

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This management's discussion and analysis ("MD&A") describes the operating and financial results of XPEL Technologies Corp., ("XPEL" or "Company") for the three and nine months ended September 30, 2010 and 2009. The MD&A should be read in conjunction with the accompanying unaudited interim financial statements for the three and nine months ended September 30, 2010 and 2009 and the Company's audited consolidated financial statements and related notes for the years ended December 31, 2009 and 2008. The Company prepares and files its financial statements in accordance with Canadian generally accepted accounting principles. This MD&A was prepared on November 28, 2010.

### **Company Overview**

XPEL Technologies Corp., a Nevada corporation, is a Canadian reporting issuer whose common shares began trading October 22, 2004 on the Canadian Trading and Quotation System Inc. ("CNQ") under the symbol XPEL.U and February 27, 2006 on the TSX Venture Exchange ("TSXV") under the symbol DAP.U.

### **Description of the Business**

The Company manufactures, sells and distributes after-market automotive products. The focus of the Company is the aftermarket for automotive paint and headlight protection products and window tint products.

The Company provides all training, equipment and product needed to operate in the Paint Protection industry and broader automotive protection space, including Paint and Headlamp Protection Film and software to access XPEL's library of protection patterns. The Company also provides pre-cut paint and headlamp protection kits to wholesale and retail customers and operates a retail installation facility.

During the quarter ending June 30, 2010, the Company invested in XPEL Distribution Company, a new entity that will serve as a distribution arm for XPEL Paint Protection products and accessories. The Company has a 30% ownership stake in XPEL Distribution Company.

### **Summary of Quarterly Results**

The financial information set out below presents the required financial information for the eight most recently completed fiscal quarters of the Company.

	<b>Quarters Ended</b>			
	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010
Revenues	\$912,539	\$1,002,159	\$1,015,463	\$1,160,767
Net Income (Loss) from continuing operations	(\$13,906)	\$30,876	\$42,417	\$81,590
Net Income (Loss)	(\$13,067)	\$30,876	\$42,417	\$81,590
Net Income (Loss) per share	(\$0.0005)	\$0.0012	\$0.0016	\$0.0032
Net Income (Loss) fully diluted per share	(\$0.0005)	\$0.0012	\$0.0016	\$0.0032

	<b>Quarters Ended</b>			
	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009
Revenues	\$733,922	\$814,417	\$1,112,828	\$994,250
Net Income (Loss) from continuing operations	(\$1,002,035)	\$29,626	\$57,698	\$67,628
Net Income (Loss)	(\$581,824)	\$20,651	\$64,908	(\$638,904)
Net Income (Loss) per share	(\$0.022)	\$0.001	\$0.002	(\$0.025)
Net Income (Loss) fully diluted per share	(\$0.022)	\$0.001	\$0.002	(\$0.025)

## **Results of Operations**

### **Three Months Ended September 30, 2010 compared to the Three Months Ended September 30, 2009**

*Revenues.* Revenues increased from \$994,250 to \$1,160,767, or 17% between periods. The increase in revenues is primarily a result of increases in Installation, kit and material sales between periods largely due to timing differences of large international orders. Installation, kit and material sales increased \$177,802 or 32% between quarters and increased to 63% of total revenues for the quarter ended September 30, 2010 from 55% for the three months ended September 30, 2009. Design access fees decreased \$1,760 or .4% between periods and other revenue decreased \$9,524 or 26% between periods.

*Cost of Sales.* Cost of sales increased \$177,651 between periods and increased to 50% of revenues. Our cost of sales is primarily related to the selling of paint and headlamp protection film in bulk form and as pre-cut kits, chemical products and cutting equipment to support the Company's Design Access Program software.

*Expenses.* General and administrative expenses decreased 7% to \$404,046 from \$434,103 in the third quarter of 2010.

Amortization expense of property, plant and equipment increased slightly to \$14,397 from \$13,077 between periods.

The Company's intangible assets consist of intellectual property and costs associated with the designing of patterns. The amortization of intangible assets decreased approximately \$6,864 or 9% between periods.

