

XPEL Technologies Corp.

Consolidated Financial Statements

(Expressed in United States Dollars)

For the Years Ended December 31, 2017 and 2016



RSM Canada LLP

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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, 2017 and December 31, 2016 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 audit to obtain reasonable assurance about whether the consolidated 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 auditors' judgement, 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, 2017 and December 31, 2016, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 27, 2018
Toronto, Ontario

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XPEL TECHNOLOGIES CORP.
Consolidated Balance Sheets
(Expressed in United States Dollars)
As of December 31, 2017 and 2016

	Note	December 31, 2017	December 31, 2016
Assets			
Current			
Cash and cash equivalents		\$ 3,498,904	\$ 1,861,089
Accounts receivable		5,569,212	4,754,524
Inventory		10,151,594	7,806,029
Prepaid expenses and other current assets		689,890	454,173
Income taxes receivable	13	-	72,553
Total current assets		19,909,600	14,948,368
Property, plant and equipment	4	2,153,233	1,352,120
Intangible assets	5	4,114,374	3,467,218
Deferred tax asset	13	378,014	135,363
Goodwill	6	2,490,105	1,891,948
Total assets		\$ 29,045,326	\$ 21,795,017
Liabilities			
Current			
Bank indebtedness	8	2,000,000	2,500,000
Accounts payable and accrued liabilities		9,519,649	5,859,981
Income tax payable	13	1,126,865	168,690
Current portion of bank loan payable	9	440,126	565,678
Current portion of notes payable - acquisitions	10	624,308	448,527
Total current liabilities		13,710,948	9,542,876
Deferred tax liability	13	463,140	524,272
Bank loan payable	9	-	439,688
Notes payable - acquisitions	10	1,018,493	994,737
Total liabilities		15,192,581	11,501,573
Equity			
Capital stock	11	9,210,646	6,635,133
Contributed surplus		2,165,130	2,165,130
Accumulated other comprehensive loss		(984,281)	(833,725)
Retained earnings		3,569,430	2,382,085
		13,960,925	10,348,623
Non-controlling interest		(108,180)	(55,179)
Total equity		13,852,745	10,293,444
Total liabilities and equity		\$ 29,045,326	\$ 21,795,017

Commitments and contingencies (Note 15)

Approved by Board of Directors:

/s/ Richard Crumly
Richard Crumly

/s/ John Constantine
John Constantine

/s/ Michael Klonne
Michael Klonne

See accompanying notes to the consolidated financial statements

XPEL Technologies Corp.
Consolidated Statements of Income and Comprehensive Income
(Expressed in United States Dollars)
Years Ended December 31, 2017 and 2016

		<u>2017</u>	<u>2016</u>
Revenue	18	\$ 67,749,544	\$ 51,759,267
Expenses			
Direct costs	16	50,975,178	37,744,837
Selling, general and administrative expenses	16	<u>14,538,310</u>	<u>10,761,879</u>
Income from operations		2,236,056	3,252,551
Interest expense		337,670	223,045
(Gain) loss on sale of property, plant and equipment		(13,251)	4,874
Foreign exchange gain		<u>(252,196)</u>	<u>(4,943)</u>
		<u>72,223</u>	<u>222,976</u>
Income before income taxes		2,163,833	3,029,575
Current income tax expense	13	1,284,725	963,922
Deferred income tax (recovery) expense	13	<u>(255,236)</u>	<u>(97,847)</u>
		<u>1,029,489</u>	<u>866,075</u>
Net income		1,134,344	2,163,500
Items that may be reclassified to profit or loss:			
Cumulative differences on translation of foreign operations		(150,556)	(211,732)
Total comprehensive income		<u><u>\$ 983,788</u></u>	<u><u>\$ 1,951,768</u></u>
Net income attributable to:			
Shareholders of the Company		\$ 1,187,345	\$ 2,215,502
Non-controlling interest		<u>(53,001)</u>	<u>(52,002)</u>
Net income		<u><u>\$ 1,134,344</u></u>	<u><u>\$ 2,163,500</u></u>
Total comprehensive income attributable to:			
Shareholders of the Company		\$ 1,036,789	\$ 2,003,770
Non-controlling interest		<u>(53,001)</u>	<u>(52,002)</u>
Total comprehensive income		<u><u>\$ 983,788</u></u>	<u><u>\$ 1,951,768</u></u>
Earnings per share attributable owners of the parent			
Basic and diluted		\$ 0.042	\$ 0.084
Weighted Average Number of Common Shares			
Basic and diluted		27,326,261	25,784,950

See accompanying notes to the consolidated financial statements

XPEL TECHNOLOGIES CORP.
Consolidated Statements of Changes in Equity
(Expressed in United States Dollars)
Years ended December 31, 2017 and 2016

