

**XPEL TECHNOLOGIES CORP.**

**Interim Consolidated Financial Statements**

These Interim Consolidated Financial Statements are unaudited and have not been reviewed by External Auditors

(Expressed in U.S. Dollars)

**For the three months ended March 31, 2009 and 2008**

**XPEL TECHNOLOGIES CORP.****Statements of Operations**

(Expressed in United States Dollars)

		Three Months Ended	
		March 31,	
	Note	2009	2008
			(unaudited)
<b>Revenue</b>			
Installation, kit and material sales		\$ 857,750	\$ 1,227,800
Design access fees		381,186	498,653
Other income		33,093	39,145
<b>Total Operating Revenues</b>		<u>1,272,029</u>	<u>1,765,598</u>
<b>Cost of sales</b>		<u>501,867</u>	<u>724,333</u>
<b>Gross profit</b>		<b>770,162</b>	1,041,265
<b>Expenses</b>			
General and administrative		629,714	1,047,131
Sales and marketing		2,551	276,069
Interest on long-term debt		3,469	7,576
Amortization expense		122,320	69,998
<b>Total Expenses</b>		<u>758,054</u>	<u>1,400,774</u>
<b>Net earnings (loss) before income taxes and discontinued operations</b>		<b>12,108</b>	<b>(359,509)</b>
<b>Future income tax recovery</b>		<u>(8,543)</u>	<u>-</u>
<b>Net earnings (loss) from continuing operations</b>		<b>20,651</b>	(359,509)
<b>Loss from Discontinued Operations</b>	4	<u>-</u>	<u>(207,060)</u>
<b>Net Earnings (Loss)</b>		<b>20,651</b>	(566,569)
<b>Deficit at beginning of period</b>		<b>(7,642,844)</b>	(3,724,918)
<b>Deficit at end of period</b>		<u><b>\$ (7,622,193)</b></u>	<u><b>\$ (4,291,487)</b></u>
<b>Earnings (Loss) per Share</b>			
Basic and Diluted - from continuing operations	8	\$ 0.001	\$ (0.014)
Basic and Diluted - from discontinued operations	8	-	\$ (0.008)
<b>Basic and Diluted</b>	<b>8</b>	<b>\$ 0.001</b>	<b>\$ (0.022)</b>

**XPEL TECHNOLOGIES CORP.****Balance Sheets**

(Expressed in United States Dollars)

	Note	March 31, 2009 (unaudited)	December 31, 2008 (audited)
<b>Assets</b>			
<b>Current</b>			
Cash		\$ 174,352	\$ 131,034
Accounts receivable		460,967	434,083
Inventory		312,026	363,574
Prepaid expenses and sundry assets		43,383	81,447
Current portion of restricted cash		-	17,000
Total current assets		990,728	1,027,138
Property, plant and equipment		336,455	369,827
Intangible assets		747,894	790,348
Goodwill		836,108	836,108
Restricted cash		1,249	33,988
Total assets		\$ 2,912,434	\$ 3,057,409
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		1,443,280	1,524,506
Taxes Payable		9,969	10,221
Deferred warranty revenue		28,049	52,494
Current portion of long-term debt		72,472	78,328
Current portion of vendor take-back loan		131,516	131,516
		1,685,286	1,797,065
Long-term debt		32,654	36,477
Note Payable		43,839	76,718
Deposit on Shares		15,985	15,985
Future tax liability		102,662	111,205
Total liabilities		1,880,426	2,037,450
<b>Equity (Deficiency)</b>			
Capital stock	5	6,619,133	6,619,133
Contributed surplus		1,026,595	1,022,561
Warrant capital		1,134,036	1,134,036
Accumulated other comprehensive loss		(125,563)	(112,927)
Deficit		(7,622,193)	(7,642,844)
Total equity		1,032,008	1,019,959
Total liabilities and equity		\$ 2,912,434	\$ 3,057,409

Approved by Board of Directors:

/s/ W. Rege Brunner  
W. Rege Brunner/s/ Maxwell A. Polinsky  
Maxwell A. Polinsky

**XPEL TECHNOLOGIES CORP.****Comprehensive Income and Loss and Accumulated Other Comprehensive Income and Loss**  
(Expressed in United States Dollars)

	Three Months Ended	
	2009	March 31, 2008
		(unaudited)
<b>Net income (loss) for the quarter</b>	<b>\$ 20,651</b>	<b>\$ (566,568)</b>
<b>Other comprehensive income</b>		
Unrealized gain on translating financial statements of self-sustaining foreign operations	(12,636)	\$ 5,479
<b>Comprehensive income (loss)</b>	<b>\$ 8,015</b>	<b>\$ (561,089)</b>
<b>Accumulated other comprehensive income, beginning of quarter</b>	<b>\$ (112,927)</b>	<b>\$ 54,824</b>
<b>Other comprehensive income</b>	<b>(12,636)</b>	<b>\$ 5,479</b>
<b>Accumulated other comprehensive income, end of quarter</b>	<b>\$ (125,563)</b>	<b>\$ 60,303</b>

**XPEL TECHNOLOGIES CORP.****Statements of Cash Flows**

(Expressed in United States Dollars)

	Three Months Ended March 31,	
	2009	2008
	(unaudited)	
<b>Cash flows from operating activities</b>		
Net earnings (loss) from continuing operations	\$ 20,651	\$ (359,509)
Add items not affecting cash		
Amortization of property, plant and equipment	17,595	26,105
Gain (Loss) on disposition of property, plant & equipment	318	-
Amortization of intangible assets	104,725	43,893
Future Tax recovery	(8,543)	-
Accretion interest	-	6,971
Stock based compensation	4,034	10,460
<b>Net cash provided by (used in) operating activities</b>	<b>138,780</b>	<b>(272,080)</b>
Changes in non-cash working capital items		
Accounts receivable	(26,884)	69,769
Inventory	51,548	19,753
Taxes payable	(252)	-
Other current assets	25,428	761
Accounts payable and accrued liabilities	(87,082)	26,385
Deferred warranty revenue	(24,445)	(8,319)
	<u>77,093</u>	<u>(163,731)</u>
<b>Cash flows from investing activity</b>		
Proceeds of disposition (purchase of) property, plant and equipment	15,459	(94,439)
Purchase of intangible asset	(62,271)	(44,158)
Security lease deposit	49,739	4,050
<b>Net cash provided by (used in) investing activities</b>	<b>2,927</b>	<b>(134,547)</b>
<b>Cash flows from financing activity</b>		
Repayment of long-term debt	(36,702)	(90,123)
Issuance of capital stock	-	21,348
<b>Net cash used in financing activities</b>	<b>(36,702)</b>	<b>(68,775)</b>
<b>Cash from discontinued operations</b>	<b>-</b>	<b>40,802</b>
<b>Increase (decrease) in cash during the period</b>	<b>43,318</b>	<b>(326,251)</b>
<b>Cash at beginning of period</b>	<b>131,034</b>	<b>723,170</b>
<b>Cash at end of period</b>	<b>\$ 174,352</b>	<b>\$ 396,919</b>

**XPEL Technologies Corp.**  
**Notes to Consolidated Financial Statements**  
(Expressed in United States Dollars)

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**1. BASIS OF PRESENTATION AND GOING CONCERN**

The accompanying unaudited consolidated financial statements of XPEL Technologies Corp. (“XPEL”) and its wholly-owned subsidiaries, XPEL Canada Corp. (previously Shadow Tinting Ltd. and 1290801 Alberta Ltd.), are prepared in accordance with Canadian generally accepted accounting principles. The accounting policies followed in the preparation of these interim financial statements for the three months ended March 31, 2009 and 2008 are those used by the Company as set out in the audited financial statements for the year ended December 31, 2008. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2008 and management’s discussion and analysis for the three month period ended March 31, 2009.

In the opinion of management, these interim consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements, which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year ended December 31, 2008 have been omitted.

Certain comparative figures have been reclassified to conform with the current period’s financial statement presentation reflecting the subsidiaries that were sold during the year ended December 31, 2008 and classified as discontinued operations.

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’s continuation as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis, its ability to secure long-term financing as required, and to maintain profitable operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

## **2. CHANGE IN ACCOUNTING POLICY**

Effective January 1, 2009 the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. This selection also addresses when an internally developed intangible asset meets the criteria for recognition as an asset. There has been no impact on the Company's consolidated financial statements as a result of adopting this policy.

## **3. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED**

In January 2009, the CICA issued Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests which replaces CICA Sections 1581 – Business Combinations and 1600 - Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two Sections must also be adopted at the same time.

### **International Financial Reporting Standards (“IFRS”)**

The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The convergence from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and the comparative financial information using IFRS. The Company expects the transition to IFRS to impact financial reporting, business processes and information systems. The impact of implementing IFRS on the Company’s financial statements is currently being assessed.

