

# **Xebec Adsorption Inc.**

Condensed Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)

**For the three-month period ended March 31, 2020 and 2019**

(expressed in Canadian dollars)

These Unaudited Condensed Interim Consolidated Financial Statements have not been subject to a review by  
our independent Auditors.

# Xebec Adsorption Inc.

## Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

As at March 31, 2020 and December 31, 2019

(expressed in Canadian dollars)

	March 31, 2020 \$	December 31, 2019 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	23,679,268	22,358,457
Restricted Cash (Note 3)	354,675	324,700
Trade and other receivables (Note 4)	26,115,013	24,121,723
Inventories	10,089,566	6,244,400
Investment tax credits receivable	15,943	15,943
Prepaid expenses	759,346	663,377
<b>Total current assets</b>	<u>61,013,811</u>	<u>53,728,600</u>
<b>Non-current assets</b>		
Property, plant and equipment (Note 5)	3,247,862	3,026,779
Intangible assets (Note 6)	2,042,504	2,710,304
Goodwill (Note 3)	5,667,179	5,052,922
<b>Total non-current assets</b>	<u>10,957,545</u>	<u>10,790,005</u>
<b>Total assets</b>	<u>71,971,356</u>	<u>64,518,605</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade, other payables and accrued liabilities	11,147,027	12,532,960
Contract liabilities	7,578,873	2,383,261
Current portion of long-term debt (Note 8a)	1,322,107	962,560
Current portion of government royalty program obligation (Note 8b)	141,218	124,880
Current portion of provisions	235,601	46,207
Current portion of obligation arising from shares issued by a subsidiary (Note 9)	400,400	373,000
Income Tax payable	457,646	369,923
<b>Total current liabilities</b>	<u>21,282,872</u>	<u>16,792,791</u>
<b>Non-current liabilities</b>		
Long-term debt (Note 8a)	4,201,631	4,288,564
Government royalty program obligation (Note 8b)	302,337	341,191
Obligation arising from shares issued by a subsidiary (Note 9)	4,166,200	3,807,476
Provisions	130,629	127,980
Deferred tax liabilities	190,535	203,237
<b>Total non-current liabilities</b>	<u>8,991,332</u>	<u>8,768,448</u>
<b>Total liabilities</b>	<u>30,274,204</u>	<u>25,561,239</u>
<b>Equity</b>		
Share capital (Note 10)	65,747,671	63,484,034
Contributed surplus	4,485,821	4,569,636
Accumulated other comprehensive income (loss)	56,031	(1,247,330)
Deficit	(28,592,371)	(27,848,974)
<b>Total equity</b>	<u>41,697,152</u>	<u>38,957,366</u>
<b>Total liabilities and equity</b>	<u>71,971,356</u>	<u>64,518,605</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements

**Approved by the Board of Directors**

(signed) Kurt Sorschak

Director

(signed) Guy Saint-Jacques

Director

# Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Income (loss)

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b> (Note 15)	12,192,910	9,768,797
<b>Cost of goods sold</b>	<u>9,152,625</u>	<u>6,465,851</u>
<b>Gross margin</b>	<u>3,040,285</u>	<u>3,302,946</u>
Research and development expenses	7,862	12,964
Selling and administrative expenses	3,853,838	2,515,179
Foreign exchange gain	(892,590)	(41,035)
Loss on conversion of shares issued by a subsidiary (Note 9)	<u>311,833</u>	<u>17,652</u>
	<u>3,280,943</u>	<u>2,504,760</u>
Operating income (loss)	<u>(240,658)</u>	<u>798,186</u>
<b>Other expenses (income)</b>		
Finance income	(18,492)	(806)
Finance expenses (Note 12)	<u>490,841</u>	<u>376,388</u>
	<u>472,349</u>	<u>375,582</u>
<b>Income (loss) before income taxes</b>	(713,007)	422,604
Income taxes	<u>30,390</u>	<u>-</u>
<b>Net income (loss) for the period</b>	<u>(743,397)</u>	<u>422,604</u>
<b>Net income (loss) per share</b>		
Basic net income (loss) per share (Note 10)	<u>(0.01)</u>	<u>0.01</u>
Diluted net income (loss) per share (Note 10)	<u>(0.01)</u>	<u>0.01</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# **Xebec Adsorption Inc.**

Condensed Interim Consolidated Statements of Comprehensive Income (loss)

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

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	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Net income (loss) for the period</b>	(743,397)	422,604
<b>Other comprehensive income</b>		
Cumulative translation adjustment	<u>1,303,361</u>	<u>56,020</u>
<b>Comprehensive income for the period</b>	<u>559,964</u>	<u>478,624</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Xebec Adsorption Inc.

## Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

As at March 31, 2020 and December 31, 2019

(expressed in Canadian dollars)

	Number							Amount
	Common shares	Warrants and Compensation Shares	Share capital – Common shares	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Equity Component of convertible debentures	Total
			\$	\$	\$	\$	\$	\$
<b>Balance – January 1, 2019</b>	57,018,270	5,286,381	26,508,168	3,691,192	(1,140,342)	(29,869,037)	189,645	(620,374)
Net income for the year	-	-	-	-	-	2,020,063	-	2,020,063
Other comprehensive loss	-	-	-	-	(106,988)	-	-	(106,988)
Comprehensive income (loss) for the year	-	-	-	-	(106,988)	2,020,063	-	1,913,075
Share issued from conversion of debentures	3,014,075	-	2,199,918	-	-	-	(189,645)	2,010,273
Share issued from the exercise of options	2,219,898	-	466,404	(166,631)	-	-	-	299,773
Share issued from public offering	19,232,600	-	31,304,052	-	-	-	-	31,304,052
Warrants and compensation shares issued from public offering (Note 10)	-	9,582,996	-	647,172	-	-	-	647,172
Warrants and compensation shares exercised from public offering (Note 10)	2,893,835	(2,893,835)	3,005,492	(9,943)	-	-	-	2,995,549
Stock-based compensation expense (Note 13)	-	-	-	407,846	-	-	-	407,846
<b>Balance – December 31, 2019</b>	<b>84,378,678</b>	<b>11,975,544</b>	<b>63,484,034</b>	<b>4,569,636</b>	<b>(1,247,330)</b>	<b>(27,848,974)</b>	<b>-</b>	<b>38,957,366</b>
<b>Balance – January 1, 2020</b>	<b>84,378,678</b>	<b>11,975,544</b>	<b>63,484,034</b>	<b>4,569,636</b>	<b>(1,247,330)</b>	<b>(27,848,974)</b>	<b>-</b>	<b>38,957,366</b>
Net loss for the period	-	-	-	-	-	(743,397)	-	(743,397)
Other comprehensive income	-	-	-	-	1,303,361	-	-	1,303,361
Comprehensive income (loss) for the period	-	-	-	-	1,303,361	(743,397)	-	559,964
Share issued from conversion of debentures	-	-	-	-	-	-	-	-
Share issued from the exercise of options	-	-	-	-	-	-	-	-
Share issued from public offering	-	-	(196,034)	-	-	-	-	(196,034)
Warrants and compensation shares issued from public offering (Note 10)	-	99,360	-	-	-	-	-	-
Warrants and compensation shares exercised from public offering (Note 10)	1,816,833	(1,816,833)	2,459,671	(136,333)	-	-	-	2,323,338
Stock-based compensation expense (Note 13)	-	-	-	52,518	-	-	-	52,518
<b>Balance – March 31, 2020</b>	<b>86,195,511</b>	<b>10,258,071</b>	<b>65,747,671</b>	<b>4,485,821</b>	<b>56,031</b>	<b>(28,592,371)</b>	<b>-</b>	<b>41,697,152</b>

*Accumulated other comprehensive income (loss) relates solely to cumulative translation adjustments.*

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Xebec Adsorption Inc.

