XPEL Technologies Corp.

Consolidated Financial Statements
(Expressed in United States Dollars)

For the Years Ended December 31, 2009 and 2008

Collins Barrow
Chartered Accountants

Collins Barrow Toronto LLP
20 Eglinton Avenue West
Suite 2100, P.O. Box 2014
Toronto, Ontario
M4R 1K8 Canada

T. 416.480.0160
F. 416.480.2646

www.collinsbarrow.com

AUDITORS' REPORT

To the Shareholders of
XPEL Technologies Corp.

We have audited the consolidated balance sheets of **XPEL Technologies Corp.** as at **December 31, 2009** and **2008** and the consolidated statements of earnings and deficit, comprehensive income (loss) and accumulated comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at **December 31, 2009** and **2008** and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants

April 2, 2010
Toronto, Ontario

XPEL Technologies Corp.

Consolidated Balance Sheets
As at December 31
(Expressed in United States Dollars)

	Note	2009	2008
Assets			
Current			
Cash		**$ 122,694**	$ 74,760
Accounts receivable		**262,501**	205,565
Inventory		**222,888**	211,215
Prepaid expenses and sundry assets		**54,986**	52,793
Promissory note	9	**321,071**	-
Current portion of restricted cash	4	**-**	17,000
Current assets of discontinued operations	9	**-**	465,805
		984,140	1,027,138
Property, plant and equipment	5	**245,244**	296,340
Intangible assets	6	**340,847**	384,911
Restricted cash	4	**-**	33,988
Long-term assets of discontinued operations	9	**-**	1,315,032
		$ 1,570,231	$ 3,057,409
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 827,831**	$ 974,021
Deferred warranty revenue and deposits		**20,287**	52,494
Current portion of long-term debt	7	**43,448**	78,328
Current portion of note payable	8	**87,673**	131,516
Current liabilities of discontinued operations	9	**-**	560,706
		979,239	1,797,065
Long-term debt	7	**-**	36,477
Note payable	8	**-**	76,718
Deposit on shares	18	**15,985**	15,985
Long-term liabilities of discontinued operations	9	**-**	111,205
		995,224	2,037,450
Shareholders' Equity			
Capital stock	10	**6,619,133**	6,619,133
Contributed surplus	11	**2,101,111**	1,022,561
Warrant capital	12	**64,019**	1,134,036
Accumulated other comprehensive income (loss)		**-**	(112,927)
Deficit		**(8,209,256)**	(7,642,844)
		575,007	1,019,959
		$ 1,570,231	$ 3,057,409

Nature of Operations (Note 1)

Approved by the Board **"Joseph P. Karpowicz"** Director **"W. Rege Brunner"** Director
(Signed) (Signed)

See accompanying notes.

XPEL Technologies Corp.

Consolidated Statements of Earnings and Deficit
For the Years Ended December 31
(Expressed in United States Dollars)

	Note	2009	2008
Revenue			
Installation, kit and material sales		**$ 2,144,971**	$ 1,818,056
Design access fees		**1,554,150**	1,663,397
Other revenue		**135,444**	266,407
		3,834,565	3,747,860
Expenses			
Cost of installation, kit and material sales		**1,629,132**	1,889,193
General and administrative		**1,647,276**	2,730,648
Sales and marketing		**31,700**	732,991
Interest on long-term debt		**33,335**	48,248
Loss (gain) on sale of capital assets		**(318)**	19,447
Amortization of property, plant and equipment		**53,285**	76,913
Amortization of intangible assets		**299,109**	235,645
		3,693,519	5,733,085
Net earnings (loss) from continuing operations		**141,046**	(1,985,225)
Loss from discontinued operations, net of tax	9	**(707,458)**	(1,932,701)
Net loss		**(566,412)**	(3,917,926)
Deficit at beginning of year		**(7,642,844)**	(3,724,918)
Deficit at end of year		**$ (8,209,256)**	$ (7,642,844)

Gain (loss) per share			
Basic and diluted - from continuing operations	15	**$ 0.0055**	$ (0.0767)
Basic and diluted - from discontinued operations	15	**$ (0.0275)**	$ (0.0746)
Basic and diluted	15	**$ (0.0220)**	$ (0.1513)

See accompanying notes.

