

# **XPEL Technologies Corp.**

## **Condensed Consolidated Interim Financial Statements**

(Expressed in United States Dollars)

**For the Three Months Ended March 31, 2016**

**XPEL TECHNOLOGIES CORP.**  
**Condensed Consolidated Balance Sheet**  
(Expressed in United States Dollars)  
(unaudited)

	Note	March 31, 2016	December 31, 2015
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 2,594,194	\$ 2,840,549
Accounts receivable		3,688,364	3,450,407
Inventory		7,002,554	6,972,768
Prepaid expenses and sundry assets		733,571	522,613
Income taxes receivable		48,004	300,668
<b>Total current assets</b>		<b>14,066,687</b>	<b>14,087,005</b>
Property, plant and equipment		1,270,905	1,235,337
Intangible assets	8	2,628,810	2,434,692
Deferred tax asset		97,651	100,659
Goodwill		1,724,262	1,668,527
<b>Total assets</b>		<b>\$ 19,788,315</b>	<b>\$ 19,526,220</b>
<b>Liabilities</b>			
<b>Current</b>			
Bank indebtedness	3	3,000,000	\$ 3,000,000
Accounts payable and accrued liabilities		4,023,500	4,465,819
Notes payable		176,408	191,978
Income Tax payable		-	117,649
Current portion of bank loan payable	10	547,168	542,181
Current portion of note payable - vendor loan		542,066	481,652
<b>Total current liabilities</b>		<b>8,289,142</b>	<b>8,799,279</b>
Deferred tax liability		605,982	558,116
Bank loan payable	10	866,183	1,004,369
Note payable - vendor loan		780,332	822,780
<b>Total liabilities</b>		<b>10,541,639</b>	<b>11,184,544</b>
<b>Equity</b>			
Capital stock	4	6,635,133	6,635,133
Contributed surplus		2,165,130	2,165,130
Accumulated other comprehensive income		(414,172)	(621,993)
Retained earnings (Deficit)		875,292	166,583
		9,261,383	8,344,853
Non-controlling interest		(14,706)	(3,177)
<b>Total liabilities and equity</b>		<b>\$ 19,788,315</b>	<b>\$ 19,526,220</b>

Approved by Board of Directors:

/s/ Richard Crumly  
Richard Crumly

/s/ John Constantine  
John Constantine

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

(Expressed in United States Dollars)

(unaudited)

		Three Months Ended	
		March 31,	
	Note	2016	2015
<b>Revenue</b>		<b>\$ 11,299,191</b>	<b>\$ 8,133,932</b>
<b>Expenses</b>			
Direct costs	7	8,012,303	5,287,895
Selling, general and administrative expenses	7	2,361,280	2,024,531
Unrealized foreign currency loss (gain)		11,395	5,134
<b>Income from operations</b>		<b>914,213</b>	<b>816,372</b>
Interest expense		66,011	38,164
Loss on sale of property, plant and equipment		364	-
		<b>66,375</b>	<b>38,164</b>
<b>Net income before income taxes</b>		<b>847,838</b>	<b>778,208</b>
Deferred income tax expense (recovery)		21,725	106,000
Current income tax expense		128,933	-
		<b>150,658</b>	<b>106,000</b>
<b>Net income</b>		<b>\$ 697,180</b>	<b>\$ 672,208</b>
<b>Items that may be reclassified to profit or loss:</b>			
Exchange differences on translating foreign operations		207,821	(117,238)
<b>Total comprehensive income</b>		<b>\$ 905,001</b>	<b>\$ 554,970</b>
<b>Net income attributable to equity holders of the Company</b>		<b>708,709</b>	<b>697,443</b>
<b>Non-controlling interest</b>		<b>(11,529)</b>	<b>(25,235)</b>
		<b>\$ 697,180</b>	<b>\$ 672,208</b>
<b>Earnings per Share</b>			
Basic and diluted		<b>\$ 0.027</b>	<b>\$ 0.026</b>
<b>Weighted Average Number of Common Shares</b>			
Basic and diluted		<b>25,784,950</b>	<b>25,784,950</b>

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

(Expressed in United States Dollars)

(unaudited)

	Capital Stock		Contributed	Deficit	Non-Controlling	Accumulated	Total
	Number	Amount	Surplus		Interest	Other Comprehensive Income	
<b>Balance as at January 1, 2015</b>	25,784,950	\$ 6,635,133	\$ 2,165,130	\$ (1,387,982)	\$ 87,264	\$ (15,721)	\$ 7,483,824
Non-controlling interest on acquisition					(25,235)		(25,235)
Net income and comprehensive income for the period				697,443			697,443
Other comprehensive income	-	-	-	-	-	(117,238)	(117,238)
<b>Balance as at March 31, 2015</b>	<b>25,784,950</b>	<b>6,635,133</b>	<b>2,165,130</b>	<b>(690,540)</b>	<b>62,029</b>	<b>(132,959)</b>	<b>8,038,793</b>
Non-controlling interest on acquisition	-	-	-	-	18,690	-	18,690
Net income and comprehensive income for the period	-	-	-	857,122	(83,896)	-	773,226
Other comprehensive income	-	-	-	-	-	(489,034)	(489,034)
<b>Balance as at December 31, 2015</b>	<b>25,784,950</b>	<b>6,635,133</b>	<b>2,165,130</b>	<b>166,583</b>	<b>(3,177)</b>	<b>(621,993)</b>	<b>8,341,676</b>
Non-controlling interest	-	-	-	-	(11,529)	-	(11,529)
Net income and comprehensive income for the period	-	-	-	708,709		-	708,709
Other comprehensive income	-	-	-	-	-	207,821	207,821
<b>Balance as at March 31, 2016</b>	<b>25,784,950</b>	<b>\$ 6,635,133</b>	<b>\$ 2,165,130</b>	<b>\$ 875,292</b>	<b>\$ (14,706)</b>	<b>\$ (414,172)</b>	<b>\$ 9,246,677</b>

**XPEL TECHNOLOGIES CORP.****Condensed Consolidated Statement of Cash Flows**

(Expressed in United States Dollars)

(unaudited)

	Three Months Ended March 31,	
	2016	2015
<b>Cash flows from operating activities</b>		
Net income	\$ 697,180	\$ 672,208
Add items not affecting cash		
Amortization of property, plant and equipment	55,460	45,412
Amortization of intangible assets	192,282	133,208
Loss on sale of PPE	364	
Deferred income tax expense	21,725	106,000
Accretion on Promissory Note	15,602	12,037
Unrealized gain (loss) on foreign exchange	19,537	(61,585)
	<u>1,002,150</u>	<u>907,280</u>
Changes in non-cash working capital items		
Accounts receivable	(180,016)	(273,922)
Inventory	32,020	972,667
Prepaid expenses and sundry assets	(211,056)	(101,649)
Accounts payable and accrued liabilities	(400,638)	(1,221,633)
Current income tax expense	135,016	-
<b>Net cash provided by operating activities</b>	<u>377,476</u>	<u>282,743</u>
<b>Cash flows used in investing activity</b>		
Purchase of property, plant and equipment	(90,254)	(73,844)
Cash paid on acquisition	-	(1,851,271)
Development of intangible assets	(291,852)	(145,410)
<b>Net cash used in investing activities</b>	<u>(382,106)</u>	<u>(2,070,525)</u>
<b>Cash flows from financing activity</b>		
Cash from bank operating facility	-	850,000
Repayment of promissory note	(92,956)	-
Proceeds from bank loan payable	-	1,868,334
Repayment of bank loan payable	(133,199)	-
Proceeds from vehicle notes payable	-	-
Repayment of vehicle notes payable	(15,570)	(6,938)
<b>Net cash provided by (used in) financing activities</b>	<u>(241,725)</u>	<u>2,711,396</u>
<b>Increase (decrease) in cash during the period</b>	<u>(246,355)</u>	<u>923,614</u>
<b>Cash at beginning of period</b>	<u>2,840,549</u>	<u>1,474,130</u>
<b>Cash at end of period</b>	<u>\$ 2,594,194</u>	<u>\$ 2,397,744</u>

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

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

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

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

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

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

Ryan L. Pape, CEO

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

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

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

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

**XPEL Technologies Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
(Expressed in United States Dollars)  
**March 31, 2016**

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**1. NATURE OF OPERATIONS**

XPEL Technologies Corp. (the "Company") is based in San Antonio, Texas and manufactures and distributes after-market automotive products. The focus of the Company is the aftermarket for automotive paint and headlight protection products which it serves through its offerings of bulk paint protection film (PPF) and pre-cut PPF and headlight protection kits.

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance**

These condensed consolidated interim financial statements have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs"). These condensed consolidated interim financial statements of the Company have been prepared in accordance with IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies included in its December 31, 2015 annual financial statements. These accounting policies are based on the IFRS and IFRICs applicable at that time. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

**Basis of Consolidation**

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries ArmourfendCAD, LLC and XPEL Canada Corp, and its 85% owned subsidiary XPEL Ltd. Intercompany transactions and balances are eliminated on consolidation.

**Functional and Presentation Currency**

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

**XPEL Technologies Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Significant Accounting Judgments and Estimates**

The preparation of these condensed consolidated interim 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 condensed consolidated interim financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual outcomes may differ from these estimates under different assumptions and conditions.

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

**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.

**3. CREDIT FACILITIES**

On March 28, 2011, the Company entered into a \$150,000 revolving line of credit agreement with The Bank of San Antonio to support its continuing working capital needs. On November 6, 2015, the Board of Directors approved an increase to the existing limit to \$3,500,000. As at March 31, 2016, the balance was \$3,000,000 (December 31, 2015 - \$3,000,000).

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 line has a variable interest rate of the Wall Street Journal prime rate plus .75 per cent with a floor of 4.00 per cent and matures on June 28, 2016.



**XPEL Technologies Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**4. CAPITAL STOCK**

Authorized

100,000,000 common shares with par value of \$0.001 per share  
10,000,000 preferred shares with par value of \$0.001 per share

**5. RELATED PARTY TRANSACTIONS**

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount which is the amount of consideration established and approved by the related parties. Related party transactions have been listed below, unless they have been disclosed elsewhere in the condensed consolidated interim financial statements.

A total of \$153,799 (2015 - \$142,011) in salaries and other short-term benefits was paid to key members of management as compensation in the first quarter of 2016, of which \$141,698 (2015 - \$130,665) is included as part of selling, general and administrative expense and \$12,101 (2015 - \$11,346) was capitalized into deferred development costs for design templates.

**6. COMMITMENTS AND CONTINGENCIES**

**(a) Lease Commitment**

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

Less than 1 year	\$	388,566
1-5 years		628,136
		<hr/>
		<b>\$ 1,016,702</b>

**(b) Contingencies**

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

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 of period end, no provision has been recorded in connection with this lawsuit.

**XPEL Technologies Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**(c) Supply Agreement**

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

**7. EXPENSES BY NATURE**

Direct costs incurred by nature are as follows:

	Three months ending March 31,	
	2016	2015
Employee salaries and benefits	\$ 525,422	\$ 171,263
Materials	6,925,196	4,701,244
Freight	126,427	102,547
Other	320,264	227,635
Amortization of intangible assets	114,994	85,206
	<b>\$ 8,012,303</b>	<b>\$ 5,287,895</b>

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

	Three months ending March 31,	
	2016	2015
Employee salaries and benefits	\$ 1,243,519	\$ 1,088,976
Sales and marketing	151,295	174,571
Occupancy	173,250	127,091
Professional fees	211,006	207,958
Filing fees	8,480	4,341
Insurance	52,454	31,965
Office and general	388,528	296,215
Amortization of PP&E and intangibles	132,748	93,414
	<b>\$ 2,361,280</b>	<b>\$ 2,024,531</b>

**XPEL Technologies Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**March 31, 2016**

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**8. INTANGIBLE ASSETS**

<b>Cost</b>	<b>Balance Jan 1, 2016</b>	<b>Additions</b>	<b>Balance Mar 31, 2016</b>
Design templates (internally generated)	\$2,786,520	\$ 128,369	\$2,914,889
Trademarks	107,608	24,721	132,329
DAP software platform	599,533	137,301	736,834
Patent	100,000	-	100,000
Design templates	44,592	(1,330)	43,262
Domain names	7,500	-	7,500
Contractual relationships	856,639	62,017	918,656
Customer relationships	518,303	37,523	555,826
Non-compete	143,973	10,423	154,396
	<b>\$5,164,668</b>	<b>\$399,024</b>	<b>\$5,563,692</b>

<b>Accumulated Amortization</b>	<b>Balance Jan 1, 2016</b>	<b>Additions</b>	<b>Balance Mar 31, 2016</b>
Design templates (internally generated)	\$ 2,322,195	\$ 107,127	\$2,429,322
DAP software platform	147,480	35,084	182,564
Patent	80,000	2,500	82,500
Design templates	27,870	4,577	32,447
Contractual relationships	78,525	28,652	107,177
Customer relationships	47,511	17,335	64,846
Non-compete	26,395	9,631	36,026
	<b>\$2,729,976</b>	<b>\$ 204,906</b>	<b>\$2,934,882</b>

<b>Net Book Value</b>	<b>Balance Jan 1, 2016</b>	<b>Balance Mar 31, 2016</b>
Design templates (internally generated)	\$ 464,325	\$ 485,567
Trademark	107,608	132,329
DAP software platform	452,053	554,270
Patent	20,000	17,500
Design templates	16,722	10,815
Domain names	7,500	7,500
Contractual relationships	778,114	811,479
Customer relationships	470,792	490,980
Non-compete	117,578	118,370
	<b>\$2,434,692</b>	<b>\$2,628,810</b>

**XPEL Technologies Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**9. ECONOMIC DEPENDENCY**

The Company depends directly or indirectly on suppliers to supply goods and services necessary for carrying on its core business, including a sole manufacturing facility, a urethane supplier and an adhesive supplier and other suppliers of other intermediate manufacturing elements. Approximately 88% (2015 – 90%) of the Company's inventory purchases are dependent on these direct and indirect suppliers. If any of these suppliers were unwilling or unable to provide such products in the future, the Company's ability to provide products and services to its customers may be adversely affected and the Company might not be able to obtain similar products or services from alternate suppliers on a timely basis or on terms favorable to the Company.

**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. The loan is for \$1,900,000, payable monthly. The loan has a three year term and is based on a five year amortization schedule 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. SEGMENTED REPORTING**

The Company sells paint protection film and related kit and material sales to customers 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.

**XPEL Technologies Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
(Expressed in United States Dollars)  
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**Geographic Segments**

The following consists of the financial information as of March 31, 2016.

	US	UK	Canada	Total
Current assets	\$ 8,963,132	\$ 1,116,122	\$ 3,987,433	<b>\$ 14,066,687</b>
Non-current assets	2,290,729	839,939	2,590,959	<b>5,721,628</b>
<b>Total</b>	<b>\$ 11,253,861</b>	<b>\$ 1,956,061</b>	<b>\$ 6,578,392</b>	<b>\$ 19,788,315</b>
Current liabilities	\$ 3,445,906	\$ 1,831,715	\$ 3,011,521	<b>\$ 8,289,142</b>
Non-current liabilities	1,100,679	-	1,151,818	<b>\$ 2,252,497</b>
<b>Total</b>	<b>\$ 4,546,585</b>	<b>\$ 1,831,715</b>	<b>\$ 6,151,636</b>	<b>\$ 10,541,639</b>
Total revenue	\$ 10,788,121	\$ 426,087	\$ 1,753,775	<b>\$ 12,967,982</b>
Less: inter-segmental revenue	(1,668,791)			<b>\$ (1,668,791)</b>
<b>Total external revenue</b>	<b>\$ 9,119,330</b>	<b>\$ 426,087</b>	<b>\$ 1,753,775</b>	<b>\$ 11,299,191</b>
Net income (loss)	\$ 560,052	\$ (77,145)	\$ 214,272	<b>\$ 697,180</b>