

XPEL Technologies Corp.

Consolidated Financial Statements

(Expressed in United States Dollars)

For the Years Ended December 31, 2014 and 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of XPEL Technologies Corp.

We have audited the accompanying consolidated financial statements of XPEL Technologies Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and 2013 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013 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 consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of XPEL Technologies Corp. and its subsidiaries as at December 31, 2014 and 2013 and the results of its operations and its cash flows for the years ended December 31, 2014 and 2013 in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
March 27, 2015
Toronto, Ontario

XPEL Technologies Corp.
Consolidated Statements of Income and Comprehensive Income
(Expressed in United States Dollars)
Years Ended December 31, 2014 and 2013

	2014	2013
Revenue	\$ 29,630,179	\$ 17,898,812
Expenses		
Direct costs (Note 15)	20,373,246	12,153,098
Selling, general and administrative expenses (Note 15)	6,464,660	3,702,819
Income from operations	2,792,273	2,042,895
Interest expense	(36,748)	(6,772)
Gain (loss) on sale of property, plant and equipment	(2,883)	(1,855)
	(39,631)	(8,627)
Net income before income taxes	2,752,642	2,034,268
Provision for income tax		
Current tax expense	(66,525)	-
Deferred tax recovery (expense) (Note 12)	384,000	(714,000)
Net income	3,070,117	1,320,268
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	15,721	-
Total comprehensive income	\$ 3,085,838	\$ 1,320,268
Net income attributable to equity holders of the Company	3,097,102	1,320,268
Non-controlling interest	(26,985)	-
	\$ 3,070,117	\$ 1,320,268
Earnings per share		
Basic and diluted (Note 11)	\$ 0.12	\$ 0.05

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

	Capital Stock	Contributed Surplus	Deficit	Non- Controlling Interest	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2013	\$ 6,635,133	\$ 2,165,130	\$ (5,805,352)	\$ -	\$ -	\$ 2,994,911
Net income and comprehensive income	-	-	1,320,268	-	-	1,320,268
Balance, December 31, 2013	6,635,133	2,165,130	(4,485,084)	-	-	4,315,179
Non-controlling interest on acquisition (Note 6)	-	-	-	114,249	-	114,249
Net income	-	-	3,097,102	(26,985)	-	3,070,117
Other comprehensive income	-	-	-	-	(15,721)	(15,721)
Balance, December 31, 2014	\$ 6,635,133	\$ 2,165,130	\$ (1,387,982)	\$ 87,264	\$ (15,721)	\$ 7,483,824

XPEL Technologies Corp.
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)
Years Ended December 31, 2014 and 2013

	2014	2013
Cash and cash equivalents provided by (used in)		
Operations		
Net income	\$ 3,070,117	\$ 1,320,268
Add (deduct) items not affecting cash and cash equivalents		
Amortization of property, plant and equipment	137,489	95,980
Amortization of intangible assets	339,707	287,775
Loss (gain) on sale of property, plant and equipment	2,883	1,855
Deferred tax recovery	(384,000)	714,000
Unrealized gain on foreign exchange	(15,721)	-
	3,150,475	2,419,878
Changes in non-cash working capital items		
Accounts receivable	(1,236,486)	(114,503)
Inventory	(3,518,525)	(817,078)
Prepaid expenses and sundry assets	(88,239)	(157,094)
Accounts payable and accrued liabilities	2,292,426	(556,553)
Customer deposits	-	(2,700)
Net cash and cash equivalents provided by operating activities	599,651	771,950
Investing		
Purchase of property, plant and equipment	(369,077)	(324,277)
Proceeds from sale of property, plant and equipment	-	6,000
Intangible assets	(555,658)	(503,565)
Acquisition of subsidiaries, net of cash acquired (Note 6)	(493,894)	-
Net cash and cash equivalents used in investing activities	(1,418,629)	(821,842)
Financing		
Repayment of notes payable	(21,805)	(8,713)
Proceeds from notes payable	-	77,218
Bank indebtedness	900,000	-
Net cash and cash equivalents provided by financing activities	878,195	68,505
Net change in cash and cash equivalents	59,217	18,613
Cash and cash equivalents, beginning of year	1,414,913	1,396,300
Cash and cash equivalents, end of year	\$ 1,474,130	\$ 1,414,913

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

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2014 and 2013

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), 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 consolidated 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 consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2015.

Basis of Presentation

The consolidated 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, the consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary ArmourfendCAD, LLC and its 80% owned subsidiary XPEL Ltd. The income incurred by ArmourfendCAD, LLC from September 10, 2014 (date of incorporation) and onward has been included in the statement of income and comprehensive income. The loss incurred by XPEL Ltd. from March 9, 2014 (date of incorporation) and onward has been included in the statement of income and comprehensive income. Intercompany transactions and balances are eliminated on consolidation.