XPEL Technologies Corp.

Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)
For the Years Ended December 31
(Expressed in United States Dollars)

	Note	2009	2008
Net earnings (loss) for year		**$ (566,412)**	$ (3,917,926)
Other comprehensive income			
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations		**-**	(167,751)
Reclassification adjustment for loss on disposal of self-sustaining foreign operations		**112,927**	-
Comprehensive loss		**$ (453,485)**	$ (4,085,677)
Accumulated other comprehensive income, beginning of year		**$ (112,927)**	$ 54,824
Other comprehensive income (loss)		**112,927**	(167,751)
Accumulated other comprehensive income (loss), end of year		**$ -**	$ (112,927)

See accompanying notes.

XPEL Technologies Corp.

Consolidated Statements of Cash Flows
For the Years Ended December 31
(Expressed in United States Dollars)

		2009	2008
Cash flows from operating activities			
Net earnings (loss) from continuing operations		**$ 141,046**	$ (1,985,225)
Add (deduct) items not affecting cash			
Amortization of property, plant and equipment		**55,890**	76,913
Amortization of intangible assets		**299,109**	235,645
Stock-based compensation		**8,533**	233,116
Loss (gain) on sale of capital assets		**(318)**	19,447
		504,260	(1,420,104)
Changes in non-cash working capital items			
Accounts receivable		**(56,936)**	120,416
Inventory		**(11,673)**	(55,614)
Prepaid expenses and sundry assets		**(2,193)**	92,724
Accounts payable and accrued liabilities		**(146,190)**	53,845
Deferred warranty revenue		**(32,207)**	(17,331)
		255,061	(1,226,064)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(21,138)**	(14,386)
Proceeds from sale of property, plant and equipment		**16,662**	10,500
Collection of promissory note		**213,838**	-
Design templates		**(255,045)**	(303,253)
Security lease deposit (recovery)	4	**50,988**	18,874
		5,305	(288,265)
Cash flows from financing activities			
Repayment of long-term debt		**(71,357)**	(78,163)
Note payable		**-**	263,033
Repayment of note payable		**(120,561)**	(54,799)
Deposit on shares		**-**	15,985
Issuance of capital stock		**-**	67,524
		(191,918)	213,580
Cash from discontinued operations		**(20,514)**	915,215
Increase (decrease) in cash during the year		**47,934**	(385,534)
Cash at beginning of year		**74,760**	460,294
Cash at end of year		**$ 122,694**	$ 74,760

Supplemental Disclosure		
Cash paid for interest	**$ 33,335**	$ 48,248

See accompanying notes.

1. NATURE OF OPERATIONS

XPEL Technologies Corp. (the "Company") is based in San Antonio, Texas and manufactures and distributes after-market automotive products. The focus of the Company is the aftermarket for automotive paint and headlight protection products which it serves through its offerings of bulk paint protection film (PPF) and pre-cut PPF and headlight protection kits.

As at December 31, 2009, the Company has a positive working capital of $4,901 and net income from continuing operations however, the Company is reliant on maintaining profitable earnings and positive cash flows from operations in order to continue as a going concern. If the Company is not able to do this management will have to raise funds through private placements or seek debt financing. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the going concern assumption not be appropriate.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2009, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets” and Section 3050, "Research and Development". The adoption of this standard did not have any impact on the Company’s consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the operations of the Company and its wholly-owned subsidiary XPEL Canada Corp. ("XPEL Canada") up to the date of disposal (Note 9). All intercompany transactions and balances have been eliminated.

Financial Instruments

All financial instruments are recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability, as described below:

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Assets

Held for trading assets are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity assets are subsequently measured at amortized cost using the effective interest rate method.

Loans and receivables are subsequently measured at amortized cost using the effective interest rate method.

Available-for-sale assets are subsequently measured at fair value with the changes in fair value recorded in other comprehensive income, except for equity instruments without a quoted market price which are measured at cost.

Financial Liabilities

Held for trading liabilities are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
Cash	Held for trading
Restricted cash	Held for trading
Accounts receivable	Loans and receivables
Promissory note	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities
Note payable	Other liabilities

Comprehensive Income

Comprehensive income measures net earnings for the period plus other comprehensive income. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income.

