Xebec Adsorption Inc.

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

For the three-month and six-month periods ended June 30, 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 June 30, 2020 and December 31, 2019

(expressed in Canadian dollars)

	June 30, 2020 $	December 31, 2019 $
Assets		
Current assets		
Cash	60,010,090	22,358,457
Restricted cash (Note 3)	340,700	324,700
Trade and other receivables (Note 4)	30,956,970	24,121,723
Inventories	10,955,909	6,244,400
Investment tax credits receivable	15,943	15,943
Prepaid expenses	623,234	663,377
Total current assets	102,902,846	53,728,600
Non-current assets		
Property, plant and equipment (Note 5)	3,129,170	3,026,779
Intangible assets (Note 6)	2,069,657	2,710,304
Goodwill (Note 3)	5,380,799	5,052,922
Total non-current assets	10,579,626	10,790,005
Total assets	113,482,472	64,518,605
Liabilities		
Current liabilities		
Trade, other payables and accrued liabilities	10,493,319	12,532,960
Contract liabilities	2,345,011	2,383,261
Current portion of long-term debt (Note 8a)	1,702,754	962,560
Current portion of government royalty program obligation (Note 8b)	155,733	124,880
Current portion of provisions	257,701	46,207
Current portion of obligation arising from shares issued by a subsidiary (Note 9)	385,600	373,000
Income Tax payable	396,764	369,923
Total current liabilities	15,736,882	16,792,791
Non-current liabilities		
Long-term debt (Note 8a)	13,217,082	4,288,564
Government royalty program obligation (Note 8b)	263,005	341,191
Obligation arising from shares issued by a subsidiary (Note 9)	4,087,857	3,807,476
Provisions	28,439	127,980
Deferred tax liabilities	185,091	203,237
Total non-current liabilities	17,781,474	8,768,448
Total liabilities	33,518,356	25,561,239
Equity		
Share capital (Note 10)	101,199,166	63,484,034
Contributed surplus	8,486,819	4,569,636
Accumulated other comprehensive income (loss)	(365,009)	(1,247,330)
Deficit	(29,356,860)	(27,848,974)
Total equity	79,964,116	38,957,366
Total liabilities and equity	113,842,472	64,518,605

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 and six-month periods ended June 30, 2020 and 2019
(expressed in Canadian dollars)

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2020 $	2019 $	2020 $	2019 $
Revenue (Note 15)	19,587,723	12,766,263	31,780,633	22,535,060
Cost of goods sold	15,293,483	8,733,138	24,446,109	15,198,989
Gross margin	4,294,240	4,033,125	7,334,524	7,336,071
Research and development expenses	12,045	30,007	19,907	42,971
Selling and administrative expenses	4,720,501	2,442,557	8,574,339	4,957,736
Foreign exchange loss (gain)	143,859	256,235	(748,731)	215,200
(Gain) loss on conversion of shares issued by a subsidiary (Note 9)	(170,951)	(184,508)	140,882	(166,856)
	4,705,454	2,544,291	7,986,397	5,049,051
Operating income (loss)	(411,214)	1,488,834	(651,873)	2,287,020
Other charge (income)				
Finance income	(77,852)	(13,998)	(96,344)	(14,804)
Finance expenses (Note 12)	438,162	485,622	929,004	862,009
	360,310	471,624	832,660	847,205
Income (loss) before income taxes	(771,524)	1,017,210	(1,484,533)	1,439,815
Income taxes	(7,037)	-	23,353	-
Net income (loss) for the period	(764,487)	1,017,210	(1,507,886)	1,439,815
Net income (loss) per share				
Basic net income (loss) per share (Note 10)	(0.01)	0.02	(0.02)	0.03
Diluted net income (loss) per share (Note 10)	(0.01)	0.02	(0.02)	0.02

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 and six-month periods ended June 30, 2020 and 2019
(expressed in Canadian dollars)

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Net income (loss) for the period	(764,487)	1,017,210	(1,507,886)	1,439,815
Other comprehensive income (loss)				
Cumulative translation adjustment	(421,040)	(92,173)	882,321	(36,153)
Comprehensive income (loss) for the period	(1,185,527)	925,037	(625,565)	1,403,662

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 June 30, 2020 and December 31, 2019
(expressed in Canadian dollars)

	Number		Amount					
	Common shares	**Warrants**	**Share capital – Common shares**	**Contributed surplus**	**Accumulated other comprehensive income (loss)**	**Deficit**	**Equity Component of convertible debentures**	**Total**
			$	**$**	**$**	**$**	**$**	**$**
Balance – January 1, 2019	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
Shares 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
Balance – December 31, 2019	**84,378,678**	**11,975,544**	**63,484,034**	**4,569,636**	**(1,247,330)**	**(27,848,974)**	**-**	**38,957,366**
Balance – January 1, 2020	84,378,678	11,975,544	63,484,034	4,569,636	(1,247,330)	(27,848,974)	-	38,957,366
Net loss for the period	-	-	-	-	-	(1,507,886)	-	(1,507,886)
Other comprehensive loss	-	-	-	-	882,321	-	-	882,321
Comprehensive income (loss) for the period	-	-	-	-	882,321	(1,507,886)	-	(625,565)
Issuance of warrants from new Financing	-	3,000,000	(3,660,000)	3,660,000	-	-	-	-
Share issued from conversion of debentures	-	-	-	-	-	-	-	-
Share issued from the exercise of options	291,000	-	128,956	(53,106)	-	-	-	75,850
Share issued from public offering	7,986,750	-	26,706,795	-	-	-	-	26,706,795
Warrants and compensation shares issued from public offering (Note 10)	-	826,965	-	-	--	-	-	-
Warrants and compensation shares exercised from public offering (Note 10)	9,130,631	(9,130,631)	14,539,381	206,799	-	-	-	14,746,180
Stock-based compensation expense (Note 13)	-	-	-	103,490	-	-	-	103,490
Balance – June 30, 2020	101,787,059	6,671,878	101,199,166	8,486,819	(365,009)	(29,356,860)	-	79,964,116