## Condensed Interim consolidated Statements of Cash Flows (Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

	2020	2019
	\$	\$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net income (loss) for the period	(743,397)	422,604
Items not affecting cash		
Depreciation of property, plant and equipment (Note 5)	232,144	131,245
Amortization of intangible assets (Note 6)	984,165	35,809
Reversal of inventory write-down	(5,768)	(52,188)
Accretion of contingent consideration CAI (Note 8a)	12,418	-
Accretion of finance expenses and gain on revaluation of government royalty program obligation (Note 8b)	5,484	6,315
Accretion of the obligation arising from shares issued by a subsidiary (Note 9)	74,291	76,595
Exchange gain/loss on the obligation arising from shares issued by a subsidiary (Note 9)	311,833	17,652
Accretion of convertible debentures	-	48,644
Stock-based compensation expense (Note 13)	52,518	117,820
Accretion of obligation under a working capital line	9,460	-
Future income taxes	(12,702)	-
	<u>920,446</u>	<u>804,496</u>
Change in non-cash working capital balances related to operations (Note 14)	<u>(1,839,213)</u>	<u>(3,376,437)</u>
	<u>(918,767)</u>	<u>(2,571,941)</u>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(64,233)	(121,855)
Acquisition of intangible assets	(284,439)	(13,825)
Business acquisitions, net of cash acquired (Note 3)	-	(1,463,523)
	<u>(348,672)</u>	<u>(1,599,203)</u>
<b>Financing activities</b>		
Increase (decrease) of bank loan	-	526,982
Increase (decrease) of credit facility	-	-
Proceeds from issuance of share capital (Note 10)	2,127,304	(910)
Long-term debt	-	8,288
Repayment of long-term debt (Note 8a)	(130,699)	(78,626)
Repayment of government royalty program obligation (Note 8b)	(28,000)	(23,000)
	<u>1,968,605</u>	<u>432,734</u>
<b>Net increase (decrease) in cash and cash equivalent during the period</b>	<u>701,166</u>	<u>(3,738,410)</u>
<b>Cash and cash equivalent – Beginning of period</b>	<u>22,683,157</u>	<u>3,922,146</u>
Effect of exchange rate changes on cash	<u>649,620</u>	<u>290,237</u>
<b>Cash and cash equivalent – End of period</b>	<u>24,033,943</u>	<u>473,973</u>
<b>Additional information</b>		
Interest paid	389,189	179,676

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

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### 1 Nature of business

Xebec Adsorption Inc. (“Xebec” or the “Company”) is a global provider which specializes in the design and manufacture of cost-effective and environmentally responsible purification, separation, dehydration and filtration equipment for gases and compressed air. Xebec’s main product lines are: biogas upgrading systems for the purification of biogas from agricultural digesters, landfill sites and waste water treatment plants, natural gas dryers for natural gas refuelling stations, associated gas purification systems which enable diesel displacement on drilling sites, and hydrogen purification and generation systems for fuel cell and industrial applications. The Company is incorporated and domiciled in Canada and is listed on the TSX Venture (TSXV) Exchange under the symbol XBC-V. The address of its registered office is 730 Industriel Boulevard, Blainville, Quebec, Canada. The Company’s web site address is [www.xebecinc.com](http://www.xebecinc.com).

### 2 Summary of significant accounting policies

#### Basis of presentation

These condensed consolidated interim financial statements, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statement, including IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for annual statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019, as they follow the same accounting policies and methods of application, unless otherwise indicated.

Certain figures of the consolidated statements of cash flows have been reclassified in order to comply with the basis of presentation adopted in the current year.

#### Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

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(expressed in Canadian dollars)

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Intercompany transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated. Subsidiaries comprise Xebec Adsorption (Shanghai) Co. Ltd., which is 70% owned, Xebec Holding USA Inc., Xebec Adsorption Europe SRL, Compressed Air International, Xebec RNG Holdings Inc which are wholly owned and GNR Bromont L.P, which is 99% percent owned. Xebec Holding USA Inc. has two subsidiaries, Xebec Adsorption USA Inc. and CDA Systems LLC., which are wholly owned. Xebec RNG Holdings Inc has one subsidiary GNR Bromont Management Inc which is wholly owned. GNR Bromont Management Inc. owns the 1% remaining of GNR Bromont L.P. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases. The Company has the obligation to repurchase the Minority Shareholders' interest owned in Xebec Adsorption (Shanghai) Co. Ltd. under certain circumstances (see Note 9). Therefore, the accounts of Xebec Adsorption (Shanghai) Co. Ltd. are consolidated at 100% and the Minority Shareholders' interest is presented as a financial liability in these consolidated financial statements.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions or liability transactions depending on the conditions that these changes occurred. The carrying amounts of the Company's interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

### **Foreign currency translation**

#### **Functional and presentation currency:**

Items included in the condensed interim financial statements of each entity consolidated in the Company group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The condensed interim financial statements of entities that have a functional currency different from that of the Company (foreign operations) are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the year (to the extent this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income (loss) as cumulative translation adjustment.



# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

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(expressed in Canadian dollars)

### **Revenues from Contracts with Customers**

The Company earns revenues mainly from the sale of natural gas dryers, air dryers and hydrogen purification solutions (commercial equipment). The Company recognizes revenue on commercial equipment sales when it is probable that the economic benefits will flow to the Company and delivery has occurred. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer. Provisions are established for estimated product returns and warranty costs at the time revenue is recognized. Cash received in advance of all of these revenue recognition criteria being met is recorded as contract liabilities.

Revenues from long-term production-type contracts such as biogas purification equipment and engineering service contracts are determined under the percentage-of-completion method whereby revenues are recognized based on the costs incurred to date in relation to the total expected costs of a contract (costs being composed mainly of materials and labour). Costs and estimated profit on contracts in progress in excess of amounts billed are reflected as work in progress. Cash received in advance of revenues being recognized on contracts is recorded as contract liabilities.

The Company monitors its contracts with customers on a regular basis to determine if a loss is likely to occur. If a loss is anticipated on a contract, the entire estimated loss is recorded as a cost of goods sold in the year in which the loss becomes evident and reasonably estimable.

Revenue is measured based on the price specified in the sales contract, net of discounts and estimated returns at the time of sale. Historical experience is used to estimate and provide for discounts and returns.

Revenues for contracts in China are recognized upon completion and the Company can determine that control has been transferred to the customer in accordance with the agreed-upon specifications in the contract.

Revenues from services are recorded when services have been rendered. For contract services that last over a year, revenue is recognized over the duration of the contract.

### **Contract balances**

Contract assets are recognized when goods or services are transferred to customers before consideration is received or before the Company has an unconditional right to payment for performance completed to date. Contract assets are subsequently transferred to receivables when the right of payment becomes unconditional. Contract assets include cost incurred and recorded margins in excess of advances and progress billings on long-term contracts.

Contract liabilities are recognized when amounts are received from customers in advance of transfer of goods or services. Contract liabilities are subsequently recognized in revenue as or when the Company performs under contracts. Contract liabilities include advances and progress billing in excess of costs incurred on long-term contracts.

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

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(expressed in Canadian dollars)

A net position of contract asset or contract liability is determined for each contract. The cash flows in respect of advances and progress billings, are classified as cash flows from operating activities.

### **Costs to obtain or fulfill a contract**

The Company can recognize as an asset the incremental costs of obtaining a contract with a customer when those costs are expected to be recovered.

Costs that would have been incurred regardless of whether the contract was obtained are recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The Company recognizes the incremental costs of obtaining contracts as an expense when incurred because those costs are not expected to be recovered and are not charged to the customer.

### **Remaining performance obligations**

The Company's contracts are for delivery of goods within the next following 12 months of the contract's signature; therefore, the Company uses the practical expedient allowed in Paragraph 121(a) of IFRS 15.

Following Paragraph 121(a), the Company does not disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period.

### **Financial Instruments**

The Company's financial assets are accounted for at amortized cost.