(Expressed in United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition

The Company recognizes revenue at the time persuasive evidence of an agreement exists, the price is fixed and determinable, the product or service is delivered to the customer and collectibility is reasonably assured.

(i) Revenue from installations, kit and material sales is recognized upon the delivery of the goods and performance of the service.

(ii) Revenue from design access fees is recognized at the time the design is delivered.

(iii) Other revenue consists of fees for training programs, the sale of equipment and the sale of extended warranties. Revenue earned from training programs is recognized when the services are rendered and the revenue from the sale of equipment is recognized when the equipment is shipped. Revenue earned from the sale of extended warranty programs is recognized in income on a straight-line basis over the contract period.

Inventory

Inventory, which is comprised primarily of materials, is recorded at the lower of cost and net realizable value, with cost determined on a first in, first out basis. Reversals of previous write-downs to net realizable value are permitted when there is a subsequent increase in the value of inventories.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is calculated over the estimated useful lives of the assets on a declining balance basis as follows:

Furniture and fixtures	- 20-25%
Computer equipment	- 20-30%
Motor vehicles	- 20-25%
Shop equipment	- 20-25%
Leasehold improvements	- 20-25%

Intangible Assets

Intangible assets with a finite life are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the assets using the following rates:

Design templates	- 2 years
Patents	- 10 years

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and Development

Research costs are charged to operations when incurred. Development costs are expensed in the year incurred unless they meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. Amortization commences with the successful production or use of the product. Development costs deferred to date have related to design templates. During the year the Company deferred $255,045 of costs associated with the design templates. These costs are being amortized over a period of two years from commencement of commercial use.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Temporary differences between the income tax basis of an asset or liability and its carrying amount on the consolidated balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using enacted or substantively enacted income tax rates expected to apply in the years that the assets or liabilities are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Product Warranty Costs

A liability for estimated warranty expense is established by a charge against cost of goods sold. The subsequent costs incurred for warranty claims serve to reduce the product warranty liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currency Translation of Self-sustaining foreign operations

The US dollar is the functional and reporting currency of the Company.

(i) Foreign currency translation

Monetary assets and liabilities denominated in foreign currency have been translated into United States dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when assets were acquired or obligations incurred. Revenue and expenses are translated at the rates in effect at the time of the transaction. Gains or losses on translation are recorded in operations.

(ii) Self-sustaining foreign operations

Assets and liabilities have been translated into United States dollars at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the rates in effect at the time of the transaction. Gains or losses on translation are recorded in Other Comprehensive Income. The assets, liabilities, revenues and expenses of XPEL Canada have been translated up to the date of disposition (Note 9). The Company has recorded a reclassification adjustment for the loss on disposal of XPEL Canada.

Share Issuance Costs

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

Stock-Based Compensation and Other Stock-Based Payments

The Company applies a fair value based method of accounting to all stock-based payments. Accordingly, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Stock-Based Compensation and Other Stock-Based Payments (Cont'd)

The fair value of stock options and warrants is determined by the Black-Scholes option pricing model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the option or warrant issued. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated based on the weighted average number of shares outstanding. The treasury stock method is used to compute the dilutive effect of options, warrants and similar instruments.

Impairment of Long-Lived Assets

Long-lived assets comprise property, plant and equipment and intangible assets with finite useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses are recognized when the carrying amounts of long-lived assets exceed the sum of the undiscounted cash flows expected to result from their use and eventual disposition and are measured as the amounts by which the long-lived assets' carrying amounts exceed their fair values.

Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates.

Significant estimates made by the Company include allowances for potentially uncollectable accounts receivable, useful life of property, plant and equipment and intangibles, valuation of warranty provision, valuation allowance for future income tax assets, valuation of intangible assets for impairment, valuation of goodwill for impairment, fair value of stock options and warrants issued, and fair value of financial instruments.

Recent Accounting Pronouncements Issued and Not Yet Applied

(a) In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable entities will be required to adopt International Financial Reporting Standards (“IFRS”). The Company must prepare its interim and annual financial statements in accordance with IFRS for periods beginning on January 1, 2011. Management is still assessing the impact this will have on the Company's financial statements.

