

XPEL, Inc.

Condensed Consolidated Interim Financial Statements

(Expressed in United States Dollars)

For the Nine Months Ended September 30, 2018

XPEL, INC.
Condensed Consolidated Balance Sheet
(Expressed in United States Dollars)
(unaudited)

	Note	September 30, 2018	December 31, 2017
Assets			
Current			
Cash and cash equivalents		\$ 3,446,570	\$ 3,498,904
Accounts receivable		7,071,315	5,569,212
Inventory	3	12,614,556	10,151,594
Prepaid expenses and other current assets		1,223,206	689,890
Total current assets		24,355,647	19,909,600
Property, plant and equipment		2,589,076	2,153,233
Intangible assets	4	4,090,722	4,114,374
Deferred tax asset		283,968	378,014
Goodwill		2,913,760	2,490,105
Total assets		\$ 34,233,173	\$ 29,045,326
Liabilities			
Current			
Revolving line of credit	6	\$ -	\$ 2,000,000
Accounts payable and accrued liabilities		10,494,377	9,519,649
Income Tax Payable		680,815	1,126,865
Current portion of bank loan payable	7	-	440,126
Current portion of notes payable - acquisitions	8	835,690	624,308
Total current liabilities		12,010,882	13,710,948
Deferred tax liability		471,652	463,140
Notes payable - acquisitions	8	1,049,679	1,018,493
Total liabilities		13,532,213	15,192,581
Equity			
Capital stock		9,210,646	9,210,646
Contributed surplus		2,165,130	2,165,130
Accumulated other comprehensive loss		(826,962)	(984,281)
Retained earnings		10,255,127	3,569,430
		20,803,941	13,960,925
Non-controlling interest		(102,981)	(108,180)
Total liabilities and equity		\$ 34,233,173	\$ 29,045,326

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 September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
Revenue	12, 13	\$ 29,293,451	\$ 17,833,249	\$ 83,357,157	\$ 47,512,208
Expenses					
Cost of sales	14	20,466,877	13,584,452	58,439,890	35,313,313
Selling, general, and administrative expenses	14	5,827,243	3,558,498	15,928,299	10,258,441
Income from operations		2,999,331	690,299	8,988,968	1,940,454
Interest expense		43,513	86,701	151,294	194,755
Loss (Gain) on sale of property, plant and equipment		944	-	36,930	(7,251)
Foreign exchange loss (gain)		85,551	(55,764)	108,675	(71,509)
		<u>130,008</u>	<u>30,937</u>	<u>296,899</u>	<u>115,995</u>
Net income before income taxes		2,869,323	659,362	8,692,069	1,824,459
Deferred income tax expense (recovery)		125,215	(46,402)	19,031	(182,207)
Current income tax expense		563,657	260,929	1,982,142	876,574
		<u>688,872</u>	<u>214,527</u>	<u>2,001,173</u>	<u>694,367</u>
Net income		\$ 2,180,451	\$ 444,835	\$ 6,690,896	\$ 1,130,092
Items that may be reclassified to profit or loss:					
Cumulative differences on translation foreign operations		157,740	1,030,178	157,319	461,389
Total comprehensive income		<u>\$ 2,338,191</u>	<u>\$ 1,475,013</u>	<u>\$ 6,848,215</u>	<u>\$ 1,591,481</u>
Net income attributable to:					
Shareholders of the Company		\$ 2,164,738	\$ 459,990	\$ 6,685,697	\$ 1,161,773
Non-controlling interest		\$ 15,713	(15,155)	\$ 5,199	(31,681)
Net income		\$ 2,180,451	\$ 444,835	\$ 6,690,896	\$ 1,130,092
Total comprehensive income attributable to:					
Shareholders of the Company		\$ 2,322,478	\$ 1,490,168	\$ 6,843,016	\$ 1,623,162
Non-controlling interest		15,713	(15,155)	5,199	(31,681)
Total comprehensive income		\$ 2,338,191	\$ 1,475,013	\$ 6,848,215	\$ 1,591,481
Earnings per Share attributable to owners of the parent					
Basic and diluted		\$ 0.079	\$ 0.016	\$ 0.242	\$ 0.042
Weighted Average Number of Common Shares					
Basic and diluted		27,612,597	27,612,597	27,612,597	27,229,720