#### **Financial Assets**

- Cash
- Restricted cash
- Trade and other receivables
- Bank loan
- Trade, other payables and accrued liabilities
- Long-term debt
- Government royalty program obligation
- Obligation arising from shares issued by a subsidiary

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs where applicable.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- Amortized cost
- Fair value through profit or loss (FVTPL)

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

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(expressed in Canadian dollars)

- Fair value through other comprehensive income (FVOCI)

In the periods presented, the Company does not have any financial assets categorized as FVTPL or FVOCI.

The classification is determined by both, the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in income or loss are presented within finance expenses or finance income, except for impairment of trade receivables which is presented within selling and administrative expenses.

Financial assets are measured at amortized cost if the assets meet the following conditions and are not designated as FVTPL:

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, they are measured at amortized costs using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company cash, restricted cash, trade and other receivables fall into this category of financial instruments.

The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows on the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Company's financial liabilities include bank loans, trade, other payables and accrued liabilities, long-term debt, government royalty program obligation and obligations arising from shares issued by a subsidiary.

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

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(expressed in Canadian dollars)

Financial liabilities are initially measured at fair value and where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair-value through profit of loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in income or loss are included within finance expense or finance income.

### **Segment reporting**

The Company operates three business segments:

- 1) Systems (Cleantech) - Provide Renewable Natural Gas, Hydrogen and Renewable Hydrogen for a variety of applications, from fuel cells to fossil fuel replacement applications for low carbon transportation fuels.
- 2) Infrastructure (Renewable Gas Generation) – Project development of renewable natural gas production facilities, in the build, own and operate (BOO) model that will generate low-carbon renewable transport fuels and carbon credits.
- 3) Support (Industrial Air and Gas Products, Parts, Service and Operational Support) – foundational recurring revenue model.

For management purposes, the Company uses the same measurement policies as those in its financial statements.

In addition, corporate assets are used by each segment and are therefore not attributable to any segment specifically.

### **Leases**

Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated statement of income (loss) on a straight-line basis over the lease term.

Leases where the Company had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The Company recognises a right-of-use asset and a lease liability with respect to a lease on the date the underlying asset is available for use by the Company (hereafter, the 'commencement date'). Right-of-use assets are initially measured at cost, including the amount of the initial measurement of the lease liability, adjusted for leases payments on or above the commencement date, plus initial direct costs incurred and estimate of all of the costs for dismantling and removing the underlying asset, less any lease incentives received, including deferred rent. The right-of-use asset is subsequently measured at

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

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(expressed in Canadian dollars)

cost less accumulated depreciation and accumulated impairment losses. The depreciation is recognised in a manner consistent with existing standards for property, plant and equipment over the lease term adjusted for lease payments on or above the commencement date, plus an estimate of the costs for dismantling and removing the underlying asset.

Lease liabilities are initially measured at the present value of the lease payments over the lease payments to be made over the lease term. The lease payments are discounted using the Company's incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made.

The interest expense relating to lease liabilities is recognised in profit or loss using the effective interest method.

Each lease payment was allocated between the liability and finance charges. The interest element of the finance cost was charged to the consolidated statement of loss over the lease year so as to produce a constant yearly rate of interest on the remaining balance of the liability for each year. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

New right-of-use assets and lease liabilities are non-cash transactions and thus excluded from the consolidated statement of cash flows.

### **3 Business combinations**

#### a) Compressed Air International Inc.

On January 1st, 2019, the Company acquired all outstanding shares of Compressed Air International Inc. (CAI) for a purchase price of \$2,200,000. \$1,540,000 has been paid in cash while \$660,000 will be earned-out over the next three years (see Note 8a). The contingent consideration will be payable only if the annual EBITDA for a period of three years exceeds a target level agreed by both parties.

CAI is a distributor and full-service supplier of industrial compressed air and gas products with locations in Woodbridge and Guelph, Ontario. In business for 20 years, CAI offers an extensive range of compressors, genuine and OEM-equivalent compressor parts, compressed adsorption and refrigerant air dryers, filtration products, emergency and preventative maintenance service as well as complete installation and service packages.

CAI's principals will remain with CAI after the acquisition to optimize CAI's integration in Xebec's industrial compressed air treatment business.

The fair value of the trade and other receivables acquired as part of the business acquisition amounted to \$743,798 with a gross contractual amount of \$743,798. As at the acquisition date, the Company's best estimate of the contractual cash flows not expected to be collected amounted to \$NIL.

Goodwill is related to growth expectations, expected future profitability, the substantial skill and expertise of CAI's force workforce and expected cost synergies. Goodwill is not expected to be deductible for tax purposes.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

Acquisition-related costs amounting to \$93,500 (\$39,143 in 2018 and \$54,357 in 2019) are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of selling and administrative expenses in each corresponding year.

The details of the final business combination are as follows:

	\$
<b>Fair value of consideration transferred</b>	
Amount settled in cash	1,540,000
Fair value of contingent consideration	537,520
<b>Total</b>	<u>2,077,520</u>
<b>Recognized amounts of identifiable net assets</b>	
Inventories	443,452
Trade and other receivables	743,798
Prepaid expenses	52,292
Cash and cash equivalents	76,648
<b>Total current assets</b>	<u>1,316,190</u>
Property, plant and equipment	19,562
<b>Total non-current assets</b>	<u>19,562</u>
Trade, other payables and accrued liabilities	(677,629)
<b>Total current liabilities</b>	<u>(677,629)</u>
Long-term debt	(5,203)
Deferred tax liability	(217,754)
<b>Total non-current liabilities</b>	<u>(222,957)</u>
<b>Identifiable net assets</b>	<u>435,166</u>
<b>Intangible assets and goodwill on acquisition</b>	
Customer relationships	821,713
Goodwill on acquisition	820,641
<b>Total Intangible assets and Goodwill on acquisition</b>	<u>1,642,354</u>
Consideration transferred settled in cash	1,540,000
Cash and cash equivalents acquired	(76,648)
<b>Net cash outflows on acquisition</b>	<u>1,463,352</u>

CAI generated revenues of \$1,343,171 and a profit of \$98,707 for the period ended March 31, 2020.

### b) CDA Systems LLC

On December 10<sup>th</sup>, 2019, Xebec Holding USA Inc, a wholly owned subsidiary of the Company, acquired all outstanding shares of CDA Systems LLC. (CDA) for a preliminary purchase price of \$6,782,433 (\$5,123,070 USD). The purchase agreement includes an additional consideration payable from future EBITDA and other financial targets to be achieved over the next two years. The fair value of the contingent consideration will be calculated when the purchase price allocation has been

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

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(expressed in Canadian dollars)

completed. The Company does not have access to all information be to able to complete the price allocation. A balance of \$354,675 (\$250,000 USD) from the preliminary purchase price could be payable depending on the achievement of a target working capital (see Note 8a). The purchase price is partially allocated to goodwill.

CDA Systems is a leading distributor and service provider of Oil-Free Air Compressors, Air Dryers, and Filtration Systems in California's San Francisco Bay Area. CDA designs, sells, rents, and maintains Clean Dry Air systems and, with decades of industry experience under their belt, have supported major manufacturers with numerous equipment installations. These have included value engineered solutions supporting compression, dehydration, CNG, and other specialty gases, with a goal of achieving energy cost savings and utility rebates.

CDA's principals will remain with CDA after the acquisition to optimize CDA's integration in Xebec's industrial compressed air treatment business.

The fair value of the trade and other receivables acquired as part of the business acquisition amounted to \$2,279,263 with the same gross contractual amount. As at the acquisition date, the Company's best estimate of the contractual cash flow not expected to be collected amounted to \$NIL.

Goodwill is not expected to be deductible for tax purposes.

Acquisition-related costs amounting to \$399,647 (\$275,584 in 2019 and \$124,064 in 2020) are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of selling and administrative expenses into each corresponding year.

