

**XPEL, Inc.**

**Condensed Consolidated Interim Financial Statements**

(Expressed in United States Dollars)

**For the Six Months Ended June 30, 2018**

**XPEL, INC.****Condensed Consolidated Balance Sheet**

(Expressed in United States Dollars)

(unaudited)

	Note	June 30, 2018	December 31, 2017
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 1,527,235	\$ 3,498,904
Accounts receivable		7,171,653	5,569,212
Inventory	3	11,728,952	10,151,594
Prepaid expenses and other current assets		984,751	689,890
<b>Total current assets</b>		<b>21,412,591</b>	<b>19,909,600</b>
Property, plant and equipment		2,329,039	2,153,233
Intangible assets	4	3,972,465	4,114,374
Deferred tax asset		459,932	378,014
Goodwill		2,479,874	2,490,105
<b>Total assets</b>		<b>\$ 30,653,901</b>	<b>\$ 29,045,326</b>
<b>Liabilities</b>			
<b>Current</b>			
Revolving line of credit		-	\$ 2,000,000
Accounts payable and accrued liabilities		9,368,070	9,519,649
Income Tax Payable		679,425	1,126,865
Current portion of bank loan payable	7	148,094	440,126
Current portion of notes payable - acquisitions	8	648,212	624,308
<b>Total current liabilities</b>		<b>10,843,801</b>	<b>13,710,948</b>
Deferred tax liability		442,944	463,140
Notes payable - acquisitions	8	1,004,652	1,018,493
<b>Total liabilities</b>		<b>12,291,397</b>	<b>15,192,581</b>
<b>Equity</b>			
Capital stock		9,210,646	9,210,646
Contributed surplus		2,165,130	2,165,130
Accumulated other comprehensive loss		(984,702)	(984,281)
Retained earnings		8,090,381	3,569,430
		18,481,455	13,960,925
Non-controlling interest		(118,951)	(108,180)
<b>Total liabilities and equity</b>		<b>\$ 30,653,901</b>	<b>\$ 29,045,326</b>

Approved by Board of Directors:

/s/ Richard Crumly  
Richard Crumly

/s/ John Constantine  
John Constantine

/s/ Michael Klonne  
Michael Klonne

**XPEL, INC.****Condensed Consolidated Statements of Income and Comprehensive Income**

(Expressed in United States Dollars)

(unaudited)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
<b>Revenue</b>	<b>12, 13</b>	<b>\$ 28,864,686</b>	\$ 17,048,492	<b>\$ 54,063,440</b>	\$ 29,678,959
<b>Expenses</b>					
Cost of sales	14	20,267,886	12,431,152	37,973,013	21,728,861
Selling, general, and administrative expenses	14	5,167,633	3,368,663	10,059,771	6,673,382
<b>Income from operations</b>		<b>3,429,167</b>	1,248,677	<b>6,030,656</b>	1,276,716
Interest expense		50,184	59,873	107,781	108,054
Loss (Gain) on sale of property, plant and equipment		35,986	(7,251)	35,986	(7,251)
Foreign exchange loss (gain)		29,458	(22,137)	(42,677)	(15,745)
		<u>115,628</u>	<u>30,485</u>	<u>101,090</u>	<u>85,058</u>
<b>Net income before income taxes</b>		<b>3,313,539</b>	1,218,192	<b>5,929,566</b>	1,191,658
Deferred income tax recovery		(81,978)	(112,966)	(106,184)	(135,805)
Current income tax expense		901,909	581,053	1,525,570	642,206
		<u>819,931</u>	<u>468,087</u>	<u>1,419,386</u>	<u>506,401</u>
<b>Net income</b>		<b>\$ 2,493,608</b>	\$ 750,105	<b>\$ 4,510,180</b>	\$ 685,257
<b>Items that may be reclassified to profit or loss:</b>					
Cumulative differences on translation foreign operations		164,245	(403,168)	(421)	(568,789)
<b>Total comprehensive income</b>		<b>\$ 2,657,853</b>	\$ 346,937	<b>\$ 4,509,759</b>	\$ 116,468
<b>Net income attributable to:</b>					
Shareholders of the Company		\$ 2,495,577	\$ 755,787	\$ 4,520,951	\$ 701,783
Non-controlling interest		(1,969)	(5,682)	(10,771)	(16,526)
<b>Net income</b>		<b>\$ 2,493,608</b>	\$ 750,105	<b>\$ 4,510,180</b>	\$ 685,257
<b>Total comprehensive income attributable to:</b>					
Shareholders of the Company		\$ 2,659,822	\$ 352,619	\$ 4,520,530	\$ 132,994
Non-controlling interest		(1,969)	(5,682)	(10,771)	(16,526)
<b>Total comprehensive income</b>		<b>\$ 2,657,853</b>	\$ 346,937	<b>\$ 4,509,759</b>	\$ 116,468
<b>Earnings per Share attributable to owners of the parent</b>					
Basic and diluted		\$ 0.090	\$ 0.027	\$ 0.163	\$ 0.025
<b>Weighted Average Number of Common Shares</b>					
Basic and diluted		27,612,597	27,612,597	27,612,597	27,038,281