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.

(expressed in Canadian dollars)

	For the three-month period ended June 30, 2020 $	2019 $	For the six-month period ended June 30, 2020 $	2019 $
Cash flows from				
Operating activities				
Net income (loss) for the period	(764,487)	1,017,210	(1,507,886)	1,439,815
Items not affecting cash				
Depreciation of property, plant and equipment (Note 5)	240,833	140,206	472,977	271,451
Amortization of intangible assets (Note 6)	42,685	42,544	1,026,850	78,353
Reversal of inventory write-down	(14,819)	(44,000)	(20,587)	(96,188)
Accretion of contingent consideration CAI (Note 8a)	8,268	28,549	20,686	28,549
Accretion finance expenses and gain on revaluation of government royalty program obligation (Note 8b)	5,184	6,170	10,668	12,485
Accretion of the obligation arising from shares issued by a subsidiary (Note 9)	77,808	77,046	152,099	153,641
Exchange gain/loss on the obligation arising from shares issued by a subsidiary (Note 9)	(170,951)	(184,508)	140,882	(166,856)
Accretion of convertible debentures	-	46,424	-	95,068
Stock-based compensation expense (Note 13)	50,972	111,716	103,490	229,536
Accretion of long-term debt	11,307	-	20,767	-
Future income taxes	(5,444)	-	(18,146)	-
	(518,644)	1,241,357	401,800	2,045,854
Change in non-cash working capital balances related to operations (Note 14)	(11,585,910)	(1,336,607)	(13,425,123)	(4,713,042)
	(12,104,554)	(95,250)	(13,023,323)	(2,667,188)
Investing activities				
Acquisition of property, plant and equipment	(161,716)	(34,695)	(225,949)	(156,551)
Acquisition of intangible assets	(79,833)	(5,375)	(364,272)	(19,200)
Business acquisitions, net of cash acquired (Note 3)	-	171	-	(1,463,352)
	(241,549)	(39,899)	(590,221)	(1,639,103)
Financing activities				
Increase (decrease) of bank loan	-	(526,982)	-	-
Increase (decrease) of credit facility	-	-	-	-
Proceeds from issuance of share capital (Notes 10)	39,401,521	1,585,794	41,528,825	1,818,133
Long-term debt	10,055,904	8,567	10,055,904	16,855
Repayment of long-term debt (Note 8a)	(319,166)	(84,625)	(449,865)	(162,318)
Earn-out payment	(220,000)	-	(220,000)	-
Repayment of government royalty program obligation (Note 8b)	(30,000)	(24,000)	(58,000)	(47,000)
	48,888,259	958,754	50,856,864	1,625,670
Net increase (decrease) in cash and cash equivalent during the period	36,542,156	823,605	37,243,320	(2,680,621)
Cash and cash equivalent – Beginning of period	24,033,943	473,973	22,683,157	3,922,146
Effect of exchange rate changes on cash	(225,309)	(98,377)	424,313	(42,324)
Cash and cash equivalent – End of period	60,350,790	1,199,201	60,350,790	1,199,201
Additional information: Interest paid	335,595	262,733	724,784	442,409

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.

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 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:

- 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, GNR Bromont L.P, which is 99% percent owned and GNR Quebec Capital L.P. which is 49.9995% 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 two subsidiaries; GNR Bromont Management Inc and GNR Quebec Capital Management Inc which are wholly owned. GNR Bromont Management Inc. owns the 1% remaining of GNR Bromont L.P. and GNR Quebec Capital Management Inc. owns 0.001% of GNR Quebec Capital 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.

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 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.

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 and liabilities 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)
- 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. This financial instrument has not deteriorated significantly in credit quality since initial recognition or has low credit risk. The Company considers that there are no expected credit losses.

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 in 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.

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

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 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 was going to 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. A first payment of $220,000 was disbursed on April 28, 2020 leaving a remaining balance of $440,000 that will be earned-out over the next two years.

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.