The purchase price allocation will be completed within 12 months of the acquisition date. The preliminary details of the business combination are as follows:

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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(expressed in Canadian dollars)

	\$
<b>Fair value of consideration transferred</b>	
Amount settled in cash	6,451,458
Restricted cash	330,975
<b>Total</b>	<u>6,782,433</u>
<b>Recognized amounts of identifiable net assets</b>	
Trade and other receivables	2,279,263
Inventories	348,237
Cash and cash equivalents	320,923
Prepaid expenses	75,761
<b>Total current assets</b>	<u>3,024,184</u>
Property, plant and equipment	778,637
Intangible assets	81,941
<b>Total non-current assets</b>	<u>860,578</u>
Trade, other payables and accrued liabilities	(943,038)
Current portion of long-term debt	(125,994)
Contract liabilities	(67,965)
Income taxes payable	(34,963)
<b>Total current liabilities</b>	<u>(1,171,960)</u>
Long-term debt	(244,442)
<b>Total non-current liabilities</b>	<u>(244,442)</u>
<b>Identifiable net assets</b>	<u>2,468,360</u>
<b>Goodwill on acquisition</b>	<u>4,314,073</u>
Consideration transferred settled in cash	6,451,458
Cash and cash equivalents acquired	(320,923)
<b>Net cash outflows on acquisition</b>	<u>6,130,535</u>

CDA generated revenues of \$1,179,758 and a loss of \$167,954 for the period ended March 31, 2020.

The goodwill has experienced a positive variance due to exchange rate fluctuations of \$532,465.

The restricted cash has experienced a positive variance due to exchange rate fluctuations of \$29,975.



# Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

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## 4 Trade and other receivables

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	14,878,084	13,274,136
Contract assets	4,929,824	6,788,722
Other receivables	2,944,531	1,802,482
Supplier deposits	3,927,212	2,790,454
Less: Allowance for expected credit loss	(564,638)	(534,071)
Trade and other receivables - net	<u>26,115,013</u>	<u>24,121,723</u>

Trade and other receivables are pledged as security for credit facilities (see Notes 7 and 8)

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

### 5 Property, plant and equipment

	Right- of-use- assets	Machinery and Equipment \$	Office furniture and equipment \$	Computers \$	Moulds \$	Vehicles \$	Leasehold Improvement \$	Total \$
<b>Cost</b>								
Balance at December 31, 2018	-	596,261	155,905	350,253	169,311	35,984	20,450	1,328,164
Additions	2,245,806	108,611	12,828	30,977	12,564	-	150,996	2,561,782
Additions through business acquisition	370,437	29,143	10,432	13,683	279,897	93,160	1,447	798,199
Disposals	-	-	-	(5,249)	-	-	-	(5,249)
IFRS 16 reclass	11,327	-	-	(11,327)	-	-	-	-
Effect of movements in exchange rates	(30,052)	(13,273)	(5,647)	(6,869)	(11,618)	(1,766)	(28)	(69,253)
Balance at December 31, 2019	2,597,518	720,742	173,518	371,468	450,154	127,378	172,865	4,613,643
Additions	294,550	-	44,284	5,835	-	-	14,114	358,783
Effect of movements in exchange rates	68,756	17,494	7,261	9,823	33,321	8,437	131	145,223
Balance at March 31, 2020	2,960,824	738,236	225,063	387,126	483,475	135,815	187,110	5,117,649
<b>Accumulated depreciation</b>								
Balance at December 31, 2018	-	471,008	149,609	225,918	161,490	35,984	2,337	1,046,346
Depreciation	426,593	45,792	10,817	49,405	15,827	7,756	16,033	572,223
Depreciation IFRS 16 reclass	3,777	-	-	(3,777)	-	-	-	-
Depreciation of assets disposed	-	-	-	(5,249)	-	-	-	(5,249)
Effect of movements in exchange rates	(153)	(8,878)	(5,496)	(5,567)	(6,214)	(148)	-	(26,456)
Balance at December 31, 2019	430,217	507,922	154,930	260,730	171,103	43,592	18,370	1,586,864
Depreciation	162,135	10,437	1,737	12,608	28,487	11,263	5,477	232,144
Effect of movements in exchange rates	13,602	11,898	6,755	6,991	9,930	1,598	5	50,779
Balance at March 31, 2020	605,954	530,257	163,422	280,329	209,520	56,453	23,852	1,869,787
<b>Carrying Amount</b>								
At December 31, 2019	2,167,301	212,820	18,588	110,738	279,051	83,786	154,495	3,026,779
At March 31, 2020	2,354,870	207,979	61,641	106,797	273,955	79,362	163,258	3,247,862

For the three-month period ended in March 31 a depreciation amount of \$232,144 (2019 – \$131,245) is included in the consolidated statement of income (loss): \$70,472 (2019 – \$38,857) in cost of goods sold; and \$161,672 (2019 – \$92,388) in selling and administrative expenses.

Property, plant and equipment are pledged as security for the credit facilities (see Notes 7 and 8)

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

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### 6 Intangible assets

	Other		Internally generated		Total intangible assets
	Software	Customer Relationships	Development costs	Engineering standardisation	
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance at December 31, 2018	342,434	-	301,059	432,274	1,075,767
Additions	52,177	-	-	2,623,156	2,675,333
Additions through business acquisitions	65,025	838,629	-	-	903,654
Effect of movements in exchange rates	(12,044)	(321)	-	(9,155)	(21,520)
Balance at December 31, 2019	447,592	838,308	301,059	3,046,275	4,633,234
Additions	116,849	-	-	167,590	284,439
Effect of movements in exchange rates	18,907	2,998	-	111,452	133,357
Balance at March 31, 2020	583,348	841,306	301,059	3,325,317	5,051,030
<b>Accumulated amortization</b>					
Balance at December 31, 2018	338,361	-	268,375	63,554	670,290
Amortization for the year	3,832	54,966	32,684	1,173,691	1,265,173
Effect of movements in exchange rates	(10,566)	(6)	-	(1,961)	(12,533)
Balance at December 31, 2019	331,627	54,960	301,059	1,235,284	1,922,930
Amortization for the year	56,516	48,482	-	879,167	984,165
Effect of movements in exchange rates	16,383	1,524	-	83,524	101,431
Balance at March 31, 2020	404,526	104,966	301,059	2,197,975	3,008,526
<b>Carrying amount</b>					
At December 31, 2019	115,965	783,348	-	1,810,991	2,710,304
At March 31, 2020	178,822	736,340	-	1,127,342	2,042,504

For the three-month period ended in March 31 an amortization amount of \$984,165 (2019 – \$35,809) is included in the consolidated statement of income (loss): \$879,243 (2019 – \$19,185) in cost of goods sold; and \$104,922 (2019 – \$16,624) in selling and administrative expenses.

### 7 Bank loan

The Company has access to credit facilities in the amount of \$2,500,000 with National Bank of Canada which are guaranteed by Export Development Canada at 75%, and bear interest at the Canadian Prime Rate plus 2.75%, per annum and are limited by certain margin requirements concerning trade and other receivables and inventories. The Company also has access to credit facilities through Compressed Air International with Toronto Dominion Bank (TD) in the amount of \$150,000 and bear interest at the TD prime rate plus 3.50% per annum. No credit facilities were used as at March 31, 2020 (\$526,982 as at March 31, 2019).

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

The credit facilities are secured by a first ranking hypothec of \$3,000,000 on all movable property of the Company.

As of March 31, 2020, the company has a guarantee facility of \$12,000,000 with National Bank of Canada sponsored at 100% by Export Development Canada. Stand-by fees at an annual rate of 0.75% are calculated on the unused portion of this operating credit. As at March 31, 2020, four guarantee facilities are used for a total of \$7,447,322 (\$1,698,225 as at March 31, 2019).

During the period ended March 31, 2020 all ratios and conditions have been respected by the Company.