**XPEL, INC.****Condensed Consolidated Statement of Changes in Equity**

(Expressed in United States Dollars)

(unaudited)

	Capital Stock		Contributed	Retained	Accumulated	Equity	Non-controlling	Total Equity
	Number	Amount	Surplus	Earnings	Other Comprehensive Income (Loss)	attributable to shareholders of the Company	Interest	
<b>Balance as at January 1, 2017 (audited)</b>	25,784,950	\$ 6,635,133	\$ 2,165,130	\$ 2,382,085	\$ (833,725)	\$ 10,348,623	\$ (55,179)	\$ 10,293,444
Issuance of common shares	1,827,647	2,613,529	-	-	-	2,613,529	-	2,613,529
Common share issuance cost	-	(38,016)	-	-	-	(38,016)	-	(38,016)
Net loss and comprehensive loss for the period	-	-	-	701,783	-	\$ 701,783	\$ (16,526)	\$ 685,257
Other comprehensive loss	-	-	-	-	(565,822)	\$ (565,822)	\$ (127)	\$ (565,949)
<b>Balance as at June 30, 2017</b>	<b>27,612,597</b>	<b>9,210,646</b>	<b>2,165,130</b>	<b>\$ 3,083,868</b>	<b>\$ (1,399,547)</b>	<b>13,060,097</b>	<b>(71,832)</b>	<b>12,988,265</b>
Issuance of common shares	-	-	-	-	-	-	-	-
Common share issuance cost	-	-	-	-	-	-	-	-
Net income and comprehensive income for the period	-	-	-	485,562	-	485,562	(36,348)	449,214
Other comprehensive income	-	-	-	-	415,266	415,266	-	415,266
<b>Balance as at December 31, 2017 (audited)</b>	<b>27,612,597</b>	<b>9,210,646</b>	<b>2,165,130</b>	<b>3,569,430</b>	<b>(984,281)</b>	<b>13,960,925</b>	<b>(108,180)</b>	<b>13,852,745</b>
Net income	-	-	-	4,520,951	-	4,520,951	(10,771)	4,510,180
Other comprehensive loss	-	-	-	-	(421)	(421)	-	(421)
<b>Balance as at June 30, 2018</b>	<b>27,612,597</b>	<b>\$ 9,210,646</b>	<b>\$ 2,165,130</b>	<b>\$ 8,090,381</b>	<b>\$ (984,702)</b>	<b>\$ 18,481,455</b>	<b>\$ (118,951)</b>	<b>\$ 18,362,504</b>

**XPEL, INC.****Condensed Consolidated Statement of Cash Flows**

(Expressed in United States Dollars)

(unaudited)

