall coordinate delivery with the carrier of the Purchaser.
- c. Partial deliveries and early deliveries are not permitted unless expressly agreed to in writing by the Purchaser.
- d. Acceptance of late deliveries without reservation shall not be deemed to be a waiver of any claims to which the Purchaser is entitled due to late delivery.
- e. Should the agreed delivery dates not be met, the statutory provisions shall apply. Should the Supplier anticipate difficulties that may prevent him from delivering on time or in the agreed quality, he shall notify the Purchaser immediately, stating the reasons.
- f. The Supplier shall bear the performance risk until acceptance of the Purchaser or his agent at the location, to which the goods shall be delivered in accordance with the contract.
- g. The supplier shall conduct a thorough inspection of outgoing goods to ensure defect-free delivery. An inspection of incoming goods only takes place with respect to outwardly visible defects, and/or deviations in kind or quantity of the goods. The Purchaser will give notice of such defects immediately. Notice of any other defects will be given as soon as those are determined in the ordinary course of business or as otherwise defined in the purchase order or supply contract.
- h. The Purchaser shall have the unrestricted, irrevocable and within SmarTire freely transferable right to use any software included in the scope of delivery, including any attendant documentation, in accordance with the intended use of the goods/services under the contract. He may also make a safety copy thereof without any express agreement.
- i. If required and on demand of the Purchaser, the parties will agree to the establishment of a consignment warehouse.

5. Confidentiality

- a. The supplier shall ensure that they shall treat all commercial and technical details which may become known to them through their business relations with SmarTire as confidential information. Depending on the circumstances, the supplier may be required to sign a non-disclosure agreement to cover the details of treatment of such confidential information.
- b. Any information made accessible by the Purchaser shall not be disclosed to third parties insofar as it is not demonstrably known to the public. The information remains the exclusive property of the Purchaser and shall only be made available to those employees within the Supplier's company that are necessary in the performance of the contract and who have been put under an obligation to secrecy themselves.
- c. With the exception of deliveries to the Purchaser, such information may not be duplicated or used for commercial purposes without the prior written approval of the Purchaser.
- d. On request of the Purchaser, all information originating with the Purchaser, no matter what kind or in what form, shall be immediately and completely returned to him or destroyed in connection with a written declaration to that effect.
- e. The Purchaser reserves all rights in such information (including copyright and the right to intellectual property applications). Insofar as the Purchaser has acquired such information from third parties, this reservation also applies for the benefit of such third parties.
- f. The Supplier may neither use himself nor offer or deliver any products to third parties that have been manufactured on the basis of the Purchaser's documents, drawings, models and the like or on the basis of confidential specifications of the Purchaser or by means of his tools or copies thereof. This shall correspondingly also apply for printing orders.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 35 of 38

- g. The contracting parties may only use their business connection for advertising purposes with the prior written consent of the other party.

6. Inventions, Industrial Property Rights

- a. The Supplier hereby grants the Purchaser a free, transferable right of use without restriction as to territory or time in any know-how and inventions of the Supplier that are capable of being protected and on which the goods/services are based or in which these are embodied or which have come into being through development processes during the contractual relationship. The Supplier shall organizationally ensure that he can meet his obligation to grant the right of use.
- b. The supplier is aware that the products of the purchaser are being used world-wide and undertakes to immediately notify the Purchaser of any use of published and unpublished, own and licensed industrial property rights and patent applications regarding the goods/services.

7. Packaging, Delivery Note, Invoice, Country of Origin of Goods

- a. The goods shall be packaged, identified and delivered as outlined in the SmarTire supplier manual, on the relevant purchase order or within the agreed supply contract.

8. Force Majeure

- a. Any force majeure, strikes or lockouts, disruption of operations through no fault of his own, riot, official governmental actions and other unavoidable events entitle the Purchaser – irrespective of his other rights – to withdraw from the contract in full or part, provided these events result in a significant reduction of his needs and last for a significant period of time.