### 8 Long-term debt and government royalty program obligation

#### a) Long-term debt

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	\$	\$
i. Obligation under a working capital line, bearing an interest rate of 11% per annum, maturing in July 2021 <sup>1</sup>	1,943,900	1,934,440
ii. Lease liabilities	2,616,098	2,395,336
iii. Contingent consideration CAI (Note 3)	609,065	596,648
iv. Balance from business acquisition payable (Note 3)	354,675	324,700
Long-term debt	<u>5,523,738</u>	<u>5,251,124</u>
Current portion	<u>(1,322,107)</u>	<u>(962,560)</u>
	<u>4,201,631</u>	<u>4,288,564</u>

#### i. Obligation under a working capital line

The Company has a \$2 million, three-year term, working capital line bearing interest at the rate of 11% per annum, payable every month.

#### ii. Lease liabilities

The Company leases office space, office equipment and vehicles. The Company measures the lease liabilities at the present value of the lease payments. The present value is increased to reflect the interest on the lease liabilities and reduced to reflect the lease payments made.

<sup>1</sup> The Obligation under a working capital line, has been recorded at its fair value less transactions costs directly attributable to its acquisition. Transaction costs are being amortized over the duration of the obligation with a face value of \$2,000,000 at maturity.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

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(expressed in Canadian dollars)

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of period,	2,395,336	2,278,065
Additions	294,550	483,820
Accretion interest	67,805	225,060
Lease payments	(198,506)	(563,864)
Effect of exchange rate change on obligation	56,913	(27,745)
Balance – End of period	2,616,098	2,395,336
Current Portion	(543,838)	(459,410)
	<u>2,072,260</u>	<u>1,935,926</u>

- Following is a summary of the Company's obligations regarding lease payments:

### As at March 31, 2020

	<b>Payment Due by Period</b>			<b>Total</b>
	1 year	2 - 5 years	Beyond 5 years	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Lease payments	673,227	1,782,190	507,006	2,962,423

Some leases require repayment of a portion of the lessor's payments for property taxes, these amounts vary based on the use and wear and tear of the office space. Variable payments for property taxes for the period ended March 31, were \$44,016 (\$36,913 2019).

### iii. Contingent consideration CAI

CAI's Contingent consideration was measured at the present value of future principal payment discounted at a rate of 11%, for a carrying amount of \$537,520. The earn-out is subsequently adjusted to reflect the change in fair value. The face value of the obligation is \$660,000. The \$537,520 contingent consideration liability, initially recognized, represents the present value of the Company's probability weighted estimate of the cash outflow. It reflects management's estimate of a 100% probability that the targets will be achieved.

The following table summarizes the activity related to the government royalty program obligation during the period ended:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of period,	596,648	537,520
Accretion finance expenses	12,417	59,128
Repayment	-	-
Balance – End of period,	609,065	596,648
Current portion	(185,471)	(178,449)
	<u>423,594</u>	<u>418,199</u>

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

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iv. Balance of business acquisition payable

Payable depending on the achievement of a target working capital.

v. Additional financial support

The Company has an unused \$23 million additional financial support obtained on July 23, 2018 from Export Development Canada (EDC), Canada's export credit agency. The financial support consists of a \$12 million bonding facility, which will be used to support the issuance of multiple bank guarantees. The bonding facility bears interest at the rate of the Canadian Prime Rate of the Bank plus 2.50% per annum, payable every month. Stand-by fees at an annual rate of 0.75% calculated on the unused portion of the bonding facility shall be payable monthly.

The financial support is secured by a first ranking hypothec in inventory and accounts receivables related to contracts.

b) Government royalty program obligation

In 2012, the Company signed a settlement agreement with Technology Partnership Canada (TPC) with regard to the Company's Fast Cycle Pressure Swing Adsorption and Gas Management systems and Pulsar Pressure Swing Adsorption project.

In February 2017, a new amendment to this agreement was reached changing the preceding payments terms from monthly payments of \$24,500 to monthly payments of:

- \$29,505 upon execution including interest
- \$5,000 starting from March 1, 2017 to January 1, 2018
- \$7,000 starting from February 1, 2018 to January 1, 2019
- \$8,000 starting from February 1, 2019 to January 1, 2020
- \$10,000 starting from February 1, 2020 to January 1, 2021
- \$15,000 starting from February 1, 2021 to October 1, 2022
- \$20,000 on November 1, 2022 and December 1, 2022
- And the balance of \$22,540 on January 1, 2023.

The following table summarizes the activity related to the government royalty program obligation during the period ended:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of period,	466,071	536,773
Accretion finance expenses	5,484	24,298
Repayment	(28,000)	(95,000)
Balance – End of period,	443,555	466,071

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

	March 31, 2020	December 31, 2019
	\$	\$
Current portion	(141,218)	(124,880)
	302,337	341,191

The carrying amount of the government royalty program obligation has been calculated by discounting the future cash flows at a 5% interest rate.

### 9 Obligation arising from shares issued by subsidiary

In September 2015, as a result of a Sino-foreign equity joint venture agreement, Xebec Adsorption (Shanghai) Co. Ltd., a subsidiary of Xebec Adsorption Inc. (“Xebec”), issued 1,714,285 common shares, representing a 30% participation, to Shanghai Chengyi New Energy Venture Capital Co. Ltd. (28.26%), an investment subsidiary of Shanghai based Shenergy Group, Shanghai Zhiyi Enterprise Management Consulting Co. Ltd. (0.1%) and Shanghai Liuhuan Investment Co. Ltd. (1.64%), a company held by a group of employees of Xebec Adsorption (Shanghai) Co. Ltd., (collectively the “Minority Shareholders”) for a net cash consideration of \$3,423,075 (RMB 16,370,515).

Pursuant to this agreement, Xebec has the obligation to repurchase the Minority Shareholders’ interest in Xebec Adsorption (Shanghai) Co. Ltd., for a consideration of no less than the initial investment and annualized return of 10% if a) the achievement of specific financial targets were not achieved in any given year prior to December 31, 2020, or b) should the Minority Shareholders not divest by December 31, 2020 and should the Minority Shareholders exercise their put option with respect to a) or b) as mentioned above.

On July 24, 2018, the Minority Shareholders of Xebec Adsorption (Shanghai) Co. Ltd. and Xebec Adsorption Inc. agreed that Xebec Adsorption Inc. will pay the Minority Shareholders \$200,200 (RMB 1 million) per year including 2018 until the EDC loan expiry or latest up to December 31, 2020 (whichever is earlier). Xebec Adsorption Inc. will also fulfill its repurchase obligation according to the original agreement, by paying the full repurchase price in one lump sum either at EDC loan expiry or latest by December 31, 2020. The 2018 annual fee was paid in the fourth quarter of 2018. The annual fees will be considered a deduction to the repurchase price at the time of repurchase. In 2019 no payment of the annual fee was processed given the fact that the obligation is under a renegotiation process between Xebec and the Minority Shareholders.

On July 25, 2018, the Minority Shareholders of Xebec Adsorption (Shanghai) Co. Ltd, agreed that, for a period beginning on the date hereof up to the date that Export Development Canada has been repaid in full (including capital, interests and fees) under the EDC Financing Arrangement, it shall not exercise any of its divestment, refund, compensation and other equity repurchase rights.

Xebec recorded the proceeds from this transaction, as a financial liability in these consolidated financial statements. The obligation to repurchase and the related annualized return is presented under “Obligation arising from shares issued by a subsidiary”. The conversion of the financial liability denominated in the functional currency of our subsidiary Xebec Adsorption (Shanghai) Co. Ltd. (RMB

# Xebec Adsorption Inc.

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(expressed in Canadian dollars)

will be converted at the exchange rate at the end of each reporting period with gain and losses presented in the statement of income (loss) under “Gain/Loss on conversion of shares issued by a subsidiary”.

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of period	4,180,476	4,169,353
Accretion interest	74,291	267,639
Effect of exchange rate change on obligation	311,833	(256,516)
Annual reimbursement	-	-
Balance – End of period	4,566,600	4,180,476
Current Portion	(400,400)	(373,000)
Balance – End of period	4,166,200	3,807,476



# Xebec Adsorption Inc.

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### 10 Share Capital

- a) The Company is incorporated under the Canada Business Corporations Act, and its authorized share capital consists of an unlimited number of common shares, without par value.
- b) On November 7, 2018 the Company closed a short form prospectus offering through a syndicate of agents. In connection with the closing of the Offering, the Company issued a total of 8,208,666 Units, at a price of \$0.75 per Unit, for aggregate gross proceeds of \$6,156,500.