#### 4. DISCONTINUED OPERATIONS

In 2008, the Company disposed of two of its subsidiaries, Paintshield Ltd., and ArmourfendCAD Inc.

On November 19, 2008, the Company conveyed back its ArmourfendCAD subsidiary (“Armourfend”), based in El Dorado Hills, California, to its founder and CEO. The conveyance included the return to XPEL of 417,486 common shares issued under the original purchase agreement in exchange for a one-time payment of \$28,000 to settle obligations under the original purchase agreement. The Company canceled the returned shares and the excess of the average stated capital over the value of the shares on November 19, 2008 of \$79,322 was credited to contributed surplus.

On December 23, 2008, the company conveyed its Paintshield Ltd. subsidiary (“Paintshield”), based in the United Kingdom, back to its founder and Managing Director. The conveyance included a one-time payment of \$72,000 to the Managing Director.

The following table sets forth the results of operations associated with the subsidiaries, reported as discontinued operations:

	Quarter ending March 31,	
	2009	2008
Revenue	\$ -	\$220,057
Expenses	-	427,117
Loss from Discontinued Operations	\$ -	(\$207,060)

#### 5. CAPITAL STOCK

The following table shows XPEL’s common share activity to date during 2009:

Issued and outstanding	Common Shares	Value
Balance @12/31/08	25,720,950	\$6,619,133
Activity in quarter	0	0
Balance @ 03/31/09	25,720,950	\$6,619,133

#### 6. STOCK OPTION AND WARRANTS

During the quarter ended March 31, 2009, there were 100,000 options that were forfeited. No options were issued or exercised. Total options outstanding at March 31, 2009 were 1,561,016.



During the quarter ended March 31, 2009, 624,043 warrants expired unexercised. No warrants were issued, forfeited or exercised. Total warrants outstanding at March 31, 2009 were 966,537.

## **7. STOCK-BASED COMPENSATION**

The total stock compensation expense relating to options recognized in the period was \$4,034.

## **8. EARNINGS (LOSS) PER SHARE**

Earnings (Loss) per share has been calculated based on weighted average number of common shares outstanding of 25,720,950 for the quarter ended March 31, 2009 as compared to 25,835,551 for the three months ended March 31, 2008.

## **9. 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, increases in non-cash working capital and capital expenditures for expansion and/or research and development. The Company currently has a negative working capital. As a result, the Company must seek to raise capital for its short-term cash needs through a private placement. There were no changes in the Company's approach to capital management during the three months ended March 31, 2009 as compared to the year ended December 31, 2008.

## **10. FINANCIAL INSTRUMENTS**

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

This note presents information about the Company's exposure to particular risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

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.

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are also measured at amortized cost.

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer 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 \$460,967, past due receivables in excess of 90 days as of the balance sheet date were approximately \$42,000. The Company is actively pursuing efforts to collect these receivables.

The Company has cash and cash equivalents. The Company's current policy is to invest excess cash in overnight investments issued by credit worthy banking institutions. The Company periodically monitors the investments it makes 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 of March 31, 2009, the Company had current assets of approximately \$1.0 million to settle current liabilities of approximately \$1.7 million. The shortfall will be managed through future operating cash flows or if necessary, the Company would most likely raise short-term capital through a private placement.

## Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

## Currency Risk

The Company's functional currency is the US dollar. Certain of the Company's monetary assets and liabilities are denominated in Canadian dollars and therefore subject to gains and losses due to fluctuations in this currency. In respect of these monetary assets and liabilities denominated in a foreign currency, the Company ensures that its net exposure is kept to an acceptable level.

The Company has the following balances in Canadian dollars:

	March 31, 2009	December 31, 2008
Cash and cash equivalents	\$116,500	\$56,274
Accounts receivables	\$270,700	\$228,518
Accounts payable and accrued liabilities	\$580,117	\$570,411
	<u>\$967,317</u>	<u>\$855,203</u>

A 5% change in the Canadian dollar against the US dollar currency would affect equity and net income by approximately \$48,366. This analysis assumes that all other variables remain constant.

## 11. LEGAL PROCEEDINGS

During the quarter, a former employee filed a claim for employment and related matters. As part of the original severance package, the Company's board of directors approved an issuance of 100,000 shares to the employee. Until the litigation is complete, the shares will not be issued. The outcome is not yet determinable and therefore no provision is recorded.

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.