

# **Xebec Adsorption Inc.**

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

**For the three-month and six-month periods ended June 30, 2021 and 2020**  
(Expressed in thousands of Canadian dollars)

# Xebec Adsorption Inc.

## Condensed Interim Consolidated Statements of Financial Position (Unaudited)

As at June 30, 2021 and December 31, 2020

(expressed in Canadian dollars)

	June 30, 2021 \$	December 31, 2020 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	70,262	160,938
Restricted cash (Note 3)	9,630	7,642
Trade and other receivables (Note 4)	32,626	35,123
Inventories	35,530	21,145
Investment tax credits receivable	-	16
Finance leases receivable (Note 8)	250	129
Prepaid expenses	886	1,131
<b>Total current assets</b>	<b>149,184</b>	<b>226,124</b>
<b>Non-current assets</b>		
Finance leases receivable (Note 8)	9,664	3,016
Investment and advance to related companies	1,752	116
Deferred financing costs	615	985
Property, plant and equipment (Note 5)	33,775	36,578
Intangible assets (Note 6)	14,288	15,004
Goodwill (Note 7)	210,869	162,802
Other non-current assets	45	53
<b>Total non-current assets</b>	<b>271,008</b>	<b>218,554</b>
<b>Total assets</b>	<b>420,192</b>	<b>444,678</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Credit facility (Note 9)	-	975
Trade, other payables and accrued liabilities	23,455	27,571
Contract liabilities	10,211	7,507
Current portion of long-term debt (Note 10a)	14,431	14,052
Current portion of government royalty program obligation (Note 10b)	190	185
Current portion of provisions	2,646	1,541
Current portion of obligation arising from shares issued by a subsidiary (Note 11)	-	2,972
Income taxes payable	805	109
<b>Total current liabilities</b>	<b>51,738</b>	<b>54,912</b>
<b>Non-current liabilities</b>		
Long-term debt (Note 10a)	46,291	42,626
Government royalty program obligation (Note 10b)	101	183
Provisions	258	348
Deferred tax liabilities	2,410	2,576
<b>Total non-current liabilities</b>	<b>49,060</b>	<b>45,733</b>
<b>Total liabilities</b>	<b>100,798</b>	<b>100,645</b>
<b>Equity</b>		
Share capital (Note 13)	401,952	396,609
Contributed surplus	7,586	8,145
Accumulated other comprehensive loss	(13,633)	(914)
Deficit	(76,511)	(59,807)
<b>Total equity</b>	<b>319,394</b>	<b>344,033</b>
<b>Total liabilities and equity</b>	<b>420,192</b>	<b>444,678</b>

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)* Peter Bowie

Director

# Xebec Adsorption Inc.

## Condensed Interim Consolidated Statements of Loss

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars), except net loss per share

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Revenue (Note 15)</b>				
Revenue from contracts	32,117	19,588	51,763	31,781
Government grants	547	-	1,525	-
	<u>32,664</u>	<u>19,588</u>	<u>53,288</u>	<u>31,781</u>
<b>Cost of goods sold</b>	<u>27,672</u>	<u>15,294</u>	<u>44,112</u>	<u>24,446</u>
<b>Gross margin</b>	<u>4,992</u>	<u>4,294</u>	<u>9,176</u>	<u>7,335</u>
Research and development expenses	862	12	1,405	20
Selling and administrative expenses	12,307	4,720	23,246	8,574
Foreign exchange loss (gain)	(132)	144	487	(749)
Loss (gain) on disposal of assets	(1)	-	31	-
Loss (gain) on conversion of shares issued by a subsidiary (Note 11)	2	(171)	(45)	141
	<u>13,038</u>	<u>4,705</u>	<u>25,124</u>	<u>7,986</u>
Operating loss	<u>(8,046)</u>	<u>(411)</u>	<u>(15,948)</u>	<u>(651)</u>
<b>Other charge (income)</b>				
Finance income	(218)	(78)	(439)	(96)
Gain on deconsolidation of a subsidiary	(2,154)	-	(2,154)	-
Finance expenses (Note 17)	1,478	438	2,899	929
	<u>(894)</u>	<u>360</u>	<u>306</u>	<u>833</u>
<b>Loss before income taxes</b>	<u>(7,152)</u>	<u>(771)</u>	<u>(16,254)</u>	<u>(1,484)</u>
Income taxes	<u>344</u>	<u>(7)</u>	<u>450</u>	<u>23</u>
<b>Net loss for the year</b>	<u>(7,496)</u>	<u>(764)</u>	<u>(16,704)</u>	<u>(1,507)</u>
<b>Net loss per share</b>				
Basic net loss per share (Note 13)	<u>(0.05)</u>	<u>(0.01)</u>	<u>(0.11)</u>	<u>(0.02)</u>
Diluted net loss per share (Note 13)	<u>(0.05)</u>	<u>(0.01)</u>	<u>(0.11)</u>	<u>(0.02)</u>

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

# Xebec Adsorption Inc.

## Condensed Interim Consolidated Statements of Comprehensive Loss

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

	For the three-month period ended		For the six-month period ended	
	2021	June 30, 2020	2021	June 30, 2020
	\$	\$	\$	\$
<b>Net loss for the period</b>	(7,496)	(764)	(16,704)	(1,507)
<b>Other comprehensive loss</b>				
Cumulative translation adjustment	<u>(1,782)</u>	<u>(421)</u>	<u>(12,719)</u>	<u>882</u>
<b>Comprehensive loss for the period</b>	<u>(9,278)</u>	<u>(1,185)</u>	<u>(29,423)</u>	<u>(625)</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 June 30, 2021 and December 31, 2020

(expressed in Canadian dollars)

	Common shares	Warrants and Compensation Shares	Share capital – Common shares	Contributed surplus	Accumulated other comprehensive loss	Deficit	Equity Component of convertible debentures	Total
	#	#	\$	\$	\$	\$	\$	\$
<b>Balance – January 1, 2020</b>	<b>84,378,678</b>	<b>11,975,544</b>	<b>63,484</b>	<b>4,569</b>	<b>(1,247)</b>	<b>(27,849)</b>	<b>-</b>	<b>38,957</b>
Net loss for the year	-	-	-	-	-	(31,958)	-	(31,958)
Other comprehensive income	-	-	-	-	333	-	-	333
Comprehensive income (loss) for the year	-	-	-	-	333	(31,958)	-	(31,625)
Issuance of warrants from new financing (Note 13)	-	3,000,000	-	2,954	-	-	-	2,954
Share issued from the exercise of options (Note 14)	1,903,333	-	682	(319)	-	-	-	363
Share issued from public offering (Note 13)	7,986,750	-	26,437	-	-	-	-	26,437
Shares to be issued from public offering (Note 13)	35,689,974	-	194,808	-	-	-	-	194,808
Shares issued to HyGear (Note 3)	10,014,364	-	90,129	-	-	-	-	90,129
Warrants and compensation shares issued from public offering (Note 13)	-	826,965	(631)	631	-	-	-	-
Warrants and compensation shares exercised from public offering (Note 13)	12,369,887	(12,369,887)	21,700	(742)	-	-	-	20,958
Warrants from public offering – Cancelled	-	(14,355)	-	-	-	-	-	-
Stock-based compensation expense (Note 14)	-	-	-	180	-	-	-	180
Deferred share unit compensation expense (Note 14)	-	-	-	203	-	-	-	203
Restricted share unit compensation expense (Note 14)	-	-	-	669	-	-	-	669
<b>Balance – December 31, 2020</b>	<b>152,342,986</b>	<b>3,418,267</b>	<b>396,609</b>	<b>8,145</b>	<b>(914)</b>	<b>(59,807)</b>	<b>-</b>	<b>344,033</b>