On November 30, 2018 the Company closed the Over-Allotment of an additional 1,231,300 units for additional gross proceeds of \$923,475.

Each Unit is comprised of one common share of the Company and one half of one common share purchase warrant. Each Warrant entitles the holder thereof to purchase one Common Share, at a price of \$1.05 per Common Share, for a period of 18 months from the closing date of the Offering.

In connection with the Offering, the Company paid to the Agents a cash commission equal to 6% of the gross proceeds of the Offering, including the proceeds raised pursuant to the exercise of the Over-Allotment Option. The Company also granted the Agents non-transferable options entitling the Agents to purchase 566,398 Common Shares. (Equal to 6% of the aggregate number of Units issued by the Company under the Offering). Each such Compensation Option entitling the holder thereof to acquire one Common Share at an exercise price of \$0.75 for a period of 18 months from the closing date of the Offering. The fair value of the 566,398 warrants was \$166,472.

A total of 9,439,966 units were issued under the offering at a price of \$0.75 per unit for aggregate gross proceeds of \$7,079,975 for a total of 9,439,966 shares and 4,719,983 warrants. The issuance costs, excluding the non-transferable options to the agents were \$1,112,971. The amount attributed to the warrants was \$24,626. For 4,104,333 warrants, no value was attributed because the share price was higher than \$0.75. For 615,650 warrants, an amount of \$0.02 per share was allocated to warrants.

Warrants activity for the period ended:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Investor warrants – Beginning of period	2,543,931	4,719,983
Issued	-	-
Exercised	(1,250,166)	(2,176,052)
Balance – End of period	<u>1,293,765</u>	<u>2,543,931</u>

During the period, 1,250,166 common shares were issued as a result of the exercise of these warrants for gross proceeds of \$1,312,674. An extra amount of \$6.523 was included in share capital following the issuance of these common shares.

All warrants were exercised as at their due date.

# Xebec Adsorption Inc.

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(expressed in Canadian dollars)

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Compensation Options activity for the period ended:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Compensation Options – Beginning of period	4,800	566,398
Issued	-	-
Exercised	(4,800)	(561,598)
Balance – End of period	-	4,800

During the period, 4,800 common shares were issued as a result of the exercise of Compensation Options by the Agents for gross proceeds of \$3,600. An extra amount of \$1,411 was included in share capital following the issuance of these common shares.

- c) On July 4, 2019, Xebec Adsorption Inc. closed a bought deal public offering of units and listing warrants conducted by a syndicate of underwriters led by Desjardins Capital Markets and including Beacon Securities Ltd., Paradigm Capital Inc., Canaccord Genuity Corp. and M Partners Inc. In connection with the closing of the Offering, the Company issued a total of 8,280,000 Units, at a price of \$1.40 per Unit, for aggregate gross proceeds of \$11,592,000. Each Unit is composed of one common share of the Company and one common share purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to acquire one additional Common Share for a period of 12 months from the closing date of the offering at an exercise price of \$1.85 per Warrant Share. In connection with the Offering, the Company paid to the underwriters a cash commission equal to 6% of the gross proceeds of the Offering and Compensation Options equal to 6% of the units issued pursuant to the offering. Each Compensation Option will entitle the underwriters to purchase a unit at a price of \$1.40 for a period of 12 months from the closing date of the offering. For each Compensation Option exercised the underwrites are entitled to one warrant, each warrant is exercisable to acquire one additional Common Share for a period of 12 months from the closing date of the offering at an exercise price of \$1.85 per Warrant Share.

The Company intends to use the net proceeds of the Offering to develop and invest in new Renewable Natural Gas projects, to expand the Company's monitoring and service capabilities through selective acquisitions and for general corporate purposes.

A total of 8,280,000 units were issued under the offering at a price of \$1.40 per unit for aggregate gross proceeds of \$11,592,000 for a total of 8,280,000 shares, 496,800 compensation options and 8,280,000 warrants. The issuance costs, excluding the non-transferable options to the agents were \$1,091,105. No value was attributed to the warrants because the share price was higher than \$1.40. The fair value of the 496,800 Compensation Options was \$225,418 which was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

Risk-free interest rate	1.57%
Annualized volatility <sup>2</sup>	60,35%
Share price	\$1.40
Expected life of compensation options	1 year

The fair value of the compensation warrants was \$143,422 which was estimated using the Black Sholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.57%
Annualized volatility <sup>2</sup>	60,35%
Share price	\$1.85
Expected life of compensation warrants	1 year

Warrants activity for the period ended:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Investor warrants – Beginning of period	-	-
Issued	8,272,857	8,280,000
Exercised	(214,500)	(7,143)
Balance – End of period	8,058,357	8,272,857

During the year, 214,500 common shares were issued as a result of the exercise of these warrants for gross proceeds of \$396,825.

Compensation Options activity for the period ended:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Compensation Options – Beginning of year	-	-
Issued	347,760	496,800
Exercised	(99,360)	(149,040)
Balance – End of year	248,400	347,760

During the period, 99,360 common shares were issued as a result of the exercise of Compensation Options by the Agents for gross proceeds of \$139,104. An extra amount of \$45,084 was included in share capital following the issuance of these common shares.

<sup>2</sup> The expected volatility used was based on the historic volatility of the Company share price.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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For the three-month period ended March 31, 2020 and 2019

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Compensation warrants activity for the period ended:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Compensation warrants – Beginning of year	149,040	-
Issued	99,360	149,040
Exercised	(198,720)	-
Balance – End of year	<u>49,680</u>	<u>149,040</u>

During the period, 198,720 common shares were issued as a result of the exercise of Compensation warrants by the Agents for gross proceeds of \$367,632. An extra amount of \$57,369 was included in share capital following the issuance of these common shares.

- d) On December 27, 2019, Xebec Adsorption Inc. closed a bought deal public offering conducted by a syndicate of underwriters led by Desjardins Capital Markets and including Beacon Securities Ltd., Canaccord Genuity Corp., TD Securities Inc., Paradigm Capital Inc. and Raymond James Ltd.

A total of 10,952,600 common shares of Xebec were sold at a price of \$2.10 per Common Share for aggregate gross proceeds of \$23,000,460 for a total of 10,952,600 shares and 657,156 compensation options. The issuance costs, excluding the non-transferable options to the agents were \$1,482,506. The fair value of the 657,156 Compensation Options was \$345,957 which was estimated using the Black Sholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.62%
Annualized volatility <sup>2</sup>	57.44%
Share price	\$2.10
Expected life of compensation options	1 year

In connection with the Offering, the Corporation paid the Underwriters a cash commission equal to 6% of the gross proceeds of the Offering, and compensation options equal to 6% of the Common Shares issued pursuant to the Offering. Each Compensation Option will entitle the Underwriters to purchase a Common Share at an exercise price of \$2.10 for a period of 12 months from the closing date of the Offering.

The net proceeds of the Offering will be used to, among other things and as more fully described in the short form prospectus relating to the Offering, develop and invest in new renewable gas projects, to pursue strategic growth initiatives and for general corporate purposes.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

Compensation Options activity for the period ended:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Compensation Options – Beginning of year	657,156	-
Issued	-	657,156
Exercised	(49,287)	-
Balance – End of year	<u>607,869</u>	<u>657,156</u>

During the period, 49,287 common shares were issued as a result of the exercise of Compensation warrants by the Agents for gross proceeds of \$103,503. An extra amount of \$25,947 was included in share capital following the issuance of these common shares.