*Net earnings (loss).* The Company had net earnings of \$81,590 for the quarter ended September 30, 2010 as compared to a net loss of \$638,904 for the quarter ended September 30, 2009 with earnings of \$67,628 from continuing operations. Adjusted net income is calculated by adding back non-cash expenses such as amortization of property, plant and equipment of \$14,397 and amortization of intangible assets of \$67,928 and then reduced by the amount of research and developments costs capitalized for the three months ended September 30, 2010 of \$70,454. The adjusted net income for the quarter ended September 30, 2010 was approximately \$93,461 as compared to adjusted net income of approximately \$92,070 for the quarter ended September 30, 2009.

In order to maintain profitability, it is imperative that the Company continue to expand the sales of XPEL Protection Film and related products, increase installation sales and increase its DAP revenues while concurrently managing its cost structure.

### **Nine Months Ended September 30, 2010 compared to the Nine Months Ended September 30, 2009**

*Revenues.* Revenues increased from \$2,922,026 to \$3,178,289, or 9% between periods. The increase in revenues is primarily a result of increases in Installation, kit and material sales between periods. Installation, kit and material sales increased \$300,884 or 19% between quarters and increased as a percentage of total revenues to 60% of our total revenues for the nine months ended September 30, 2010. This increase was primarily due to increased bulk film sales and retail installation sales. Design access fees decreased \$38,323 or 3% between periods and other revenue decreased \$6,198 or 6% between periods.

*Cost of Sales.* Cost of sales increased \$305,283 between periods and increased as a percentage of revenues to 47%. Our cost of sales is primarily related to the selling of paint and headlamp protection film in bulk form and as pre-cut kits, chemical products and cutting equipment to support the Company's Design Access Program software.

*Expenses.* General and administrative expenses decreased 6% to \$1,219,191 from \$1,296,963 during the first nine months of 2010.

Amortization expense of property, plant and equipment increased slightly to \$39,621 from \$39,300 between periods.

The Company's intangible assets consist of intellectual property and costs associated with the designing of patterns. The amortization of intangible assets decreased approximately \$18,249 or 8% between periods.

*Net earnings (loss).* The Company had net earnings of \$154,883 for the nine months ended September 30, 2010 as compared to a net loss of \$553,345 for the nine months ended September 30, 2009 with earnings of \$154,952 from continuing operations. Adjusted net income is calculated by adding back non-cash expenses such as amortization of property, plant and equipment of \$39,621 and amortization of intangible assets of \$207,727 and then reduced by the amount of research and developments costs capitalized for the nine months ended September 30, 2010 of \$208,988. The adjusted net income for the nine months ended September 30, 2010 was approximately \$193,243 as compared to adjusted net income of approximately \$228,448 for the nine months ended September 30, 2009.

In order to maintain profitability, it is imperative that the Company continue to expand the sales of XPEL Protection Film and related products, increase installation sales and increase its DAP revenues while concurrently managing its cost structure

### **Liquidity and Capital Resources**

Cash flows provided by operating activities during the nine months ended September 30, 2010 were approximately \$297,363. The cash flows provided by operations result from operating earnings of \$154,883 with the addition of non-cash items of \$298,891 and reduced by working capital changes of \$156,411.

Cash flows used in investing activities during the nine months ended September 30, 2010 were \$86,258 due to the purchase of property, plant and equipment of \$51,607, the acquisition of intangible assets of \$208,988, investments in the equity accounted investment of \$88,384, and reduced by the proceeds from the sale of property, plant and equipment of \$22,181 and the collection of the promissory note in the amount of \$240,540.

Cash flows used in financing activities during the period were \$131,122 for the repayment of long-term debt and \$43,449 as repayment of the note payable in the amount of \$87,673.

The Company's net operating, investing and financing activities during the nine months ended September 30, 2010 increased cash by approximately \$79,983.

## **Commitments & Related Party Transactions**

At September 30, 2010, the Company had lease agreements for its current premises totalling approximately \$25,430 for the remainder of 2010 decreasing to approximately \$31,638 in 2011

There were no related party transactions during the second quarter of 2010.

## **Disclosure Controls**

The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining its disclosure controls and procedures.