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, 2021 and December 31, 2020

(expressed in Canadian dollars)

	Common shares	Warrants and Compensation Shares	Share capital – Common shares and warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Equity Component of convertible debentures	Total
	#	#	\$	\$	\$	\$	\$	\$
<b>Balance – January 1, 2021</b>	<b>152,342,986</b>	<b>3,418,267</b>	<b>396,609</b>	<b>8,145</b>	<b>(914)</b>	<b>(59,807)</b>	<b>-</b>	<b>344,033</b>
Net loss for the year	-	-	-	-	-	(16,704)	-	(16,704)
Other comprehensive loss	-	-	-	-	(12,719)	-	-	(12,719)
Comprehensive loss for the year	-	-	-	-	(12,719)	(16,704)	-	(29,423)
Share issued from the exercise of options	-	-	35	(15)	-	-	-	20
Share issued from the exercise of RSU	-	-	93	(131)	-	-	-	(38)
Share issued from public offering (Note 13)	-	-	(28)	-	-	-	-	(28)
Warrants and compensation shares exercised from public offering (Note 13)	418,267	(418,267)	2,057	(551)	-	-	-	1,506
Shares issued to Nortec (Note 3)	735,838	-	3,186	-	-	-	-	3,186
Stock-based compensation expense (Note 14)	34,000	-	-	(97)	-	-	-	(97)
Deferred share unit compensation expense (Note 14)	-	-	-	58	-	-	-	58
Restricted share unit compensation expense (Note 14)	8,414	-	-	177	-	-	-	177
<b>Balance – June 30, 2021</b>	<b>153,539,505</b>	<b>3,000,000</b>	<b>401,952</b>	<b>7,586</b>	<b>(13,633)</b>	<b>(76,511)</b>	<b>-</b>	<b>319,394</b>

*Accumulated other comprehensive 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 and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net loss for the period	(7,495)	(764)	(16,704)	(1,508)
Items not affecting cash				
Depreciation of property, plant and equipment (Note 5)	1,321	241	2,287	473
Amortization of intangible assets (Note 6)	373	43	752	1,027
Reversal of inventory write-down	(47)	(15)	(14)	(20)
Accretion finance expenses and gain on revaluation of government royalty program obligation (Note 10b)	4	5	8	11
Accretion of the obligation arising from shares issued by a subsidiary (Note 11)	73	78	120	152
Exchange gain/loss on the obligation arising from shares issued by a subsidiary	1	(171)	(45)	141
Stock-based compensation expense (Note 14)	210	51	138	103
Accretion of financing costs	185	-	369	-
Accretion of long-term debt (Note 10a)	379	85	653	174
Gain on deconsolidation of a subsidiary	(2,154)	-	(2,154)	-
Future income taxes	(60)	(5)	(120)	(18)
	<u>(7,210)</u>	<u>(452)</u>	<u>(14,710)</u>	<u>535</u>
Change in non-cash working capital balances related to operations (Note 18)	<u>4,083</u>	<u>(11,587)</u>	<u>(8,595)</u>	<u>(13,425)</u>
	<u>(3,127)</u>	<u>(12,039)</u>	<u>(23,305)</u>	<u>(12,890)</u>
<b>Investing activities</b>				
Acquisition of property, plant and equipment (Note 5)	(922)	(162)	(2,648)	(226)
Restricted cash	(1,069)	14	(1,988)	(16)
Acquisition of intangible assets (Note 6)	(317)	(80)	(560)	(364)
Net proceeds from disposal of assets	-	-	46	-
Investment in related companies	79	-	(209)	-
Investment in Finance Lease	(1,555)	-	(1,555)	-
Finance lease receivable payments	89	-	158	-
Business acquisitions, net of cash acquired (Note 3)	<u>(21,854)</u>	<u>-</u>	<u>(55,048)</u>	<u>-</u>
	<u>(25,549)</u>	<u>(228)</u>	<u>(61,804)</u>	<u>(606)</u>
<b>Financing activities</b>				
Decrease of bank loan (Note 9)	-	-	(15)	-
Long-term debt	-	10,056	-	10,056
Payment of debt liabilities (Note 10a)	(1,173)	(384)	(4,976)	(583)
Earn-out payment	(220)	(220)	(220)	(220)
Proceeds from issuance of share capital (Notes 13)	1,097	39,401	1,460	41,529
Repayment of government royalty program obligation (Note 10b)	(45)	(30)	(85)	(58)
	<u>(341)</u>	<u>48,823</u>	<u>(3,836)</u>	<u>50,724</u>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<u>(29,017)</u>	<u>36,556</u>	<u>(88,945)</u>	<u>37,227</u>
<b>Cash – Beginning of period</b>	<u>99,912</u>	<u>23,679</u>	<u>160,938</u>	<u>22,358</u>
Effect of exchange rate changes on cash	<u>(633)</u>	<u>(225)</u>	<u>(1,731)</u>	<u>424</u>
<b>Cash – End of period</b>	<u>70,262</u>	<u>60,010</u>	<u>70,262</u>	<u>60,010</u>
<b>Additional information</b>				
Income tax paid	100	-	187	71
Interest paid	1,210	336	2,381	725

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 and six-month periods ended June 30, 2021 and 2020

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(expressed in Canadian dollars)

## **1 Nature of business**

Xebec Adsorption Inc. (“Xebec” or the “Company”) is a global provider that 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 Exchange under the symbol XBC since January 7, 2021. It was previously 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).

The continued spread of COVID-19 around the globe and the responses of governmental authorities and corporate entities, including through mandated or voluntary shutdowns, have and may continue to lead to a general slow-down in the economy and to disruptions to our work force and facilities, our customers, our sales and operations and our supply chain.

The full extent and impact of the COVID-19 pandemic is unknown and at this stage the future is very difficult to project.

The Company’s bad debt expense may increase, revenues and cash resources may be negatively affected, and the Company may need to assist potential customers with obtaining financing or government incentives to help them fund their purchases of our products. Any temporary suspension of production in Xebec facilities, or those of any of its suppliers, partners or customers, as a direct result of COVID-19 may have a material adverse effect on the Company.

## **2 Summary of significant accounting policies**

### **Basis of compliance and basis of preparation**

These condensed interim consolidated financial statements, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. The condensed interim consolidated 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, 2020, as they follow the same accounting policies and methods of application, unless otherwise indicated.

The condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on August 11, 2021.