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

(Expressed in United States Dollars)

(unaudited)

	Capital Stock		Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Equity attributable to shareholders of the Company	Non-controlling Interest	Total Equity
	Number	Amount						
Balance as at January 1, 2017 (audited)	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	-	-	-	1,161,773	-	\$ 1,161,773	\$ (31,681)	\$ 1,130,092
Other comprehensive loss	-	-	-	-	461,389	\$ 461,389	\$ (224)	\$ 461,165
Balance as at September 30, 2017	27,612,597	9,210,646	2,165,130	\$ 3,543,858	\$ (372,336)	14,547,298	(87,084)	14,460,214
Issuance of common shares	-	-	-	-	-	-	-	-
Common share issuance cost	-	-	-	-	-	-	-	-
Net income and comprehensive income for the period	-	-	-	25,572	-	25,572	(21,096)	4,476
Other comprehensive income	-	-	-	-	(611,945)	(611,945)	-	(611,945)
Balance as at December 31, 2017 (audited)	27,612,597	9,210,646	2,165,130	3,569,430	(984,281)	13,960,925	(108,180)	13,852,745
Net income	-	-	-	6,685,697	-	6,685,697	5,199	6,690,896
Other comprehensive income	-	-	-	-	157,319	157,319	-	157,319
Balance as at September 30, 2018	27,612,597	\$ 9,210,646	\$ 2,165,130	\$ 10,255,127	\$ (826,962)	\$ 20,803,941	\$ (102,981)	\$ 20,700,960

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

(Expressed in United States Dollars)

(unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 6,690,896	\$ 1,130,092
Add items not affecting cash		
Depreciation of property, plant and equipment	539,379	529,301
Amortization of intangible assets	846,391	741,809
Loss (gain) on disposal of property, plant, and equipment	36,930	(7,251)
Bad debt expense	343,070	55,749
Deferred income tax expense (recovery)	19,031	(182,207)
Accretion on notes payable - acquisitions	67,529	35,555
Unrealized loss on foreign exchange	79,564	43,874
	<u>8,622,790</u>	<u>2,346,922</u>
Changes in non-cash working capital items		
Accounts receivable	(1,356,873)	(2,245,694)
Inventory	(2,194,218)	(4,064,374)
Prepaid expenses and other current assets	(499,109)	(771,535)
Accounts payable and accrued liabilities	785,369	666,935
Income tax payable	(446,050)	561,230
Net cash provided by (used in) operating activities	<u>4,911,909</u>	<u>(3,506,516)</u>
Cash flows from investing activities		
Purchase of property, plant, and equipment	(1,070,968)	(705,100)
Proceeds from sale of property, plant, and equipment	108,292	26,500
Acquisition of subsidiaries, net of cash received	(1,182,026)	-
Development of intangible assets	(499,696)	(684,258)
Net cash used in investing activities	<u>(2,644,398)</u>	<u>(1,362,858)</u>
Cash flows from financing activities		
Proceeds from issuance of common stock	-	2,613,529
(Repayments) proceeds from revolving line of credit	(2,000,000)	3,500,000
Repayment of bank loan payable	(440,126)	(421,507)
Additions to notes payable - acquisitions	663,945	-
Repayment of notes payable - acquisitions	(499,066)	(227,881)
Net cash (used in) provided by financing activities	<u>(2,275,247)</u>	<u>5,464,141</u>
Effect of exchange rates on cash and cash equivalents	<u>(44,598)</u>	<u>(147,641)</u>
(Decrease) increase in cash and cash equivalents during the period	<u>(52,334)</u>	<u>447,126</u>
Cash and cash equivalents at beginning of period	<u>3,498,904</u>	<u>1,861,089</u>
Cash and cash equivalents at end of period	<u>\$ 3,446,570</u>	<u>\$ 2,308,215</u>
Supplemental Disclosure		
Cash paid for income taxes	\$ 2,314,334	\$ 190,000
Cash paid for interest	\$ 84,974	\$ 159,200

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)
September 30, 2018 and 2017

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 \$499,695 for the nine months ended September 30, 2018 (September 30, 2017 – \$684,258).