9. Liability for Defects

- a. Unless agreed otherwise below, the statutory provisions regarding defects of quality and title shall apply.
- b. The Purchaser may choose the manner of subsequent performance.
- c. Should the Supplier fail to start immediately with the repair of the defect within a period to be determined by the Purchaser, the Purchaser shall be entitled at the Supplier's expense to carry out the repair himself or have it carried out by a third party. Should the Purchaser, due to special urgency and in particular in defense against impending risks and/or substantial damage, be unable to notify the Supplier of the defect and the impending damage and to set a time limit, he shall be entitled to remedy measures without setting a time limit.
- d. The warranty for finished goods shall expire 24 months after ultimately being put into service by the end customer, at the latest, however, 36 months after delivery to the Purchaser.
- e. The Supplier shall bear the costs incurred by the Purchaser due to defective delivery of the goods/services, in particular costs for handling, transport traveling, labour, material, installation and modification, costs for an incoming goods inspection that exceeds the ordinary scope as well as costs the Purchaser has to bear for his customers due to statutory obligations.
- f. In case of culpable defect of title, in particular in case of infringement of third party industrial property rights, the Supplier shall indemnify the Purchaser and his customers from all claims by third parties and shall compensate all costs the Purchaser incurs due to a necessary and appropriate legal defense in connection with the infringement of third party rights. In respect of defects of title a period of limitation of 7 years applies.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 36 of 38

- g. Should the Purchaser take back any products manufactured and/or sold by him due to defects of the goods/services delivered by the Supplier, or should the remuneration of the Purchaser have been lowered or shall claims be made on him in other ways, the Purchaser reserves the right to recourse against the Supplier.

10. Other Liabilities

- a. Should the Purchaser be subjected to product liability claims, the Supplier shall indemnify him insofar and to the extent that the damage was caused by a defect of his goods/services. However, in case of tortious liability this shall only apply if the Supplier is at fault. The Supplier shall bear the burden of proof, provided the cause of the damage lies within the scope of his responsibility. In these cases the supplier shall bear all costs and expenses, including the costs for bringing an action.
- b. The Supplier undertakes to take out and prove that he is covered by public liability insurance for damages under extended product liability as well as for the costs of any recall action. The sum insured shall be no less than US\$5 million each for personal injury, property damage and extended product liability and recall costs.
- c. The Supplier shall be liable for measures taken by the Purchaser in defense against damages (e.g. recall action) insofar as he is obligated to do so under the law and/or contract.

11. Third Party Industrial Property Rights

- a. The Supplier warrants that no third-party industrial property rights are in conflict to the contractual use of the goods/services.
- b. Insofar as the Supplier is at fault for the infringement of industrial property rights, he shall indemnify the Purchaser from all third-party claims made against him in and out of court, including any costs incurred by the Purchaser for a necessary and appropriate legal defense resulting from an infringement of industrial property rights.
- c. Furthermore, the contracting parties shall notify each other immediately of any infringement risks and alleged cases of infringement and shall afford each other the opportunity to jointly counteract any corresponding claims.

12. Assignment and Set-Off

- a. The Supplier may not assign his claims against the Purchaser nor have these collected by third parties without prior written approval, which may not be refused unreasonably.
- b. The Purchaser may withhold or set off payments based on his counterclaims.

13. Retention of Title

- a. Any extended or wider retention of title on the part of the Supplier shall require an express separate agreement to be effective.
- b. Any materials provided by the Purchaser shall remain his property and may only be used for the intended purpose. Any processing of materials and assembly of parts is carried out on behalf of the Purchaser. The Purchaser shall have co-title in the products manufactured using his materials and parts in proportion of the value of the materials provided by him to the value of the overall products, which the Supplier shall keep for him.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 37 of 38

14. Quality and Documentation

- a. The Supplier quality and documentation requirements shall be as outlined in the SmarTire supplier manual, on the relevant purchase order or within the agreed supply contract, or as identified during the supplier monitoring and development process.

15. Safety and Environmental Protection

- a. All packages shall be easily separable and recyclable, avoid compound unit packs and be made of naturally renewable materials. The corresponding information regarding product and material shall be made available.
- b. Any persons carrying out work in performance of the contract on the premises of the Purchaser shall observe the applicable safety and environmental protection regulations. Any liability for accidents that happen to these persons on the Purchaser's premises shall be excluded unless these have been caused by intentional wrongdoing or gross negligence on the part of the legal representatives or vicarious agents of the Purchaser.

16. Replacement Parts and Availability

- a. Failing an agreement to the contrary, the Supplier shall be obligated to deliver replacement parts at appropriate conditions for the period of ordinary technical use, no less, however, than for 10 years after delivery of the last goods/services.

