

XPEL Technologies Corp.

Consolidated Financial Statements

(Expressed in United States Dollars)

For the Years Ended December 31, 2015 and 2014

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, 2015 and 2014 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014 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 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 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, 2015 and 2014 and the results of its operations and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public Accountants
March 28, 2016
Toronto, Ontario

XPEL Technologies Corp.
Consolidated Balance Sheets
(Expressed in United States Dollars)
As at December 31, 2015 and 2014

| | 2015 | 2014 |
|---|----------------------|---------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 2,840,549 | \$ 1,474,130 |
| Accounts receivable | 3,450,407 | 2,287,342 |
| Inventory | 6,972,768 | 6,235,137 |
| Prepaid expenses and sundry assets | 522,613 | 347,472 |
| Income taxes receivable (Note 15) | 300,668 | - |
| | 14,087,005 | 10,344,081 |
| Property, plant and equipment (Note 4) | 1,235,337 | 790,343 |
| Intangible assets (Note 5) | 2,434,692 | 784,510 |
| Deferred tax asset (Note 15) | 100,659 | 163,000 |
| Goodwill (Note 6) | 1,668,527 | 526,243 |
| | \$ 19,526,220 | \$ 12,608,177 |
| Liabilities | | |
| Current | | |
| Bank indebtedness (Note 8) | \$ 3,000,000 | \$ 900,000 |
| Accounts payable and accrued liabilities | 4,465,819 | 4,133,940 |
| Notes payable (Note 9) | 191,978 | 90,413 |
| Income taxes payable (Note 15) | 117,649 | - |
| Current portion of bank loan payable (Note 10) | 542,181 | - |
| Current portion of note payable - vendor loan (Note 11) | 481,652 | - |
| | 8,799,279 | 5,124,353 |
| Deferred tax liability (Note 15) | 558,116 | - |
| Bank loan payable (Note 10) | 1,004,369 | - |
| Note payable - vendor loan (Note 11) | 822,780 | - |
| | 11,184,544 | 5,124,353 |
| Shareholders' Equity | | |
| Capital stock (Note 12) | 6,635,133 | 6,635,133 |
| Contributed surplus | 2,165,130 | 2,165,130 |
| Accumulated other comprehensive income | (621,993) | (15,721) |
| Retained earnings (deficit) | 166,583 | (1,387,982) |
| | 8,344,853 | 7,396,560 |
| Non-controlling interest | (3,177) | 87,264 |
| | \$ 19,526,220 | \$ 12,608,177 |

Approved by the Board

"Richard Crumly"
Director (Signed)

"John Constantine"
Director (Signed)

XPEL Technologies Corp.
Consolidated Statements of Income and Comprehensive Income
(Expressed in United States Dollars)
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Revenue | \$ 41,470,126 | \$ 29,630,179 |
| Expenses | | |
| Direct costs (Note 18) | 29,153,669 | 20,373,246 |
| Selling, general and administrative expenses (Note 18) | 9,708,182 | 6,464,660 |
| Income from operations | 2,608,275 | 2,792,273 |
| Other income (expenses) | | |
| Interest expense | (224,641) | (36,748) |
| Loss on sale of property, plant and equipment | (3,641) | (2,883) |
| Foreign exchange gain | 54,057 | - |
| Net income before income taxes | 2,434,050 | 2,752,642 |
| Income tax expense | | |
| Current tax expense (Note 15) | (751,512) | (66,525) |
| Deferred tax recovery (expense) (Note 15) | (211,869) | 384,000 |
| | (963,381) | 317,475 |
| Net income | 1,470,669 | 3,070,117 |
| Items that may be reclassified to profit or loss: | | |
| Cumulative differences on translation of foreign operations | (606,272) | 15,721 |
| Total comprehensive income | \$ 864,397 | \$ 3,085,838 |
| Net income attributable to: | | |
| Shareholders of the Company | 1,554,565 | 3,097,102 |
| Non-controlling interest | (83,896) | (26,985) |
| Net income | \$ 1,470,669 | \$ 3,070,117 |
| Total comprehensive income attributable to: | | |
| Shareholders of the Company | 948,293 | 3,112,823 |
| Non-controlling interest | (83,896) | (26,985) |
| Total comprehensive income | \$ 864,397 | \$ 3,085,838 |
| Earnings per share | | |
| Basic and diluted (Note 14) | \$ 0.06 | \$ 0.12 |