Certain figures of the consolidated statements may have been reclassified in order to comply with the basis of presentation adopted in the current period.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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(expressed in Canadian dollars)

### **Basis of consolidation**

These 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 Holding USA Inc., Xebec Shanghai Co. LT (until its deconsolidation as at June 25, 2021) Xebec Adsorption Europe SRL, Xebec Europe B.V., Xebec Holding UK Limited, Compressed Air International Inc., Applied Compression Systems Ltd. (ACS), Xebec RNG Holdings Inc., all of which are wholly owned and GNR Bromont L.P, which is 99% percent owned.

Xebec Adsorption Inc. owns 100% of GNR Québec Capital Management Inc. and 49.9995% of GNR Québec Capital S.E.C. The remaining 50.0% of GNR Québec Capital S.E.C. is 49.9995% owned by Fonds de solidarité FTQ ("FTQ") and 0.001% owned by GNR Québec Capital Management Inc. The Company does not have full control over GNR Québec Capital Management Inc. and GNR Québec Capital S.E.C. Consequently, these investments are accounted for using the equity method.

Xebec Holding USA Inc. has five wholly owned subsidiaries: Xebec Adsorption USA Inc., CDA Systems LLC., Enerphase Industrial Solutions Inc. (Airflow), The Titus Company (Titus) and Nortekbelair Corporation (Nortec).

Xebec RNG Holdings Inc. has one wholly owned subsidiary: GNR Bromont Management Inc. GNR Bromont Management Inc. owns the 1% remaining of GNR Bromont L.P.

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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(expressed in Canadian dollars)

Xebec Europe B.V. has two wholly owned subsidiaries: Xebec Deutschland GmbH and Green Vision Holding B.V. Green Vision Holding B.V. fully owns HyGear Technologies and Services B.V. which has six wholly owned subsidiaries: HyGear Operations B.V., HyGear B.V., HyGear Asia PTE LTD, HyGear Fuel Cell B.V. and HyGear Hydrogen Plant B.V. and Buse – HyGear LTD which is 50% owned. HyGear LTD is expected to start its activities in the first quarter of 2022. Xebec Deutschland GmbH fully owns Inmatec Gase Technologie GmbH & Co. KG, Inmatec GmbH and Inmatec Gas Technology FZC RAK.

Xebec Holding UK Limited owns 100% of Tiger Filtration Limited (Tiger).

Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases.

Changes in the Company's ownership interests in subsidiary 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.

### **Financial Instruments**

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

Cash  
Restricted cash  
Trade and other receivables  
Finance lease 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)

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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(expressed in Canadian dollars)

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 impairments of trade receivables which are 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 cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

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

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 or loss.

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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(expressed in Canadian dollars)

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.

### **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 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 contract assets. 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.

Revenues are 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 were recognized (before June 25, 2021 deconsolidation) upon completion and the Company could determine that control had 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.

Gases generators and installation revenue comprises the sale of assets which are manufactured based on the customer specific needs and requirements. The Company considers these contracts as one performance obligation. The Company manufactures an asset which would have no alternative use in its completed state and the Company is entitled to receive consideration during the manufacturing period. Consideration received is not refundable to customers to the extent that costs have been incurred during the manufacturing process. The Company recognises revenue over the time of the manufacturing process. Revenue is measured using the input method whereby revenue is recognised based on the pro rata cost incurred in relation to the total

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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estimated cost to manufacture. The manufacturing process for an asset is estimated to be less than 12 months based on experience. The Company therefore applies the practical expedient in IFRS 15.63 whereby an entity does not adjust the consideration to be received for the effects of a significant financing component.

Service and maintenance revenue comprises the after-sale maintenance and servicing of the asset which was transferred to the customer on an annual subscription contract. The service and maintenance revenue is a distinct performance obligation to provide an undefined quantity of services over the duration of the contract period. A portion of the transaction price is therefore allocated to service and maintenance based on the stand-alone selling price of those services. Discounts are not considered as they are only given in rare circumstances and are never material. Revenue is recognised over the duration of the contract.

Revenues from Gas-as-a-Service (GaaS) are addressed in lease section.

### **Government grants**

Government grants are recognised where there is reasonable assurance that the grants will be received and all attached conditions will be met. The Company's grants are related to an expense item and recognised as income on a systematic basis over the period the related costs, for which it is intended to compensate, are expensed. Government grants are deducted from the respective expense lines unless they relate to R&D projects in which case they are presented as governments grants under total income.

Non-refundable grants relating to property, plant and equipment are accounted for as deferred government grants and amortized on the same basis as the related assets.

Research and experimental development tax credits are recognized using the cost reduction method when there is reasonable assurance of their recovery. Investment tax credits are subject to the customary approvals by the pertinent tax authorities. Adjustments, if required, are reflected in the year when such assessments are received.

### **Segment reporting**

The Company operates three business segments:

- 1) Systems (Cleantech) – Includes 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.

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

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

### **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 costs 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 billings in excess of long-term contracts cost incurred and recorded margins.

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 recognizes the incremental costs of obtaining a contract with a customer as an asset 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 12 months following a 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 at the end of the reporting period.

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### **Leases**

#### ***The Company as a lessee:***

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 lease payments on or after the commencement date, plus initial direct costs incurred and an 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.

Lease liabilities are initially measured at the present value of the lease payments 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.

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

#### ***The Company as a lessor:***

As part of its normal business activity, the Company enters into lease contracts whereby gas generation technologies are manufactured and placed at customer premises in order for the customer to have on-demand gas supply (Gas-as-a-Service). Depending on the lease contracts, the Company either classifies the leases as operating or finance leases.

To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, the lease is classified as finance lease, if not, the lease is classified as an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease term is for a majority of the economic life of the assets.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the lease arrangement.

Income from operating lease contracts is recognised on a straight-line basis over the term of the lease and is presented in the consolidated statement of profit or loss under revenue.

Amounts due from lessees under finance leases are recognised at the amount of the Company's net investment in the leases (finance leases receivables). Finance lease income, presented within

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finance income, is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Subsequent to initial recognition, the Company reviews the estimated unguaranteed residual value and applies the expected credit loss model to recognise a provision on its finance lease receivables.

### **Foreign currency translation**

#### *Functional and presentation currency:*

Items included in the 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 consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The 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.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income (loss) related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income (loss) related to the subsidiary is reallocated between controlling and non-controlling interests.

### **Use of estimates and judgments**

When preparing the condensed interim consolidated financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. On an ongoing basis, management reviews its estimates. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

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The judgements, estimates and assumptions applied in the condensed interim consolidated financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Company's last annual financial statements for the year ended December 31, 2020.

### **3 Business combinations**

1) During the year ended December 31, 2020 and the six-month period ended June 30, 2021, the Company acquired the following subsidiaries:

#### **a) Enerphase Industrial Solutions Inc. (Air Flow)**

On July 31, 2020, Xebec Holding USA Inc., a wholly owned subsidiary of Xebec Adsorption Inc., acquired all of the outstanding securities of Enerphase Industrial Solutions Inc. (doing business as "Air Flow") for a purchase price of \$5,781K (\$4,313K USD). The purchase agreement included an additional contingent consideration payable from future EBITDA to be achieved over the next three years (Note 10a).

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, has built longstanding 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, timely machine rentals, and parts and service.