	Capital Stock		Contributed	Retained	Accumulated	Equity	Non-Controlling	Total Equity
	Shares	Amount	Surplus	Earnings	Other Comprehensive Income (loss)	attributable to shareholders of the Company	Interest	
Balance as at January 1, 2016	25,784,950	\$ 6,635,133	\$ 2,165,130	\$ 166,583	\$ (621,993)	\$ 8,344,853	\$ (3,177)	\$ 8,341,676
Net income	-	-	-	2,215,502	-	2,215,502	(52,002)	2,163,500
Other comprehensive income (loss)	-	-	-	-	(211,732)	(211,732)	-	(211,732)
Balance as at December 31, 2016	25,784,950	6,635,133	2,165,130	2,382,085	(833,725)	10,348,623	(55,179)	10,293,444
Issuance of common shares (Note 11)	1,827,647	2,613,529	-	-	-	2,613,529	-	2,613,529
Common share issuance costs	-	(38,016)	-	-	-	(38,016)	-	(38,016)
Net income	-	-	-	1,187,345	-	1,187,345	(53,001)	1,134,344
Other comprehensive income (loss)	-	-	-	-	(150,556)	(150,556)	-	(150,556)
Balance as at December 31, 2017	27,612,597	\$ 9,210,646	\$ 2,165,130	\$ 3,569,430	\$ (984,281)	\$ 13,960,925	\$ (108,180)	\$ 13,852,745

See accompanying notes to the consolidated financial statements

XPEL TECHNOLOGIES CORP.
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net income	\$ 1,134,344	\$ 2,163,500
Add items not affecting cash		
Depreciation of property, plant and equipment	748,364	299,625
Amortization of intangible assets	1,017,647	840,501
(Gain) loss on sale of property, plant and equipment	(13,251)	4,874
Bad debt expense	184,715	61,262
Deferred income tax (recovery) expense	(255,236)	(97,847)
Accretion on notes payable - vendor loan	78,957	59,339
Unrealized loss (gain) on foreign exchange	(164,653)	41,920
	<u>2,730,887</u>	<u>3,373,174</u>
Changes in non-cash working capital items		
Accounts receivable	(814,234)	(1,253,439)
Inventory	(1,861,344)	(637,531)
Prepaid expenses and other current assets	(258,075)	(64,849)
Accounts payable and accrued liabilities	3,135,183	1,233,765
Income tax payable	1,019,435	-
Net cash provided by operating activities	<u>3,951,852</u>	<u>2,651,120</u>
Cash flows used in investing activities		
Purchase of property, plant and equipment	(1,491,348)	(385,536)
Proceeds for sale of property, plant and equipment	39,500	3,482
Acquisition of subsidiaries, net of cash acquired	(1,143,034)	(822,067)
Development of intangible assets	(715,104)	(976,886)
Net cash used in investing activities	<u>(3,309,986)</u>	<u>(2,181,007)</u>
Cash flows from financing activities		
Repayment from bank indebtedness	(500,000)	(500,000)
(Repayment) proceeds of bank loan payable	(565,240)	(597,420)
Repayment of notes payable	-	(191,978)
Proceeds of notes payable - acquisitions	515,125	-
Repayments of notes payable - acquisitions	(468,484)	(363,893)
Proceeds from issuance of common stock	2,613,529	-
Common share issuance costs	(38,016)	-
Net cash (used in) provided by financing activities	<u>1,556,914</u>	<u>(1,653,291)</u>
Net change in cash and cash equivalents	<u>2,198,780</u>	<u>(1,183,178)</u>
Foreign exchange impact on cash and cash equivalents	<u>(560,965)</u>	<u>203,718</u>
Increase in cash and cash equivalents during the year	<u>1,637,815</u>	<u>(979,460)</u>
Cash and cash equivalents at beginning of year	<u>1,861,089</u>	<u>2,840,549</u>
Cash and cash equivalents at end of year	<u>\$ 3,498,904</u>	<u>\$ 1,861,089</u>
Supplemental Disclosure		
Cash paid for income taxes	\$ 452,173	\$ 685,000
Cash paid for interest	\$ 245,986	\$ 163,706

See accompanying notes to the consolidated financial statements

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2017 and 2016

1. NATURE OF OPERATIONS

XPEL Technologies Corp. (the "Company") is based in San Antonio, Texas and manufactures, sells, distributes, and installs after-market automotive products, including automotive paint protection film, headlight protection film, automotive window films and other related products.

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") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2018.

Basis of Presentation

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified 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 subsidiaries ArmourfendCAD, LLC, XPEL Canada Corp., XPEL B.V., XPEL de Mexico S. de R.L. de C.V., XPEL Acquisition Corp., Protex Canada Inc. and its 85% owned subsidiary XPEL Ltd. Subsidiaries are consolidated from the effective date of acquisition, which is the date on which the Company obtains control of the acquired business, until control ceases.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has all the following:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of the investor's returns

Non-controlling interests represent equity interests in a subsidiary owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Functional and Presentation Currency

These consolidated financial statements of the Company have been prepared in United States Dollars, which is the Company's presentation currency. The functional currencies of the entities included in these consolidated financial statements are:

<u>Entity</u>	<u>Functional Currency</u>
XPEL Technologies Corp.	United States Dollar
XPEL Ltd.	UK Pound Sterling
ArmourfendCAD, LLC	United States Dollar
XPEL Canada Corp.	Canadian Dollar
XPEL B.V.	Euro
XPEL de Mexico S. de R.L. de C.V.	Peso
XPEL Acquisition Corp.	Canadian Dollar
Protex Canada Inc.	Canadian Dollar

Foreign Currency Translation

Foreign currency transactions are initially recorded in the functional currency of each entity 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 re-measurement of monetary items at year-end exchange rates are recognized in the consolidated statement of income and comprehensive income.

