

**XPEL Technologies Corp.**

**Condensed Interim Financial Statements**

(Expressed in United States Dollars)

**For the Three Months Ended March 31, 2013**

**XPEL TECHNOLOGIES CORP.****Condensed Balance Sheet**

(Expressed in United States Dollars)

(unaudited)

|  | Note | March 31,<br>2013   | December 31,<br>2012 |
|--|------|---------------------|----------------------|
| <b>Assets</b>                            |      |                     |                      |
| <b>Current</b>                           |      |                     |                      |
| Cash and cash equivalents                |      | \$ 1,428,729        | \$ 1,396,300         |
| Accounts receivable                      |      | 991,521             | 904,453              |
| Inventory                                |      | 1,590,677           | 1,899,534            |
| Prepaid expenses and sundry assets       |      | 136,104             | 102,139              |
| <b>Total current assets</b>              |      | <b>4,147,031</b>    | <b>4,302,426</b>     |
| Property, plant and equipment            |      | 373,056             | 297,483              |
| Intangible assets                        |      | 299,608             | 302,769              |
| Deferred income tax asset                |      | 355,000             | 493,000              |
| <b>Total assets</b>                      |      | <b>\$ 5,174,695</b> | <b>\$ 5,395,678</b>  |
| <b>Liabilities</b>                       |      |                     |                      |
| <b>Current</b>                           |      |                     |                      |
| Accounts payable and accrued liabilities |      | 1,868,609           | 2,385,717            |
| Current portion of long-term debt        |      | 6,334               | 0                    |
| Customer deposits                        |      | 15,050              | 15,050               |
| <b>Total current liabilities</b>         |      | <b>1,889,993</b>    | <b>2,400,767</b>     |
| Long-term debt                           |      | 27,468              | -                    |
| <b>Total liabilities</b>                 |      | <b>1,917,461</b>    | <b>2,400,767</b>     |
| <b>Equity</b>                            |      |                     |                      |
| Capital stock                            | 4    | 6,635,133           | 6,635,133            |
| Contributed surplus                      |      | 2,165,130           | 2,165,130            |
| Deficit                                  |      | (5,543,029)         | (5,805,352)          |
| <b>Total liabilities and equity</b>      |      | <b>\$ 5,174,695</b> | <b>\$ 5,395,678</b>  |

Approved by Board of Directors:

/s/ Richard Crumly  
Richard Crumly/s/ John Constantine  
John Constantine

**XPEL TECHNOLOGIES CORP.****Condensed Statements of Income and Comprehensive Income**

(Expressed in United States Dollars)

(unaudited)

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|   | Note | Three Months Ended       |                          |
|---|------|--------------------------|--------------------------|
|   |      | March 31,                |                          |
|   |      | 2013                     | 2012                     |
| <b>Revenue</b>                                |      | <b>\$ 3,156,582</b>      | \$ 1,993,597             |
| <b>Expenses</b>                               |      |                          |                          |
| Direct costs                                  | 7    | 2,097,370                | 1,215,108                |
| Selling, general and administrative expenses  | 7    | 656,734                  | 534,833                  |
| <b>Income from operations</b>                 |      | <b>402,478</b>           | 243,656                  |
| Interest expense                              |      | 300                      | 825                      |
| Loss on sale of property, plant and equipment |      | 1,855                    |                          |
|   |      | <u>2,155</u>             | <u>825</u>               |
| <b>Net income before income taxes</b>         |      | <b>400,323</b>           | 242,831                  |
| <b>Deferred income tax expense</b>            |      | <b>138,000</b>           | -                        |
| <b>Net income and comprehensive income</b>    |      | <b><u>\$ 262,323</u></b> | <b><u>\$ 242,831</u></b> |
| <br>  |      |                          |                          |
| <b>Earnings per Share</b>                     |      |                          |                          |
| Basic and diluted                             |      | <b>\$ 0.010</b>          | \$ 0.009                 |

**XPEL TECHNOLOGIES CORP.****Condensed Statement of Changes in Equity**

(Expressed in United States Dollars)

(unaudited)