Functional and Presentation Currency

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

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2014 and 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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, which includes internally generated intangible assets, 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
DAP software platform	- 5 years

Intangible assets with an indefinite life, such as trademarks and domain names are recorded at cost and are not amortized.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

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 or 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)

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 \$368,698 (2013 - \$281,818) 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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Business Combinations

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Acquisition costs are expensed as incurred, unless they qualify to be treated as debt issue costs, or as cost of issuing equity securities.

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders. Gains or losses on disposals of non-controlling interests are also recorded in equity.

Impairment of Long-Lived Assets

Property, plant and equipment and other non-current assets with definite useful lives 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 of disposal and value in use. Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. 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 cash generating unit ("CGU").

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Significant Accounting Judgments and Estimates

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

Significant estimates made by the Company include allowances for potentially uncollectible 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, fair value of financial instruments and the allocation of the purchase price relating to acquisition of businesses.

Foreign Currency Translation

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in the income statement.

Non-monetary items measured at historical cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Financial statements of subsidiaries for which the functional currency is not the United States dollar are translated into United States dollar as follows: all asset and liability accounts are translated at the balance sheet exchange rate and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income and recorded in the accumulated other comprehensive income. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to the statement of income and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into United States dollars at the balance sheet rate.

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.

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2014 and 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

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.

The Company's financial assets include cash and cash equivalents and accounts receivables. The Company's financial liabilities include accounts payable and accrued liabilities and notes payable. 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
Bank indebtedness	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Notes payable	Other liabilities

Financial instruments recorded at fair value on the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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, 2014 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 has not yet been adopted and is being evaluated to determine its impact on the Company.

- (a) IFRS 9 *Financial Instruments* was issued in final form in July 2014 by the IASB 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 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is in the process of assessing the impact of the adoption of this interpretation on its consolidated financial statements.
- (b) In May 2014, IASB issued IFRS 15 Revenue from Contracts with Customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services.

XPEL Technologies Corp.
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4. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance Jan. 1, 2014	Additions (net of disposals)	Balance Dec. 31, 2014
Furniture and fixtures	\$ 303,029	\$ 141,497	\$ 444,526
Computer equipment	286,068	76,671	362,739
Motor vehicles	274,360	40,958	315,318
Shop equipment	82,425	34,867	117,292
Leasehold improvements	75,215	127,545	202,760
	\$ 1,021,097	\$ 421,538	\$ 1,442,635

Accumulated Amortization	Balance Jan. 1, 2014	Amortization (net of disposals)	Balance Dec. 31, 2014
Furniture and fixtures	\$ 140,359	\$ 49,707	\$ 190,066
Computer equipment	169,338	29,910	199,248
Motor vehicles	140,921	30,631	171,552
Shop equipment	34,376	8,870	43,246
Leasehold improvements	18,178	30,002	48,180
	\$ 503,172	\$ 149,120	\$ 652,292

Cost	Balance Jan. 1, 2013	Additions (net of disposals)	Balance Dec. 31, 2013
Furniture and fixtures	\$ 210,655	\$ 92,374	\$ 303,029
Computer equipment	250,487	35,581	286,068
Motor vehicles	159,322	115,038	274,360
Shop equipment	48,848	33,577	82,425
Leasehold improvements	36,709	38,506	75,215
	\$ 706,021	\$ 315,076	\$ 1,021,097

Accumulated Amortization	Balance Jan. 1, 2013	Amortization (net of disposals)	Balance Dec. 31, 2013
Furniture and fixtures	\$ 109,294	\$ 31,065	\$ 140,359
Computer equipment	143,149	26,189	169,338
Motor vehicles	120,513	20,408	140,921
Shop equipment	27,513	6,863	34,376
Leasehold improvements	8,069	10,109	18,178
	\$ 408,538	\$ 94,634	\$ 503,172

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

Net Book Value	December 31, 2014	December 31, 2013
Furniture and fixtures	\$ 254,460	\$ 162,670
Computer equipment	163,491	116,730
Motor vehicles	143,766	133,439
Shop equipment	74,046	48,049
Leasehold improvements	154,580	57,037
	\$ 790,343	\$ 517,925

5. INTANGIBLE ASSETS

Cost	Balance Jan. 1, 2014	Balance Additions	Balance Dec. 31, 2014
Design templates (internally generated)	\$ 1,947,557	\$ 368,698	\$ 2,316,255
Trademarks	58,524	33,503	92,027
DAP software platform	163,224	154,913	318,137
Patent	100,000	-	100,000
Design templates	-	46,906	46,906
Domain names	-	7,500	7,500
	\$ 2,269,305	\$ 611,520	\$ 2,880,825