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 dollars 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 and the components of shareholders' equity are stated at historical value. The resulting translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income and recorded in 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.

XPEL Technologies Corp., the parent company, has monetary items that are receivable from foreign operations. A monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the parent company's net investment in that foreign operation. Such exchange differences are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment in foreign operations.

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2017 and 2016

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, finished goods 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 weighted average 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 and selling expenses. 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 depreciation and impairment loss (if any). Depreciation is calculated over the estimated useful lives of the assets on a straight-line basis as follows:

Furniture and fixtures	- 5 years
Computer equipment	- 3-4 years
Vehicles	- 5 years
Equipment	- 5-7 years
Leasehold improvements	- shorter of lease term or estimate useful life
Plotters	- 4 years

Useful lives, residual values and depreciation methods are reviewed and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Effective at the beginning of the year, the Company changed its method of depreciation from the declining balance method to the straight-line method. This change was made to better reflect how the Company consumes the future benefits of these assets. The change in accounting estimate was accounted for prospectively and the impact of this change was an increase to depreciation expense in fiscal 2017 by approximately \$360,000.

Intangible Assets

Intangible assets with a finite life, which includes internally generated intangible assets and intangible asset acquired through business combinations, are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the assets as follows:

Design templates	- 2 years
DAP software platform	- 5 years
Patent	- 10 years
Trade name	- 10 years
Contractual and customer relationships	- 10 years
Non-compete	- 5 years

Intangible assets with an indefinite life, such as trademarks and domain names are recorded at cost and are not amortized but subject to review for impairment.

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible Assets (Cont'd)

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 \$507,316 (2016 - \$460,145) of costs associated with the design templates. These costs are being amortized over a period of two years from commencement of commercial use.

Goodwill

The Company initially measures goodwill at 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.

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment loss. Goodwill is not amortized.

Revenue Recognition

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

- (i) Revenue from installations, kit and material sales is recognized upon the shipment of the goods or performance of the service.
- (ii) Revenue from design access fees is recognized at the time the design is shipped.
- (iii) Revenue from pattern sales is recognized the time the design is shipped.
- (iv) 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.

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 IAS 38, Intangible Assets:

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and Development (Cont'd)

- (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.

Provisions and Warranties

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Earnings Per Share

Basic earnings per share amounts are calculated by dividing net income 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.

Impairment of Non-Financial 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").

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 in other comprehensive income. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in net income. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method, less a provision for impairment (if any).

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

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 other financial liabilities, 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 receivable. The Company's financial liabilities include bank indebtedness, accounts payable and accrued liabilities, bank loan payable and notes payable - acquisitions. Classification of these financial instruments is as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Bank loan payable	Other financial liabilities
Note payable – acquisitions	Other financial liabilities

Fair Value

Fair values 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)

Comprehensive Income

Comprehensive income measures net earnings for the period plus other comprehensive income. Other comprehensive income represents foreign currency translation adjustments of foreign operations during the year. 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)

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 intangible assets, measurement of warranty provision, recognition of deferred tax assets and liabilities, recoverability of intangible assets and goodwill, and fair value of financial instruments.

Significant judgments in connection with these consolidated financial statements include the determination if an acquisition is considered to be a business combination or an asset acquisition and determination of functional currency.

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, 2017 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 on July 24, 2014 as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets and liabilities. This new standard completes the IASB's financial instruments project and the standard is effective for reporting periods beginning on or after January 1, 2018, with early adoption permitted.
- (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, 2018. 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.

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3. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED (Cont'd)

(b) (Cont'd)

Management anticipate that IFRS 15 will be adopted in the Company's consolidated financial statements when it becomes mandatory, and they intend to use the full retrospective method of transition to the new standard. Based on the current accounting treatment of the Company's major sources of revenue (Note 2) management does not anticipate that the application of IFRS 15 will have a significant impact on the balance sheet and/or financial performance of the Company. However, as management is still in the process of assessing the full impact of the application of IFRS 15 on the Company's financial statements, it is not practicable to provide a reasonable financial estimate of the effect until management has completed the detailed review.

(c) IFRS 16 Leases was issued by the IASB in January 2016 and will replace IAS 17 Leases. It is effective for annual periods beginning on or after January 1, 2019. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. Earlier application is permitted only if the Company early adopts IFRS 15.

For the Company's non-cancellable operating lease commitments in Note 16, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under IFRS 16. Thus, the Company will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless they qualify for low value or short-term leases upon the application of IFRS 16, which might have a significant impact on the amounts recognized in the Company's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of that effect until management has completed their review.