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|  | <b>Capital Stock</b> |                     | <b>Contributed</b>  | <b>Deficit</b>        | <b>Total</b>        |
|--|----------------------|---------------------|---------------------|-----------------------|---------------------|
|  | <b>Number</b>        | <b>Amount</b>       | <b>Surplus</b>      |                       |                     |
| <b>Balance as at January 1, 2012</b>               | 25,784,950           | \$ 6,635,133        | \$ 2,165,130        | \$ (6,967,559)        | \$ 1,832,704        |
| Net income and comprehensive income for the period | -                    | -                   | -                   | 242,831               | 242,831             |
| <b>Balance as at March 31, 2012</b>                | <b>25,784,950</b>    | <b>6,635,133</b>    | <b>2,165,130</b>    | <b>(6,724,728)</b>    | <b>2,075,535</b>    |
| Net income and comprehensive income for the period | -                    | -                   | -                   | 919,376               | 919,376             |
| <b>Balance as at December 31, 2012</b>             | <b>25,784,950</b>    | <b>6,635,133</b>    | <b>2,165,130</b>    | <b>(5,805,352)</b>    | <b>2,994,911</b>    |
| Net income and comprehensive income for the period | -                    | -                   | -                   | 262,323               | 262,323             |
| <b>Balance as at March 31, 2013</b>                | <b>25,784,950</b>    | <b>\$ 6,635,133</b> | <b>\$ 2,165,130</b> | <b>\$ (5,543,029)</b> | <b>\$ 3,257,234</b> |

**XPEL TECHNOLOGIES CORP.**  
**Condensed Statement of Cash Flows**  
(Expressed in United States Dollars)  
(unaudited)

|  | <b>Three Months Ended</b>  |                          |
|--|----------------------------|--------------------------|
|  | <b>March 31,</b>           |                          |
|  | <b>2013</b>                | <b>2012</b>              |
| <b>Cash flows from operating activities</b>                |                            |                          |
| Net income   | \$ 262,323                 | \$ 242,831               |
| Add items not affecting cash                               |                            |                          |
| Amortization of property, plant and equipment              | 17,906                     | 11,999                   |
| Amortization of intangible assets                          | 70,501                     | 75,698                   |
| Deferred income tax expense                                | 138,000                    | -                        |
|  | <u>488,730</u>             | <u>330,528</u>           |
| Changes in non-cash working capital items                  |                            |                          |
| Accounts receivable  | (87,068)                   | (201,061)                |
| Inventory  | 308,857                    | 43,523                   |
| Prepaid expenses and sundry assets                         | (33,965)                   | (1,160)                  |
| Accounts payable and accrued liabilities                   | (517,108)                  | (201,687)                |
| Customer deposits  | -                          | -                        |
| <b>Net cash provided by (used in) operating activities</b> | <u>159,446</u>             | <u>(29,857)</u>          |
| <b>Cash flows used in investing activity</b>               |                            |                          |
| Purchase of property, plant and equipment                  | (93,481)                   | (18,595)                 |
| Development of intangible assets                           | (67,338)                   | (77,672)                 |
| <b>Net cash used in investing activities</b>               | <u>(160,819)</u>           | <u>(96,267)</u>          |
| <b>Cash flows from financing activity</b>                  |                            |                          |
| Cash from bank operating facility                          | -                          | 1,000                    |
| Purchase of vehicles                                       | 33,802                     | -                        |
| <b>Net cash provided by financing activities</b>           | <u>33,802</u>              | <u>1,000</u>             |
| <b>Increase (decrease) in cash during the period</b>       | <b>32,429</b>              | <b>(125,124)</b>         |
| <b>Cash at beginning of period</b>                         | <b>1,396,300</b>           | <b>424,795</b>           |
| <b>Cash at end of period</b>                               | <u><u>\$ 1,428,729</u></u> | <u><u>\$ 299,671</u></u> |

## **Management's Responsibility for Interim Financial Statements**

The accompanying condensed unaudited interim financial statements of XPEL Technologies Corp. (the "Company") are the responsibility of management.

The condensed unaudited interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the condensed unaudited interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the condensed unaudited interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34-Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the condensed unaudited interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the condensed unaudited interim financial statements and (ii) the condensed unaudited interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the condensed unaudited interim financial statements.

The Board of Directors is responsible for reviewing and approving the condensed unaudited interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the condensed unaudited interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the condensed unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Ryan L. Pape, CEO

## **Notice of No Auditor Review of Interim Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The management of the Company is responsible for the preparation of the accompanying condensed unaudited interim financial statements. The condensed unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor. These condensed unaudited financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the financial position, results of operations and cash flows.