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

| | Capital Stock | Contributed Surplus | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income | Equity attributable to share- holders of the Company | Non- Controlling Interest | Total Equity |
|--|---------------------|------------------------|-----------------------------------|---|---|---------------------------------|---------------------|
| Balance, January 1, 2014 | \$ 6,635,133 | \$ 2,165,130 | \$ (4,485,084) | \$ - | \$ 4,315,179 | \$ - | \$ 4,315,179 |
| Non-controlling interest on acquisition (Note 7) | - | - | - | - | - | 114,249 | 114,249 |
| Net income | - | - | 3,097,102 | - | 3,097,102 | (26,985) | 3,070,117 |
| Other comprehensive income | - | - | - | (15,721) | (15,721) | - | (15,721) |
| Balance, December 31, 2014 | 6,635,133 | 2,165,130 | (1,387,982) | (15,721) | 7,396,560 | 87,264 | 7,483,824 |
| Additional non-controlling interest acquired (Note 7) | - | - | - | - | - | (6,545) | (6,545) |
| Net income | - | - | 1,554,565 | - | 1,554,565 | (83,896) | 1,470,669 |
| Other comprehensive income | - | - | - | (606,272) | (606,272) | - | (606,272) |
| Balance, December 31, 2015 | \$ 6,635,133 | \$ 2,165,130 | \$ 166,583 | \$ (621,993) | \$ 8,344,853 | \$ (3,177) | \$ 8,341,676 |

XPEL Technologies Corp.
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---------------------|---------------------|
| Cash and cash equivalents provided by (used in) | | |
| Operations | | |
| Net income | \$ 1,470,669 | \$ 3,070,117 |
| Add (deduct) items not affecting cash and cash equivalents | | |
| Depreciation of property, plant and equipment | 244,220 | 137,489 |
| Amortization of intangible assets | 647,150 | 339,707 |
| Loss on sale of property, plant and equipment | 3,641 | 2,883 |
| Deferred tax expense (recovery) | 211,869 | (384,000) |
| Unrealized gain on foreign exchange | (54,057) | (15,721) |
| | 2,523,492 | 3,150,475 |
| Changes in non-cash working capital items | | |
| Accounts receivable | (677,419) | (1,236,486) |
| Inventory | (321,559) | (3,518,525) |
| Prepaid expenses and sundry assets | (176,892) | (88,239) |
| Accounts payable and accrued liabilities | 242,830 | 2,292,426 |
| Income taxes payable | 117,649 | - |
| Income taxes receivable | (300,668) | - |
| Net cash and cash equivalents provided by operating activities | 1,407,433 | 599,651 |
| Investing | | |
| Purchase of property, plant and equipment | (450,448) | (369,077) |
| Purchase of intangible assets | (763,710) | (555,658) |
| Acquisition of subsidiaries, net of cash acquired (Note 7) | (1,851,270) | (493,894) |
| Acquisition of minority interest in XPEL Ltd. | (150,000) | - |
| Net cash and cash equivalents used in investing activities | (3,215,428) | (1,418,629) |
| Financing | | |
| Repayment of notes payable | (64,041) | (21,805) |
| Bank indebtedness | 2,100,000 | 900,000 |
| Proceeds from bank loan payable | 1,900,000 | - |
| Repayment of bank loan payable | (353,658) | - |
| Repayment of note payable - vendor loan | (281,116) | - |
| Net cash and cash equivalents provided by financing activities | 3,301,185 | 878,195 |
| Net change in cash and cash equivalents | 1,493,190 | 59,217 |
| Foreign exchange impact on cash and cash equivalents | (126,771) | - |
| Cash and cash equivalents, beginning of year | 1,474,130 | 1,414,913 |
| Cash and cash equivalents, end of year | \$ 2,840,549 | \$ 1,474,130 |

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

Supplemental Disclosure

| | | |
|----------------------------|------------|------|
| Cash paid for income taxes | \$ 910,000 | \$ - |
|----------------------------|------------|------|

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2015 and 2014

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 28, 2016.

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 XPEL Technologies Corp., the parent company, and its wholly-owned subsidiaries ArmourfendCAD, LLC and XPEL Canada Corp. and its 85% 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. The income incurred by XPEL Canada Corp. from January 6, 2015 (date of incorporation) and onward has been included in the statement of income and comprehensive income. Intercompany transactions and balances are eliminated on consolidation.