As at March 31, 2020, compensation options, compensation warrants and warrants are as follows:

<b>Description</b>	<b>Expiry date</b>	<b>Exercise Price</b>	<b>Beginning balance</b>	<b>Issued</b>	<b>Exercised</b>	<b>Balance end of period</b>
Warrants	May-20	\$1.05	2,543,931	-	(1,250,166)	1,293,765
Compensation Options	May-20	\$0.75	4,800	-	(4,800)	-
Warrants	Jul-20	\$1.85	8,272,857	-	(214,500)	8,058,357
Compensation Options	Jul-20	\$1.40	347,760	-	(99,360)	248,400
Compensation warrants	Jul-20	\$1.85	149,040	99,360	(198,720)	49,680
Compensation Options	Dec-20	\$2.10	657,156	-	(49,287)	607,869
		\$1.75	11,975,544	99,360	(1,816,833)	10,258,071

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

As at December 31, 2019, compensation options, compensation warrants and warrants are as follows:

Description	Expiry date	Exercise Price	Beginning balance	Issued	Exercised	Balance end of year
Warrants	May-20	\$1.05	4,719,983		(2,176,052)	2,543,931
Compensation Options	May-20	\$0.75	566,398		(561,598)	4,800
Warrants	Jul-20	\$1.85		8,280,000	(7,143)	8,272,857
Compensation Options	Jul-20	\$1.40		496,800	(149,040)	347,760
Compensation warrants	Jul-20	\$1.85		149,040		149,040
Compensation Options	Dec-20	\$2.10		657,156		657,156
		\$1.68	5,286,381	9,582,996	(2,893,833)	11,975,544

e) Income (loss) per share

i) Basic

Basic income (loss) per share is calculated using net income (loss) as the numerator and the weighted average number of shares as denominator. No adjustments to net income were necessary in 2020 and 2019.

	<b>For the three-month period ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	\$	\$
Net income (loss) attributable to shareholders of the Company	(743,397)	422,604
Weighted average number of shares used in basic income per share	85,288,048	57,174,783
Basic income (loss) per share	(0.01)	0.01

ii) Diluted

	<b>For the three-month period ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	\$	\$
Net income (loss) attributable to shareholders of the Company	(743,397)	422,604

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

Increase (decrease) of net income attributable to shareholders of the Company assuming dilution	-	-
Net income (loss) attributable to shareholder of the Company after diluted effect	(743,397)	422,604
Weighted average number of shares used in basic income per share	85,288,048	57,174,783
Increase of number weighted average number of shares assuming dilution	-	-
Weighted average number of shares after diluted effect	85,288,048	57,174,783
Diluted income (loss) per share	(0.01)	0.01

For the period ended March 31, 2020, exercised warrants, compensation options, compensation to warrants and outstanding stock options would have been anti-dilutive.

For the period ended March 31, 2019 convertible debentures and outstanding stocks options would have been anti-dilutive.

### 11 Segmented information

The Company operates three business segments and specializes in the Support (Industrial Air and Gas Products, Parts, Service and Operational Support), the Systems (Technology and Equipment), the Infrastructure (Renewable Gas Generation).

For the three-month period ended March 31, revenue summarized by country, as determined by location of the customers, is as follows:

	For the three-month period ended March 31,	
	2020	2019
Revenue	\$	\$
United States	5,280,448	1,626,041
Canada	3,316,101	2,848,807
China	2,483,377	2,506,633
Korea	265,137	537
France	231,340	1,556,038
Other	616,507	1,230,741
	<u>12,192,910</u>	<u>9,768,797</u>

# **Xebec Adsorption Inc.**

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

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(expressed in Canadian dollars)



# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

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### Incomes (losses) summarized by business segments are as follows:

#### For the three-month period ended March 31, 2020

	Systems	Support	Infrastructure <sup>3</sup>	Corporate	Total
	\$	\$	\$	\$	\$
Revenues	8,007,453	4,185,457	-	-	12,192,910
COGS	6,530,311	2,622,314	-	-	9,152,625
Gross margin	1,477,142	1,563,143	-	-	3,040,285
Gross Margin %	18%	37%	-	-	25%
Research and Development expenses	7,862	-	-	-	7,862
Selling and administrative expenses	317,931	946,908	-	2,588,999	3,853,838
Foreign exchange gain	-	-	-	(892,590)	(892,590)
Loss on conversion of shares issued by a subsidiary	-	-	-	311,833	311,833
Financial income	-	-	-	(18,492)	(18,492)
Financial expense	-	-	-	490,841	490,841
Income Taxes	-	-	-	30,390	30,390
Total expenses	325,793	946,908	-	2,510,981	3,783,682
Segment income (loss)	1,151,349	616,235	-	(2,510,981)	(743,397)

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<sup>3</sup> Infrastructure segment is a project in development. No costs have been associated to the segment as of March 31st, 2020 and 2019.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

### For the three-month period ended March 31, 2019

	Systems	Support	Infrastructure <sup>3</sup>	Corporate	Total
	\$	\$	\$	\$	\$
Revenues	7,058,547	2,710,250	-	-	9,768,797
COGS	4,755,663	1,710,188	-	-	6,465,851
Gross margin	2,302,884	1,000,062	-	-	3,302,946
Gross Margin %	33%	37%	-	-	34%
Research and Development expenses	12,964	-	-	-	12,964
Selling and administrative expenses	402,310	516,468	-	1,596,401	2,515,179
Foreign exchange gain	-	-	-	(41,035)	(41,035)
Loss on conversion of shares issued by a subsidiary	-	-	-	17,652	17,652
Financial income	-	-	-	(806)	(806)
Financial expense	-	-	-	376,388	376,388
Total expenses	415,274	516,468	-	1,948,600	2,880,342
Segment income (loss)	1,887,610	483,594	-	(1,948,600)	422,604

The location of the Company's non-current assets by geographic region is as follows:

	As at March 31, 2020 \$	As at December 31, 2019 \$
<b>Non-current assets</b>		
United States	5,626,867	5,077,673
Canada	4,416,579	4,509,680
Italy	630,741	919,309
Asia	283,358	283,343
	<u>10,957,545</u>	<u>10,790,005</u>

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

### 12 Finance expenses

	For the three-month period ended March 31,	
	2020	2019
	\$	\$
Accretion of the obligation arising from shares issued by a subsidiary (Note 9)	74,291	76,596
Interest on convertible debentures	-	87,290
Interest and bank charges	145,673	48,089
Guarantee letter fees	119,147	36,131
Interest on short term debt	228	2,440
Accretion and revaluation of government royalty program obligation (Note 8b)	5,484	6,315
Interest on long term debt	146,018	119,527
	<u>490,841</u>	<u>376,388</u>

### 13 Stock options

The stock option plan allowed for the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based awards. Under the Plan, a fixed number of 11,505,347 common shares are available for grant. As at March 31, 2020, the maximum number of common shares available for issuance under all stock-based compensation arrangements is 7,423,487

Under the terms of the Xebec Adsorption Stock Option Plan, stock options are granted with an exercise price not less than the volume-weighted average trading price of the common shares for the five trading days prior to the date of grant. The terms and conditions for acquiring and exercising options are set by the Board of Directors. Stock options for employees vest no less than at grant date and no more than quarterly.