Accumulated Amortization	Balance Jan. 1, 2014	Balance Amortization	Balance Dec. 31, 2014
Design templates (internally generated)	\$ 1,680,862	\$ 280,935	\$ 1,961,797
DAP software platform	9,884	48,771	58,655
Patent	60,000	10,000	70,000
Design templates	-	5,863	5,863
	\$ 1,750,746	\$ 345,569	\$ 2,096,315

Cost	Balance Jan. 1, 2013	Additions (disposals)	Balance Dec. 31, 2013
Design templates (internally generated)	\$ 1,665,739	\$ 281,818	\$ 1,947,557
Trademarks	-	58,524	58,524
DAP software platform	-	163,224	163,224
Patent	100,000	-	100,000
	\$ 1,765,739	\$ 503,566	\$ 2,269,305

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5. INTANGIBLE ASSETS (Cont'd)

	Balance Jan. 1, 2013	Balance Additions	Balance Dec. 31, 2013
Accumulated Amortization			
Design templates (internally generated)	\$ 1,412,970	\$ 267,892	\$ 1,680,862
DAP software platform	-	9,884	9,884
Patent	50,000	10,000	60,000
	<u>\$ 1,462,970</u>	<u>\$ 287,776</u>	<u>\$ 1,750,746</u>

Net Book Value

	December 31, 2014	December 31, 2013
Design templates (internally generated)	\$ 354,458	\$ 266,695
Trademarks	92,027	58,524
DAP software platform	259,482	153,340
Patent	30,000	40,000
Design templates	41,043	-
Domain names	7,500	-
	<u>\$ 784,510</u>	<u>\$ 518,559</u>

6. ACQUISITION OF BUSINESSES

On September 11, 2014, XPEL Ltd., an 80% owned subsidiary of the Company, acquired 100% of the issued and outstanding securities of a pattern design company located in the United Kingdom. In conjunction with this purchase, XPEL Ltd. also acquired 100% of the net business assets of an installation company located in the United Kingdom. The aggregate purchase price for these combined acquisitions was \$571,243.

The Company has allocated the purchase price as follows:

Design templates	50,000
Goodwill	521,243
	<u>\$ 571,243</u>

Consideration comprised of:

Cash consideration	\$ 456,994
Shares issued of XPEL Ltd., representing the non-controlling interest	114,249
	<u>\$ 571,243</u>

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6. ACQUISITION OF BUSINESSES (Cont'd)

Acquisition costs incurred related to the acquisition totaled \$65,331, which is included in Selling, General and Administrative expenses.

Goodwill for these acquisitions relates to the expansion of the Company into a new geographical area, being the United Kingdom. The goodwill represents the acquired employee knowledge of the UK area as well as the installation knowledge by the employees of the acquired businesses.

The operating results of XPEL Ltd., from March 19, 2014 to December 31, 2014 are included in these consolidated financial statements. The Company has not presented revenue and net income for the entire fiscal year because it is impracticable for the Company to obtain such information.

The Company has followed guidance provided by IFRS 3 - Business Combinations, which allows the Company one year to finalize purchase price allocation of an acquired company's assets and liabilities. Until the one year anniversary of the purchase, the Company will analyze the acquired assets and liabilities and make final allocation at this time.

7. CREDIT FACILITIES

On March 28, 2011, the Company entered into a \$150,000 revolving line of credit agreement with The Bank of San Antonio to support its continuing working capital needs. On May 22, 2014, the Board of Directors approved an increase to the existing limit to \$2,000,000. As at December 31, 2014, the balance was \$900,000 (2013 - \$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 ("WSJP") plus 1.5 per cent and matures on June 28, 2015.

8. NOTES PAYABLE

The notes payable bear interest at 5%, are secured by the underlying vehicles, are repayable in monthly payments of \$2,519 and are due in 2017 to 2019.

9. 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
<u>Balance, December 31, 2014 and 2013</u>	<u>25,784,950</u>	<u>\$ 6,635,133</u>

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10. 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 ten years (2013 - 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.

11. EARNINGS PER SHARE

Earnings per share has been calculated based on weighted average number of common shares outstanding at December 31, 2014 of 25,784,950 (2013 - 25,784,950).