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Consolidation (Cont'd)

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.

Functional and Presentation Currency

These consolidated financial statements of the Company are presented in United States Dollars, which is also the functional currency of the parent Company, XPEL Technologies Corp. The functional currency of the entities included in these consolidated financial statements are:

| <u>Entity</u> | <u>Functional Currency</u> |
|--------------------|----------------------------|
| XPEL Ltd. | UK Pound Sterling |
| ArmourfendCAD, LLC | United States Dollars |
| XPEL Canada Corp. | Canadian Dollar |

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 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 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 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.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currency Translation (Cont'd)

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.

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 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. Depreciation 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% |

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 using the following rates:

| | |
|--|------------|
| Design templates | - 2 years |
| DAP software platform | - 5 years |
| Patent | - 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.

Goodwill

The Company 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.

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) Revenue from pattern sales is recognized the time the design is delivered.
- (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.

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 IAS 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 \$470,265 (2014 - \$368,698) of costs associated with the design templates. These costs are being amortized over a period of two years from commencement of commercial use.

Provisions

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes (Cont'd)

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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").

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 determination of the useful life of property, plant and equipment and intangible assets, measurement of warranty provision, recognition of deferred tax assets and liabilities, valuation of intangible assets for impairment, fair value of financial instruments and the determination of the fair value of assets and liabilities relating to acquisition of a business.

Significant judgments in connection with these consolidated financial statements include the determination of the acquisition date of business combinations and determination of functional currency.

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.

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2015 and 2014

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 receivables. The Company's financial liabilities include bank indebtedness, accounts payable and accrued liabilities, notes payable, bank loan payable and note payable - vendor loan. 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 financial liabilities |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Notes payable | Other financial liabilities |
| Bank loan payable | Other financial liabilities |
| Note payable - vendor loan | Other financial 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.

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.

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, 2015. 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 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 standard 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, 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.
- (c) Effective for annual periods beginning on or after January 1, 2019, IFRS 16 Leases was issued by the IASB in January 2016 and will replace IAS 17 Leases. 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.

XPEL Technologies Corp.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
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4. PROPERTY, PLANT AND EQUIPMENT

| Cost | Balance Jan. 1, 2015 | Additions (net of disposals) | Foreign Exchange | Balance Dec. 31, 2015 |
|------------------------|---------------------------------|---|-----------------------------|----------------------------------|
| Furniture and fixtures | \$ 444,526 | \$ 107,311 | \$ (4,104) | \$ 547,733 |
| Computer equipment | 362,739 | 228,715 | (2,943) | 588,511 |
| Motor vehicles | 315,318 | 192,536 | (1,359) | 506,495 |
| Shop equipment | 117,292 | 72,954 | (416) | 189,830 |
| Leasehold improvements | 202,760 | 92,257 | (969) | 294,048 |
| | \$ 1,442,635 | \$ 693,773 | \$ (9,791) | \$ 2,126,617 |

| Accumulated Amortization | Balance Jan. 1, 2015 | Amortization (net of disposals) | Foreign Exchange | Balance Dec. 31, 2015 |
|---------------------------------|---------------------------------|--|-----------------------------|----------------------------------|
| Furniture and fixtures | \$ 190,066 | \$ 63,761 | \$ - | \$ 253,827 |
| Computer equipment | 199,248 | 59,219 | (11) | 258,456 |
| Motor vehicles | 171,552 | 50,738 | - | 222,290 |
| Shop equipment | 43,246 | 21,105 | (26) | 64,325 |
| Leasehold improvements | 48,180 | 44,211 | (9) | 92,382 |
| | \$ 652,292 | \$ 239,034 | \$ (46) | \$ 891,280 |

| Cost | Balance Jan. 1, 2014 | Additions (net of disposals) | Foreign Exchange | 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) | Foreign Exchange | 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 |

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

| Net Book Value | December 31, 2015 | December 31, 2014 |
|------------------------|------------------------------|------------------------------|
| Furniture and fixtures | \$ 293,906 | \$ 254,460 |
| Computer equipment | 330,055 | 163,491 |
| Motor vehicles | 284,205 | 143,766 |
| Shop equipment | 125,505 | 74,046 |
| Leasehold improvements | 201,666 | 154,580 |
| | \$ 1,235,337 | \$ 790,343 |