Stock option activity for the period ended March 31, is presented below:

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

	2020		2019	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding – January 1,	4,081,860	0.35	6,301,758	0.27
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding – March 31,	4,081,860	0.35	6,301,758	0.27
Exercisable – March 31,	3,054,859	0.26	4,511,231	0.16

As at March 31, 2020, options outstanding and exercisable are as follows:

Expiry date	Weighted-Average Exercise Price	Number of Options Outstanding	Weighted-Average Remaining life	Number of Options exercisable
April 25, 2021	\$0.15	100,000	1.07	100,000
May 29, 2021	\$0.14	200,000	1.16	200,000
December 19, 2022	\$0.55	400,000	2.72	266,666
January 7, 2023	\$0.05	200,000	2.77	200,000
March 5, 2024	\$0.18	1,873,193	3.93	1,873,193
August 29, 2024	\$0.49	375,000	4.41	75,000
December 19, 2024	\$0.55	98,667	4.71	61,667
May 14, 2025	\$0.60	100,000	5.12	33,333
November 19, 2025	\$0.70	735,000	5.64	245,000
	<b>\$0.35</b>	<b>4,081,860</b>	<b>3.95</b>	<b>3,054,859</b>

## Xebec Adsorption Inc.

### Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

As at March 31, 2019 options outstanding and exercisable are as follows:

Expiry date	Weighted-Average Exercise Price	Number of Options Outstanding	Weighted-Average Remaining life	Number of Options exercisable
December 22, 2018 <sup>4</sup>	\$0.10	1,399,500	0.00	1,399,500
June 12, 2020	\$0.16	258,065	1.20	258,065
April 25, 2021	\$0.15	100,000	2.07	100,000
May 29, 2021	\$0.14	200,000	2.16	200,000
December 19, 2022	\$0.55	400,000	3.72	133,332
January 7, 2023	\$0.05	400,000	3.78	400,000
March 5, 2024	\$0.18	2,098,193	4.93	1,883,332
August 29, 2024	\$0.49	500,000	5.42	100,000
December 19, 2024	\$0.55	111,000	5.71	37,002
May 14, 2025	\$0.60	100,000	6.12	-
November 19, 2025	\$0.70	735,000	6.64	-
	<b>\$0.27</b>	<b>6,301,758</b>	<b>3.67</b>	<b>4,511,231</b>

During the three-month period ended in March 31, 2020, the Company expensed \$52,518 (2019 - \$117,820) which totally relates to stock options granted in 2017 and 2018.

No options have been granted during the period ending March 31, 2020.

<sup>4</sup> Expiry date of the options fell in a black out period. Options were exercised once blackout period was lifted.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

### 14 Supplemental Cash flow information

For the three-month period ended March 31, net change in non-cash working capital balances related to operations consists of the following:

	For the three-month period ended March 31,	
	2020	2019
	\$	\$
Decrease (increase) in assets:		
Trade and other receivables	(1,993,290)	(3,959,856)
Inventories	(3,839,398)	(402,136)
Other current assets	(95,969)	37,214
Increase (decrease) in liabilities:		
Trade payables, other payables and accrued liabilities	(1,385,935)	675,611
Contract liabilities	5,195,612	234,503
Provisions	192,043	27,565
Income taxes payable (recoverable)	87,724	10,662
	<u>(1,839,213)</u>	<u>(3,376,437)</u>

### 15 Expenses by nature

	For the three-month period ended March 31,	
	2020	2019
	\$	\$
Material	4,918,522	4,488,043
Employee salaries and benefits	3,556,335	2,463,162
Amortization and depreciation	1,216,309	167,054
Subcontract cost	1,092,274	658,257
Professional fees	796,843	396,252
Warranty	311,105	53,361
Rent and repairs and maintenance	302,492	147,767
Office expense	299,401	183,982
Travel expenses	267,272	261,996
Other	76,579	(1580)
Bad Debt	71,018	-
Stock-based compensation	52,518	117,820
Advertising	45,795	44,916
	<u>13,006,463</u>	<u>8,981,030</u>

# Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

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## 16 Related party transactions

The following table presents a summary of the related party transactions during the period:

	For the three-month period ended March 31,	
	2020	2019
	\$	\$
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	51,444	44,574
Salaries and short-term benefits paid to members of immediate family of an officer	38,992	37,101
Material purchased to companies controlled by members of the immediate family of an officer	8,946	8,701
	<u>99,382</u>	<u>90,376</u>

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

### 17 Financial instruments

#### a. Measurement categories and fair values, including valuation methods and assumptions

The following tables show the carrying values and fair values of assets and liabilities by category as of:

March 31, 2020	Amortized Cost		Amortized Cost	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Cash	23,679,268	23,679,268	-	-
Restricted cash	354,675	354,675	-	-
Trade and other receivables	14,629,593	14,629,593	-	-
Other current assets	16,250	16,250	-	-
Bank loan	-	-	-	-
Trade, other payables and accrued liabilities	-	-	10,539,019	10,539,019
Long term debt	-	-	2,907,640	2,907,640
Government royalty program obligation	-	-	443,555	443,555
Obligation arising from shares issued by a subsidiary	-	-	4,566,600	4,566,600
<b>December 31, 2019</b>				
	Amortized Cost		Amortized Cost	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Cash	22,358,457	22,358,457		
Restricted cash	324,700	324,700		
Trade and other receivables	12,976,897	12,976,897		
Other current assets	7,300	7,300		
Trade, other payables and accrued liabilities			11,401,489	11,401,489
Long-term debt			2,855,788	2,855,788
Government royalty program obligation			466,071	466,071
Obligation arising from shares issued by a subsidiary			4,180,476	4,180,476



# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

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(expressed in Canadian dollars)

The carrying values of cash, trade and other receivables, trade and other payables, accrued liabilities, bank loan and credit facility approximate their fair value due to their short-term maturities. The methods and assumptions used in estimating the fair values of other financial assets and financial liabilities are as follows:

- Long-term debt (classified in level 2 of the fair value hierarchy): The Company's long-term debt carries fixed interest rates. The fair value of the Company's debt obligations has been calculated by discounting the future cash flows of the long-term debt at the interest rate of similar debt instruments.
- Government royalty program obligation (classified in level 2 of the fair value hierarchy): Fair value of the government royalty program obligation has been calculated by discounting the future cash flows at the interest rate for a similar loan in the market.
- Obligation arising from shares issued by a subsidiary (classified in level 2 of the fair value hierarchy): Fair value of the obligation arising from shares issued by a subsidiary has been calculated by computing an annualized return of 10% on the initial consideration
- The Company's financial instruments that are measured subsequent to initial recognition at fair value and financial instruments measured at amortized cost for which the fair value is disclosed are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 — Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — Fair value measurements are those derived from inputs other than quoted prices included within 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 — Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month period ended March 31, 2020 and 2019

(expressed in Canadian dollars)

### 18 Commitments

- Research Agreement with McGill University

In August 2018, Xebec Adsorption Inc. (“Xebec”), has signed a Research Agreement to co-develop a prototype reactor to produce Renewable Natural Gas (RNG) using a Power-to-Gas (P2G) process with McGill University. This process combines electricity generated from renewable sources with carbon dioxide (CO<sub>2</sub>) generated from waste. The project is being funded by Xebec as the Industrial sponsor and by the Natural Sciences and Engineering Research Council of Canada (NSERC) through a Collaborative Research and Development grant of \$360,000 over a period of three years.

In consideration of McGill carrying out the Project, Xebec is committed to fund the Project with \$90,000 over the period of three years. The funds will be paid in accordance with the following schedule:

- \$30,000 upon signing
- \$30,000 upon the first anniversary of the Effective Date
- \$30,000 upon receiving the final report.

- Following is a summary of Xebec’s contractual obligations and commitments regarding operating leases:

#### As at March 31, 2020

	Payment Due by Period			Total
	1 year	2 - 5 years	Beyond 5 years	
Operating leases	\$ 201,898	\$ 115,596	\$ -	\$ 317,494

Operating leases include various equipment leases. The operating leases expenses for the three-month period ended March 31, 2020 amounted to \$93,899 (\$60,843 as at March 31, 2019).

### 19 Subsequent events

On May 6<sup>th</sup>, 2020 the Company has entered into a loan agreement with the Fonds de solidarité FTQ for an unsecured loan facility of \$10 million.

The loan facility has a term of 5 years and will be used for working capital, investments, acquisitions and general corporate purposes. It will allow the Company to continue its rapid scale-up through organic and inorganic growth and allow investments in renewable gas infrastructure projects.

As part of the Agreement, the Fonds has been granted 3,000,000 warrants exercisable for a period of two years from the date of closing. Each warrant will allow the Fonds to purchase one common share at an exercise price of \$4.58, representing a 40% premium to the 20-day volume weighted average price as at closing of markets on May 4, 2020.