	Six Months Ended June 30,	
	2018	2017
<b>Cash flows from operating activities</b>		
Net income	\$ 4,510,180	\$ 685,257
Add items not affecting cash		
Depreciation of property, plant and equipment	338,867	336,745
Amortization of intangible assets	560,450	468,434
Loss (gain) on disposal of property, plant, and equipment	35,986	(7,251)
Bad debt expense	219,520	51,385
Deferred income tax recovery	(106,184)	(135,805)
Accretion on notes payable - acquisitions	37,796	22,879
Unrealized loss on foreign exchange	53,381	20,747
	<u>5,649,996</u>	<u>1,442,391</u>
Changes in non-cash working capital items		
Accounts receivable	(1,590,187)	(2,276,209)
Inventory	(1,318,255)	(3,098,856)
Prepaid expenses and other current assets	(293,748)	(570,587)
Accounts payable and accrued liabilities	(151,579)	550,846
Income tax payable	(447,440)	258,908
<b>Net cash provided by (used in) operating activities</b>	<u>1,848,787</u>	<u>(3,693,507)</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant, and equipment	(552,550)	(325,155)
Proceeds from sale of property, plant, and equipment	26,612	26,500
Acquisition of subsidiaries, net of cash received	(509,371)	-
Development of intangible assets	(322,880)	(542,751)
<b>Net cash used in investing activities</b>	<u>(1,358,189)</u>	<u>(841,406)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock	-	2,613,529
(Repayments) proceeds from revolving line of credit	(2,000,000)	2,500,000
Repayment of bank loan payable	(292,032)	(279,345)
Additions to notes payable - acquisitions	321,485	-
Repayment of notes payable - acquisitions	(299,575)	(222,341)
<b>Net cash (used in) provided by financing activities</b>	<u>(2,270,122)</u>	<u>4,611,843</u>
<b>Effect of exchange rates on cash and cash equivalents</b>	<u>(192,145)</u>	<u>535,753</u>
<b>(Decrease) increase in cash and cash equivalents during the period</b>	<u>(1,971,669)</u>	<u>612,683</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>3,498,904</u>	<u>1,861,089</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 1,527,235</u>	<u>\$ 2,473,772</u>
<b>Supplemental Disclosure</b>		
Cash paid for income taxes	\$ 1,789,087	\$ 190,000
Cash paid for interest	\$ 61,946	\$ 108,054

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

The accompanying condensed consolidated unaudited interim financial statements of XPEL Inc. (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  
Barry R. Wood CFO

## **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 Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in United States Dollars)  
**June 30, 2018 and 2017**

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**1. NATURE OF OPERATIONS**

XPEL Inc. (the "Company") is based in San Antonio, Texas and manufactures, sells, distributes, and installs after-market automotive products, including automotive paint protection film, headlight protection film, automotive window films and other related products.

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 corporation is a public company listed on the TSX Venture Exchange trading under the symbol "DAP.U".

During the Company's annual meeting in June 2018, the Company's shareholders approved changing the Company's name from XPEL Technologies Corp. to XPEL, Inc.

**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 and in accordance with the accounting policies included in its December 31, 2017 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, XPEL Canada Corp, XPEL B.V., XPEL de Mexico S. de R.L. de C.V., XPEL Acquisition Corp., Protex Canada Inc. and its 85% owned subsidiary XPEL Ltd. Intercompany transactions and balances are eliminated on consolidation.

**Functional and Presentation Currency**

These condensed consolidated financial statements have been prepared in United States dollars, which is the Company's functional and presentation currency. The functional currencies of the entities included in these consolidated financial statements are:

<u>Entity</u>	<u>Functional Currency</u>
XPEL Inc.	United States Dollars
XPEL Ltd.	UK Pound Sterling
ArmourfendCAD, LLC	United States Dollars
XPEL Canada Corp.	Canadian Dollar
XPEL B.V.	Euro
XPEL de Mexico S. de R.L. de C.V.	Mexican Peso
XPEL Acquisition Corp.	Canadian Dollar
Protex Canada Inc.	Canadian Dollar

## **2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **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 U.S. dollars at the reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement 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 dollars 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 Inc., 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

### **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 and liabilities, and recoverability of intangible assets and goodwill and fair value of financial instruments.

Significant judgments in connection with these condensed consolidated interim financial statements include determination if the acquisition is considered to be a business combination or an asset acquisition and determination of functional currency.