5. INTANGIBLE ASSETS

| Cost | Balance Jan. 1, 2015 | Additions (net of disposals) | Foreign Exchange | Balance Dec. 31, 2015 |
|---|---------------------------------|---|-----------------------------|----------------------------------|
| Design templates (internally generated) | \$ 2,316,255 | \$ 470,265 | \$ - | \$ 2,786,520 |
| Trademarks | 92,027 | 15,581 | - | 107,608 |
| DAP software platform | 318,137 | 281,396 | - | 599,533 |
| Patent | 100,000 | - | - | 100,000 |
| Design templates | 46,906 | - | (2,314) | 44,592 |
| Domain names | 7,500 | - | - | 7,500 |
| Contractual and Customer relationships | - | 1,537,359 | (162,417) | 1,374,942 |
| Non-compete | - | 160,980 | (17,007) | 143,973 |
| | \$ 2,880,825 | \$ 2,465,581 | \$ (181,738) | \$ 5,164,668 |

| Accumulated Amortization | Balance Jan. 1, 2015 | Amortization (net of disposals) | Foreign Exchange | Balance Dec. 31, 2015 |
|---|---------------------------------|--|-----------------------------|----------------------------------|
| Design templates (internally generated) | \$ 1,961,797 | \$ 360,398 | \$ - | \$ 2,322,195 |
| DAP software platform | 58,655 | 88,825 | - | 147,480 |
| Patent | 70,000 | 10,000 | - | 80,000 |
| Design templates | 5,863 | 23,453 | (1,446) | 27,870 |
| Contractual and Customer relationships | - | 138,619 | (12,583) | 126,036 |
| Non-compete | - | 29,030 | (2,635) | 26,395 |
| | \$ 2,096,315 | \$ 621,295 | (16,664) | \$ 2,729,976 |

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5. INTANGIBLE ASSETS (Cont'd)

| Cost | Balance Jan. 1, 2014 | Additions (net of disposals) | Foreign Exchange | 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 | - | 50,000 | (3,094) | 46,906 |
| Domain name | - | 7,500 | - | 7,500 |
| | \$ 2,269,305 | \$ 614,614 | \$ (3,094) | \$ 2,880,825 |

| Accumulated Amortization | Balance Jan. 1, 2014 | Amortization (net of disposals) | Foreign Exchange | 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 | - | 7,671 | (1,808) | 5,863 |
| | \$ 1,750,746 | \$ 347,377 | (1,808) | \$ 2,096,315 |

| Net Book Value | December 31, 2015 | December 31, 2014 |
|---|------------------------------|------------------------------|
| Design templates (internally generated) | \$ 464,325 | \$ 354,458 |
| Trademarks | 107,608 | 92,027 |
| DAP software platform | 452,053 | 259,482 |
| Patent | 20,000 | 30,000 |
| Design templates | 16,722 | 41,043 |
| Domain names | 7,500 | 7,500 |
| Contractual and Customer relationships | 1,248,906 | - |
| Non-compete | 117,578 | - |
| | \$ 2,434,692 | \$ 784,510 |

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6. GOODWILL

| | Balance Jan. 1, 2015 | Additions | Foreign Exchange | Balance Dec. 31, 2015 |
|--------------------------------|-------------------------|---------------------|---------------------|--------------------------|
| ArmourfendCAD, LLC | \$ 5,000 | \$ - | \$ - | \$ 5,000 |
| XPEL Ltd. (Note 7 (ii)) | 521,243 | 142,868 | (31,151) | 632,960 |
| XPEL Canada Corp. (Note 7 (i)) | - | 1,152,304 | (121,737) | 1,030,567 |
| | \$ 526,243 | \$ 1,295,172 | \$ (152,888) | \$ 1,668,527 |

| | Balance Jan. 1, 2014 | Additions | Foreign Exchange | Balance Dec. 31, 2014 |
|-------------------------|-------------------------|-------------------|---------------------|--------------------------|
| ArmourfendCAD, LLC | \$ - | \$ 5,000 | \$ - | \$ 5,000 |
| XPEL Ltd. (Note 7 (ii)) | - | 521,243 | - | 521,243 |
| | \$ - | \$ 526,243 | \$ - | \$ 526,243 |

7. ACQUISITION OF BUSINESSES

- i) On February 5, 2015, XPEL Canada Corp., a wholly owned subsidiary of the Company acquired 100% of the issued and outstanding securities of a distributor of paint protection and window tint products in the Canadian market. The aggregate purchase price for the acquisition was \$3,567,672. With this acquisition, the Company expects to enhance its presence in the Canadian market and provides the Company with a physical presence that is closer to its end customers.

The Company has allocated the purchase price as follows:

| | |
|---------------------------|---------------------|
| Accounts receivable | \$ 586,940 |
| Inventory | 503,063 |
| Property and equipment | 83,879 |
| Contractual relationships | 957,831 |
| Customer relationships | 579,528 |
| Non-compete | 160,980 |
| Goodwill | 1,152,304 |
| Deferred tax liability | (456,853) |
| | \$ 3,567,672 |

Consideration is comprised of:

| | |
|---------------------------|---------------------|
| Cash payment | \$ 1,851,270 |
| Promissory note (Note 11) | 1,716,402 |
| | \$ 3,567,672 |

Acquisition cost incurred related to the acquisition totaled \$90,545 which is included in selling, general and administrative expenses.

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7. ACQUISITION OF BUSINESSES (Cont'd)

i) (Cont'd)

The gross contractual amount of the receivables acquired was \$586,940 and the full amount of the receivables was collected.

Goodwill for this acquisition relates to the expansion of the Company into a new geographical area, being Canada. The goodwill represents the acquired employee knowledge of the Canadian market, distribution knowledge by the employees of the acquired business, as well as the expected synergies resulting from the acquisition and is not expected to be deductible for tax purposes.

Included in the consolidated statements of income and comprehensive income is revenue of \$7,450,442 and net income of \$175,860 resulting from the operating results of XPEL Canada Corp., from February 5, 2015 to December 31, 2015.

ii) 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 \$714,111.

The Company has allocated the purchase price as follows:

| | |
|------------------|-------------------|
| Design templates | \$ 50,000 |
| Goodwill | 664,111 |
| | <u>\$ 714,111</u> |

Consideration comprised of:

| | |
|---|-------------------|
| Cash consideration | \$ 456,994 |
| Shares issued of XPEL Ltd., representing the non-controlling interest | 114,249 |
| Put option to acquire additional interest | 142,868 |
| | <u>\$ 714,111</u> |

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.

Included in the consolidated statements of income and comprehensive income is revenue of \$86,346 and net loss of \$129,914 of which \$102,929 is attributable to the equity holders of the Company resulting from the operating results of XPEL Ltd., from March 19, 2014 to December 31, 2014.

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7. ACQUISITION OF BUSINESSES (Cont'd)

ii) (Cont'd)

On August 31, 2015, the Company executed an option to acquire an additional 5% interest in XPEL Ltd. for \$150,000. As a result of the additional interest acquired, the Company owns 85% of XPEL Ltd, which resulted in an increase in goodwill of \$142,868 and a reduction in non-controlling interest of \$7,132.

8. 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. During 2015, the Board approved an increase to the existing limit to \$3,500,000. As at December 31, 2015, the balance was \$3,000,000 (2014 - \$900,000).

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 Company must also satisfy certain financial and non-financial covenants on a quarterly basis. The Company was in compliance with these covenants during the year.

The line has a variable interest rate of the Wall Street Journal prime rate ("WSJP") plus 0.75 per cent with a floor of 4% and matures on June 28, 2016.

9. NOTES PAYABLE

The notes payable bear interest at 4% - 5%, are secured by the underlying vehicles, are repayable in monthly payments of \$5,908 and are due in 2017 to 2019.

10. 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 as described in Note 7 i). The loan is for \$1,900,000, payable monthly. The loan has a three year term and bears an interest rate of 4.5%. The Bank of San Antonio has been granted a security interest in substantially all of the Company's current and future assets.

11. NOTE PAYABLE - VENDOR LOAN

As part of the acquisition of a Canadian distributor of paint protection and window tint products (Note 7(i)), 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 installment of CAD\$120,413, discounted at a rate of 4.75%, and matures in January 2020.

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12. CAPITAL STOCK

Authorized

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

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

Issued and outstanding - common shares

| | Number of Shares | Value |
|--|-------------------------|---------------------|
| Balance, December 31, 2015 and 2014 | 25,784,950 | \$ 6,635,133 |

13. 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. 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 no issued stock options during the years ended December 31, 2015 and 2014.

14. EARNINGS PER SHARE

Earnings per share has been calculated based on weighted average number of common shares outstanding at December 31, 2015 of 25,784,950 (2014 - 25,784,950).

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15. INCOME TAXES

Income Tax Expense (Recovery)

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

| | 2015 | 2014 |
|---|---------------------|--------------|
| Income before income taxes | \$ 2,434,050 | \$ 2,752,642 |
| Statutory rate | 34.0 % | 34.0 % |
| Expiry of capital losses | \$ 827,577 | \$ 935,898 |
| Non-deductible expenses and other permanent differences | 49,821 | 240,536 |
| Change in tax rates and estimates | 85,983 | (1,274,233) |
| Change in unrecognized portion of deferred taxes | - | (240,536) |
| Income tax expense (recovery) | \$ 963,381 | \$ (317,475) |

Deferred Taxes

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

| | 2015 | 2014 |
|--|-------------------|------------|
| Deferred tax assets | | |
| Amounts related to tax losses | \$ 104,248 | \$ 308,000 |
| Property, plant, equipment and intangibles | (3,589) | (176,000) |
| Allowances | - | 31,000 |
| | \$ 100,659 | \$ 163,000 |

| | 2015 | 2014 |
|--|-------------------|------|
| Deferred tax liabilities | | |
| Property, plant, equipment and intangibles | \$ 558,116 | \$ - |

Tax Losses

The Company, through XPEL Ltd., has net operating losses of approximately \$561,100 available to apply against future taxable income. If not utilized, the net operating losses will expire as follows:

| | |
|------|-------------------|
| 2034 | \$ 138,400 |
| 2035 | 422,700 |
| | \$ 561,100 |

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15. INCOME TAXES (Cont'd)

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.

16. 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 \$572,684 (2014 - \$661,984) in salaries and other short-term benefits were earned by key members of management as compensation, of which \$526,567 (2014 - \$620,758) is included as part of selling, general and administrative expense and \$46,117 (2014 - \$41,226) was capitalized into deferred development costs for design templates.

17. 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 | \$ | 358,699 |
| 1-5 years | | 589,694 |
| | | <hr/> |
| | | \$ 948,393 |

(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.

On December 29, 2015, a competitor filed a suit in the United States District Court for the District of Minnesota alleging that the Company has been and is infringing United States Patent No. 8,765,263. The Company denies the claims and intends to vigorously defend itself against such claims. As at year-end, no provision has been recorded in connection with this lawsuit.

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17. COMMITMENTS (Cont'd)

(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 automatically at the end of the first two year term. The supplier agrees to provide exclusivity to the Company for the purchase of the material.

18. EXPENSES BY NATURE

Direct costs incurred by nature are as follows:

| | 2015 | 2014 |
|-----------------------------------|----------------------|--------------|
| Employee salaries and benefits | \$ 933,044 | \$ 610,231 |
| Materials | 25,898,606 | 18,238,619 |
| Freight | 694,016 | 410,644 |
| Other ⁽ⁱ⁾ | 1,192,630 | 794,139 |
| Amortization of intangible assets | 435,373 | 319,613 |
| | \$ 29,153,669 | \$20,373,246 |

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

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

| | 2015 | 2014 |
|---|---------------------|--------------|
| Employee salaries and benefits | \$ 5,314,119 | \$ 3,581,160 |
| Sales and marketing | 1,044,994 | 603,243 |
| Occupancy | 544,031 | 389,578 |
| Professional fees | 717,892 | 685,122 |
| Filing fees | 29,081 | 25,525 |
| Insurance | 191,324 | 118,828 |
| Office and general | 1,410,796 | 874,943 |
| Depreciation of property, plant and equipment | 455,945 | 186,261 |
| | \$ 9,708,182 | \$ 6,464,660 |

19. 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. 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, 2015.

At December 31, 2015, the Company is in compliance with all debt covenants.

Risk Disclosures

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

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

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

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 notes payable and bank loan payable approximate their fair values as the contract rates approximate current market rates. The fair value of the note payable - vendor loan as of December 31, 2015 is \$1,565,369 (2014 - \$NIL), which is equivalent to the principal balance outstanding at year end.