Air Flow generated revenues of \$5,157K and a profit of \$190K from August 1, 2020 to December 31, 2020.

If Air Flow had been acquired on January 1, 2020, revenue of the Company for the twelve-month period ended December 31, 2020 would have been \$63,263K and the net loss for the period would have been (\$31,548K).

#### **b) Applied Compression Systems Ltd.**

On August 31, 2020, Xebec Adsorption Inc. acquired all outstanding shares of Applied Compression Systems Ltd. ("ACS") for a purchase price of \$4,828K which includes an amount of \$778K that was paid on January 19, 2021 (Note 10a). Deferred compensation based on the annual EBITDA and subject to a key employment agreement will be payable for a period of three years as agreed by both parties.

Applied Compression Systems Ltd., located in British Columbia, offers a single source solution for air & gas compression requirements. The company has a strong focus on custom designed and fabricated compressor packages for specialized applications in the oil, gas, petrochemical,

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alternative fuel, waste-to-energy, research, power generation, mining and manufacturing industries. ACS can supply either standard units or design and fabricate equipment that is custom-built to specific requirements from concept to completion.

ACS generated revenues of \$949K and a net loss of \$99K after the intercompany eliminations for the period from September 1, 2020 to December 31, 2020.

If ACS had been acquired on January 1, 2020, revenue of the Company for the twelve-month period ended December 31, 2020 would have been \$60,736K and the net loss for the period would have been (\$29,622K).

### c) The Titus Company

On October 30, 2020, Xebec Holding USA Inc., a wholly owned subsidiary of Xebec Adsorption Inc., acquired all of the outstanding shares of “The Titus Company” (Titus) for a purchase price of \$8,236K (\$6,184K USD). The purchase agreement included an amount of \$840K USD (par value \$1,000K USD) which will be payable over the next three years (Note 10a).

Founded in 1986 in Pennsylvania, Titus has been in partnership with large and small companies throughout the Eastern Pennsylvania, Delaware and New Jersey regions and provides superior expertise and the capability to serve a wide range of needs. The Titus Company is also the largest supplier of air dryers to the United States Navy. With this acquisition, Xebec’s Cleantech Service Network (CSN) coverage expands to include Eastern Pennsylvania, Delaware and New Jersey.

Titus generated revenues of \$1,478K and a net profit of \$285K for the period from November 1, 2020 to December 31, 2020.

If Titus had been acquired on January 1, 2020, revenue of the Company for the twelve-month period ended December 31, 2020 would have been \$67,287K and the net loss for the period would have been (\$30,651K).

### d) Nortec

On April 30, 2021, Xebec Holding USA Inc., a wholly owned subsidiary of Xebec Adsorption Inc., acquired all of the outstanding shares of Tennessee based Nortekbelair Corporation (Nortec) for a purchase price of \$9,293K (\$7,565K USD) through a combination of cash on hand, of which \$4,242K (\$3,453K USD) was paid in cash on closing, and 735,838 common shares of Xebec issued to the seller at a fair value of \$4.33 per share, the closing price of Xebec’s shares on April 30, 2021. The purchase agreement includes an additional contingent consideration of \$1,619K (\$1,318K USD) payable based on achievement of sales targets over the next three years (Note 10a).

Nortec was founded in 2008 based on three key pillars of performance: quality, perfection and innovation. Although the company was founded in 2008, Nortec’s origins in the compressed air industry go back several decades. Nortec specializes in compressed air drying and industrial systems, and the company’s systems are used in a broad spectrum of applications, ranging from

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small shops to major manufacturing plants. Nortec's principal will remain with the Company after the acquisition and continue his focus on R&D and product development within the company.

Nortec generated revenues of \$745K and a net profit of \$38K for the period from May 1, 2021 to June 30, 2021.

If Nortec had been acquired on January 1, 2021, revenue of the Company for the six-month period ended June 30, 2021 would have been \$55,370K and the net loss for the period would have been \$(16,268K).

### **e) Tiger**

On June 11, 2021, the Company acquired all of the outstanding shares of United Kingdom based Tiger Filtration Limited (Tiger) for a total consideration of \$20,086K (£ 11,734K) subject to certain holdbacks and adjustments. The purchase agreement includes an additional contingent consideration of \$2,112K (par value £1,500K) payable based on achievement of sales targets over the next two years (Note 10a).

Established in 2004, Tiger Filtration is an independently owned British based company specialising in the manufacture of high-quality alternative in-line filter elements, vacuum pump separators, compressor air & oil separators, high-pressure stainless-steel filter housings and bespoke filtration solutions. Tiger's products are supplied from its 14,000 sq ft facility in Sunderland, UK and sold globally to customers ranging from small businesses to international organisations who expect quality products and an exceptional level of service. Two of its principals will retire and Gary Ashton will remain with Tiger as Managing Director and continue his leadership in sales and business development.

Tiger generated revenues of \$231K and a net profit of \$33K for the period from June 12, 2021 to June 30, 2021.

If Tiger had been acquired on January 1, 2021, revenue of the Company for the six-month period ended June 30, 2021 would have been \$55,030K and the net loss for the period would have been \$(16,528K).

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As at June 30, 2021 and December 31 2020, the final purchase price allocations for Enerphase, ACS and Titus, and the preliminary purchase price allocations for Nortec and Tiger, are as follows:

	June 30, 2021	December 31, 2020
<b>Fair value of consideration transferred</b>		
Amount settled in cash	38,242	15,027
Fair value of shares issued	3,186	-
Fair value of contingent consideration	4,668	1,138
Restricted cash and balance of acquisition payable	2,128	2,680
<b>Total</b>	<b>48,224</b>	<b>18,845</b>
<b>Recognized amounts of identifiable net assets</b>		
Trade and other receivables	6,746	4,497
Inventories	4,567	3,650
Cash and cash equivalents	2,648	2,000
Prepaid expenses	135	135
<b>Total current assets</b>	<b>14,096</b>	<b>10,282</b>
Property, plant and equipment	516	487
Assets acquired under right-of-use	2,155	2,155
<b>Total non-current assets</b>	<b>2,671</b>	<b>2,642</b>
Trade, other payables	(2,381)	(2,108)
Accrued liabilities	(431)	(367)
Contract liabilities	(2,115)	(2,115)
Income tax payable	(839)	(247)
<b>Total current liabilities</b>	<b>(5,766)</b>	<b>(4,837)</b>
Deferred tax liability	(1,578)	(1,578)
Long-term debt	(2,761)	(2,761)
<b>Total non-current liabilities</b>	<b>(4,339)</b>	<b>(4,339)</b>
<b>Identifiable net assets</b>	<b>6,662</b>	<b>3,748</b>
<b>Trademarks</b>	<b>684</b>	<b>684</b>
<b>Client relationships</b>	<b>6,601</b>	<b>6,601</b>
<b>Goodwill on acquisition</b>	<b>34,277</b>	<b>7,812</b>
	<b>41,562</b>	<b>15,097</b>
	<b>48,224</b>	<b>18,845</b>
Consideration transferred settled in cash	38,243	15,027
Cash and cash equivalent acquired	2,648	2,000
<b>Net cash outflows on acquisition</b>	<b>35,595</b>	<b>13,027</b>

The fair value of the trade and other receivables acquired as part of the business acquisitions amounted to \$6,746K with the same gross contractual amount. As at the acquisition dates, the

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Company's best estimate of the contractual cash flows not expected to be collected amounted to \$NIL.

Goodwill is not expected to be deductible for tax purposes except for Air Flow and Nortec's goodwill for an amount of \$8,899K (\$7,137K USD).

Acquisition-related costs amounting to \$1,327K (\$1,173K as at December 31, 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 in the corresponding year.

### **2) HyGear Technology and Services B.V.**

On December 31, 2020, the Company acquired 100% of Green Vision Holding B.V., the parent company of HyGear Technology and Services B.V. ("HyGear") for aggregate consideration of \$156,520K, consisting of a cash payment of \$66,391K and 10,014,364 shares issued at a fair value of \$9.00 per share, the closing price of Xebec's shares on December 31, 2020. HyGear is an emerging developer, manufacturer, and supplier of technology and products for the production, recovery, purification, and mixing of industrial gases, such as hydrogen and nitrogen. HyGear's technological backbone consists of a number of active patents issued both in EU countries and the United States.

The cash consideration for the acquisition was financed using the proceeds from the Corporation's bought deal public offering of subscription receipts completed through a syndicate of underwriters, and from a concurrent private placement of subscription receipts, through which combined gross proceeds of \$143,752K were raised. Both the bought deal public offering and the private placement closed on December 30, 2020.

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

	June 30, 2021 \$	December 2020 \$
<b>Fair value of consideration transferred</b>		
Amount settled in cash	59,836	59,836
Fair value of shares issued	90,129	90,129
Restricted cash and balance of acquisition payable	6,555	6,555
<b>Total</b>	<b>156,520</b>	<b>156,520</b>
<b>Recognized amounts of identifiable net assets</b>		
Trade and other receivables	5,905	5,905
Inventories	2,059	2,059
Cash and cash equivalents	2,138	2,138
Current portion of finance lease receivables	129	129
<b>Total current assets</b>	<b>10,231</b>	<b>10,231</b>
Property, plant and equipment	27,884	27,884
Assets acquired under right-of-use	3,104	3,104
Intangible assets	4,252	4,252
Non-current portion of finance lease receivable	3,016	3,016
<b>Total non-current assets</b>	<b>38,256</b>	<b>38,256</b>
Trade and other payables	(4,353)	(4,353)
Contract liability	(2,941)	(2,941)
Current portion of long-term debt	(4,281)	(4,281)
<b>Total current liabilities</b>	<b>(11,575)</b>	<b>(11,575)</b>
Deferred income tax liability	(350)	(350)
Long-term debt	(31,801)	(31,801)
<b>Total non-current liabilities</b>	<b>(32,151)</b>	<b>(32,151)</b>
<b>Identifiable net assets</b>	<b>4,761</b>	<b>4,761</b>
<b>Goodwill on acquisition</b>	<b>151,759</b>	<b>151,759</b>
Consideration transferred settled in cash	59,836	59,836
Cash and cash equivalent acquired	2,138	2,138
<b>Net cash outflows on acquisition</b>	<b>57,698</b>	<b>57,698</b>

The application of IFRS requires management to determine the fair value of the net assets acquired and liabilities assumed (with certain exceptions). As the acquisition closed on December 31, 2020, management has not completed its assessment of the fair value of assets acquired and liabilities assumed. The values included in the table above are based on the book value of the assets acquired and liabilities assumed. As management completes its assessment of the fair value of net assets acquired and liabilities assumed, there could be material adjustments to the assets and liabilities outlined above.

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The fair values outlined above are provisional and subject to revision as a result of information discovered after the acquisition date that relates to events and conditions at the acquisition date. The period when such revisions may be made is not more than 12 months from the date of the acquisition. Any such revisions made could be material. In particular, the valuation of intangible assets, property, plant and equipment, inventory and debt are provisional and subject to the finalization of independent valuations.

Included in the net assets acquired is HyGear's sponsored defined benefit plan, which includes certain HyGear employees in the Netherlands. The plan's obligation is HyGear's, but has been reinsured by an external third party for the full amount of the obligation. The value of the obligation is in the range of \$900K but is offset by an asset of the same amount representing the amount recoverable from reinsurance. Therefore, the net of the asset and obligation is \$NIL. HyGear also offered a defined contribution retirement benefit plans to its employees.

The goodwill is attributable to the fact that the acquisition is expected to allow Xebec to enter new markets, launch new product offerings and execute and accelerate its distributed renewable gas strategy.

Goodwill is not expected to be deductible for tax purposes.

Acquisition-related costs amounting to \$2,551K (\$2,377K as at December 31, 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.

As the acquisition of HyGear closed on December 31, 2020, the acquisition did not have an impact on revenues and net income for the year ended December 31, 2020. Had the acquisition taken place on January 1, 2020, the pro forma revenues and net income (loss) of the Company would have been \$61,384K and (\$36,995K), respectively.

### **3) Inmatec**

On February 22, 2021, Xebec Deustchland GmbH, a wholly owned subsidiary of Xebec Adsorption Inc, acquired 100% of Inmatec Gase Technologie GmbH & Co. KG, Inmatec GmbH and Inmatec Gas Technology FZC RAK (collectively "Inmatec") in the United Arab Emirates for an aggregate consideration of \$36,706K (23,916K €) including a balance of acquisition payable of \$2,456K (1,600K €). The transaction was financed with the proceeds from the public offering that closed December 30, 2020 and the concurrent private placement with Caisse de dépôt et placement du Québec ("CDPQ").

Founded in 1993, Inmatec is an international market leader in the production of nitrogen generators and oxygen generators. Designed, developed and produced in Germany, over 8,000 Inmatec systems have been deployed and sold around the world. Its German manufacturing and engineering capabilities have resulted in a reputation for high quality and extremely reliable products. Inmatec's products and manufacturing are among the best-in-class and this acquisition gives Xebec an accelerated entry into offering these products in North America.

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

	<b>June 30, 2021</b>	<b>December 31 2020</b>
	\$	\$
<b>Fair value of consideration transferred</b>		
Amount settled in cash	34,250	-
Restricted cash and balance of acquisition payable	2,456	-
<b>Total</b>	<u>36,706</u>	<u>-</u>
<b>Recognized amounts of identifiable net assets</b>		
Trade and other receivables	2,656	-
Inventories	4,553	-
Cash and cash equivalents	2,709	-
Tax receivable	452	-
Other current assets	64	-
<b>Total current assets</b>	<u>10,434</u>	<u>-</u>
Property, plant and equipment	630	-
Intangible assets	5	-
<b>Total non-current assets</b>	<u>635</u>	<u>-</u>
Trade and other payables	(2,849)	-
Contract liability	(1,242)	-
<b>Total current liabilities</b>	<u>(4,091)</u>	<u>-</u>
Long-term debt	(2,658)	-
<b>Total non-current liabilities</b>	<u>(2,658)</u>	<u>-</u>
<b>Identifiable net assets</b>	<u>4,320</u>	<u>-</u>
<b>Goodwill on acquisition</b>	<u>32,386</u>	<u>-</u>
Consideration transferred settled in cash	34,250	-
Cash and cash equivalent acquired	2,709	-
<b>Net cash outflows on acquisition</b>	<u>31,541</u>	<u>-</u>

The fair value of the trade and other receivables acquired as part of the business acquisitions amounted to \$2,656K with the same gross contractual amount. As at the acquisition dates, the Company's best estimate of the contractual cash flows not expected to be collected amounted to \$NIL.