## **2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **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.

### **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment loss (if any). Depreciation is calculated over the estimated useful lives of the assets on a straight-line basis as follows:

Furniture and fixtures	- 5 years
Computer equipment	- 3-4 years
Vehicles	- 5 years
Equipment	- 5-7 years
Leasehold improvements	- shorter of lease term or estimate useful life
Plotters	- 4 years

Useful lives, residual values and depreciation methods are reviewed and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### **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	- 3-5 years

Intangible assets with an indefinite life, such as trademarks and domain names are recorded at cost and are not amortized.

Total costs deferred from immediate expense recognition according to the above noted policies were \$322,880 for the six months ended June 30, 2018 (June 30, 2017 – \$542,751).

### **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.

## **2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

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 has adopted IFRS 15 Revenue from Contracts with Customers effective January 1, 2018. The Company recognizes revenue upon the shipment of product, upon the completion and delivery of installation to the customer, and upon the access to the Company's software by the customer. These have been determined to be the performance obligations that are distinct and the point at which control of the assets pass to the customer. Revenue is measured at the fair value of the consideration received. The Company has determined the impact of the adoption of this new standard is minimal.

### **Fair Value**

Fair values 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).

### **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;
- (i) availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

**XPEL Inc.**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(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.

**3. INVENTORIES**

The components of inventory are summarized as follows:

	<b>Balance June 30, 2018</b>	Balance December 31, 2017
Film and film based products	\$ 10,515,767	\$ 9,157,799
Other products	859,981	761,242
Packaging and supplies	353,204	232,553
	<b>\$ 11,728,952</b>	<b>\$ 10,151,594</b>

**4. INTANGIBLE ASSETS**

<b>Cost</b>	<b>Balance January 1, 2018</b>	<b>Additions (net of disposals)</b>	<b>Acquisition Related Additions</b>	<b>Foreign Exchange</b>	<b>Balance June 30, 2018</b>
Design templates (internally generated)	\$3,783,300	\$256,386		\$ -	\$ 4,039,686
Trademarks	286,812	-		-	286,812
DAP software platform	1,244,397	63,831		-	1,308,228
Patent	100,000	-		-	100,000
Design templates	40,635	-		(911)	39,724
Domain names	7,500	2,663		-	10,163
Trade name	383,398	-		(4,509)	378,889
Contractual and customer relationships	2,625,157	-	167,934	(90,869)	2,702,222
Non-compete	259,074	-		(6,937)	252,137
	<b>\$8,730,273</b>	<b>\$322,880</b>	<b>\$167,934</b>	<b>\$(103,226)</b>	<b>\$ 9,117,861</b>

<b>Accumulated Amortization</b>	<b>Balance January 1, 2018</b>	<b>Additions</b>	<b>Foreign Exchange</b>	<b>Balance June 30, 2018</b>
Design templates (internally generated)	\$3,265,921	\$ 247,772	\$ -	\$3,513,693
Trademarks	-	-	-	-
DAP software platform	560,011	128,243	-	688,254
Patent	100,000	-	-	100,000
Design templates	40,635	-	(911)	39,724
Domain names	-	-	-	-
Trade name	32,869	17,343	(24,455)	25,757
Contractual and customer relationships	487,559	153,130	(19,459)	621,230
Non-compete	128,904	31,880	(4,046)	156,738
	<b>\$4,615,899</b>	<b>\$ 578,368</b>	<b>\$ (48,871)</b>	<b>\$5,145,396</b>

**XPEL Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in United States Dollars)  
**June 30, 2018 and 2017**

**4. INTANGIBLE ASSETS (cont'd)**

<b>Net Book Value</b>	<b>Balance June 30, 2018</b>	<b>Balance December 31, 2017</b>
Design templates (internally generated)	\$ 525,993	\$ 517,379
Trademarks	286,812	286,812
DAP software platform	619,974	684,386
Patent	-	-
Design templates	-	-
Domain names	10,163	7,500
Trade name	353,132	350,529
Contractual and customer relationships	2,080,992	2,137,598
Non-compete	95,399	130,170
	<b>\$ 3,972,465</b>	<b>\$ 4,114,374</b>

**5. ACQUISITION OF BUSINESSES**

The Company completed two acquisitions during the three months ended June 30, 2018 as follows:

<u>Acquisition Date</u>	<u>Location</u>
April 1, 2018	Quebec City, Quebec, Canada
June 1, 2018	La Verne, CA, USA

For these acquisitions, the Company acquired 100% of the net assets of the acquirees. With the Quebec City acquisition, the Company expects to enhance its presence in the local market. With the California acquisition, the Company expects to further diversify its product offerings. The Quebec City acquisition was conducted in Canadian dollars.