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, 2015, the net loss would have increased by approximately \$11,600 (2014 - \$7,300). Interest rates for notes payable, bank loan payable and note payable-vendor loan are fixed.

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19. 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 \$3,450,407 (2014 - \$2,287,342), net of allowance for doubtful accounts of approximately \$65,000 (2014 - 90,000), past due receivables in excess of 90 days but not impaired as of the balance sheet date were approximately \$41,000 (2014 - \$50,000). 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.

As at December 31, 2015, the Company had a cash and cash equivalent balance of \$2,840,549 (2014 - \$1,474,130). The Company had the following contractual maturities and repayment obligations as at December 31, 2015:

| Year | Bank indebtedness | Notes payable | Bank loan payable | Vendor loan | Total |
|-------------|--------------------------|----------------------|--------------------------|---------------------|---------------------|
| 2016 | \$ 3,000,000 | \$ 70,899 | \$ 597,420 | \$ 481,652 | \$ 4,149,971 |
| 2017 | - | 65,654 | 597,420 | 481,652 | 1,144,726 |
| 2018 | - | 45,730 | 446,262 | 481,652 | 973,644 |
| 2019 | - | 25,243 | - | 481,652 | 506,895 |
| 2020 | - | - | - | 120,413 | 120,413 |
| | \$ 3,000,000 | \$ 207,526 | \$ 1,641,102 | \$ 2,047,021 | \$ 6,895,649 |

All of the Company's accounts payable and accrued liabilities and current income taxes payable have contractual maturities of less than one year.

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.

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20. 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 88% (2014 - 94%) of the Company's inventory purchases are dependent on these direct and indirect suppliers (Note 17(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.

21. 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, UK includes XPEL Ltd. 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.

Geographic Segments

The following consists of the financial information as at December 31, 2015 and for the year ended December 31, 2015:

| | US | UK | Canada | Total |
|-------------------------------|----------------------|---------------------|---------------------|----------------------|
| Current assets | \$ 9,535,513 | \$ 872,315 | \$ 3,679,177 | \$ 14,087,005 |
| Non-current assets | 2,101,038 | 879,012 | 2,459,165 | 5,439,215 |
| Total | \$ 11,636,551 | \$ 1,751,327 | \$ 6,138,342 | \$ 19,526,220 |
| Current liabilities | \$ 7,806,089 | \$ 222,964 | \$ 770,226 | \$ 8,799,279 |
| Non-current liabilities | 1,196,957 | - | 1,188,308 | 2,385,265 |
| Total | \$ 9,003,046 | \$ 222,964 | \$ 1,958,534 | \$ 11,184,544 |
| Total revenue | \$ 40,342,232 | \$ 874,414 | \$ 7,450,442 | \$ 48,667,088 |
| Less: inter-segmental revenue | (7,196,962) | - | - | (7,196,962) |
| Total external revenue | \$ 33,145,270 | \$ 874,414 | \$ 7,450,442 | \$ 41,470,126 |
| Net income (loss) | \$ 1,610,535 | \$ (315,726) | \$ 175,860 | \$ 1,470,669 |

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21. SEGMENTED REPORTING (Cont'd)

The following consists of the financial information as at December 31, 2014 and for the year then ended:

| | US | UK | Canada | Total |
|-------------------------------|----------------------|---------------------|---------------|----------------------|
| Current assets | \$ 10,118,111 | \$ 225,970 | \$ - | \$ 10,344,081 |
| Non-current assets | 1,457,447 | 580,679 | - | 2,264,096 |
| Total assets | \$ 11,575,558 | \$ 806,649 | \$ - | \$ 12,608,177 |
| Current liabilities | \$ 5,063,646 | \$ 60,707 | \$ - | \$ 5,124,353 |
| Total liabilities | \$ 5,063,646 | \$ 60,707 | \$ - | \$ 5,124,353 |
| Total revenue | \$ 29,698,146 | \$ 86,346 | \$ - | \$ 29,784,492 |
| Less: inter-segmental revenue | (154,313) | - | - | (154,313) |
| Total external revenue | \$ 29,543,833 | \$ 86,346 | \$ - | \$ 29,630,179 |
| Net income (loss) | \$ 3,200,031 | \$ (129,914) | \$ - | \$ 3,070,117 |