Goodwill is not expected to be deductible for tax purposes.

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Acquisition-related costs amounting to \$1,969K (\$1,913K as at December 31, 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.

If Inmatec had been acquired on January 1, 2021, revenue of the Company for the six-month period ended June 30, 2021 would have been \$57,590K and the net loss for the period would have been (\$16,767K).

#### **4) Goodwill**

For the six-month period ended June 30, 2021, goodwill experienced a negative variation of \$10,784K due to exchange rate fluctuations.

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## 4) Trade and other receivables

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	\$	\$
Trade receivables	19,775	18,555
Contract assets	5,567	7,767
Supplier deposits	1,035	4,612
Taxes receivable	2,258	2,696
Other receivables	5,234	2,904
Less : Allowance for doubtful accounts	(1,243)	(1,411)
Trade and other receivables - net	<u>32,626</u>	<u>35,123</u>

Trade and other receivables are pledged as security for credit facilities (see Note 9).

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### 5) Property, plant and equipment

	Right-of-use-assets	Machinery and Production Equipment	Office furniture and Equipment	Computers	Moulds	Vehicles	Leasehold Improvement	Assets under construction	Leased Equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>										
Balance at December 31, 2019	2,598	721	174	371	450	127	173	-	-	4,614
Additions	627	234	107	74	-	32	53	-	-	1,127
Additions through business acquisition	5,256	7,024	898	5	-	1,067	98	10,849	8,429	33,626
Disposals	-	(6)	-	(2)	-	-	-	-	-	(8)
Effect of movements in exchange rates	(55)	6	4	6	-	(16)	(3)	-	-	(58)
Balance at December 31, 2020	8,426	7,979	1,183	454	450	1,210	321	10,849	8,429	39,301
Additions	2,863	533	193	48	156	55	45	1,147	471	5,511
Additions through business acquisition	945	343	135	-	-	68	114	-	-	1,605
Disposals	-	(46)	-	(35)	-	-	-	(5,562)	86	(5,557)
Effect of deconsolidation	(351)	(190)	(92)	(106)	(112)	-	-	-	-	(851)
Effect of movements in exchange rates	(249)	(422)	(64)	(3)	(13)	(56)	(7)	(652)	(517)	(1,983)
Balance at June 30, 2021	11,634	8,197	1,355	358	481	1,277	473	5,782	8,469	38,026
<b>Accumulated depreciation</b>										
Balance at December 31, 2019	430	508	155	261	171	44	18	-	-	1,587
Depreciation	762	57	18	62	114	87	33	-	-	1,133
Effect of movements in exchange rates	(4)	5	4	4	(2)	(4)	0	-	-	3
Balance at December 31, 2020	1,188	570	177	327	283	127	51	-	-	2,723
Depreciation	1,204	385	123	42	62	146	42	(18)	301	2,287
Effect of deconsolidation	(292)	(150)	(86)	(72)	(104)	-	-	-	-	(704)
Accumulated depreciation of assets disposed	-	-	-	(35)	-	-	-	-	-	(35)
Effect of movements in exchange rates	(24)	(13)	(5)	(2)	(5)	(5)	-	1	33	(20)
Balance at June 30, 2021	2,076	792	209	260	236	268	93	(17)	334	4,251
<b>Carrying Amount</b>										
At December 31, 2020	7,238	7,409	1,006	127	167	1,083	270	10,849	8,429	36,578
At June 30, 2021	9,558	7,405	1,147	98	245	1,009	381	5,799	8,135	33,775

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

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(expressed in Canadian dollars)

### Assets under construction

Assets under construction are related to expenditures for production equipment and lease equipment in the course of construction. Depending on the complexity of the asset, the time required to complete construction ranges between 12-32 months. The construction of the Company's hydrogen solutions is financed from a pool of general third-party borrowings. The amount of borrowing costs capitalized as of June 30, 2021 was \$495K (\$468K as December 31, 2020).

### Lease equipment

The Company has entered into operating leases on Gas-as-a-Service (GaaS) contracts through its subsidiary Green Vision B.V. consisting of gas generating systems. These leases have terms of between five and ten years.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Within one year	391	415
Between 1-2 years	326	346
Between 2-3 years	176	187
Between 3-4 years	176	187
Between 4-5 years	176	187
More than five years	-	-
Total undiscounted lease payments receivable	<b>1,245</b>	<b>1,322</b>

For the six-month period ended June 30, 2021, a depreciation amount of \$2,288K (2020 – \$473K) is included in the consolidated statement of loss: \$864K (\$142K as at June 30, 2020) in cost of goods sold; and \$1,424K (\$331K as at June 30, 2020) in selling and administrative expenses.

For the three-month period ended June 30, 2021, a depreciation amount of \$1,321K (\$241K for the three-month period ended June 30, 2020) is included in the consolidated statement of income (loss): \$427K (\$72K for the three-month period ended June 30, 2020) in cost of goods sold; and \$894K (\$169K for the three-month period ended June 30, 2020 ) in selling and administrative expenses.

Property, plant and equipment are pledged as security for credit facilities (see Notes 9).

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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### 6) Intangible assets

	Software	Customer Relationships	Development costs	Engineering standardisation	Trademarks	Total intangible assets
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance at December 31, 2019	448	3,618	302	3,046	199	7,613
Additions	690	-	-	362	-	1,052
Additions through business acquisitions	71	6,602	4,181	-	684	11,538
Reclassification	-	(17)	-	(277)	-	(294)
Effect of movements in exchange rates	7	(336)	-	114	(33)	(248)
Balance at December 31, 2020	1,216	9,867	4,483	3,245	850	19,661
Additions	540	-	21	-	-	561
Additions through business acquisitions	5	-	-	-	-	5
Deconsolidation of a subsidiary	(233)	-	-	-	-	(233)
Reclassification	-	-	(1)	-	-	(1)
Effect of movements in exchange rates	(10)	(196)	(265)	(94)	(19)	(584)
Balance at June 30, 2021	1,518	9,671	4,238	3,151	831	19,409
<b>Accumulated amortization</b>						
Balance at December 31, 2019	332	55	301	1,235	-	1,923
Amortization for the year	74	605	-	1,922	51	2,652
Effect of movements in exchange rates	5	(10)	-	88	(1)	82
Balance at December 31, 2020	411	650	301	3,245	50	4,657
Amortization for the year	25	497	180	0	50	752
Reclassification	-	-	21	-	-	21
Deconsolidation of a subsidiary	(187)	-	-	-	-	(187)
Effect of movements in exchange rates	(5)	(16)	(6)	(94)	(1)	(122)
Balance at June 30, 2021	244	1,131	496	3,151	99	5,121
<b>Carrying amount</b>						
At December 31, 2020	805	9,217	4,182	-	800	15,004
At June 30, 2021	1,274	8,540	3,742	-	732	14,288

The Company's research development concentrates on developing designs and processes for hydrogen solutions. The time required for a developed process and/or design to be completed and available for its intended use ranges between 24-36 months. The amount of borrowing costs capitalized as at June 30, 2021 amounted to \$476K (\$491K as at December 31, 2020).