(Expressed in United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Recent Accounting Pronouncements Issued and Not Yet Applied (Cont'd)

(b) The CICA has recently issued CICA Handbook section 1582, Business Combinations,section 1601, Consolidated Financial Statements, and section 1602, Non-Controlling Interests. These new sections replace the currently existing standards in CICA Handbook section 1581, Business Combinations, and section 1600, Consolidated Financial Statements. These new standards are effective for fiscal periods beginning on or after January 1, 2011, however, early adoption is permitted. Once adopted, these standards will be harmonized with international financial reporting standards.

Section 1582 amends the standards for measurement, presentation and disclosure of a business combination. A number of changes are specified, including an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition related costs as expenses.

These standards will require a change in the measurement and presentation of non-controlling interest. As a result of these changes, net earnings will include 100% of the subsidiary's results and non-controlling interest will be presented as part of shareholders' equity on the balance sheet.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

4. RESTRICTED CASH

Restricted cash represents cash held in a separate account as security under a property lease. As at December 31, 2009, the amount restricted is $NIL (2008 - $50,988). The full amount was released to the Company in 2009.

5. PROPERTY, PLANT AND EQUIPMENT

December 31, 2009

	Cost	Accumulated Amortization	Net
Furniture and fixtures	$ 175,749	$ 95,022	$ 80,727
Computer equipment	189,947	94,250	95,697
Motor vehicles	145,599	93,776	51,823
Shop equipment	25,808	18,186	7,622
Leasehold improvements	18,730	9,355	9,375
	$ 555,833	$ 310,589	$ 245,244

(Expressed in United States Dollars)

5. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

December 31, 2008

	Cost	Accumulated Amortization	Net
Furniture and fixtures	$ 160,993	$ 77,567	$ 83,426
Computer equipment	183,538	71,660	111,878
Motor vehicles	209,944	128,960	80,984
Shop equipment	25,113	16,324	8,789
Leasehold improvements	18,284	7,021	11,263
	$ 597,872	$ 301,532	$ 296,340

6. INTANGIBLE ASSETS

December 31, 2009

	Cost	**Accumulated Amortization**	**Net**
Design templates	**$ 845,421**	**$ 584,574**	**$ 260,847**
Patent	**100,000**	**20,000**	**80,000**
	$ 945,421	**$ 604,574**	**$ 340,847**

December 31, 2008

	Cost	**Accumulated Amortization**	**Net**
Design templates	**$ 590,376**	**$ 295,465**	**$ 294,911**
Patent	**100,000**	**10,000**	**90,000**
	$ 690,376	**$ 305,465**	**$ 384,911**

(Expressed in United States Dollars)

7. LONG-TERM DEBT

	2009	2008
Total long-term debt	$ 43,448	$ 114,805
Less: Current portion	43,448	78,328
	$ -	$ 36,477

The Company has various financing arrangements for office equipment and vehicles. As at December 31, 2009, the weighted average effective interest rate for the above long-term debt obligations is 17.13% (2008 - 16.08%). All of the above debt is secured by the underlying assets.

8. NOTE PAYABLE

	2009	2008
Note payable	$ 87,673	$ 208,234
Less: Current portion	87,673	131,516
	$ -	$ 76,718

The note payable bears interest at 8%, is unsecured and is repayable in twenty-four equal monthly payments of $10,960 starting on August 1, 2008.

(Expressed in United States Dollars)

9. DISCONTINUED OPERATIONS

On September 1, 2009, the Company disposed of its subsidiary XPEL Canada, based in Calgary, Alberta, back to its founder and President. Under the terms of the sale XPEL will receive net proceeds of $737,071USD consisting of cash of approximately $221,700CDN, intercompany balances converted to a guaranteed, interest free promissory note due December 2010 of approximately $587,700CDN. The Company incurred costs of $28,363USD related to the sale of the subsidiary. As at December 31, 2009, the remaining balance is due in twelve equal monthly payments of $30,714CDN, net of withholding taxes.

In 2008, the Company disposed of two of its subsidiaries, Paintshield Ltd., and ArmourfendCAD Inc. Details of these two disposals are:

(i) On November 19, 2008, the Company conveyed its ArmourfendCAD subsidiary ("Armourfend"), based in El Dorado Hills, California, back to its founder and CEO. The conveyance included the return to XPEL of 417,486 common shares issued under the original purchase agreement in exchange for a one-time payment of $28,000 to settle obligations under the original purchase agreement. The Company cancelled the returned shares and the excess of the average stated capital over the value of the shares on November 19, 2008 of $79,322 was credited to contributed surplus.

(ii) On December 23, 2008, the Company conveyed its Paintshield Ltd. subsidiary ("Paintshield"), based in the United Kingdom, back to its founder and Managing Director. The conveyance included a one-time payment of $72,000 to the Managing Director.

The following table sets forth the results of operations associated with the subsidiaries, reported as discontinued operations:

	2009	2008
Revenue	**$ 1,982,333**	$ 4,895,463
Expenses	**1,963,276**	4,280,434
Earnings before undernoted items	**19,057**	615,029
Impairment of goodwill	**-**	(2,525,423)
Impairment of intangible assets	**-**	(100,018)
Tax recovery (expense)	**111,205**	42,952
Gain (loss) on disposal of subsidiaries	**(837,720)**	34,758
Discontinued operations	**$ (707,458)**	$ (1,932,702)

(Expressed in United States Dollars)

10. CAPITAL STOCK

Authorized

100,000,000	common shares with par value of $0.001 per share
10,000,000	preferred shares with par value of $0.001 per share

Issued and outstanding - common shares

	Number of Shares	Value
Balance, January 1, 2008	**25,799,502**	**$ 6,486,736**
Exercise of options	71,161	33,272
Issued in connection with acquisition (i)	83,333	166,666
Cancelled shares (Note 9)	(417,486)	(108,546)
Issued in connection with a private placement, net of share issue costs (ii)	184,440	46,176
Less: Proceeds allocated to warrants (ii)	-	(5,171)
Balance, December 31, 2008 and 2009	**25,720,950**	**$ 6,619,133**

(i) During the prior year, the Company issued 83,333 common shares and 83,333 common share purchase warrants as additional consideration related to the acquisition of XPEL Canada. As of December 31, 2007, management accrued $225,514 representing the value of the shares and warrants to be issued as further consideration of the acquisition of XPEL Canada. The amount was made up of $166,666 related to the value of 83,333 common shares and $58,848 representing the value of 83,333 common share purchase warrants.

(ii) The Company issued 184,440 units for gross proceeds of $46,176 by way of a private placement. Each unit consisted of one common share and one warrant to purchase one common share at a price of $0.50 per share for a period of twenty four months thereafter. The 184,440 warrants issued were assigned a value of $5,171 (Note 12).

11. CONTRIBUTED SURPLUS

	2009	2008
Contributed surplus beginning of year	**$ 1,022,561**	$ 722,046
Stock-based compensation expense (Note 14)	**8,533**	233,116
Exercise of stock options	**-**	(11,923)
Excess of stated capital of shares acquired and cancelled (Note 9)	**-**	79,322
Value of expired warrants (Note 12)	**1,070,017**	-
	$ 2,101,111	$ 1,022,561

(Expressed in United States Dollars)

12. WARRANT CAPITAL

	2009	2008
Warrant capital beginning of year	**$ 1,134,036**	$ 1,070,017
Warrants issued on acquisition (Note 10(i))	**-**	58,848
Warrants issued in connection with private placement (Note 10(ii))	**-**	5,171
Value of expired warrants (Note 11)	**(1,070,017)**	-
	$ 64,019	$ 1,134,036

The fair value of each warrant issued in the prior year was estimated at the date of issue or the date when it became measurable using the Black-Scholes option pricing model with the following weighted average assumptions: (i) dividend yield of 0%; (ii) expected volatility of 126%; (iii) risk free interest rate of 5.0% and; (iv) expected life of 2 years. The weighted average fair value of the warrants issued was $0.02.

13. STOCK OPTIONS AND WARRANTS

(i) Stock Options

The Company has an Incentive Stock Option Plan (the "Plan"). The Plan provides for options to be granted to the benefit of employees, directors and third parties. The maximum number of shares allocated to and made available to be issued under the Plan shall not exceed 20% of the common shares issued and outstanding (on a non-diluted basis) at any time. The exercise price of options granted under the Stock Option Plan will be determined by the directors, but will at least be equal to the closing trading price of the common shares on the last trading day prior to the grant and otherwise the fair market price as determined by the Board of Directors. The term of any option granted shall not exceed five years. Except as otherwise provided elsewhere in the Stock Option Plan, the options shall be cumulatively exercisable in installments over the option period at a rate to be fixed by the Board of Directors. The Company will not provide financial assistance to any optionee in connection with the exercise of options.

(Expressed in United States Dollars)

13. STOCK OPTIONS AND WARRANTS (Cont'd)

(i) Stock Options (Cont'd)

The Company had issued stock options to acquire common shares as follows:

	2009		2008	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	**1,661,016**	**$ 0.57**	2,200,495	$ 0.81
Granted	**-**	**$ -**	28,000	$ 1.00
Exercised	**-**	**$ -**	(71,161)	$ (0.30)
Cancelled/expired	**(1,020,381)**	**$ 0.30**	(409,651)	$ (1.55)
Forfeited	**(28,000)**	**$ 1.00**	(86,667)	$ (1.68)
Outstanding, end of year	**612,635**	**$ 1.01**	1,661,016	$ 0.57
Exercisable	**612,635**	**$ 1.01**	1,591,349	$ 0.54

The Company had the following stock options outstanding at December 31, 2009:

Number of Options	**Exercise Price**	**Expiry Date**
50,000 [(i)]	$0.49	February 21, 2010
75,000	$0.60	April 4, 2010
200,000	$0.67	October 5, 2010
162,635	$1.41	January 18, 2011
125,000	$1.48	January 20, 2011
612,635		

(i) These options expired unexercised subsequent to year end.

The above options were not included in the computation of diluted net loss per share as they are anti-dilutive.

(Expressed in United States Dollars)

13. STOCK OPTIONS AND WARRANTS (Cont'd)

(ii) Warrants

The Company had issued warrants to acquire common shares as follows:

	2009		2008	
	Number of Warrants	**Weighted Average Exercise Price**	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	**1,590,580**	**$ 2.10**	1,322,807	$ 2.31
Issued	**-**	**$ -**	267,773	$ 1.06
Expired	**(1,322,807)**	**$ 2.31**	-	$ -
Outstanding, end of year	**267,773**	**$ 1.06**	1,590,580	$ 2.10

The Company had the following warrants outstanding at December 31, 2009:

Number of Warrants	**Exercise Price**	**Expiry Date**
83,333	$2.30	May 8, 2010
184,440	$0.50	November 7, 2010
267,773		

The above warrants were not included in the computation of diluted net loss per share as they are anti-dilutive.

14. STOCK-BASED COMPENSATION

The total stock-based compensation expense relating to options recognized in the period was $8,533 (2008 - $233,116). The fair value of each option granted in the prior year has been estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following weighted average assumptions: (i) dividend yield of 0%; (ii) expected volatility 79%; (iii) risk free interest rate of 2% and; (iv) expected life of 5 years. The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the period they occur. The weighted average fair values of the options issued in the prior year was $0.65.

15. LOSS PER SHARE

Loss per share has been calculated based on weighted average number of common shares outstanding at December 31, 2009 of 25,720,950 (2008 - 25,894,790).

(Expressed in United States Dollars)

16. INCOME TAXES

Income Tax Expense

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

	2009	2008
Income (loss) before income taxes	$ 141,046	$(1,985,225)
Statutory rate	34.0 %	34.0 %
	$ 47,956	$ (674,977)
Non-deductible expenses and other permanent differences	250,500	647,000
Change in valuation allowance relating to continuing operations	(298,456)	27,977
	$ -	$ -

Future Taxes

The temporary differences that give rise to future income tax assets and future income tax liabilities are presented below:

	2009	2008
Future tax assets (liabilities)		
Amounts related to tax losses	$ 1,544,900	$ 1,467,900
Property, plant, equipment and intangibles	(105,600)	(117,600)
	1,439,300	1,350,300
Less: valuation allowance	(1,439,300)	(1,350,300)
	$ -	$ -

(Expressed in United States Dollars)

16. INCOME TAXES (Cont'd)

Tax Losses

The Company has capital losses of approximately $4,000,000 available to apply against future capital gains. The Company has tax losses of approximately $2,433,500 available to apply against future taxable income. The potential tax benefit relating to these losses has not been reflected in these financial statements. If not utilized, the non-capital losses will expire as follows:

2024	$ 177,000
2025	647,800
2026	879,900
2027	287,000
2028	441,800
	$ 2,433,500

17. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount which is the amount of consideration established and approved by the related parties. Related party transactions have been listed below, unless they have been disclosed elsewhere in the financial statements.

Consulting fees in the amount of $15,000 (2007 - $36,692) were paid to a company owned by a former officer and director of the Company.

(Expressed in United States Dollars)

18. COMMITMENTS

(i) Lease Commitment

The Company has entered into lease agreements for premises. The combined future minimum payments are as follows:

2010	$	153,500
2011		73,000
	$	**226,500**

(ii) Commitment to issue shares

In connection with a private placement in 2008, the Company received cash of $15,985 for units which have not yet been issued. The Company has committed to issuing approximately, 64,000 units as a result of the cash received from this private placement. Each unit consists of one common shares and one warrant to purchase one common share at a price of $0.50 per share for a period of twenty four months.

19. SEGMENTED INFORMATION

The Company operates in one industry segment, the after-market automotive products. After the disposal of its subsidiary, XPEL Canada, in 2009 the Company operates in one geographic segment, the United States. The assets and liabilities of discontinued operations in 2008 and the results of discontinued operations relate to XPEL Canada which operated in Canada.

20. CAPITAL MANAGEMENT

The Company's objectives in terms of capital management are to maintain a sound financial position and to ensure financial flexibility in order to maintain its capacity for growth. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company's capital is composed of its shareholders' equity and its primary uses are to finance acquisitions, increase working capital and fund capital expenditures for expansion and/or research and development. The Company currently has positive working capital. The Company has operated for an extended period of time with negative working capital. Should the Company be unable to preserve its positive working capital position, the Company may seek to raise capital for its short-term needs through all available means. There were no changes in the Company's approach to capital management during the year ended December 31, 2009.

21. FINANCIAL INSTRUMENTS

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions and the Company's activities. The Company aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Company's audit committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

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. Out of total receivables of $262,501, past due receivables in excess of 90 days as of the balance sheet date were approximately $7,500. The Company is actively pursuing its efforts to collect these receivables.

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.

The Company's promissory note receivable (Note 9), is personally secured by the vendor and therefore, management had determined there is minimal credit risk associated with the promissory note. In addition, the vendor is current with all payments under this promissory note.

21. FINANCIAL INSTRUMENTS (Cont'd)

Liquidity Risk

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.

As of December 31, 2009, the Company had current assets of approximately $984,140 to settle current liabilities of approximately $979,239 resulting in a positive working capital. The Company will strive to maintain positive working capital through the management of future operating cash flows and the Company will consider other mechanisms to raise cash through private placements or seek debt financing, if necessary.

Currency Risk

The Company's functional currency is the US dollar. Certain of the Company's monetary assets, liabilities, revenues, and expenses are denominated in Canadian dollars and therefore subject to gains and losses due to fluctuations in these currencies. In respect of these monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level.

The Company has the following balances in Canadian dollars:

	2009	2008
Note receivable	**336,000**	-
Accounts payable and accrued liabilities	**52,500**	38,500

A 5% change in the Canadian dollar against the US dollar currency would affect equity and net income by approximately $500. This analysis assumes that all other variables remain constant.

Fair Value

The Company's financial instruments measured at fair value on the balance sheet consist of cash which is measured at level 1 of the fair value hierarchy. There are three levels of the fair value hierarchy as follows:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's financial statement presentation reflecting the subsidiary that was sold during the current year and classified as discontinued operations (Note 9).