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance January 1, 2017	Additions (net of disposals)	Acquisition Related Additions	Foreign Exchange	Balance December 31, 2017
Furniture and fixtures	\$ 522,297	\$ 164,960	\$1,828	\$ 2,714	\$ 691,799
Computer equipment	524,489	195,034	5,666	4,099	729,288
Vehicles	572,375	70,619		4,206	647,200
Equipment	285,510	579,278	26,048	4,387	895,223
Leasehold improvements	332,831	350,890	4,499	7,803	696,023
Plotters	295,621	92,567		3,923	392,111
	\$ 2,533,123	\$ 1,491,348	\$38,041	\$ 27,132	\$ 4,051,644

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

Accumulated Depreciation	Balance January 1, 2017	Additions (net of disposals)	Foreign Exchange	Balance December 31, 2017
Furniture and fixtures	\$ 297,695	\$ 150,755	\$ 982	\$ 449,432
Computer equipment	285,278	176,238	1,134	462,650
Vehicles	288,639	95,641	1,235	385,515
Equipment	67,065	64,286	982	132,333
Leasehold improvements	137,839	115,381	2,354	255,574
Plotters	104,487	107,379	1,041	212,907
	\$ 1,181,003	\$ 709,680	\$ 7,729	\$ 1,898,411

Cost	Balance January 1, 2016	Additions (net of disposals)	Foreign Exchange	Balance December 31, 2016
Furniture and fixtures	\$ 514,777	\$ 11,298	\$ (3,778)	\$ 522,297
Computer equipment	422,907	102,552	(970)	524,489
Vehicles	506,495	68,788	(2,908)	572,375
Equipment	198,560	87,937	(987)	285,510
Leasehold improvements	294,048	50,769	(11,986)	332,831
Plotters	189,830	110,829	(5,038)	295,621
	\$ 2,126,617	\$ 432,173	\$ (25,667)	\$ 2,533,123

Accumulated Depreciation	Balance January 1, 2016	Additions (net of disposals)	Foreign Exchange	Balance December 31, 2016
Furniture and fixtures	\$ 248,718	\$ 49,666	\$ (689)	\$ 297,695
Computer equipment	236,889	48,753	(364)	285,278
Vehicles	222,290	66,486	(137)	288,639
Equipment	26,676	40,539	(150)	67,065
Leasehold improvements	92,382	47,033	(1,576)	137,839
Plotters	64,325	40,874	(712)	104,487
	\$ 891,280	\$ 293,351	\$ (3,628)	\$ 1,181,003

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

Net Book Value	2017	2016
Furniture and fixtures	\$ 242,367	\$ 224,602
Computer equipment	266,638	239,211
Vehicles	261,685	283,736
Equipment	762,890	218,445
Leasehold improvements	440,449	194,991
Plotters	179,204	191,134
	\$ 2,153,233	\$ 1,352,120

5. INTANGIBLE ASSETS

Cost	Balance January 1, 2017	Additions (net of disposals)	Acquisition Related Additions	Foreign Exchange	Balance December 31, 2017
Design templates (internally generated)	\$ 3,275,984	\$ 507,316	\$ -	\$ -	\$ 3,783,300
Trademarks	239,645	27,167	-	-	286,812
DAP software platform	1,063,776	180,621	-	-	1,244,397
Patent	100,000	-	-	-	100,000
Design templates	37,112	-	-	3,523	40,635
Domain names	7,500	-	-	-	7,500
Trade name	280,000	-	101,452	1,946	383,398
Contractual and customer relationships	1,760,706	-	755,377	109,074	2,625,157
Non-compete	248,765	-	-	10,309	259,074
	\$ 7,033,488	\$ 715,104	\$ 856,829	\$ 124,852	\$ 8,730,273

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5. INTANGIBLE ASSETS (Cont'd)

Accumulated Amortization	Balance January 1, 2017	Additions (net of disposals)	Foreign Exchange	Balance December 31, 2017
Design templates (internally generated)	\$ 2,782,340	\$ 483,581	\$ -	\$ 3,265,921
DAP software platform	323,914	236,097	-	560,011
Patent	90,000	10,000	-	100,000
Design templates	37,112	-	3,523	40,635
Domain names	-	-	-	-
Trade name	2,208	30,661	-	32,869
Contractual and customer relationships	273,669	195,022	18,868	487,559
Non-compete	57,027	67,926	3,951	128,904
	\$ 3,566,270	\$ 1,023,287	\$ 26,342	\$ 4,615,899

Cost	Balance January 1, 2016	Additions (net of disposals)	Foreign Exchange	Balance December 31, 2016
Design templates (internally generated)	\$ 2,786,520	\$ 489,464	\$ -	\$ 3,275,984
Trademarks	107,608	152,037	-	259,645
DAP software platform	599,533	464,243	-	1,063,776
Patent	100,000	-	-	100,000
Design templates	44,592	-	(7,417)	37,112
Domain names	7,500	-	-	7,500
Trade name	-	280,000	-	280,000
Contractual and customer relationships	1,374,942	340,000	45,764	1,760,706
Non-compete	143,973	100,000	4,792	248,765
	\$ 5,164,668	\$ 1,825,744	\$ 43,139	\$ 7,033,488

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5. INTANGIBLE ASSETS (Cont'd)

Accumulated Amortization	Balance January 1, 2016	Additions (net of disposals)	Foreign Exchange	Balance December 31, 2016
Design templates (internally generated)	\$ 2,322,195	\$ 460,145	\$ -	\$ 2,782,340
Trademarks	-	-	-	-
DAP software platform	147,480	176,434	-	323,914
Patent	80,000	10,000	-	90,000
Design templates	27,870	13,917	(4,675)	37,112
Domain names	-	-	-	-
Trade name	-	2,208	-	2,208
Contractual and customer relationships	126,036	143,437	4,196	273,669
Non-compete	26,395	29,753	879	57,027
	\$ 2,729,976	\$ 835,894	\$ 400	\$ 3,566,270