For the six-month period ended on June 30, 2021, an amortization amount of \$752K (\$1,027K for the six-month period ended June 30, 2020) is included in the consolidated statement of loss: \$178K (\$893K for the six-month period ended June 30, 2020) in cost of goods sold; \$574K (\$134K for the six-month period

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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ended June 30, 2020) in selling and administrative expenses and \$NIL in R&D expenses (\$NIL as at June 30, 2020).

For the three-month period ended on June 30, 2021, an amortization amount of \$373K (\$43K for the three-month period ended June 30, 2020) is included in the consolidated statement of loss: \$88K (\$14K for the three-month period ended June 30, 2020) in cost of goods sold; \$285K (\$29K for the three-month period ended June 30, 2020) in selling and administrative expenses and \$NIL in R&D expenses (\$NIL for the three-month period ended June 30, 2020).

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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### 7) Goodwill

The movements in the net carrying amount of goodwill are as follows:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	\$	\$
Carrying amount – Beginning of period	162,802	3,504
Acquired through business combinations	58,850	159,571
Net exchange difference	(10,783)	(273)
Carrying amount – End of period	<u>210,869</u>	<u>162,802</u>

Goodwill is allocated to the following subsidiaries:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	\$	\$
CAI	821	821
CDA	2,589	2,660
ACS	2,385	2,385
Air Flow	1,483	1,524
Titus	3,557	3,654
Tiger	19,148	-
Nortec	7,410	-
HyGear	142,643	151,758
Inmatec	30,833	-
	<u>210,869</u>	<u>162,802</u>

During the fourth quarter of 2020, the Company performed a goodwill impairment test. The recoverable amount, which is the greater of its fair value less costs to sell (“FVLCTS”) or value in use (“VIU”), was compared to the carrying amount of the CGU to determine whether or not an impairment loss should be recorded against the goodwill.

FVLCTS was determined using the prior transaction method (market approach). VIU was determined using the discounted future cash flow method (income approach), covering a detailed five-year forecast, using a discount rate from 15.7% to 24% and a growth rate of 3%. The growth rate reflects the minimum long-term growth rate for the acquisitions. The discount rate reflects appropriate adjustments relating to market risk and specific risk factors of the subsidiaries. Management’s key assumptions include stable gross profit margins of the forecast based on past experience.

The recoverable amounts were estimated to be higher than the carrying amounts and no impairment was required.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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For the three-month and six-month periods ended June 30, 2021 and 2020

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### 8) Finance lease receivables

The Company has finance leases on Gas-as-a-Service (GaaS) contracts through its subsidiary Green Vision B.V. consisting of gas generating systems.

The Company entered into a new contract consisting of gas generating systems with Tayras for a total investment value of €6,480K. The lease contracts term is 15 years, which represents substantially all of the economic life of the systems.

Future minimum rentals receivable under these non-cancellable finance leases, including the undiscounted lease payments to be received, are as follows:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Less than one year	741	271
Between 1-2 years	741	271
Between 2-3 years	741	271
Between 3-4 years	741	271
Between 4-5 years	741	271
More than five years	6,862	2,403
	<b>10,567</b>	<b>3,758</b>
Unguaranteed residual value (discounted)	2,080	730
Unearned finance income	(2,661)	(1,302)
Allowance for expected credit losses of finance lease receivables	(72)	(41)
<b>Total finance lease receivables</b>	<b>9,914</b>	<b>3,145</b>
Current portion of finance lease receivables	250	129
Non-current portion of finance lease receivables	9,664	3,016

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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### **9) Credit facility**

**a)** In February 2021, the Company secured credit facilities with National Bank of Canada's Technology and Innovation Banking Group for a total value of up to \$59,250K. These facilities include:

- 1) An Operating and Acquisition Credit Facility not to exceed \$30,000K .
- 2) A Letters of Guarantee Credit Facility not to exceed \$16,500K.
- 3) A Pre-Shipment Credit Facility not to exceed \$10,000K.
- 4) A Treasury Risk Facility not to exceed \$2,500K.
- 5) A Credit Card Facility not to exceed \$250K.

The credit facilities are secured by a first ranking hypothec on a financial account put in place by National Bank of Canada. As at June 30, 2021 the Company had \$11,400K in this GIC account.

As at June 30, 2021 an amount of \$3,200K was outstanding under the Letters of Guarantee Credit Facility (\$3,953K as at December 31, 2020). In addition, only the Credit Card Facility was used at the end of the quarter.

As at June 30, 2021 Standby Fees of 0.60% are applicable on the unused portion of the Operating and Acquisition Credit Facility and the Pre-Shipment Credit Facility.

**b)** In March 2021, the Company renewed its Account Performance Security Guarantee (Account PSG) Facility with Export Development Canada (EDC) for an amount not to exceed \$10,000K. The validity period of this facility is from January 1, 2021 to December 31, 2021. As at June 30, 2021 an amount of \$2,300K was outstanding under this facility.

**c)** The bank loan used as at June 30, 2021 amounted to \$NIL (975K as at December 31, 2020).

As at June 30, 2021, all applicable financial covenants and conditions were respected by the Company.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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### 10) Long-term debt and government royalty program obligation

#### a) Long-term debt

	<b>June 30 2021</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
i. NPEX Bonds	17,856	18,889
ii. Subordinated loans	8,574	9,171
iii. Obligation under an unsecured loan facility <sup>1</sup>	3,698	3,590
iv. Lease liabilities	10,278	7,790
v. Innovation loan HYREC	-	3,005
vi. Bank loans	2,951	998
vii. Contingent consideration (Note 3)	5,672	2,333
viii. Business price acquisition balance payable (Note 3)	10,634	9,173
ix. Government assistance (COVID-19 government measures)	418	1,001
x. Other loans	641	728
Long-term debt	60,722	56,678
Current portion	(14,431)	(14,052)
	<u>46,291</u>	<u>42,626</u>

#### i. NPEX Bonds

##### 1) NPEX Bonds 2017-2023

On March 1, 2017, HyGear Technology & Services BV concluded a nominal 2,499K € public bond placement via NPEX. The bonds, having a nominal value of 1.00 € each, carry a 7.0% annualised interest rate and a six-year duration. Interest is payable monthly and the bonds are redeemable on February 28, 2023. Early redemption is possible after three years.

##### 2) NPEX Bonds 2018-2024

On July 1, 2018 HyGear Technology & Services BV concluded a nominal 4,999K € public bond placement via NPEX. The bonds, having a nominal value of 1.00 € each, carry a 7.5% annualised interest rate and a six-year duration. Interest is payable monthly and the bonds are redeemable on June 16, 2024. Early redemption is possible after three years.