The total purchase price for these transactions was \$513,560. The Company has allocated the purchase price for these acquisitions as follows:

Cash	\$ 4,190
Accounts Receivable	12,254
Inventory	259,103
Prepaid and Other Assets	1,113
Property and Equipment	19,201
Customer Relationships	168,592
Goodwill	66,170
Accounts Payable	(6,143)
Accrued Liabilities	(10,920)
	<b>\$ 513,560</b>

Consideration for these acquisitions was comprised of:

Cash	\$ 192,075
Promissory Note	321,485
	<b>\$ 513,560</b>

**6. CREDIT FACILITIES**

The Company has entered into a \$8,500,000 (December 31, 2017 - \$8,500,000) revolving line of credit agreement with the Company's primary lender, The Bank of San Antonio, to support its continuing working capital needs. The Company must satisfy certain financial and 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 0.75% with a floor of 4.00% and matures on August 5, 2018. The interest rate at the end of the period ended June 30, 2018 was 5.75%.

**7. BANK LOAN PAYABLE**

The Company entered into a loan during the first quarter of 2015 with The Bank of San Antonio, to help fund the acquisition of 100% of the issued and outstanding shares of a distributor of paint protection and window tint products in the Canadian market. The original principal of the loan was for \$1,900,000 with monthly blended interest and principal repayments of \$49,785. The loan has a three-year term maturing on September 3, 2018 and is based on a five-year amortization schedule and bears a fixed interest rate of 4.25%. The Bank of San Antonio has been granted a security interest in substantially all of the Company's current and future assets. As at June 30, 2018, the principal outstanding was \$148,094 (December 31, 2017 - \$440,126).

**8. NOTE PAYABLE – ACQUISITIONS**

- (i) As part of the acquisition of a Canadian distributor of paint protection and window tint products in 2015, 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 installments of CAD\$117,533, which was adjusted from CAD\$120,413 as a result of the agreed upon working capital adjustment. The promissory note is discounted at a rate of 4.75%, and matures in January 2020. As at June 30, 2018, the principal outstanding was CAD\$822,734 (December 31, 2017 - CAD\$1,001,059). The carrying value of this loan was \$599,124 at June 30, 2018 (December 31, 2017 \$796,505).
- (ii) As part of the acquisition of the Las Vegas distributor, the Company issued an interest bearing unsecured promissory note. The unsecured promissory note is payable in 60 monthly installments of \$8,237. The note bears interest at 3.75%, is discounted at a rate of 10% and matures in December 2021. As at June 30, 2018, the principal outstanding was \$325,212 (December 31, 2017 – \$366,609). The carrying value of this loan was \$292,576 at June 30, 2018 (December 31, 2017 \$347,648).
- (iii) As part of the 2017 acquisitions, the Company issued an unsecured, non-interest bearing promissory note to the owner of the company acquired in Boise, ID. The unsecured promissory note is payable in 5 annual installments of \$40,000. Payment of these installments is contingent on the business meeting certain predetermined performance targets during each year. The maximum amount payable in any given year is \$40,000. The promissory note is discounted at a rate of 10% and matures in November 2022. As at June 30, 2018, the principal outstanding was \$200,000 (December 31, 2017 – \$200,000). The carrying value of this loan was \$161,708 at June 30, 2018 (December 31, 2017 - \$156,686).

**8. NOTE PAYABLE – ACQUISITIONS (cont'd)**

(iv) As part of the 2017 acquisitions, the Company issued an unsecured, non-interest bearing promissory note to the owner of the company acquired in Montreal, Quebec. The unsecured promissory note is payable in 20 quarterly installments of CAD\$28,000. The promissory note is discounted at a rate of 10% and matures in June 2022. As at June 30, 2018, the principal outstanding was CAD\$448,000 (December 31, 2017 – CAD\$532,000). The carrying value of this loan was \$277,970 at June 30, 2018 (December 31, 2017 – \$341,961).