The CEO and CFO have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that the material information relating to the Company would have been known to them.

## **Share Capital**

The Company is authorized to issue up to 100,000,000 common shares and 10,000,000 preferred shares. At September 30, 2010, the Company has issued 25,720,950 common shares of common stock and no preferred shares. As of the date of this filing, the Company has issued 25,720,950 common shares of common stock and no preferred shares.

## **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

## **Financial and Other Instruments**

The Company has not made use of any hedging or other financial instruments, and is not exposed to significant interest rate nor credit risks.

## **Accounting Estimates**

The Company did not rely on any critical accounting estimates in the period ended September 30, 2010.

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of collectability of accounts receivable, net recoverable amounts of property, plant and equipment, technology and other intangibles and useful lives for depreciation.

## **Risk Factors**

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

### **Fair Value**

The carrying values of accounts receivable, accounts payable and accrued liabilities, approximate fair value due to the relatively short-term maturities of these instruments.

### **Credit Risk**

The Company is subject to risk of non-payment of accounts receivable. The Company mitigates this risk by monitoring the credit worthiness of its customers. The Company's promissory note receivable is personally secured by the vendor and therefore, management had determined there is minimal credit risk associated with the promissory note. In addition, the vendor is current with all payments under the promissory note.

### **Interest Rate Risk**

The Company has cash and cash equivalents. The Company's current policy is to invest excess cash in money market accounts issued by credit worthy banking institutions.

### **Currency Risk**

Certain of the Company's monetary assets and liabilities are denominated in Canadian dollars and are therefore subject to gains and losses due to fluctuations in this currency.

### **Additional Financing**

Our ability to continue to maintain operating profitability and growth is dependent upon our ability to generate sufficient cash flows to meet our obligations on a timely basis and our ability to secure long-term financing as required. Additional financing may be required to develop the Company's products and services.

### **Liquidity**

The Company does not have available adequate credit facilities to finance desired inventory levels. While it is incumbent upon the Company to continue to seek additional credit to increase liquidity, the inability to secure additional credit may result in lost sales and inhibit growth. The Company expects any available credit

to be costly due to current macro-economic concerns and the Company's prior history of losses.

### **Additional Risk Factors**

There are various risks associated with investing in the business of the Company including those described below that should be considered in conjunction with the other information included in this MD&A. There may be additional risks and uncertainties in addition to those listed below, including those that are unknown to the Company at this time or believed by the Company to be unimportant at this time that could, in the future, have a materially adverse effect on the business, financial condition or results of operations of the Company.

#### *Market Penetration*

There can be no assurance that the Company can generate sufficient interest in its products to permit the Company to achieve its required level of market penetration. There are many products competing for the consumer's aftermarket products dollars and the Company may not be able to make its products a priority for consumers.

#### *Demand for Company's Products*

There can be no assurance that the Company will be able to maintain or increase demand for its products. Any significant shortfall of demand in relation to expectation for the Company's products would have an adverse impact on the Company.

#### *Economic*

Despite the current turbulent economic conditions, the Company believes its products lend well to the consumer's desire to protect their investment over a longer period of time should they choose not to be in the marketplace for a new vehicle. In calendar year 2010 automobile industry sales have remained at a depressed level. While we believe the U.S. economy will recover and ultimately grow, future price increases for certain items may hamper future consumption.

#### *Competition*

The Company is experiencing competition for its products. The Company continues to see new entrants in to the paint protection market and increased emphasis on the paint protection film marketplace from existing competitors. The Company believes it has significant competitive advantages through its database of products, proprietary product distribution software, training curriculum and facilities, and established sales channels; however the Company must continually upgrade and improve its offering to stay competitive. The Company will be negatively affected if other products similar to those of the Company with similar or superior features at lower prices become available.

### *Vulnerability to Substitutes and Reliance on Suppliers*

The Company is dependent on its ability to continue to manufacture its paint protection film and to maintain its relationships with other strategic suppliers. The manufacture of paint protection film requires the use of equipment and facilities and other supply chain elements that are highly specialized and not widely available. Any disruption to these facilities or the supply chain could adversely affect the Company's ability to produce product. Suitable alternatives for production facilities or other supply chain elements may not exist or may not be available to the Company. Any disruption in the source of supplies, internally or externally, could adversely affect the Company's business.