Net Book Value	2017	2016
Design templates (internally generated)	\$ 517,379	\$ 493,644
Trademarks	286,812	259,645
DAP software platform	684,386	739,862
Patent	-	10,000
Design templates	-	-
Domain names	7,500	7,500
Trade name	350,529	277,792
Contractual and customer relationships	2,137,598	1,487,037
Non-compete	130,170	191,738
	\$ 4,114,374	\$ 3,467,218

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6. GOODWILL

	Balance January 1, 2017	Additions	Foreign Exchange	Balance December 31, 2017
ArmourfendCAD, LLC	\$ 5,000	\$ -	\$ -	\$ 5,000
XPEL Ltd.	526,790	-	50,009	576,799
XPEL Canada Corp.	1,064,868	-	73,790	1,138,658
XPEL Technologies Corp. (Note 7 (i) & (ii))	295,290	173,639	-	468,929
Protex Canada Inc. (Note 7 (i))	-	302,919	(2,200)	300,719
	\$ 1,891,948	\$ 476,558	\$ 121,599	\$ 2,490,105

	Balance January 1, 2016	Additions	Foreign Exchange	Balance December 31, 2016
ArmourfendCAD, LLC	\$ 5,000	\$ -	\$ -	\$ 5,000
XPEL Ltd.	632,960	-	(106,170)	526,790
XPEL Canada Corp.	1,030,567	-	34,301	1,064,868
XPEL Technologies Corp. (Note 7 (ii))	-	295,290	-	295,290
	\$ 1,668,527	\$ 295,290	\$ (71,869)	\$ 1,891,948

Goodwill is measured as the fair value of consideration paid less the fair value of the net assets acquired and liabilities assumed on the acquisition date. Goodwill is tested at least annually for impairment or more frequently when impairment indicators are identified. In accordance with IAS 36, if some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.

The goodwill impairment analyses performed by the Company concluded there was no impairment to goodwill as at December 31, 2017 (2016 – no impairment) as the fair value of its CGUs exceeded its carrying value.

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6. GOODWILL (Cont'd)

The Company concluded it has six CGUs as of December 31, 2017. Goodwill impairment analyses were performed as of December 31, 2017 on three of the CGUs that have significant amounts of goodwill. The CGUs recoverable amounts were determined based on its value in use using a 5 year discounted cash flow model. Key assumptions used in the discounted cash flow models are as follows: (a) projected revenue used in the forecast was estimated considering current and historical results with growth rates between 15% and 25% and a 2% terminal growth to reflect the inflationary growth (b) projected cost of sales, selling, general and administrative expenses used in the forecast were estimated using current and historical results as a percentage of revenue with consideration to variable costs. Fixed costs were estimated to remain fairly constant (c) working capital and capital expenditures were estimated considering industry benchmarks as a percentage of revenue. The discount rate applied in the discounted cash flow models range between 20% and 34.7%.

7. ACQUISITION OF BUSINESSES

- (i) The Company completed 3 acquisitions during the year ended December 31, 2017 as follows:

<u>Acquisition Date</u>	<u>Location</u>
April 1, 2017	Dallas, TX, USA
November 1, 2017	Boise, ID, USA
November 30, 2017	Montreal, Quebec, Canada

For the US acquisitions, the Company acquired 100% of the net assets of the acquirees. With these acquisitions, the Company expects to enhance its presence in these local markets. For the Canadian acquisition, the Company acquired 100% of the shares of the acquiree. With this acquisition, the Company added a new distribution channel to its distribution portfolio. This transaction was conducted in Canadian dollars.

The total purchase price for these transactions was \$1,176,036. The Company has allocated the purchase price for these acquisitions as follows:

Cash	\$	33,002
Accounts Receivable		45,517
Inventory		23,925
Prepaid and Other Assets		10,210
Property and Equipment		38,041
Customer Relationships		755,377
Trade Name		101,452
Goodwill		476,558
Accounts Payable		(74,396)
Other Accrued Liabilities		(103,495)
Deferred tax liability		(130,155)
	\$	<u>1,176,036</u>

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7. ACQUISITION OF BUSINESSES (Cont'd)

(i) (Cont'd)

Consideration is comprised of:

Cash payment	\$	661,719
Promissory note (Note 10 iii & iv)		<u>514,317</u>
	\$	<u>1,176,036</u>

Acquisition cost incurred related to these acquisitions totaled \$37,892 which is included in selling, general and administrative expenses.

The gross contractual amount of the receivables acquired was \$45,517 and the full amount of the receivables is expected to be collected.

Goodwill for these acquisitions relates to the expansion into new geographical areas as well as the addition of a new distribution channel. The goodwill represents the acquired employee knowledge of the various markets, distribution knowledge by the employees of the acquired businesses, as well as the expected synergies resulting from the acquisitions and is not expected to be deductible for tax purposes.