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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

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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:

	Balance September 30, 2018	Balance December 31, 2017
Film and film based products	\$ 11,360,198	\$ 9,157,799
Other products	1,034,703	761,242
Packaging and supplies	219,655	232,553
	\$ 12,614,556	\$ 10,151,594

4. INTANGIBLE ASSETS

Cost	Balance January 1, 2018	Additions (net of disposals)	Acquisition Related Additions	Foreign Exchange	Balance September 30, 2018
Design templates (internally generated)	\$3,783,300	\$ 395,106		\$ -	\$ 4,178,406
Trademarks	286,812	2,922		-	289,734
DAP software platform	1,244,397	99,005		-	1,343,402
Patent	100,000	-		-	100,000
Design templates	40,635	-		(1,418)	39,217
Domain names	7,500	2,663		-	10,163
Trade name	383,398	-		(2,744)	380,654
Contractual and customer relationships	2,625,157	-	367,457	(55,296)	2,937,318
Non-compete	259,074	-		(4,221)	254,853
	\$8,730,273	\$499,696	\$367,457	\$(63,679)	\$ 9,533,747

Accumulated Amortization	Balance January 1, 2018	Additions	Foreign Exchange	Balance September 30, 2018
Design templates (internally generated)	\$3,265,921	\$ 373,592	\$ -	\$3,639,513
Trademarks	-	-	-	-
DAP software platform	560,011	190,983	-	750,994
Patent	100,000	-	-	100,000
Design templates	40,635	-	(1,418)	39,217
Domain names	-	-	-	-
Trade name	32,869	26,920	(68)	59,721
Contractual and customer relationships	487,559	206,668	(15,317)	678,910
Non-compete	128,904	48,228	(2,462)	174,670
	\$4,615,899	\$ 846,391	\$(19,265)	\$5,443,025

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4. INTANGIBLE ASSETS (cont'd)

Net Book Value	Balance September 30, 2018	Balance December 31, 2017
Design templates (internally generated)	\$ 538,893	\$ 517,379
Trademarks	289,734	286,812
DAP software platform	592,408	684,386
Patent	-	-
Design templates	-	-
Domain names	10,163	7,500
Trade name	320,933	350,529
Contractual and customer relationships	2,258,408	2,137,598
Non-compete	80,183	130,170
	\$ 4,090,722	\$ 4,114,374

5. ACQUISITION OF BUSINESSES

The Company completed four acquisitions during the nine months ended September 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
August 1, 2018	Pointe Claire, Quebec, Canada
August 1, 2018	Calgary, Alberta, Canada

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

The total purchase price for these transactions was \$1,201,238. The Company has allocated the purchase price for these acquisitions as follows:

Cash	\$ 19,212
Accounts Receivable	145,230
Inventory	268,744
Prepaid and Other Assets	34,207
Property and Equipment	78,686
Customer Relationships	365,881
Goodwill	478,638
Accounts Payable	(139,074)
Accrued Liabilities	(50,286)
	\$ 1,201,238

Consideration for these acquisitions was comprised of:

Cash	\$ 537,515
Promissory Note	663,723
	\$ 1,201,238

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 May 5, 2020. The interest rate at the end of the period ended September 30, 2018 was 6.00%.

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. This loan reached its maturity and was fully paid in September 2018. At December 31, 2017 the balance of this loan was \$440,126.