(v) As a part of the 2018 acquisitions, the Company issued an unsecured promissory note to a former owner. The note is payable in 17 quarterly installments of \$25,205. The note is discounted at a rate of 15.53% and matures in July 2022. As at June 30, 2018, the principal outstanding was \$400,000 (December 31, 2017 - \$-0-). The carrying value of this loan was \$321,484 at June 30, 2018 (December 31, 2017 - \$-0-).

**9. 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

**10. FAIR VALUE**

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 bank loan payable approximates its fair value as the contract rate approximates current market rates. The fair value of notes payable - acquisitions as of June 30, 2018 is \$1,650,585 (December 31, 2017 - \$1,619,675).

**11. 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	\$	679,962
1-5 years		1,654,904
Greater than 5 years		704,881
		<hr/>
		<b>\$ 3,039,747</b>

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**XPEL Inc.**  
**Notes to Consolidated Financial Statements**  
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**11. 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.

**12. 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 Company's operating subsidiaries. Revenues reflect sales made from the subsidiary, generally, to customers in that geographic region. US and ROW (rest of world) includes XPEL Inc., ArmourfendCAD LLC and Mexico S. de R.L de C.V. and generally includes sales made within the United States, Mexico and to customers in other parts of the world not buying from one of our other subsidiaries. Europe includes XPEL Ltd. and XPEL B.V., which generally serve the broader European countries. Canada includes XPEL Canada Corp. and its subsidiaries which generally serve Canada. Below are breakdowns by operating segment revenues and net income (loss).

**Operating Segments**

Revenue, net income, and assets by operating segment as of and for the three-month periods ending June 30 are as follows:

2018	U.S. & ROW	Europe	Canada	Total
Total Revenue	\$ 26,269,144	\$ 2,825,045	\$ 4,586,971	\$ 33,681,160
Less: inter-segmental revenue	(4,816,474)	-	-	(4,816,474)
Total external revenue	21,452,670	2,825,045	4,586,971	28,864,686
Net income (loss)	\$ 2,095,401	\$ (103,356)	\$ 501,563	\$ 2,493,608
Total Assets	\$ 13,439,820	\$ 5,063,209	\$ 12,150,872	\$ 30,653,901
2017	U.S. & ROW	Europe	Canada	Total
Total Revenue	\$ 17,165,260	\$ 1,090,446	\$ 3,299,395	\$ 21,555,101
Less: inter-segmental revenue	(4,506,609)	-	-	(4,506,609)
Total external revenue	12,658,651	1,090,446	3,299,395	17,048,492
Net income (loss)	\$ 835,630	\$ (274,232)	\$ 188,707	\$ 750,105
Total Assets	\$ 15,576,463	\$ 3,577,393	\$ 9,363,208	\$ 28,517,064

Revenue, net income, and assets by operating segment as of and for the six-month periods ending June 30 are as follows:

2018	U.S. & ROW	Europe	Canada	Total
Total Revenue	\$ 49,411,119	\$ 5,100,837	\$ 8,731,768	\$ 63,243,724
Less: inter-segmental revenue	(9,180,284)	-	-	(9,180,284)
Total external revenue	40,230,835	5,100,837	8,731,768	54,063,440
Net income (loss)	\$ 4,017,378	\$ (140,071)	\$ 632,873	\$ 4,510,180
Total Assets	\$ 13,439,820	\$ 5,063,209	\$ 12,150,872	\$ 30,653,901
2017	U.S. & ROW	Europe	Canada	Total
Total Revenue	\$ 29,051,433	\$ 1,865,702	\$ 5,420,437	\$ 36,337,572
Less: inter-segmental revenue	(6,658,613)	-	-	(6,658,613)
Total external revenue	22,392,820	1,865,702	5,420,437	29,678,959
Net income (loss)	\$ 739,903	\$ (333,704)	\$ 279,057	\$ 685,257
Total Assets	\$ 15,576,463	\$ 3,577,393	\$ 9,363,208	\$ 28,517,064