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:

$

(expressed in Canadian dollars)

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

b) CDA Systems LLC

On December 10th, 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 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 $409,160 ($275,584 in 2019 and $133,576 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:

(expressed in Canadian dollars)

	$
Fair value of consideration transferred	
Amount settled in cash	6,451,458
Restricted cash	330,975
Total	**6,782,433**
Recognized amounts of identifiable net assets	
Trade and other receivables	2,279,263
Inventories	348,237
Cash and cash equivalents	320,923
Prepaid expenses	75,761
Total current assets	**3,024,184**
Property, plant and equipment	778,637
Intangible assets	81,941
Total non-current assets	**860,578**
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)
Total current liabilities	**(1,171,960)**
Long-term debt	(244,442)
Total non-current liabilities	**(244,442)**
Identifiable net assets	**2,468,360**
Goodwill on acquisition	**4,314,073**
Consideration transferred settled in cash	6,451,458
Cash and cash equivalents acquired	(320,923)
Net cash outflows on acquisition	**6,130,535**

For the six-month period ended June 30, 2020, the goodwill has experienced a positive variance due to exchange rate fluctuations of $327,876.

Over the same period, the restricted cash has experienced a positive variance due to exchange rate fluctuations of $16,000.

(expressed in Canadian dollars)

4 Trade and other receivables

	June 30, 2020 $	December 31, 2019 $
Trade receivables	11,724,276	13,274,136
Contract assets	14,427,931	6,788,722
Other receivables	3,435,050	1,802,482
Supplier deposits	2,387,209	2,790,454
Less: Allowance for expected credit loss	(1,017,496)	(534,071)
Trade and other receivables - net	30,956,970	24,121,723

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

(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 $
Cost								
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	118,792	80,075	12,967	-	-	14,114	520,498
Effect of movements in exchange rates	36,916	8,488	3,455	4,756	17,197	4,504	70	75,386
Balance at June 30, 2020	2,928,984	848,022	257,048	389,191	467,351	131,882	187,049	5,209,527
Accumulated depreciation								
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	327,859	21,555	6,462	27,718	57,552	19,922	11,914	472,982
Effect of movements in exchange rates	4,269	5,511	3,136	3,216	3,813	566	-	20,511
Balance at June 30, 2020	762,345	534,988	164,528	291,664	232,468	64,080	30,284	2,080,357
Carrying Amount								
At December 31, 2019	2,167,301	212,820	18,588	110,738	279,051	83,786	154,495	3,026,779
At June 30, 2020	2,166,639	313,034	92,520	97,527	234,883	67,800	156,764	3,129,170

For the six-month period ended June 30, 2020 a depreciation amount of $472,977 (2019 – $271,451) is included in the consolidated statement of income (loss): $142,445 (2019 – $141,907) in cost of goods sold; and $330,532 (2019 – $129,544) in selling and administrative expenses.

For the three-month period ended June 30, 2020 a depreciation amount of $240,833 (2019 – $140,206) is included in the consolidated statement of income (loss): $71,973 (2019 – $103,050) in cost of goods sold; and $168,860 (2019 – $37,156) in selling and administrative expenses.

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

(expressed in Canadian dollars)

6 Intangible assets

	Other		Internally generated		
	Software	Customer Relationships	Development costs	Engineering standardisation	Total intangible assets
	$	$	$	$	$
Cost					
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	196,681	-	-	167,590	364,271
Effect of movements in exchange rates	8,906	1,600	-	80,486	90,992
Balance at June 30, 2020	653,179	839,908	301,059	3,294,351	5,088,497
Accumulated amortization					
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	64,801	69,608	-	892,446	1,026,855
Effect of movements in exchange rates	7,131	795	-	61,129	69,055
Balance at June 30 , 2020	403,559	125,363	301,059	2,188,859	3,018,840
Carrying amount					
At December 31, 2019	115,965	783,348	-	1,810,991	2,710,304
At June 30, 2020	249,620	714,545	-	1,105,492	2,069,657

For the six-month period ended on June 30, an amortization amount of $1,026,850 (2019 – $78,353) is included in the consolidated statement of income (loss) : $892,994 (2019 – $46,242) in cost of goods sold; and $133,856 (2019 – $32,111) in selling and administrative expenses.

For the three-month period ended on June 30, an amortization amount of $42,685 (2019 - $42,544) is included in the consolidated statement of income (loss): $13,751 (2019 - $27,057) in cost of goods sold; and $28,934 (2019 - $15,487) in selling and administrative expenses.

(expressed in Canadian dollars)

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 $150,000 and bear interest at the TD prime rate plus 3.50% per annum. No credit facilities were used as at June 30, 2020 ($ NIL as at June 30, 2019).

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

As of June 30, 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 June 30, 2020, three guarantee facilities are used for a total of $5,556,595 ($3,701,240 as at June 30, 2019).

During the period ended June 30, 2020 all ratios and conditions have been respected by the Company.

8 Long-term debt

a) Long-term debt

		June 30, 2020 $	December 31, 2019 $
i.	Obligation under a working capital line, bearing an interest rate of 11% per annum, maturing in July 2021[1]	1,953,679	1,934,440
ii.	Obligation under an unsecured loan facility, bearing an interest rate of 9% per annum, maturing in April 2025[2]	4,938,321	-
iii.	Obligation under a term facility, bearing an interest rate of the US Prime plus 4.50% per annum	4,326,070	
iv.	Lease liabilities	2,449,818	2,395,336
v.	Contingent consideration CAI (Note 3)	397,334	596,648

[1] 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.
[2] The Obligation under a financing facility loan, 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 $5,000,000 at maturity. The interest rate is adjusted yearly depending on the debt/EBITDA ratio.

(expressed in Canadian dollars)

		June 30, 2020 $	December 31, 2019 $
vi.	Balance from business acquisition payable (Note 3)	340,700	324,700
vii.	Government assistance (Covid-19 government measures)	513,915	-
	Long-term debt	14,919,836	5,251,124
	Current portion	(1,702,754)	(962,560)
		13,217,082	4,288,564

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. Obligation under an unsecured loan facility

On May 5th, 2020 the Company has entered into a loan agreement with the Fonds de solidarité FTQ (Fonds) for an unsecured loan facility of $10 million. The loan facility has a term of five 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.

The loan is disbursable in tranches of a minimum amount of $2 million upon request of the Company and all tranches must be drawn no later than May 2022. A first tranche of $5 million was disbursed on May 5, 2020 on the closing date of the agreement. The second tranche will be available on the six-month anniversary from the closing date. Each tranche of loan bears an interest rate of 9% per annum payable on a quarterly basis. The interest rate is adjusted yearly depending on the debt/EBITDA ratio. The aggregate amount of the principal loan shall be repaid in full in a single payment on the fifth anniversary of the closing date. As part of the agreement, the Fonds de solidarité FTQ 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.

iii. Obligation under a term loan facility

On January 17th 2020, Xebec Holding USA Inc., a wholly owned subsidiary of Xebec Adsorption Inc., signed a term loan facility agreement with Export Development Canada (EDC) for an amount of $4,604,490 ($3.3M USD) disbursable in one advance received on April 3rd, 2020. The principal amount is repayable in 84 consecutive monthly installments of $39,286 USD payable on the interest payment date on the 18th day of the calendar month following the date of the initial advance. Interest on the outstanding principal is calculated using the US Prime rate plus 4.50% per annum. A one-time non-refundable set-up fees of $11,546 ($8,250 USD) was retained from the advance disbursement. The loan is secured by a second ranking hypothec over Xebec's present and future movable property, rank second behind a lien in favour of National Bank of Canada over Xebec's present and future movable property, subject only to permitted Liens.

(expressed in Canadian dollars)

iv. 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.

	June 30, 2020 $	December 31, 2019 $
Balance – Beginning of period,	2,395,336	2,278,065
Additions	294,550	483,820
Accretion interest	132,906	225,060
Lease payments	(406,265)	(563,864)
Effect of exchange rate change on obligation	33,291	(27,745)
Balance – End of period	2,449,818	2,395,336
Current Portion	(531,920)	(459,410)
	1,917,898	1,935,926

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

As at June 30, 2020	**Payment Due by Period**			
	1 year	2 - 5 years	Beyond 5 years	Total
	$	**$**	**$**	**$**
Lease payments	748,067	1,928,750	422,505	3,099,322

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 June 30, were $64,943 ($36,913 2019).

v. Contingent consideration CAI

(expressed in Canadian dollars)

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 was $660,000 and a first amount of $220,000 was paid during the second quarter of 2020. 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 CAI's Contingent consideration:

	June 30, 2020 $	**December 31, 2019 $**
Balance – Beginning of period,	596,648	537,520
Accretion finance expenses	20,686	59,128
Repayment	(220,000)	-
Balance – End of period,	397,334	596,648
Current portion	(190,360)	(178,449)
	206,974	418,199

vi. Balance of business acquisition payable

Payable depending on the achievement of a target working capital.

vii. Additional financial support

The Company has an unused $14 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.

vii. Government assistance

a) On May 3rd 2020, CDA received an amount of $479,443 (347,750 USD) for the Paycheck Protection Program (SBA loan) through Wells Fargo Paycheck protection loan, a Covid-19 related measure to help businesses keep their workforce employed during the Coronavirus crisis. The principal bears an interest rate of 1.00% per annum and monthly repayments of

(expressed in Canadian dollars)

$14,641 USD shall be payable commencing on November 1st, 2020. The Company believes that a loan forgiveness will be applicable as it can provide sufficient documentation to demonstrate that all of the loan proceeds were used to support payroll costs and rent payments.

b) In April 2020, CAI signed a 5 years term loan agreement with Toronto-Dominion Canada Trust in order to receive the Canadian Emergency Business Account (CEBA). CEBA is intended to support businesses by providing financing for their expenses that cannot be avoided or deferred as they face uncertainties due to the Covid-19 crisis.

The loan of $40,000 and was disbursed on April 22, 2020 and bears an interest rate of 0% per annum during the initial term (until December 3, 2022) followed by a 5% rate per annum during the extended term ending on December 31, 2025. The Company intends to the repay the full amount of the loan during its third quarter of 2020.

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:

	June 30, 2020 $	**December 31, 2019 $**
Balance – Beginning of period,	466,071	536,773
Accretion finance expenses	10,667	24,298
Repayment	(58,000)	(95,000)
Balance – End of period,	418,738	466,071

(expressed in Canadian dollars)

	June 30, 2020 $	December 31, 2019 $
Current portion	(155,733)	(124,880)
	263,005	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.

(expressed in Canadian dollars)

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) 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".

	June 30, 2020 $	**December 31, 2019 $**
Balance – Beginning of period	4,180,476	4,169,353
Accretion interest	152,099	267,639
Effect of exchange rate change on obligation	140,882	(256,516)
Annual reimbursement	-	-
Balance – End of period	4,473,457	4,180,476
Current Portion	(385,600)	(373,000)
Balance – End of period	4,087,857	3,807,476

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.

(expressed in Canadian dollars)

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:

	June 30, 2020	**December 31, 2019**
Investor warrants – Beginning of period	2,543,931	4,719,983
Issued	-	-
Exercised	(2,543,931)	(2,176,052)
Balance – End of period	-	2,543,931

During the period, 2,543,931 common shares were issued as a result of the exercise of these warrants for gross proceeds of $2,671,128. An extra amount of $13,273 was included in share capital following the issuance of these common shares.

All warrants were exercised as at their due date.

Compensation Options activity for the period ended:

	June 30, 2020	**December 31, 2019**
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

(expressed in Canadian dollars)

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:

Risk-free interest rate	1.57%
Annualized volatility [3]	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 [3]	60,35%
Share price	$1.85
Expected life of compensation warrants	1 year

[3] The expected volatility used was based on the historic volatility of the Company share price.

(expressed in Canadian dollars)

Warrants activity for the period ended:

	June 30, 2020	December 31, 2019
Investor warrants – Beginning of period	8,272,857	-
Issued	-	8,280,000
Exercised	(5,531,623)	(7,143)
Balance – End of period	2,741,234	8,272,857

During the year, 5,531,623 common shares were issued as a result of the exercise of these warrants for gross proceeds of $10,233,503.

Compensation Options activity for the period ended:

	June 30 2020	December 31, 2019
Compensation Options – Beginning of year	347,760	-
Issued	-	496,800
Exercised	(347,760)	(149,040)
Balance – End of year	-	347,760

During the period, 347,760 common shares were issued as a result of the exercise of Compensation Options by the Agents for gross proceeds of $486,864. An extra amount of $157,793 was included in share capital following the issuance of these common shares.

Compensation warrants activity for the period ended:

	June 30, 2020	December 31, 2019
Compensation warrants – Beginning of year	149,040	-
Issued	347,760	149,040
Exercised	(496,800)	-
Balance – End of year	-	149,040

During the period, 496,800 common shares were issued as a result of the exercise of Compensation warrants by the Agents for gross proceeds of $919,080. An extra amount of $143,422 was included in share capital following the issuance of these common shares.

(expressed in Canadian dollars)

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 fair value of the 657,156 Compensation Options was $345,957 which was estimated using the Black Scholes Option Pricing Model with the following assumptions :

Risk-free interest rate	1.62%
Annualized volatility 3	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.

Compensation Options activity for the period ended:

	June 30, 2020	**December 31, 2019**
Compensation Options – Beginning of year	657,156	-
Issued	-	657,156
Exercised	(205,718)	-
Balance – End of year	451,438	657,156

During the period, 205,156 common shares were issued as a result of the exercise of Compensation warrants by the Agents for gross proceeds of $432,008. An extra amount of $108,299 was included in share capital following the issuance of these common shares.

(expressed in Canadian dollars)

e) On June 26, 2020, 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., Stifel Nicolaus Canada Inc. and Raymond James Ltd.

A total of 7,986,750 common shares of Xebec were sold at a price of $3.60 per Common Share for aggregate gross proceeds of $28,752,300 for a total of 7,986,750 shares and 479,205 compensation options. The issuance costs, excluding the non-transferable options to the agents were $1,847,613. The fair value of the 479,205 Compensation Options was $630,997 which was estimated using the Black Sholes Option Pricing Model with the following assumptions:

Risk-free interest rate	0.28%
Annualized volatility 3	74.88%
Share price	$3.60
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 $3.60 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.

Compensation Options activity for the period ended:

	June 30, 2020	**December 31, 2019**
Compensation Options – Beginning of period	-	-
Issued	479,205	-
Exercised	-	-
Balance – End of period	479,205	-

No compensation options have been exercised during the period ended June 30, 2020.

(expressed in Canadian dollars)

f) On May 5th, 2020 the Company has entered into a loan agreement with the Fonds de solidarité FTQ for an unsecured loan facility of $10 million.

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.

No warrants have been exercised during the period ended June 30, 2020.

As at June 30, 2020, compensation options, compensation warrants and warrants are as follows:

Description	Expiry date	Exercise Price	Beginning balance	Issued	Exercised	Balance end of period
Warrants	May-20	$1.05	2,543,931	-	(2,543,931)	-
Compensation Options	May-20	$0.75	4,800	-	(4,800)	-
Warrants	Jul-20	$1.85	8,272,857	-	(5,531,622)	2,741,235
Compensation Options	Jul-20	$1.40	347,760	-	(347,760)	-
Compensation warrants	Jul-20	$1.85	149,040	347,760	(496,080)	-
Compensation Options	Dec-20	$2.10	657,156	-	(205,718)	451,438
Compensation Options	June-21	$3.60	-	479,205	-	479,205
Warrants	May-22	$4.58	-	3,000,000	-	3,000,000
		$3.22	11,975,544	3,826,965	(9,129,912)	6,671,878

(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

g) 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.