(ii) On December 1, 2016, the Company acquired 100% of the net assets of a distributor of paint protection and window tint products in the Las Vegas, Nevada market. The aggregate purchase price for the acquisition was \$1,190,989. With this acquisition, the Company expects to enhance its presence in the Las Vegas market.

The Company has allocated the purchase price as follows:

Cash	\$	14,265
Accounts Receivable		97,675
Inventory		214,165
Property and Equipment		31,075
Customer Relationships		340,000
Non-compete		100,000
Trade Name		280,000
Goodwill		295,290
Accounts Payable		(13,343)
Other Accrued Liabilities		<u>(168,138)</u>
	\$	<u>1,190,989</u>

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7. ACQUISITION OF BUSINESSES (Cont'd)

(ii) (Cont'd)

Consideration is comprised of:

Cash payment	\$	800,000
Promissory note (Note 10 ii)		<u>390,989</u>
	\$	<u>1,190,989</u>

Acquisition cost incurred related to the acquisition totaled \$42,596 which is included in selling, general and administrative expenses.

The gross contractual amount of the receivables acquired was \$97,675 and the full amount of the receivables is expected to be collected.

Goodwill for this acquisition relates to the expansion of the Company into a new geographical area, being Las Vegas, Nevada. The goodwill represents the acquired employee knowledge of the Las Vegas market, distribution knowledge by the employees of the acquired business, as well as the expected synergies resulting from the acquisition and is expected to be deductible for tax purposes.

8. CREDIT FACILITIES

The Company has entered into a \$8,500,000 (2016 - \$5,000,000) revolving line of credit agreement with The Bank of San Antonio to support its continuing working capital needs. 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 0.75% with a floor of 4.00% and matures on August 5, 2018. The interest rate during the year ended December 31, 2017 was 5.00% (2016 - 4.50%). As at December 31, 2017, the balance drawn was \$2,000,000 (2016 - \$2,500,000).

9. BANK LOAN PAYABLE

The Company entered into a loan during the first quarter of 2015 with the Company's primary lender, The Bank of San Antonio, to help fund the acquisition of 100% of the issued and outstanding shares of a distributor of paint protection and window tint products in the Canadian market. The original principal of the loan was for \$1,900,000 with monthly blended interest and principal repayments of \$49,785. The loan has a three- year term maturing on September 3, 2018 and is based on a five year amortization schedule and bears a fixed interest rate of 4.25%. The Bank of San Antonio has been granted a security interest in substantially all of the Company's current and future assets. As at December 31, 2017, the principal outstanding was \$440,126 (2016 - \$1,005,366).

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10. NOTE PAYABLE - ACQUISITIONS

- (i) As part of the acquisition of a Canadian distributor of paint protection and window tint products in 2015, XPEL Canada Corp. issued a non-interest bearing promissory note to the vendors of the company acquired. The promissory note is payable in 20 quarterly installments of CAD\$117,533, which was adjusted from CAD\$120,413 as a result of the agreed upon working capital adjustment. The promissory note is discounted at a rate of 4.75%, and matures in January 2020. As at December 31, 2017, the principal outstanding was CAD\$1,001,059 (2016 - CAD\$1,414,680). The carrying value of the loan as at December 31, 2017 is \$796,506 (2016 - \$1,052,275).
- (ii) As part of the acquisition of the Las Vegas distributor (Note 7(ii)), the Company issued an interest bearing unsecured promissory note. The unsecured promissory note is payable in 60 monthly installments of \$8,237. The note bears interest at 3.75%, is discounted at a rate of 10% and matures in December 2021. As at December 31, 2017, the principal outstanding was \$366,609 (2016 - \$450,000). The carrying value of the loan as at December 31, 2017 is \$347,648 (2016 - \$390,989).
- (iii) As part of the 2017 acquisitions, the Company issued an unsecured, non-interest bearing promissory note to the owner of the company acquired in Boise, ID. The unsecured promissory note is payable in 5 annual installments of \$40,000. Payment of these installments is contingent on the business meeting certain predetermined performance targets during each year. The maximum amount payable in any given year is \$40,000. The promissory note is discounted at a rate of 10% and matures in November 2022. As at December 31, 2017, the principal outstanding was \$200,000. The carrying value of the loan as at December 31, 2017 is \$156,686 (2016 - \$NIL).
- (iv) As part of the 2017 acquisitions, the Company issued an unsecured, non-interest bearing promissory note to the owner of the company acquired in Montreal, Quebec. The unsecured promissory note is payable in 20 quarterly installments of CAD\$28,000. The promissory note is discounted at a rate of 10% and matures in June 2022. As at December 31, 2017, the principal outstanding was CAD\$532,000. The carrying value of the loan as at December 31, 2017 is \$341,961 (2016 - \$NIL).

11. 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	Amount
Balance, December 31, 2016 and 2015	25,784,950	\$ 6,635,133
Issuance of common shares	1,827,647	2,613,529
Common share issuance costs		(38,016)
Balance, December 31, 2017	27,612,597	\$ 9,210,646

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11. CAPITAL STOCK (Cont'd)

During the year ended December 31, 2017, the Company announced its intention to issue, by way of a non-brokered private placement up to 2,097,903 of its Common Shares at a purchase price of \$1.43 USD per share for gross proceeds of up to \$3,000,000. The Company completed a first tranche of this private placement in February 2017 resulting in the issuance of 1,659,182 Common Shares at a price of \$1.43 USD per share for gross proceeds of \$2,372,630. In connection with this offering, 1,260,000 Common Shares were issued to certain directors and officers of the Company.