8. NOTES 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 September 30, 2018, the principal outstanding was CAD\$705,202 (December 31, 2017 - CAD\$1,001,059). The carrying value of this loan was \$523,498 at September 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 September 30, 2018, the principal outstanding was \$303,189 (December 31, 2017 – \$366,609). The carrying value of this loan was \$274,830 at September 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 September 30, 2018, the principal outstanding was \$200,000 (December 31, 2017 – \$200,000). The carrying value of this loan was \$165,498 at September 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 September 30, 2018, the principal outstanding was CAD\$420,000 (December 31, 2017 – CAD\$532,000). The carrying value of this loan was \$268,384 at September 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 September 30, 2018, the principal outstanding was \$374,795 (December 31, 2017 - \$-0-). The carrying value of this loan was \$301,760 at September 30, 2018 (December 31, 2017 - \$-0-).
- (vi) As part of the 2018 acquisitions, the Company issued an unsecured, non-interest bearing promissory note to the owner of the company acquired in Alberta, Canada. The note is payable in 12 quarterly installments of CAD\$25,000. The note is discounted at a rate of 11.2% and matures in July 2021. As at September 30, 2018, the principal outstanding was CAD\$300,000 (December 31, 2017 - \$-0-). The carrying value of this loan was \$198,528 at September 30, 2018 (December 31, 2017 - \$-0-).
- (vii) As part of the 2018 acquisitions, the Company issued four unsecured, non-interest bearing promissory notes to the owners of the company acquired in Pointe Claire, Quebec, Canada. Three of these notes are payable in 8 quarterly installments of CAD\$8,000 and mature in July 2020. One of these notes is payable in 12 quarterly installments of CAD\$12,917 and matures in July 2021. All four notes are discounted at a rate of 11.2%. As at September 30, 2018, the total principal outstanding for all four loans was CAD\$227,000 (December 31, 2017 - \$-0-). The carrying value of this loan was \$152,871 at September 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 September 30, 2018 is \$1,874,751 (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	\$	598,317
1-5 years		1,595,284
Greater than 5 years		654,743
	\$	2,848,344

(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 September 30 are as follows:

2018	U.S. & ROW	Europe	Canada	Total
Total Revenue	\$ 26,787,478	\$ 2,736,732	\$ 3,806,827	\$ 33,331,037
Less: inter-segmental revenue	(4,037,586)	-	-	(4,037,586)
Total external revenue	22,749,892	2,736,732	3,806,827	29,293,451
Net income (loss)	\$ 1,710,081	\$ 431,020	\$ 39,350	\$ 2,180,451
Total Assets	\$ 20,134,244	\$ 4,937,424	\$ 9,161,505	\$ 34,233,173
2017	U.S. & ROW	Europe	Canada	Total
Total Revenue	\$ 17,109,095	\$ 1,265,081	\$ 3,357,128	\$ 21,731,304
Less: inter-segmental revenue	(3,898,055)	-	-	(3,898,055)
Total external revenue	13,211,040	1,265,081	3,357,128	17,833,249
Net income (loss)	\$ 640,549	\$ (311,984)	\$ 116,270	\$ 444,835
Total Assets	\$ 18,538,828	\$ 4,715,851	\$ 6,668,733	\$ 29,923,412

XPEL Inc.
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12. SEGMENTED REPORTING (cont'd)

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

2018	U.S. & ROW	Europe	Canada	Total
Total Revenue	\$ 76,198,863	\$ 7,837,569	\$ 12,538,595	\$ 96,575,027
Less: inter-segmental revenue	(13,217,870)	-	-	(13,217,870)
Total external revenue	62,980,993	7,837,569	12,538,595	83,357,157
Net income (loss)	\$ 5,727,724	\$ 290,949	\$ 672,223	\$ 6,690,896
Total Assets	\$ 20,134,244	\$ 4,937,424	\$ 9,161,505	\$ 34,233,173