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2020	2019	2020	2019
	$	$	$	$
Net income (loss) attributable to shareholders of the Company	(764,487)	1,017,210	(1,507,886)	1,439,815
Weighted average number of shares used in basic income per share	87,086,137	58,116,344	88,884,226	57,648,164
Basic income (loss) per share	(0.01)	0.02	(0.02)	0.03

(expressed in Canadian dollars)

i) Diluted

	For the three-month period ended June 30, 2020 $	2019 $	For the six-month period ended June 30, 2020 $	2019 $
Net income (loss) attributable to shareholders of the Company	(764,487)	1,017,210	(1,507,886)	1,439,815
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	(764,487)	1,017,210	(1,507,886)	1,439,815
Weighted average number of shares used in basic income per share	88,884,226	58,116,344	87,086,137	57,648,164
Increase of number weighted average number of shares assuming dilution	-	5,182,619	-	4,314,415
Weighted average number of shares after diluted effect	88,884,226	63,298,963	87,086,137	61,962,579
Diluted income (loss) per share	(0.01)	0.02	(0,02)	0.02

For the three-month and six-month period ended June 30, 2020, exercised warrants, compensation options, compensation to warrants and outstanding stock options would have been anti-dilutive.

For the three-month and six-month periods ended June 30, 2019, convertible debentures and exercised warrants with an exercise price over the average market price 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).

(expressed in Canadian dollars)

For the three and six-month period ended June 30, revenue summarized by country, as determined by location of the customers, is as follows:

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2020	2019	2020	2019
	$	$	$	$
Revenue				
United States	11,840,400	1,356,105	17,120,848	2,982,146
Canada	3,743,432	4,027,145	7,059,534	6,875,952
China	2,249,272	1,220,224	4,732,649	3,726,857
Other	1,024,796	983,031	1,475,651	2,162,860
Korea	572,808	---	837,944	---
France	107,342	859,227	338,682	2,415,265
Italy	49,673	2,954,965	215,325	3,006,414
Taiwan	---	1,365,566	---	1,365,566
	19,587,723	12,766,263	31,780,633	22,535,060

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

For the three-month period ended June 30, 2020

	Systems	Support	Infrastructure	Corporate	Total
	$	$	$	$	$
Revenues	13,945,881	5,641,842	-	-	19,587,723
COGS	11,675,527	3,617,956	-	-	15,293,483
Gross margin	2,270,354	2,023,886	-	-	4,294,240
Gross Margin %	16%	36%	-	-	22%
		-			
Research and Development expenses	12,045	-	-	-	12,045
Selling and administrative expenses	423,430	941,372	139,064	3,216,635	4,720,501
Foreign exchange loss	-	-	-	143,859	143,859
Gain on conversion of shares issued by a subsidiary	-	-	-	(170,951)	(170,951)
Financial income	-	-	-	(77,852)	(77,852)
Financial expense	-	-	-	438,162	438,162
Income taxes	-	-	-	(7,037)	(7,037)
Total expenses	435,475	941,372	139,064	3,542,816	5,068,727
Segment income (loss)	1,834,879	1,082,514	(139,064)	(3,542,816)	(764,487)

(expressed in Canadian dollars)

For the six-month period ended June 30, 2020

	Systems	Support	Infrastructure	Corporate	Total
	$	$	$	$	$
Revenues	21,953,334	9,827,299	-	-	31,780,633
COGS	18,205,839	6,240,270	-	-	24,446,109
Gross margin	3,747,495	3,587,029	-	-	7,334,524
Gross Margin %	17%	37%	-	-	23%
Research and Development expenses	19,907	-	-	-	19,907
Selling and administrative expenses	741,361	1,888,280	139,064	5,805,634	8,574,339
Foreign exchange gain	-	-	-	(748,731)	(748,731)
Loss on conversion of shares issued by a subsidiary	-	-	-	140,882	140,882
Financial income	-	-	-	(96,344)	(96,344)
Financial expense	-	-	-	929,004	929,0004
Income taxes	-	-	-	23,353	23,353
Total expenses	761,268	1,888,280	139,064	6,053,798	8,842,410
Segment income (loss)	2,986,227	1,698,749	(139,064)	(6,053,798)	(1,507,886)

(expressed in Canadian dollars)

For the three-month period ended June 30, 2019

	Systems	Support	Infrastructure	Corporate	Total
	$	$	$	$	$
Revenues	9,677,909	3,088,354	-	-	12,766,263
COGS	6,531,242	2,201,896	-	-	8,733,138
Gross margin	3,146,667	886,458	-	-	4,033,125
Gross Margin %	33%	29%	-	-	32%
		-			
Research and Development expenses	30,007	-	-	-	30,007
Selling and administrative expenses	462,054	617,237		1,363,266	2,442,557
Foreign exchange loss	-	-	-	256,235	256,235
Gain on conversion of shares issued by a subsidiary	-	-	-	(184,508)	(184,508)
Financial income	-	-	-	(13,998)	(13,998)
Financial expense	-	-	-	485,622	485,622
Total expenses	492,061	617,237	-	1,906,617	3,015,915
Segment income (loss)	2,654,606	269,221	-	(1,906,617)	1,017,210

For the six-month period ended June 30, 2019

	Systems	Support	Infrastructure	Corporate	Total
	$	$	$	$	$
Revenues	16,736,456	5,798,604	-	-	22,535,060
COGS	11,286,905	3,912,084	-	-	15,198,989
Gross margin	5,449,551	1,886,520	-	-	7,336,071
Gross Margin %	33%	33%	-	-	33%
		-			
Research and Development expenses	42,971	-	-	-	42,971
Selling and administrative expenses	864,365	1,133,705		2,959,666	4,957,736
Foreign exchange loss	-	-	-	215,200	215,200
Gain on conversion of shares issued by a subsidiary	-	-	-	(166,856)	(166,856)
Financial income	-	-	-	(14,804)	(14,804)
Financial expense	-	-	-	862,009	862,009
Total expenses	907,336	1,133,705	-	3,855,215	5,896,256
Segment income (loss)	4,542,215	752,815	-	(3,855,215)	1,439,815

(expressed in Canadian dollars)

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

	As at June 30, 2020 $	As at December 31, 2019 $
Non-current assets		
Canada	4,459,442	5,077,673
Asia	243,710	4,509,680
United States	5,232,863	919,309
Italy	643,611	283,343
	10,579,626	10,790,005

12 Finance expenses

	For the three-month period ended June 30, 2020 $	2019 $	For the six-month period ended June 30, 2020 $	2019 $
Accretion of the obligation arising from shares issued by a subsidiary (Note 9)	77,808	77,045	152,099	153,641
Interest on convertible debentures	-	79,307	-	166,597
Interest and bank charges	61,064	48,953	206,737	227,667
Guarantee letter fees	-	94.495	119,147	
Interest on short term debt	-	11,966	228	14,406
Accretion and revaluation of government royalty program obligation (Note 8b)	5,184	6,170	10,668	12,485
Interest on long term debt	294,106	167,686	440,125	287,213
	438,162	485,622	929,004	862,009

13 Stock options

On June 25, 2020, the Shareholders of Xebec approved the adoption by the Company of the long term incentive plan (LTIP) replacing the prior Stock Option Plan. The LTIP permits the granting of options (“LTIP Options”), Restricted Stock Units (“RSU”) and Deferred Share Unit (“DSU”) to eligible participants of the Company and is administered by the Compensation Committee.

The total number of Common Shares reserved and available for grant and issuance pursuant to Awards (including the Common Shares issuable upon exercise of the outstanding options previously granted under the prior Stock Option Plan) shall not exceed a number of Common Shares equal to 17,791,757 (representing 17% of the total issued and outstanding Common Shares).

All existing options granted under the Stock Option Plan will remain outstanding and subject to the current Stock Option Plan.

The LTIP provides that the aggregate number of Common Shares issued to insiders and associates of such insiders under the LTIP or any other proposed or established share compensation arrangement within any one-year period and issuable to insiders and associates of such insider at any time under the LTIP or any other proposed or established share compensation arrangement, shall not in each case exceed 10% of the issued and outstanding Common Shares.

The aggregate number of Shares issuable to any one consultant, within any one-year period, under the LTIP, or when combined with all of the Corporation’s other security-based compensation arrangements, shall not exceed 2% of the Corporation’s total issued and outstanding securities, calculated on the date the Award is granted to the Consultant.

The aggregate number of Shares issuable to all Participants retained to provide Investor Relations Activities, within any one-year period, under the LTIP, or when combined with all of the Corporation’s other security-based compensation arrangements, shall not exceed 2% of the Corporation’s total issued and outstanding securities, calculated on the date the Award is granted to the Participant, and Options granted to such Participants retained to provide Investor Relations Activities must vest in stages over a period of not less than one year with no more than ¼ of the Options vesting in any three month period.

The purchase price per share purchasable under an Option shall be determined by the Committee and shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option; provided, however, that the Committee may designate a purchase price below Fair Market Value on the date of grant if the Option is granted in substitution for a stock option previously granted by an entity that is acquired by or merged with the Company or an affiliate. The term of each Option shall be fixed by the Committee at the date of grant but shall not be longer than 10 years from the date of grant.

(expressed in Canadian dollars)

Stock option activity for the period ended June 30, is presented below:

	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	(291,000)	0.26	(1,399,500)	0.10
Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding – June 30,	3,790,860	0.35	4,902,258	0.32
Exercisable – June 30,	2,797,192	0.26	3,359,925	0.18

As at June 30, 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
May 29, 2021	$0.14	200,000	0.91	200,000
December 19, 2022	$0.55	400,000	2.47	266,666
January 7, 2023	$0.05	200,000	2.52	200,000
March 5, 2024	$0.18	1,773,193	3.68	1,773,193
August 29, 2024	$0.49	350,000	4.16	50,000
December 19, 2024	$0.55	98,667	4.46	61,667
May 14, 2025	$0.60	34,001	4.87	666
November 19, 2025	$0.70	735,000	5.39	245,000
	$0.35	**3,790,861**	**3.75**	**2,797,192**

(expressed in Canadian dollars)

As at June 30, 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
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	2,098,193
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	33,333
November 19, 2025	$0.70	735,000	6.64	-
	$0.32	**4,902,258**	**4.72**	**3,359,925**

During the six-month period ended in June 30, 2020, the Company expensed $103,490 (2019 - $292,536) and during the three-month period ended in June 30, 2020, the Company expensed $50,972 (2019 - $117,820) which totally relates to stock options granted in 2014, 2017 and 2018.