On March 22, 2017 the Company completed a second tranche of this private placement resulting in the issuance of an additional 168,465 Common Shares at a price of \$1.43 USD per share for gross proceeds of \$240,899.

12. 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 10% 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. 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 has not issued stock options during the years ended December 31, 2017 and 2016.

13. INCOME TAXES

Income Tax Expense

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

	2017	2016
Income before income taxes	\$ 2,163,834	\$ 3,029,575
Statutory rate	<u>34.0%</u>	<u>34.0%</u>
	\$ 735,704	\$ 1,030,056
Non-deductible expenses and other permanent differences	86,141	(53,416)
Foreign tax rate differences	171,397	42,570
US Tax Act Effect	15,644	-
Other	20,603	-
Change in prior year loss carryforwards	<u>-</u>	<u>(169,403)</u>
Income tax expense	<u>\$ 1,029,489</u>	<u>\$ 866,075</u>

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13. INCOME TAXES (Cont'd)

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act. This act includes significant changes in U.S tax law, including a reduction in the corporate tax rates and creating a territorial tax system with an on-time mandatory tax on previous deferred foreign earnings of U.S subsidiaries. The act reduced the U.S corporate tax rate from the current rate of 34% to 21% for tax year beginning after December 31, 2017. As a result, the Company was required to revalue its existing U.S. deferred tax assets and liabilities as of December 31, 2017 from 34% federal rate in effect through the end of 2017, to the new 21% rate.

Deferred Taxes

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

	2017	2016
Deferred tax assets		
Amounts related to tax losses	\$ 359,357	\$ 157,003
Property, plant, equipment and intangibles	<u>18,657</u>	<u>(21,641)</u>
	\$ 378,014	\$ 135,363
	2017	2016
Deferred tax liabilities		
Property, plant, equipment and intangibles	\$ <u>463,140</u>	\$ <u>524,272</u>

Tax Losses

The Company, through XPEL Ltd. And XPEL B.V., has net operating losses of approximately GBP916,676 and EURO754,648 available to apply against future taxable income. The losses in XPEL Ltd. Have no expiration date. If not utilized, the net operating losses in XPEL B.V. will expire as follows:

	XPEL BV
2026	\$ <u>754,648</u>

14. RELATED PARTY TRANSACTIONS

Related party transactions include \$551,559 (2016 - \$590,464) in salaries and other short-term benefits earned by key members of management as compensation, of which \$536,039 (2016 - \$542,162) is included as part of selling, general and administrative expense and \$15,520 (2016 - \$48,302) was capitalized into deferred development costs for design templates.

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15. COMMITMENTS AND CONTINGENCIES

(a) Operating Lease Commitment

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

Less than 1 year	\$	775,233
1-5 years		1,457,071
Greater than 5 years		<u>805,157</u>
	\$	<u>3,037,460</u>

(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.

There is a claim against the Company in 2015 for damages in respect of alleged infringement, intellectual property rights, and for breach of a license agreement between the parties. The Company denied all claims asserted in this suit. Pursuant to this action, the Company filed a counterclaim against the plaintiff. A trial was conducted in February 2018, and judgment is expected to be handed down in April 2018. No amounts have been accrued as at December 31, 2017, as the amount, if any, is not determinable.

(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 option for further two- year renewal was exercised and going forward, will automatically renew until both parties terminate the agreement. The supplier agrees to provide exclusivity to the Company for the purchase of the material.

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16. EXPENSES

Direct costs incurred by nature are as follows:

	2017	2016
Employee salaries and benefits	\$ 3,416,449	\$ 2,206,355
Materials	43,062,979	32,446,934
Freight	1,004,883	802,620
Credit card fees	819,557	629,412
Warranty expense	914,617	343,340
Shop supplies	343,560	174,109
Import duties	139,519	83,653
Other customer related costs	217,129	34,413
Other ⁽ⁱ⁾	476,013	479,576
Amortization and depreciation	<u>580,472</u>	<u>544,425</u>
	\$ 50,975,178	\$ 37,744,837

- (i) Included in other expenses are product samples and other miscellaneous direct expenses.

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

	2017	2016
Employee salaries and benefits	\$ 6,586,088	\$ 5,159,562
Sales and marketing	1,181,304	788,131
Occupancy	1,186,337	747,317
Travel related costs	1,045,765	558,596
Professional fees	967,666	1,452,433
Filing fees	70,571	28,933
Insurance	351,024	266,805
Information technology costs	551,272	427,458
Intercompany freight costs	569,254	157,204
Taxes - other	183,058	149,552
Office and general	660,432	430,187
Amortization and depreciation	<u>1,185,539</u>	<u>595,701</u>
	\$ 14,538,310	\$ 10,761,879

17. 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 debt. Its primary uses of its capital 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. 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, 2017.