17. Final Provisions

- a. Place of jurisdiction for all disputes arising directly or indirectly from contractual relationships that are based on these Terms shall be British Columbia, CANADA insofar as legally permissible, otherwise the place of business of the Purchaser.
- b. The contractual relationship shall be governed exclusively by the applicable law at the place of business of the Purchaser to the exclusion of the principles of conflict of laws and the UN Convention on Contracts for the International Sale of Goods (CISG).
- c. Should one of the contractual partners discontinue payment or should his assets be subjected to insolvency proceedings or composition proceedings be instituted in or out of court, the other party shall be entitled to withdraw from that part of the contract that has not been fulfilled.
- d. Should any provision of these Terms and of the other concluded agreements be or become invalid, this shall not affect the validity of all other provisions of these Terms. The contracting parties undertake to replace such invalid provision with a valid provision that as closely as possible reflects the economic purpose of the invalid provision.



Subject: SmarTire supplier requirements manual		Revision Date: 22-Nov-07	
Document No: SSR-9000	Release: 1	Revision: 3	Page 38 of 38

Appendix E – SREA form

SUPPLIER REQUEST FOR ENGINEERING APPROVAL Submission Date _____

SUPPLIER TO COMPLETE					
SUPPLIER NAME AND ADDRESS		MANUFACTURING SITE CODE:		PPAP LEVEL:	
SMARTIRE AND/OR SUPPLIER PART NAME AND PART NUMBER OF ASSEMBLY AND ITS COMPONENTS		SUB-SUPPLIER or DIRECTED TIER 2 SREA <input type="checkbox"/> YES <input type="checkbox"/> NO			
		TIER 1 APPROVAL _____			
		SAFETY / REGULATORY PART (INVERTED DELTA) AFFECTED <input type="checkbox"/> YES <input type="checkbox"/> NO			
DESCRIPTION OF CHANGE: <input type="checkbox"/> DESIGN <input type="checkbox"/> DISCREPANT PART <input type="checkbox"/> MANUFACTURING PROCESS <input type="checkbox"/> HEAT TREAT <input type="checkbox"/> MATERIAL CHANGE					
ATTACHMENTS: <input type="checkbox"/> MANAGE THE CHANGE CHECKLIST <input type="checkbox"/> TIMING PLAN <input type="checkbox"/> VALIDATION PLAN					
BANK/INVENTORY REQUIRED <input type="checkbox"/> YES <input type="checkbox"/> NO IF YES, QUANTITY: _____					
EFFECT OF CHANGE:					
INTERCHANGEABILITY AFFECTED ASSEMBLY <input type="checkbox"/> YES <input type="checkbox"/> NO COMPONENTS <input type="checkbox"/> YES <input type="checkbox"/> NO		TIME REQ'D TO INCORPORATE CHANGE AFTER APPROVAL:		TOOLING OR FACILITY CHANGES REQUIRED <input type="checkbox"/> YES <input type="checkbox"/> NO IF YES, COST EFFECT \$ _____	
WILL INCORPORATION OF CHANGE AFFECT SHIPPING SCHEDULE? <input type="checkbox"/> YES <input type="checkbox"/> NO		PRINT NAME _____ SIGNATURE _____ TIER 1 OR DIRECTED TIER2 SUPPLIER REP		PIECE COST AFFECTED <input type="checkbox"/> YES <input type="checkbox"/> NO IF YES, COST EFFECT \$ _____	
		TITLE _____		TOOL MOVED REQUIRED <input type="checkbox"/> YES <input type="checkbox"/> NO	
SMARTIRE TO COMPLETE					
PRODUCT MANAGEMENT		PRODUCTION		ENGINEERING	
PRINT NAME	SIGNATURE	DATE	PRINT NAME	SIGNATURE	DATE
PURCHASING		V.P. OF PRODUCT AND SUPPLY CHAIN		QUALITY MANAGER	
PRINT NAME	SIGNATURE	DATE	PRINT NAME	SIGNATURE	DATE
REASON FOR REJECTION OR QUALIFYING CONDITIONS OF ACCEPTANCE					
SAMPLE OF CHANGED COMPONENT REQUIRED <input type="checkbox"/> YES <input type="checkbox"/> NO					
DISTRIBUTION: SMARTIRE DOCUMENT CONTROL PLUS QA & BUYER					
* This approval is granted upon the understanding that it is advisory in nature and in no manner changes the Sellers original responsibility for insuring that all characteristic, designated in the applicable engineering specification and / or inherent in the samples as originally tested and approved, are maintained. Seller accepts full responsibility for the changes or types of changes listed above; and should such changes result in less satisfactory performance than experienced with the originally approved item, Seller will fully reimburse the Buyer for all expenses incurred to correct the deficiency					