**XPEL Inc.**  
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**13. REVENUE COMPONENTS**

Revenue earned from each product line are as follows:

	Three months ending June 30,	
	2018	2017
Paint protection film	<b>\$ 23,022,348</b>	\$ 12,933,602
Installation	<b>1,588,137</b>	1,231,205
Window film	<b>2,394,398</b>	1,520,348
Software	<b>1,063,093</b>	972,006
Other products	<b>796,710</b>	391,331
	<b>\$ 28,864,686</b>	\$ 17,048,492

	Six months ending June 30,	
	2018	2017
Paint protection film	<b>\$ 43,904,124</b>	\$ 22,501,472
Installation	<b>2,904,765</b>	2,050,610
Window film	<b>3,647,200</b>	2,372,082
Software	<b>2,013,411</b>	1,805,976
Other products	<b>1,593,940</b>	948,819
	<b>\$ 54,063,440</b>	\$ 29,678,959

Approximately 32% of the Company's revenue was derived primarily through its distributor in China.

**14. EXPENSES**

Cost of sales incurred by nature are as follows:

	Three months ending June 30,	
	2018	2017
Employee salaries and benefits	<b>\$ 888,359</b>	\$ 882,235
Materials	<b>18,008,541</b>	10,399,555
Freight	<b>397,977</b>	267,198
Credit card fees	<b>307,548</b>	184,530
Warranty expense	<b>119,479</b>	221,716
Shop supplies	<b>78,406</b>	104,308
Import duties	<b>94,520</b>	24,868
Other customer related costs	<b>75,031</b>	40,388
Other	<b>145,655</b>	166,699
Amortization and depreciation	<b>152,370</b>	139,655
	<b>\$ 20,267,886</b>	\$ 12,431,152



**XPEL Inc.**  
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**14. EXPENSES (cont'd)**

	Six months ending June 30,	
	2018	2017
Employee salaries and benefits	\$ 1,729,584	\$ 1,622,724
Materials	33,741,622	17,854,676
Freight	693,179	468,636
Credit card fees	542,694	321,145
Warranty expense	214,119	608,419
Shop supplies	154,978	175,486
Import duties	190,930	47,312
Other customer related costs	150,540	72,339
Other	248,539	279,782
Amortization and depreciation	306,828	278,342
	<b>\$37,973,013</b>	<b>\$21,728,861</b>

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

	Three months ending June 30,	
	2018	2017
Employee salaries and benefits	\$ 2,525,105	\$ 1,645,819
Sales and marketing	361,817	208,555
Occupancy	408,665	260,697
Professional fees	400,175	215,745
Filing fees	31,009	28,132
Insurance	127,872	69,972
Information technology costs	175,248	114,898
Intercompany freight costs	210,435	180,930
Travel related costs	238,512	239,705
Taxes – other	68,592	12,445
Office and general	292,519	127,802
Amortization and depreciation	327,684	263,963
	<b>\$ 5,167,633</b>	<b>\$ 3,368,663</b>

	Six months ending June 30,	
	2018	2017
Employee salaries and benefits	\$ 4,682,470	\$ 3,083,813
Sales and marketing	943,788	503,547
Occupancy	813,385	476,682
Professional fees	843,607	566,169
Filing fees	50,089	50,468
Insurance	225,762	148,620
Information technology costs	348,524	217,379
Intercompany freight costs	318,018	251,961
Travel related costs	538,200	571,334
Taxes – other	94,840	18,443
Office and general	608,599	260,429
Amortization and depreciation	592,489	524,537
	<b>\$10,059,771</b>	<b>\$ 6,673,382</b>

**15. ECONOMIC DEPENDENCY**

The Company depends directly or indirectly on suppliers to supply goods and services necessary for carrying on its core business. Approximately 86% (2017 – 88%) 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.

**16. PRIOR YEAR COMPARATIVE FIGURES**

Certain amounts in the prior year consolidated financial statements have been reclassified in order to conform to the presentation adopted in the current year. None of these changes in presentation affect previously reported results of operations.