### *Key Personnel*

The Company is currently heavily reliant on the experience and expertise of its senior management. If any of these should cease to be available to manage the affairs of the Company, its activities and operations could be adversely affected. In addition, the Company may require additional management employees to develop its business.

### *Challenge to Profitability*

The Company has produced an operating profit throughout 2009 and 2010. Prior to 2009, the Company operated an aggressive growth strategy which produced consistent losses. The Company anticipates continued profitability; however, market opportunities may produce circumstances in the future where profitability is challenged or intentionally reduced to increase sales.

### *Fluctuations in its Quarterly Results*

The Company may experience fluctuations in its quarterly operating results due to a number of factors, including the level of the Company's expenses, the degree to which the Company encounters competition in its markets, seasonality factors of the automotive aftermarket industry and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

### *Dividends*

The Company does not anticipate paying dividends in the foreseeable future.

### **Future Accounting Standards**

#### *Business Combinations*

The CICA has recently issued CICA Handbook section 1582, Business Combinations, section 1601, Consolidated Financial Statements, and section 1602, Non-Controlling Interests. These new sections replace the currently existing

standards in CICA Handbook section 1581, Business Combinations, and section 1600, Consolidated Financial Statements. These new standards are effective for fiscal periods beginning on or after January 1, 2011, however, early adoption is permitted. Once adopted, these standards will be harmonized with international financial reporting standards.

Section 1582 amends the standards for measurement, presentation and disclosure of a business combination. A number of changes are specified, including an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition related costs as expenses.

These standards will require a change in the measurement and presentation of non-controlling interest. As a result of these changes, net earnings will include 100% of the subsidiary's results and non-controlling interest will be presented as part of shareholders' equity on the balance sheet.

The Company is currently assessing the impact of this new accounting standard on its financial statements.

#### *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.

In preparation for the conversion to IFRS, the Company's IFRS conversion project began in 2009. The company has developed a three phase plan to adopt IFRS by January 1, 2011:

- (i) This first phase involves the identification of differences between IFRS and existing Canadian GAAP, and an assessment of their applicability and the expected impact on the company. The Company has completed a Phase 1 assessment, which involved a high-level review of the major differences between Canadian GAAP and IFRS. This assessment has provided insight on the high risk and complex areas relating to the conversion. The Company has assigned responsibility for IFRS adoption and is currently studying the impacts of IFRS on the Company's accounting policies, information systems, internal controls over financial reporting and contractual arrangements and covenants. The initial assessment of the process indicates that the most significant areas of difference applicable to the Company include treatment of

stock-based compensation, intangible assets and the more extensive presentation and disclosure requirements under IFRS. It should be noted that in making this assessment, a full conversion exercise considering every recognition, measurement, presentation and disclosure differences that exist between the two bases of accounting (i.e. Canadian GAAP and IFRS) has not been completed, and accordingly, our assessment may change over time.

(ii) The second phase includes the detailed review, documentation and selection of accounting policy choices relating to each IFRS standard. This phase will also include assessing the impact of the conversion on business activities, including the effect on information technology and data systems, income tax, internal controls over financial reporting, and disclosure controls. In this phase, accounting policies will be finalized, first-time adoption exemptions and exceptions will be considered, and draft financial statements and note disclosures will be prepared. The Company is in the process of completing Phase 2. The Company is developing IFRS expertise in-house as well as utilizing external advisors, and will conduct staff training as needed. Management has analyzed the choices regarding alternative treatments permitted in specific areas of certain standards under IFRS 1 First-time Adoption of International Financial Reporting Standards, which is mandatory guidance for all first-time adopters of IFRSs. The Company has made some preliminary decisions in this regard.