No options have been granted during the six-month period ending June 30, 2020.

(expressed in Canadian dollars)

14 Supplemental Cash flow information

For the three-month and six-month periods ended June 30, net change in non-cash working capital balances related to operations consists of the following:

	For the three-month period ended June 30, 2020 $	2019 $	For the six-month period ended June 30, 2020 $	2019 $
Decrease (increase) in assets:				
Trade and other receivables	(4,841,957)	(1,093,380)	(6,835,247)	(5,053,235)
Inventories	(851,525)	277,052	(4,690,923)	(125,084)
Other current assets	136,113	(75,881)	40,143	(38,666)
Increase (decrease) in liabilities:				
Trade payables, other payables and accrued liabilities	(653,709)	1,274,603	(2,039,643)	1,950,214
Contract liabilities	(5,233,861)	(1,714,879)	(38,249)	(1,480,376)
Provisions	(80,089)	13,399	111,954	40,964
Income taxes payable (recoverable)	(60,882)	(17,521)	26,842	(6,859)
	(11,585,910)	(1,477,364)	(13,425,123)	(4,988,362)

14 Expenses by nature

	For the three-month period ended June 30, 2020 $	2019 $	For the six-month period ended June 30, 2020 $	2019 $
Material	12,466,707	6,152,623	17,385,230	10,640,666
Employee salaries and benefits	4,280,663	2,818,840	7,836,998	5,282,002
Professional fees	961,757	214,224	1,758,600	610,476
Subcontract cost	558,723	991,557	1,650,997	1,649,814
Bad Debt	470,610	-	541,628	-
Amortization and depreciation	283,518	182,750	1,499,827	349,804
IT & Office expense	255,681	131,052	555,082	315,034
Rent and repairs and maintenance	235,814	153,675	538,306	301,442
Travel expenses	228,424	326,061	495,696	588,057

(expressed in Canadian dollars)

Warranty	105,771	58,767	416,876	112,128
Other	64,418	(5,061)	140,996	(6,641)
Advertising	51,427	39,491	97,222	84,407
Stock-based compensation	50,972	111,716	103,490	229,536
	20,014,485	11,175,695	33,020,948	20,156,725

15 Related party transactions

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

	For the three-month period ended June 30,		**For the six-month period ended June 30,**	
	2020 **$**	**2019** **$**	**2020** **$**	**2019** **$**
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	9,894	21,435	61,338	66,009
Salaries and short-term benefits paid to members of immediate family of an officer	53,257	30,054	92,249	67,156
Material purchased to companies controlled by members of the immediate family of an officer	4,806	9,888	13,752	18,589
	67,957	61,377	167,339	151,754

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

(expressed in Canadian dollars)

16 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:

June 30, 2020	Amortized Cost		Amortized Cost	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Cash	60,010,090	60,010,090	-	-
Restricted cash	340,700	340,700		
Trade and other receivables	11,017,011	11,017,011	-	-
Other current assets	16,250	16,250	-	-
Bank loan	-	-	-	-
Trade, other payables and accrued liabilities	-	-	9,759,697	9,759,697
Long term debt	-	-	12,470,018	12,470,018
Government royalty program obligation	-	-	418,738	418,738
Obligation arising from shares issued by a subsidiary	-	-	4,453,457	4,453,457

(expressed in Canadian dollars)

December 31, 2019	**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

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.

(expressed in Canadian dollars)

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).

17 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 (CO2) 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:

i. $30,000 upon signing
ii. $30,000 upon the first anniversary of the Effective Date
iii. $30,000 upon receiving the final report.

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

As at June 30, 2020	**Payment Due by Period**			
	1 year	2 - 5 years	Beyond 5 years	Total
	$	**$**	**$**	**$**
Operating leases	205,906	88,132	-	294,038

Operating leases include various equipment leases. The operating leases expenses for the six-month period ended June 30, 2020 amounted to $201,639 ($112,303 in 2019).

18 Subsequent event

On July 31st 2020, Xebec Holding USA Inc, a wholly owned subsidiary of Xebec Adsorption Inc, has entered into an agreement to acquire all of the outstanding securities of Enerphase Industrial Solutions Inc (doing business as "Air Flow") for an approximate total consideration of 6.0$M subject to certain holdbacks, adjustments and time-based payments.

Air Flow is a leading distributor and service provider of compressed air equipment in North Carolina. Incorporated in 1981, the company brings decades of industry experience and has built long standing relationships with major manufacturers and has developed a significant service footprint through numerous equipment installations. Air Flow's focus is on preventative maintenance solutions, air energy system audits and analysis, and timely machine rentals, and parts and service. Air Flow's principals will remain with the Company after the acquisition to optimize their integration into Xebec's industrial service and support business and to grow the operation over the coming years.