12. INCOME TAXES

Deferred Tax Expense (Recovery)

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

	2014	2013
Income before income taxes	\$ 2,752,642	\$ 2,034,268
Statutory rate	34.0 %	34.0 %
Expiry of capital losses	\$ 935,898	\$ 691,651
Non-deductible expenses and other permanent differences	240,536	932,981
Change in estimates	20,860	10,934
Change in unrecognized portion of deferred taxes	(1,340,758)	11,415
	(240,536)	(932,981)
Deferred tax expense (recovery)	\$ (384,000)	\$ 714,000

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12. INCOME TAXES (Cont'd)

Deferred Taxes

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

	2014	2013
Deferred tax assets (liabilities)		
Amounts related to tax losses	\$ 308,000	\$ 249,000
Property, plant, equipment and intangibles	(176,000)	(247,000)
Allowances	31,000	18,000
	163,000	20,000
Less: Deferred taxes not recognized	-	(241,000)
	\$ 163,000	\$ (221,000)

Tax Losses

The Company has net operating losses of approximately \$906,000 available to apply against future taxable income. The full potential tax benefit relating to the capital losses has not been reflected in these financial statements. If not utilized, the non-capital losses will expire as follows:

2028	\$ 129,100
2029	763,400
2030	9,200
2031	4,300
	\$ 906,000

During the year ended December 31, 2014, the Company determined that certain corporate transactions had been misclassified in the preparation of its corporate tax filings. Accordingly, the Company was able to re-characterize \$3,451,521 of capital losses to \$3,451,521 of non-capital losses.

13. 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 \$661,984 (2013 - \$583,539) in salaries and other short-term benefits were earned by key members of management as compensation, of which \$620,758 (2013 - \$543,997) is included as part of selling, general and administrative expense and \$41,226 (2013 - \$39,542) was capitalized into deferred development costs for design templates.

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14. COMMITMENTS AND CONTINGENCIES

(a) Lease Commitment

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

Less than 1 year	\$	255,219
1-5 years		673,322
	\$	928,541

(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.

(c) Supply Agreement

During the year ended December 31, 2013, the Company signed an exclusive supply and distribution agreement with the supplier of their material. The agreement requires the Company to purchase a minimum of \$300,000 of material each month. The agreement is for a two year term with the option for further two year renewal terms. The supplier agrees to provide exclusivity to the Company for the purchase of the material.

15. EXPENSES BY NATURE

Direct costs incurred by nature are as follows:

	2014	2013
Employee salaries and benefits	\$ 610,231	\$ 327,437
Materials	18,238,619	10,753,796
Freight	410,644	201,640
Other ⁽ⁱ⁾	794,139	576,642
Amortization of intangible assets	319,613	293,583
	\$ 20,373,246	\$12,153,098

(i) Included in other expenses are credit card merchant fees, product samples and customer rebates, as well as other miscellaneous direct expenses.

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15. EXPENSES BY NATURE (Cont'd)

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

	2014	2013
Employee salaries and benefits	\$ 3,581,160	\$ 2,287,241
Sales and marketing	603,243	272,345
Occupancy	389,578	202,369
Professional fees	685,122	188,417
Filing fees	25,525	17,078
Insurance	118,828	79,394
Office and general	874,943	565,803
Amortization of property, plant and equipment	186,261	90,172
	\$ 6,464,660	\$ 3,702,819

16. 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 historically 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, 2014.

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.

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

Risk Disclosures (Cont'd)

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 is exposed to interest rate risk since the Company's credit facilities are bearing interest at a variable rate (Note 7). If the interest rate had been one percent (1%) higher throughout the year ended December 31, 2014, the net loss would have increased by approximately \$7,300.

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 \$2,287,342 (2013 - \$1,018,956), past due receivables in excess of 90 days but not impaired as of the balance sheet date were approximately \$50,000 (2013 - \$20,000). 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.

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16. 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:

	2014	2013
<u>Accounts payable and accrued liabilities</u>	<u>\$ 86,000</u>	<u>\$ 76,000</u>

A 5% change in the Canadian dollar against the US dollar currency would affect equity and net income by approximately \$4,300 (2013 - \$3,800). This analysis assumes that all other variables remain constant.

17. 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, a urethane supplier and an adhesive supplier and other suppliers of other intermediate manufacturing elements. Approximately 94% (2013 - 93%) of the Company's inventory purchases are dependent on these direct and indirect suppliers (Note 14(c)). 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.

18. SUBSEQUENT EVENT

On February 5, 2015, the Company acquired Parasol Canada by way of a share purchase agreement between a newly formed wholly owned subsidiary of the Company, XPEL Canada Corp. and 1025606 B.C. Ltd ("Newco").

The acquisition of Parasol Canada was completed by the transfer of all of Parasol Canada's assets to Newco and the acquisition of all of the shares of the Newco by XPEL Canada Corp. for a total aggregate purchase price of CAD\$4,849,740 ("Purchase Price"). Upon closing, the Company will pay CAD\$2,300,000 in cash, which is financed by a \$1,900,000 term loan with the Bank of San Antonio bearing interest at 4.5%. The remaining CAD\$2,549,840 is to be satisfied by the issuance of a non-interest bearing secured promissory note.

The Company has followed guidance provided by IFRS 3 - Business Combinations, which allows the Company one year to finalize purchase price allocation of an acquired company fixed assets and liabilities. The purchase price has not been allocated for this business combination at the time the financial statements were authorized for issue.