

**XPEL Technologies Corp.**

**Condensed Consolidated Interim Financial Statements**

(Expressed in United States Dollars)

**For the Three Months Ended March 31, 2014**

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

	Note	March 31, 2014	December 31, 2013
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 1,360,329	\$ 1,414,913
Accounts receivable		1,563,414	1,018,956
Inventory		3,155,861	2,716,612
Prepaid expenses and sundry assets		<u>230,654</u>	<u>259,233</u>
Total current assets		<u>6,310,258</u>	<u>5,409,714</u>
Property, plant and equipment		630,655	517,925
Intangible assets		<u>584,752</u>	<u>518,559</u>
Total assets		<u>\$ 7,525,665</u>	<u>\$ 6,446,198</u>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		1,943,493	1,829,164
Customer deposits		12,350	12,350
Bank operating facility		325,000	-
Notes payable		64,359	68,505
Current tax expense		<u>198,000</u>	<u>-</u>
Total current liabilities		<u>2,543,202</u>	<u>1,910,019</u>
Deferred tax liability		<u>208,000</u>	<u>221,000</u>
Total liabilities		<u>2,751,202</u>	<u>2,131,019</u>
<b>Equity</b>			
Capital stock	4	6,635,133	6,635,133
Contributed surplus		2,165,130	2,165,130
Deficit		<u>(4,025,800)</u>	<u>(4,485,084)</u>
Total equity		<u>4,774,463</u>	<u>4,315,179</u>
Total liabilities and equity		<u>\$ 7,525,665</u>	<u>\$ 6,446,198</u>

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)

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		<b>Three Months Ended</b>	
		<b>March 31,</b>	
	<b>Note</b>	<b>2014</b>	<b>2013</b>
<b>Revenue</b>		<b>\$ 5,271,873</b>	<b>\$ 3,156,582</b>
<b>Expenses</b>			
Direct costs	<b>7</b>	<b>3,492,738</b>	2,097,370
Selling, general and administrative expenses	<b>7</b>	<b>1,133,173</b>	656,734
<b>Income from operations</b>		<b>645,962</b>	402,478
Interest expense		<b>2,542</b>	300
Loss on sale of property, plant and equipment		<b>(865)</b>	1,855
		<b>1,677</b>	2,155
<b>Net income before income taxes</b>		<b>644,285</b>	400,323
Deferred income tax expense (recovery)		<b>(13,000)</b>	138,000
Current income tax expense		<b>198,000</b>	-
		<b>185,000</b>	138,000
<b>Net income and comprehensive income</b>		<b>\$ 459,285</b>	<b>\$ 262,323</b>
<b>Earnings per Share</b>			
<b>Basic and diluted</b>		<b>\$ 0.018</b>	<b>\$ 0.010</b>

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

(Expressed in United States Dollars)

(unaudited)

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	<b>Capital Stock</b>		<b>Contributed</b>	<b>Deficit</b>	<b>Total</b>
	<b>Number</b>	<b>Amount</b>	<b>Surplus</b>		
<b>Balance as at January 1, 2013</b>	25,784,950	\$ 6,635,133	\$ 2,165,130	\$ (5,805,352)	\$ 2,994,911
Net income and comprehensive income for the period	-	-	-	262,323	262,323
<b>Balance as at March 31, 2013</b>	<b>25,784,950</b>	<b>6,635,133</b>	<b>2,165,130</b>	<b>(5,543,029)</b>	<b>3,257,234</b>
Net income and comprehensive income for the period	-	-	-	1,057,945	1,057,945
<b>Balance as at December 31, 2013</b>	<b>25,784,950</b>	<b>6,635,133</b>	<b>2,165,130</b>	<b>(4,485,084)</b>	<b>4,315,179</b>
Net income and comprehensive income for the period	-	-	-	459,285	459,285
<b>Balance as at March 31, 2014</b>	<b>25,784,950</b>	<b>\$ 6,635,133</b>	<b>\$ 2,165,130</b>	<b>\$ (4,025,800)</b>	<b>\$ 4,774,463</b>