2017	U.S. & ROW	Europe	Canada	Total
Total Revenue	\$ 46,160,528	\$ 3,130,783	\$ 8,777,565	\$ 58,068,876
Less: inter-segmental revenue	(10,556,668)	-	-	(10,556,668)
Total external revenue	35,603,860	3,130,783	8,777,565	47,512,208
Net income (loss)	\$ 1,380,451	\$ (645,687)	\$ 395,328	\$ 1,130,092
Total Assets	\$ 18,538,828	\$ 4,715,851	\$ 6,668,733	\$ 29,923,412

13. REVENUE COMPONENTS

Revenue earned from each product line are as follows:

	Three months ending September 30,	
	2018	2017
Paint protection film	\$ 23,679,536	\$ 13,399,480
Window film	2,125,910	1,840,607
Installation	1,683,721	1,233,389
Software	972,624	909,525
Other products	831,660	450,248
	\$ 29,293,451	\$ 17,833,249

	Nine months ending September 30,	
	2018	2017
Paint protection film	\$ 67,583,659	\$ 35,900,951
Window film	5,662,725	4,034,255
Installation	4,698,872	3,462,434
Software	2,986,035	2,715,501
Other products	2,425,866	1,399,067
	\$ 83,357,157	\$ 47,512,208

Approximately 30.1% of the Company's revenue year-to-date was derived primarily through its distributor in China.

XPEL Inc.
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14. EXPENSES

Cost of sales incurred by nature are as follows:

	Three months ending September 30,	
	2018	2017
Employee salaries and benefits	\$ 1,001,214	\$ 905,164
Materials	18,030,559	11,385,297
Freight	493,498	263,452
Credit card fees	316,344	212,850
Warranty expense	60,278	131,147
Shop supplies	83,350	81,948
Import duties	121,473	17,355
Other customer related costs	23,220	63,579
Other	178,603	382,423
Amortization and depreciation	158,338	141,237
	\$20,466,877	\$13,584,452

	Nine months ending September 30,	
	2018	2017
Employee salaries and benefits	\$ 2,730,798	\$ 2,527,889
Materials	51,772,181	29,462,443
Freight	1,186,677	732,088
Credit card fees	859,038	533,994
Warranty expense	274,396	739,565
Shop supplies	238,329	257,433
Import duties	312,402	64,667
Other customer related costs	173,760	135,917
Other	427,144	439,739
Amortization and depreciation	465,165	419,578
	\$58,439,890	\$35,313,313

XPEL Inc.
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14. EXPENSES (cont'd)

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

	Three months ending September 30,	
	2018	2017
Employee salaries and benefits	\$ 2,707,637	\$ 1,753,415
Sales and marketing	638,824	232,104
Occupancy	457,738	309,787
Professional fees	573,529	210,232
Filing fees	19,681	12,698
Insurance	148,715	106,650
Information technology costs	213,048	112,664
Intercompany freight costs	176,550	179,018
Travel related costs	270,208	219,459
Taxes – other	36,485	26,045
Office and general	256,712	109,842
Amortization and depreciation	328,116	286,584
	\$ 5,827,243	\$ 3,558,498

	Nine months ending September 30,	
	2018	2017
Employee salaries and benefits	\$ 7,390,108	\$ 4,837,295
Sales and marketing	1,582,612	735,651
Occupancy	1,271,123	786,470
Professional fees	1,417,136	776,402
Filing fees	69,770	64,248
Insurance	374,476	255,270
Information technology costs	561,571	330,043
Intercompany freight costs	494,568	430,979
Travel related costs	808,408	789,957
Taxes – other	131,326	71,049
Office and general	906,596	369,956
Amortization and depreciation	920,605	811,121
	\$15,928,299	\$10,258,441

15. ECONOMIC DEPENDENCY

The Company depends directly or indirectly on suppliers to supply goods and services necessary for carrying on its core business. Approximately 83% (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.