**XPEL Technologies Corp.**  
**Notes to Financial Statements**  
(Expressed in United States Dollars)  
**March 31, 2013**

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**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**

These condensed interim financial statements have been prepared under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) incorporating interpretations issued by the IFRS Interpretations Committee (IFRICs). These condensed interim financial statements of the Company have been prepared in accordance with IAS 34, Interim Financial Reporting. These condensed interim financial statements have been prepared in accordance with the accounting policies included in its December 31, 2012 annual financial statements. These accounting policies are based on the IFRS and IFRICs applicable at that time. The condensed interim financial statements do not include all of the information required for full annual financial statements.

**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.

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Changes in accounting policies**

The Company adopted the following accounting standards on January 1, 2013. There has been no impact to the financial statements due to these adoptions.

- (a) IFRS 13 Fair Value Measurement (IFRS 13) defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments will be extended by IFRS 13 to cover all assets and liabilities within its scope.
- (b) IAS 1 Presentation of Financial Statements was amended whereby 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.

**3. 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 December 2, 2011, the Board of Directors approved an increase to the existing limit to US\$250,000 and approved an increase to US\$350,000 on April 13, 2012.

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 June 28, 2014.

**4. 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

**XPEL Technologies Corp.**  
**Notes to Financial Statements**  
(Expressed in United States Dollars)  
**March 31, 2013**

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**5. 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.

A total of \$115,680 (2012 - \$101,644) in salaries and other short-term benefits was paid to key members of management as compensation in the first quarter of 2013, of which \$106,206 (2012 - \$92,691) is included as part of selling, general and administrative expense and \$9,474 (2012 - \$8,953) was capitalized into deferred development costs for design templates.

**6. COMMITMENTS AND CONTINGENCIES**

**(a) Lease Commitment**

The Company has entered into lease agreements for premises and financing for two vehicles. In April 2013, the Company entered into an amended real estate lease agreement to expand the premises and extend the lease term for an additional twenty-four month period through January 2019. The combined future minimum payments including the extension are as follows:

|                  |                     |
|------------------|---------------------|
| Less than 1 year | \$ 164,747          |
| 1-5 years        | 890,091             |
|                  | <hr/>               |
|                  | <b>\$ 1,054,838</b> |

**(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.

**XPEL Technologies Corp.**  
**Notes to Financial Statements**  
(Expressed in United States Dollars)  
**March 31, 2013**

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**7. EXPENSES BY NATURE**

Direct costs incurred by nature are as follows:

|                                   | Three months ending March 31, |                     |
|-----------------------------------|-------------------------------|---------------------|
|                                   | <b>2013</b>                   | 2012                |
| Employee salaries and benefits    | \$ 61,895                     | \$ 31,932           |
| Materials                         | 1,795,455                     | 981,530             |
| Freight                           | 31,873                        | 24,755              |
| Other                             | 137,646                       | 101,193             |
| Amortization of intangible assets | 70,501                        | 75,698              |
|                                   | <b>\$ 2,097,370</b>           | <b>\$ 1,215,108</b> |

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

|   | Three months ending March 31, |                   |
|---|-------------------------------|-------------------|
|   | <b>2013</b>                   | 2012              |
| Employee salaries and benefits                | \$ 408,326                    | \$ 351,697        |
| Sales and marketing                           | 24,219                        | 20,489            |
| Occupancy                                     | 45,284                        | 39,303            |
| Professional fees                             | 34,847                        | 18,409            |
| Filing fees                                   | 2,335                         | 2,266             |
| Insurance                                     | 14,191                        | 9,561             |
| Office and general                            | 109,626                       | 81,109            |
| Amortization of property, plant and equipment | 17,906                        | 11,999            |
|   | <b>\$ 656,734</b>             | <b>\$ 534,833</b> |

**8. ECONOMIC DEPENDENCY**

The Company depends directly or indirectly on several sole suppliers to supply goods and services necessary for carrying on its core business, including a sole manufacturing facility, sole urethane supplier and sole adhesive supplier and other sole suppliers of other intermediate manufacturing elements. Approximately 90% of the Company's inventory purchases are dependent on these direct and indirect sole 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.