**XPEL TECHNOLOGIES CORP.**  
**Condensed Consolidated Statement of Cash Flows**  
(Expressed in United States Dollars)  
(unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 459,285	\$ 262,323
Add items not affecting cash		
Amortization of property, plant and equipment	28,368	17,906
Amortization of intangible assets	77,550	70,501
Deferred income tax expense (recovery)	(13,000)	138,000
	<u>552,203</u>	<u>488,730</u>
Changes in non-cash working capital items		
Accounts receivable	(543,862)	(87,068)
Inventory	(439,249)	308,857
Prepaid expenses and sundry assets	28,579	(33,965)
Accounts payable and accrued liabilities	114,329	(517,108)
Current income tax expense	198,000	-
<b>Net cash provided by (used in) operating activities</b>	<u>(90,000)</u>	<u>159,446</u>
<b>Cash flows used in investing activity</b>		
Purchase of property, plant and equipment	(141,696)	(93,481)
Development of intangible assets	(143,742)	(67,338)
<b>Net cash used in investing activities</b>	<u>(285,438)</u>	<u>(160,819)</u>
<b>Cash flows from financing activity</b>		
Cash from bank operating facility	325,000	-
Proceeds from notes payable	-	33,802
Repayment of notes payable	(4,146)	-
<b>Net cash provided by financing activities</b>	<u>320,854</u>	<u>33,802</u>
<b>Increase (decrease) in cash during the period</b>	<b>(54,584)</b>	<b>32,429</b>
<b>Cash at beginning of period</b>	<b>1,414,913</b>	<b>1,396,300</b>
<b>Cash at end of period</b>	<u><u>\$ 1,360,329</u></u>	<u><u>\$ 1,428,729</u></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 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, 2014**

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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, 2013 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 subsidiary XPEL Ltd. Intercompany transactions and balances are eliminated on consolidation.

**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.

**XPEL Technologies Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**3. CREDIT FACILITIES**

On March 28, 2011, the Company entered into a US\$150,000 revolving line of credit agreement with The Bank of San Antonio to support its continuing working capital needs. On February 20, 2014, the Board of Directors approved an increase to the existing limit to US\$800,000.

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 1.5 per cent with a floor of 6 per cent and matures on June 28, 2014.

Subsequent to the quarter end, this agreement was renegotiated with the bank with an increase to the existing limit to US\$2,000,000, which is subject to approval by the Company's Board of Directors.

**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 \$129,083 (2012 - \$115,680) in salaries and other short-term benefits was paid to key members of management as compensation in the first quarter of 2014, of which \$119,132 (2012 - \$106,206) is included as part of selling, general and administrative expense and \$9,951 (2012 - \$9,474) 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	\$	220,300
1-5 years		384,335
	\$	<b>604,635</b>



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**6. COMMITMENTS AND CONTINGENCIES (Cont'd)**

**(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.

**(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,	
	2014	2013
Employee salaries and benefits	\$ 111,535	\$ 61,895
Materials	3,083,505	1,795,455
Freight	58,956	31,873
Other	170,395	137,646
Amortization of intangible assets	68,347	70,501
	<b>\$ 3,492,738</b>	<b>\$ 2,097,370</b>

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

	Three months ending March 31,	
	2014	2013
Employee salaries and benefits	\$ 666,085	\$ 408,326
Sales and marketing	83,304	24,219
Occupancy	67,209	45,284
Professional fees	57,188	34,847
Filing fees	4,059	2,335
Insurance	25,094	14,191
Office and general	201,274	109,626
Amortization of property, plant and equipment	28,960	17,906
	<b>\$ 1,133,173</b>	<b>\$ 656,734</b>

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**8. ECONOMIC DEPENDENCY**

The Company depends directly or indirectly on several sole suppliers to supply goods and services necessary for carrying on its core business, including a sole manufacturing facility, sole urethane supplier and sole adhesive supplier and other sole suppliers of other intermediate manufacturing elements. Approximately 90% of the Company's inventory purchases are dependent on these direct and indirect sole 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.