At December 31, 2017 and 2016 and for the year ended December 31, 2017 and 2016 the Company is in compliance with all debt covenants

Risk Disclosures

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.

Fair Values

The carrying value of the Company's cash and cash equivalents, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities, approximate fair values due to the relatively short term maturities of the instruments. The bank loan payable and notes payable related to acquisitions made in 2016 and thereafter approximates its fair value as the contract rate approximates current market rates. The fair value of the notes payable related to the acquisition completed in 2015 as of December 31, 2017 is \$936,843 (2016 - \$1,290,891).

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 8). If the interest rate had been one percent (1%) higher throughout the year ended December 31, 2017, net income would have decreased by approximately \$28,600 (2016 - \$24,700). Interest rates for bank loan payable and note payable-acquisitions are fixed. Therefore, there is no significant cash flow risk from interest rate movements.

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

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 \$5,569,212 (2016 - \$4,754,524), net of allowance for doubtful accounts of approximately \$185,000 (2016 - 82,000), past due receivables in excess of 90 days but not impaired as of the balance sheet date were approximately \$560,000 (2016 - \$172,000). The Company is actively pursuing its efforts to collect these receivables. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets.

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.

As at December 31, 2017, the Company had a cash and cash equivalent balance of \$3,498,904 (2016 - \$1,861,089) to settle current liabilities of \$13,710,948 (2016 - \$9,542,876). The Company plans to meet its current liquidity needs by using cash from operating activities and drawing on its line of credit as needed. The Company had the following contractual maturities and repayment obligations, which includes interest, as at December 31, 2017:

Year	Accounts payable and accrued liabilities	Bank indebtedness	Bank loan payable	Notes payable - acquisitions	Total
2018	\$ 9,519,649	\$ 2,000,000	\$ 440,126	\$ 624,308	\$ 12,584,083
2019	-	-	-	601,870	601,870
2020	-	-	-	321,412	321,412
2021	-	-	-	227,926	227,926
2022	-	-	-	84,542	84,542
	\$ 9,519,649	\$ 2,000,000	\$ 440,126	\$ 1,860,058	\$13,819,833

*Amounts are converted to USD at the year-end exchange rate.

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

Currency Risk

The Company's functional currency is the US dollar. Through its subsidiaries with foreign functional currencies, the Company is exposed to foreign currency risk. In respect of the monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by closely monitoring exchange rates and adjusting risk strategies where necessary.

18. 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 89% (2016 - 89%) of the Company's inventory purchases are dependent on these direct and indirect suppliers (Note 15 (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.

19. SEGMENTED REPORTING

The Company sells paint protection film and related kit and material sales to customer across multiple geographic regions. It considers the basis on which it is organized, including geographic areas and service offerings, in identifying its reportable segments. Operating segments of the Company are defined as components of the Company for which separate financial information is available and is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker is the CEO of the Company. The operating segments are based on the regional geographic areas. The regional geographic areas are evaluated at the subsidiary level whereby US includes XPEL Technologies Corp. and ArmourfendCAD LLC, Europe includes XPEL Ltd. and XPEL B.V. and Canada includes XPEL Canada Corp. Specifically for revenues, the amounts included are from the originating country. Below are breakdowns, by operating segment, of current and non-current assets, current and non-current liabilities, revenues and net earnings.

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19. SEGMENTED REPORTING (Cont'd)

Geographic Segments

The following consists of the financial information as at December 31, 2017 and for the year ended December 31, 2017:

	International			
	US	Other	Canada	Total
Current assets	\$ 13,812,864	\$ 3,015,365	\$ 3,081,371	\$ 19,909,600
Non-current assets	4,238,612	1,499,733	3,397,381	9,135,726
Total	18,051,476	4,515,098	6,478,752	29,045,326
Current liabilities	12,553,866	263,684	893,398	13,710,948
Non-current liabilities	470,753	-	1,010,880	1,481,633
Total	13,024,619	263,684	1,904,278	15,192,581
Total revenue	65,058,690	4,815,470	11,314,061	81,188,221
Less: inter-segmental revenue	(13,438,677)	-	-	(13,438,677)
Total external revenue	51,620,013	4,815,470	11,314,061	67,749,544
Net income (loss)	1,746,176	(994,939)	383,106	1,134,344

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19. SEGMENTED REPORTING (Cont'd)

Geographic Segments (Cont'd)

The following consists of the financial information as at December 31, 2016 and for the year ended December 31, 2016:

	US	Europe	Canada	Total
Current assets	\$ 10,460,843	\$ 1,091,839	\$ 3,395,687	\$ 14,948,368
Non-current assets	3,658,792	786,390	2,401,467	6,846,649
Total	14,119,635	1,878,229	5,797,154	21,795,017
Current liabilities	8,758,629	78,267	705,979	9,542,875
Non-current liabilities	921,455	-	1,037,242	1,958,698
Total	9,680,085	78,267	1,743,221	11,501,573
Total revenue	49,153,101	2,137,418	9,043,512	60,334,031
Less: inter-segmental revenue	(8,574,764)	-	-	(8,574,764)
Total external revenue	40,578,337	2,137,418	9,043,512	51,759,267
Net income (loss)	1,977,498	(263,596)	449,598	2,163,500