- *Business Combinations; IFRS 3*, allows an entity that conducted prior business combinations to apply the standard on a prospective basis from the transition date of January 1, 2010. The Company currently intends to make this election and will be required to apply IFRS only to business combinations prospectively.
- *Fair value or revaluation as deemed cost; International Accounting Standard (“IAS”) 16, IAS 40 and IAS 38*, allows an entity to measure individual items of property, plant and equipment; investment property and intangible assets (provided there is an active market for the intangibles) at fair value at the transition date of January 1, 2010, and then use the fair value as the basis for the opening balance sheet. The Company does not intend to make this election to restate the carrying value of its capital assets at transition.
- *Share-based payment transactions; IFRS 2*, allows an entity to avoid full retrospective application of certain transactions depending on the grant, vesting and/or settlement date of the awards. The Company currently intends to make this election and will be required to apply IFRS only to stock-based awards that are unvested at the transition date of January 1, 2010.
- *Borrowing costs; IAS 23*, allows an entity to apply the transitional provisions of IAS 23 in lieu of full retrospective application. The Company does not have any previous borrowing costs but intends to make this election on a prospective basis from the transition date of January 1, 2010.

The Company has identified other key areas where changes in financial statement presentation and disclosures are expected. Management is in the process of quantifying the expected differences between IFRS and the current accounting treatment under Canadian GAAP and financial statement templates are being designed. The Company expects the following standards to have the greatest potential impact to its accounting policies, financial reporting and information systems requirements upon conversion.

- *Presentation of financial statements; IAS 1*, Certain classifications are different under IFRS, resulting in a different format for the financial statements compared to those prepared under Canadian GAAP. The Company is analyzing the impact of the classification and presentation changes on its financial statements.
- *Leases; IAS 17*, The Company is reviewing all of its existing leasing arrangements to identify if there are any classification differences between finance and operating leases. For all finance leases, the Company is reviewing the calculation to determine the present value of the minimum lease payments to ensure compliance with IAS 17.
- *Property, plant and equipment; IAS 16*, The Company is evaluating the potential impact of the componentization of all of its capital assets and other IAS 16 provisions. The Company is also reviewing additional disclosure requirements under IFRS and designing the enhanced note disclosure.
- *Share-based payment transactions; IFRS 2*, Implementing IFRS 2 will require the Company to modify aspects of how it accounts for its share-based payments under IFRS. For instance, the Company currently accounts for stock option forfeitures as they occur and IFRS 2 will require the Company to estimate the forfeiture rate at the date of the grant and recognize compensation expense based on management's estimate of units that will eventually vest. The Company is currently evaluating and quantifying the impact the implementation will have on its consolidated financial statements.
- *Related Party Disclosures; IAS 24*, The Company is reviewing its disclosures to assess whether any changes are required with regard to related party transactions. It is also reviewing the IAS 24 disclosure requirements related to "key management personnel" to determine whether the appropriate level of disclosure is being provided.
- *Impairment of Assets; IAS 36*, The Company's accumulated development costs related to the DAP program are classified as an intangible asset. The carrying value is tested at least annually for impairment, and under IFRS the Company will need to review for impairment on a quarterly basis. The Company will need to revise its intangible asset impairment review model to comply with IFRS requirements. The Company currently uses the undiscounted cash flow screen in its recoverability model under Canadian GAAP. Under IFRS, an impairment loss is measured as the amount by which the carrying amount of an asset exceeds its recoverable amount,

defined as the higher of its fair value less costs to sell and its value in use. Value in use is calculated using discounted cash flows.

- *Revenue; IAS 18*, IAS 18 is under review with a substantially revised framework expected in 2011 and 2012. The Company will monitor the status of the project to amend IAS 18.

(iii) Implement and Review: The final phase involves the actual implementation of IFRS standards. This phase will involve the finalization of IFRS conversion impacts, approval and implementation of accounting policies, implementation and testing of new processes, systems and controls, and the execution of detailed training where required.

As at September 30, 2010, the first phase of the company's IFRS plan was complete and Phase 2 was in progress. Phase 3 is expected to be completed by the end of the year.

### **Additional Information**

Additional information relating to the Company may be accessed on the Internet at [www.sedar.com](http://www.sedar.com).

### **Cautionary Note**

Some of the statements contained in this report are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements.