

XPEL Technologies Corp.

Financial Statements

(Expressed in United States Dollars)

For the Years Ended December 31, 2012 and 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of XPEL Technologies Corp.

We have audited the accompanying financial statements of XPEL Technologies Corp. which comprise the balance sheets as at December 31, 2012 and 2011 and the statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of XPEL Technologies Corp. as at December 31, 2012 and 2011 and the results of its operations and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Licensed Public Accountants

Chartered Accountants

April 11, 2013

Toronto, Ontario

XPEL Technologies Corp.
Balance Sheets
(Expressed in United States Dollars)
As at December 31, 2012 and 2011

	2012	2011
Assets		
Current		
Cash and cash equivalents	\$ 1,396,300	\$ 424,795
Accounts receivable	904,453	593,514
Inventory	1,899,534	1,161,548
Prepaid expenses and sundry assets	102,139	51,343
	4,302,426	2,231,200
Property, plant and equipment (Note 4)	297,483	237,639
Intangible assets (Note 5)	302,769	359,899
Deferred tax asset (Note 10)	493,000	408,000
	\$ 5,395,678	\$ 3,236,738
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 2,385,717	\$ 1,386,284
Customer deposits	15,050	17,750
	2,400,767	1,404,034
Shareholders' Equity		
Capital stock (Note 7)	6,635,133	6,635,133
Contributed surplus	2,165,130	2,165,130
Deficit	(5,805,352)	(6,967,559)
	2,994,911	1,832,704
	\$ 5,395,678	\$ 3,236,738

Commitments and contingencies (Note 12)
Subsequent event (Note 16)

Approved by the Board

"Richard Crumly"
Director (Signed)

"John Constantine"
Director (Signed)

XPEL Technologies Corp.
Statements of Income and Comprehensive Income
(Expressed in United States Dollars)
Years Ended December 31, 2012 and 2011

	2012	2011
Revenue	\$ 10,670,838	\$ 6,041,853
Expenses		
Direct costs (Note 13)	7,036,237	3,526,394
Selling, general and administrative expenses (Note 13)	2,560,836	1,902,484
Income from operations	1,073,765	612,975
Interest expense	(1,424)	(4,326)
Gain on sale of property, plant and equipment	4,866	300
	3,442	(4,026)
Net income before income taxes	1,077,207	608,949
Deferred tax recovery (Note 10)	85,000	206,938
Net income and comprehensive income	\$ 1,162,207	\$ 815,887
Earnings per share		
Basic and diluted (Note 9)	\$ 0.05	\$ 0.03

XPEL Technologies Corp.
Statements of Changes in Equity
(Expressed in United States Dollars)

	Capital Stock	Contributed Surplus	Deficit	Total
Balance, January 1, 2011	\$ 6,619,133	\$ 2,165,130	\$ (7,783,446)	\$ 1,000,817
Issuance of common shares (Note 7)	16,000	-	-	16,000
Net income and comprehensive income	-	-	815,887	815,887
Balance, December 31, 2011	6,635,133	2,165,130	(6,967,559)	1,832,704
Net income and comprehensive income	-	-	1,162,207	1,162,207
Balance, December 31, 2012	\$ 6,635,133	\$ 2,165,130	\$ (5,805,352)	\$ 2,994,911

XPEL Technologies Corp.
Statements of Cash Flows
(Expressed in United States Dollars)
Years Ended December 31, 2012 and 2011

	2012	2011
Cash and cash equivalents provided by (used in)		
Operations		
Net income	\$ 1,162,207	\$ 815,887
Add (deduct) items not affecting cash and cash equivalents		
Amortization of property, plant and equipment	57,102	53,417
Amortization of intangible assets	297,051	285,334
Interest expense	-	4,326
Gain on sale of property, plant and equipment	(4,866)	-
Deferred tax recovery	(85,000)	(206,938)
	1,426,494	952,026
Changes in non-cash working capital items		
Accounts receivable	(310,939)	(228,412)
Inventory	(737,986)	(802,173)
Prepaid expenses and sundry assets	(50,796)	(11,226)
Accounts payable and accrued liabilities	999,433	738,183
Customer deposits	(2,700)	2,000
Net cash and cash equivalents provided by operating activities	1,323,506	650,398
Investing		
Purchase of property, plant and equipment	(117,710)	(75,272)
Proceeds from sale of property, plant and equipment	5,630	300
Intangible assets	(239,921)	(304,138)
Net cash and cash equivalents (used in) provided by investing activities	(352,001)	(379,110)
Financing		
Interest paid on long term debt	-	(4,326)
Net cash and cash equivalents used in financing activities	-	(4,326)
Net change in cash and cash equivalents	971,505	266,962
Cash and cash equivalents, beginning of year	424,795	157,833
Cash and cash equivalents, end of year	\$ 1,396,300	\$ 424,795

Amounts paid for interest are included in cash flows from financing activities in the statement of cash flows

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.

The Company was incorporated by articles of incorporation in the state of Nevada, U.S.A. in October 2003 and its registered office is 618 W. Sunset Road, San Antonio, Texas, 78216. The Company is a public company listed on the TSX Venture Exchange trading under the symbol "DAP.U".

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on April 11, 2013.

Basis of Presentation

These financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Functional and Presentation Currency

These financial statements have been prepared in United States dollars, which is the Company's functional and presentation currency.

Cash and Cash Equivalents

Cash and cash equivalents is comprised of cash at banks and on hand, and short term money market instruments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventory

Inventory is comprised of raw materials and supplies inventory which consists of consumable parts and supplies which are valued at lower of cost and net realizable value, with cost determined on a first in, first out basis. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Net realizable value is defined as the selling price of the finished product less any provisions for obsolescence and costs of completion. 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%
Computer equipment	- 20%
Motor vehicles	- 20%
Shop equipment	- 20%
Leasehold improvements	- 20%

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

2. 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 the Company can demonstrate all of the following criteria under IFRS 38, Intangible Assets:

- (i) technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (ii) intention to complete the intangible asset and use or sell it;
- (iii) ability to use or sell the intangible asset;
- (iv) how the intangible asset will generate future economic benefits;
- (v) availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Amortization commences with the successful production or use of the product. Development costs deferred to date are related to design templates. During the year the Company deferred \$239,921 (2011 - \$304,138) of costs associated with the design templates. These costs are being amortized over a period of two years from commencement of commercial use.

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 and the sale of equipment. 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.

Product Warranty Costs

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recognized.

Earnings Per Share

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

Impairment of Long-Lived Assets

Property, plant and equipment and other non-current assets with definite useful lives, other than investment property, inventories and deferred tax assets, are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value (less costs to sell) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Significant Accounting Judgments and Estimates

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

Significant estimates made by the Company include allowances for potentially uncollectable accounts receivable, useful life of property, plant and equipment and intangibles, measurement of warranty provision, recognition of deferred tax assets, valuation of property, plant and equipment and intangible assets for impairment, and fair value of financial instruments.

Financial Instruments

The Company recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly under other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as other financial liabilities, and are subsequently measured at amortized cost using the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

The Company's financial assets include cash and cash equivalents and accounts receivables. The Company's financial liabilities include accounts payable and accrued liabilities. Classification of these financial instruments is as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash and cash equivalents	FVTPL
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

Financial instruments recorded at fair value on the audited statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Company's financial instruments measured at fair value on the balance sheet consist of cash and cash equivalents. Cash and cash equivalents is measured at level 1 of the fair value hierarchy.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-Based Compensation and Other Share-Based Payments

The fair value of share options granted to directors, officers, key employees and consultants is recognized as an expense over the vesting period with a corresponding increase in equity. The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of employee options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

For non-employee equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless the fair value cannot be estimated reliably, in which case, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

3. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after December 31, 2012 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

- (a) IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.
- (b) IFRS 13 Fair Value Measurement was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRSs and US generally accepted accounting principles (GAAP). The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the boards' joint work to improve IFRSs and US GAAP and to bring about their convergence. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (c) IAS 1 Presentation of Financial Statements was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

XPEL Technologies Corp.
Notes to Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance Jan. 1, 2012	Additions (net of disposals)	Balance Dec. 31, 2012
Furniture and fixtures	\$ 166,559	\$ 44,096	\$ 210,655
Computer equipment	212,878	37,609	250,487
Motor vehicles	145,599	13,723	159,322
Shop equipment	43,290	5,558	48,848
Leasehold improvements	20,672	16,037	36,709
	\$ 588,998	\$ 117,023	\$ 706,021

Accumulated Amortization	Balance Jan. 1, 2012	Amortization (net of disposals)	Balance Dec. 31, 2012
Furniture and fixtures	\$ 88,034	\$ 21,260	\$ 109,294
Computer equipment	122,235	20,914	143,149
Motor vehicles	112,432	8,081	120,513
Shop equipment	26,030	1,483	27,513
Leasehold improvements	2,628	5,441	8,069
	\$ 351,359	\$ 57,179	\$ 408,538

XPEL Technologies Corp.
Notes to Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

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

Cost	Balance Jan. 1, 2011	Additions (net of disposals)	Balance Dec. 31, 2011
Furniture and fixtures	\$ 126,489	\$ 40,070	\$ 166,559
Computer equipment	198,981	13,897	212,878
Motor vehicles	145,599	-	145,599
Shop equipment	40,337	2,953	43,290
Leasehold improvements	18,730	1,942	20,672
	\$ 530,136	\$ 58,862	\$ 588,998

Accumulated Amortization	Balance Jan. 1, 2011	Amortization (net of disposals)	Balance Dec. 31, 2011
Furniture and fixtures	\$ 72,874	\$ 15,160	\$ 88,034
Computer equipment	101,114	21,121	122,235
Motor vehicles	104,142	8,290	112,432
Shop equipment	22,082	3,948	26,030
Leasehold improvements	13,855	(11,227)	2,628
	\$ 314,067	\$ 37,292	\$ 351,359

Net Book Value	December 31, 2012	December 31, 2011
Furniture and fixtures	101,361	78,525
Computer equipment	107,338	90,643
Motor vehicles	38,809	33,167
Shop equipment	21,335	17,260
Leasehold improvements	28,640	18,044
	\$ 297,483	\$ 237,639

XPEL Technologies Corp.
Notes to Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

5. INTANGIBLE ASSETS

Cost	Balance Jan. 1, 2012	Additions	Balance Dec. 31, 2012
Design templates (internally generated)	\$ 1,425,818	\$ 239,921	\$ 1,665,739
Patent	100,000	-	100,000
	\$ 1,525,818	\$ 239,921	\$ 1,765,739

Accumulated Amortization	Balance Jan. 1, 2012	Amortization	Balance Dec. 31, 2012
Design templates (internally generated)	\$ 1,125,919	\$ 287,051	\$ 1,412,970
Patent	40,000	10,000	50,000
	\$ 1,165,919	\$ 297,051	\$ 1,462,970

Cost	Balance Jan. 1, 2011	Additions (disposals)	Balance Dec. 31, 2011
Design templates (internally generated)	\$ 1,121,680	\$ 304,138	\$ 1,425,818
Patent	100,000	-	100,000
	\$ 1,221,680	\$ 304,138	\$ 1,525,818

Accumulated Amortization	Balance Jan. 1, 2011	Additions	Balance Dec. 31, 2011
Design templates (internally generated)	\$ 850,585	\$ 275,334	\$ 1,125,919
Patent	30,000	10,000	40,000
	\$ 880,585	\$ 285,334	\$ 1,165,919

Net Book Value

	December 31, 2012	December 31, 2011
Design templates (internally generated)	\$ 252,769	\$ 299,899
Patent	50,000	60,000
	\$ 302,769	\$ 359,899

XPEL Technologies Corp.
Notes to Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

6. CREDIT FACILITIES

On March 28, 2011, the Company entered into a US\$150,000 revolving line of credit agreement with The Bank of San Antonio to support its continuing working capital needs. On April 13, 2012, the Board of Directors approved an increase to the existing limit to US\$350,000. As at December 31, 2012, the balance was \$NIL (2011 - \$NIL).

The Company must satisfy certain non-financial covenants on a continuing basis. The Bank of San Antonio has been granted a security interest in substantially all of the Company's current and future assets. The line has a variable interest rate of the Wall Street Journal prime rate plus 2 per cent with a floor of 6 per cent and matures on March 28, 2013.

Subsequent to the year end, this agreement was renegotiated with the bank with an offered extension to June 28, 2014, which is expected to be authorized by the Board of Directors in April 2013.

7. 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, 2011	25,720,950	\$ 6,619,133
Share issuance ^(a)	64,000	16,000
Balance, December 31, 2012 and 2011	25,784,950	\$ 6,635,133

(a) In connection with a private placement in 2008, the Company received cash of \$16,000 for the issuance of 64,000 common shares at a price of US\$0.25 per share, which have been issued on January 14, 2011.

XPEL Technologies Corp.
Notes to Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

8. STOCK OPTIONS AND WARRANTS

(a) 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.

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

	2012		2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	-	\$ -	287,635	\$ 1.44
Cancelled/expired	-	\$ -	(287,635)	\$ 1.44
Outstanding, end of year	-	\$ -	-	\$ -
Exercisable	-	\$ -	-	\$ -

9. EARNINGS PER SHARE

Earnings per share has been calculated based on weighted average number of common shares outstanding at December 31, 2012 of 25,784,950 (2011 - 25,781,969).

XPEL Technologies Corp.
Notes to Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

10. INCOME TAXES

Deferred Tax Recovery

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

	2012	2011
Income before income taxes	\$ 1,077,207	\$ 608,949
Statutory rate	34.0 %	34.0 %
Non-deductible expenses and other permanent differences	\$ 366,250	\$ 207,043
Change in estimates	3,746	2,178
Change in unrecognized portion of deferred taxes	(921,527)	80,793
	466,531	(496,952)
Deferred tax recovery	\$ (85,000)	\$ (206,938)

Deferred Taxes

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

	2012	2011
Deferred tax assets (liabilities)		
Amounts related to tax losses	\$ 1,802,000	\$ 1,265,100
Property, plant, equipment and intangibles	(178,000)	(139,900)
Accruals and allowances	43,000	-
	1,667,000	1,125,200
Less: Deferred taxes not recognized	(1,174,000)	(717,200)
	\$ 493,000	\$ 408,000

XPEL Technologies Corp.
Notes to Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

10. INCOME TAXES (Cont'd)

Tax Losses

The Company has capital losses of approximately \$3,452,000 available to apply against future capital gains. The Company has net operating losses of approximately \$1,847,500 available to apply against future taxable income. The full 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:

2027	\$ 545,100
2028	1,246,500
2029	55,900
<hr/>	
	\$ 1,847,500
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11. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at 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.

A total of \$449,051 (2011 - \$360,554) in salaries and other short-term benefits was paid to key members of management as compensation, of which \$411,201 (2011 - \$329,776) is included as part of selling, general and administrative expense and \$37,850 (2011 - \$30,778) was capitalized into deferred development costs for design templates.

12. COMMITMENTS AND CONTINGENCIES

(a) Lease Commitment

The Company has entered into lease agreements for premises and the financing of two vehicles. The combined future minimum payments are as follows:

Less than 1 year	\$ 171,517
1-5 years	565,857
<hr/>	
	\$ 737,374
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(b) Contingencies

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

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13. EXPENSES BY NATURE

Direct costs incurred by nature are as follows:

	2012	2011
Employee salaries and benefits	\$ 200,149	\$ 99,282
Materials	6,051,126	2,811,527
Freight	160,981	85,643
Other	326,930	244,608
Amortization of intangible assets	297,051	285,334
	\$ 7,036,237	\$ 3,526,394

Selling, general and administrative expenses incurred by nature are as follows:

	2012	2011
Employee salaries and benefits	\$ 1,566,539	\$ 1,169,182
Sales and marketing	185,983	175,859
Occupancy	158,866	130,230
Professional fees	105,325	99,391
Filing fees	13,399	19,115
Insurance	46,599	41,465
Office and general	427,023	213,825
Amortization of property, plant and equipment	57,102	53,417
	\$ 2,560,836	\$ 1,902,484

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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, 2012.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Risk Disclosures

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.

Interest Rate Risk

The Company has no significant exposure to interest rate risk as the Company does not have debt.

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 \$904,453 (2011 - \$593,514), past due receivables in excess of 90 days but not impaired as of the balance sheet date were approximately \$30,000 (2011 - \$35,000). 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.

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.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

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:

	2012	2011
<u>Accounts payable and accrued liabilities</u>	<u>\$ 2,000</u>	<u>\$ 6,000</u>

A 5% change in the Canadian dollar against the US dollar currency would affect equity and net income by approximately \$2,500 (2011 - \$3,500). This analysis assumes that all other variables remain constant.

15. ECONOMIC DEPENDENCY

The Company depends directly or indirectly on suppliers to supply goods and services necessary for carrying on its core business, including a manufacturing facility, an urethane supplier and an adhesive supplier and other suppliers of other intermediate manufacturing elements. Approximately 93% (2011 - 90%) of the Company's inventory purchases are dependent on these direct and indirect suppliers. If any of these suppliers were unwilling or unable to provide such products in the future, the Company's ability to provide products and services to its customers may be adversely affected and the Company might not be able to obtain similar products or services from alternate suppliers on a timely basis or on terms favorable to the Company.

16. SUBSEQUENT EVENT

In January 2013, the Company financed two vehicles on a 5 year term.