<sup>1</sup> The Obligation under a financing facility loan has been recorded at its fair value less transaction costs directly attributable to its acquisition. Transaction costs are being amortized over the duration of the obligation with a face value of \$5,000K at maturity. The interest rate is adjusted yearly depending on the debt/EBITDA ratio.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

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(expressed in Canadian dollars)

### 3) NPEX Bonds warrants 2019-2025

On June 24, 2019 HyGear Technology & Services BV concluded a nominal 4,999K € public bond placement via NPEX. The bonds, having a nominal value of 1.00 € each, carry an 8% annualised interest rate and a six-year duration. Interest is payable monthly and the bonds are redeemable on June 24, 2025. Early redemption is possible after three years.

The bonds are subordinated to the loans from the Cooperative Rabobank U.A., a loan from the Ministry of Economic Affairs, a loan from De Lage Landen Financial Services B.V., a loan from CBS bank and future loans.

The bonds are included at amortised cost, being the amount received taking account of any premium or discount, less transactions costs. Any difference between the proceeds (net of transactions costs) and the redemption value is recognised as interest in the income statement over the period of the bonds using the effective interest method.

All Green Vision Holding B.V. companies are jointly and severally liable for interest payments and redemptions.

### ii. Subordinated loans

On May 19, 2017, subordinated bridge loans were issued by DRL Resource Management B.V. and Oost NL (East Netherlands Development Agency) for an amount of 286K € and 250K €. These loans bear 7% interest on an annual basis. Interest is payable quarterly and the loans are repayable per June 2023. The loans are subordinated to the NPEX bonds 2019-2023.

On June 19, 2017, subordinated dividend loans were issued by DRL Resource Management B.V. and Oost NL for an amount of 160K € and 183K €. These loans bear 7.0% interest on an annual basis. Interest is payable quarterly and the loans are repayable six months after redemption of the 2017-2023 NPEX Bonds. The loan is subordinated to the NPEX bonds 2017-2023.

On July 1, 2018, subordinated dividend loans were issued by DRL Resource Management B.V. and Oost NL for an amount of 214K € and 187K €. The DRL loan bear 7.5% interest on an annual basis and the Oost NL loans bears 7.8% interest on an annual basis. Interest is payable quarterly and the loans are repayable in July 2024. The loan is subordinated on the NPEX 2018-2024.

### Loan FHBG HPP

On August 2, 2018, a subordinated loan was issued by Fonds Herstructureren Bedrijventerreinen Gelderland (FHBG), part of Oost NL, for a total of 800K €. This loan is specifically provided to HyGear Hydrogen Plant B.V. The loan was issued in three tranches. The first tranche, amounting to 300K € was received in 2018. The second and third tranches, totaling 500K €, were received in 2019. This loan bears 6.32% interest on an annual basis, fixed for a period of five years. Interest is paid quarterly. The loan is repayable in 32 quarterly instalments, with the first instalment due in December 2019 and the last instalment due in September 2027.

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### Subordinated loan Oost NL

On October 5, 2019, a subordinated loan was issued by Oost NL for a maximum amount of 5,000K €. A first instalment of 2,000K € was received on the issue date. The loan bears 8.0% interest on an annual basis and interest is payable quarterly. A 2.0% fee is payable over the non-utilised loan amount. Early redemption is possible after three years. The loan is repayable in October 2025.

### iii. Obligation under an unsecured loan facility

On May 5, 2020, the Company 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 \$2,000K upon request of the Company and all tranches must be drawn no later than May 2022. A first tranche of \$5,000K was disbursed on May 5, 2020 on the closing date of the agreement. Xebec intends to use the second tranche of \$5,000K. Each tranche of loan bears an interest rate of 9.0% 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 3,000K 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. The fair value of the warrants was \$2,953K, which was estimated using the Black Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.11%
Annualized volatility	70.33%
Share price	\$3.35
Expected life of warrants	2 years

The expected volatility used was based on the historic volatility of the Company's share price.

### iv. Lease liabilities

The Company leases office space, office equipment and vehicles (Note 5). 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.

# Xebec Adsorption Inc.

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(expressed in Canadian dollars)

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of period	7,790	2,395
Additions	2,863	834
Additions through business acquisitions	945	5,259
Accretion interest	366	308
Lease payments	(1,338)	(954)
Subsidiary deconsolidation	(70)	-
Effect of exchange rate change on obligation	(278)	(52)
Balance – End of year	<b>10,278</b>	<b>7,790</b>
Current Portion	(3,049)	(1,591)
	<b>7,229</b>	<b>6,199</b>

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

### As at June 30, 2021

	<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	3,029	7,578	1,933	12,540

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 six-month period ended June 30, 2021 amounted to \$78K (\$65K for the six-month period ended June 30, 2020) and \$45K for the three-month period ended June 30, 2021 (\$21K for three-month period ended June 30, 2020).

### v. Innovation loan HYREC

This loan was issued by RVO (Netherlands Enterprise Agency) on December 16, 2016 for a maximum of amount of 1,777K €. The funds can be used for the development of HY.REC (tailored systems for the recycling of industrial gases) and bears 7.0% interest rate on an annual basis. The repayment is due in the period 2020-2023. RVO issued the loan against security of all assets produced under this development project. The loan was fully reimbursed during the first quarter of 2021.

### vi. Bank loans

The bank loan includes the following loans:

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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(expressed in Canadian dollars)

Loan 1 was issued by the Rabobank (Netherland) on November 16, 2017 for an amount of 238K €. The loan carries a fixed 4.5% interest rate and is redeemable via monthly instalments of 5K €, starting in May 2018 and ending in February 2023. Early redemption is possible.

Loan 2 was issued by the Rabobank on November 16, 2017 for an amount of 667K €. The loan carries a fixed 2.4% interest rate and is redeemable via monthly instalments of 9K €, starting on May 2018 and ending in November 2024. Early redemption is possible.

Loan 3 was issued by the Rabobank on November 16, 2017 for an amount of 95K €. The loan carries a fixed 4.65% interest rate and is redeemable via 100% instalment of 95K €, in November 2024. Early redemption is possible.

Theses loans are secured by the HyGear group by as per general terms and conditions of the Rabobank Netherlands.

### *BVT Bank loans (Inmatec):*

Loan A is reimbursable in quarterly payments of 16K € until June 30, 2022 and bears a fixed interest rate of 1.45%.

Loan B is reimbursable in quarterly payments of 42K € until June 30, 2024 and bears a fixed interest of rate 1.15%.

Loan C is reimbursable in quarterly payments of 38K € until March 30, 2024 and bears a fixed interest rate of 1.15%.

Loan D is reimbursable in quarterly payments of 47K € until January 30, 2024 and bears a fixed interest rate of 1.15%.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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### vii. Contingent consideration

The following table summarizes the activity related to the contingent consideration:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	\$	\$
Balance – Beginning of the period	2,333	1,467
Accretion finance expenses	62	38
Additions through business combination	3,731	1,138
Repayment	(421)	(220)
Net exchange difference	(33)	(90)
Balance – End of the period	<b>5,672</b>	<b>2,333</b>
Current portion	(782)	(200)
	<b>4,890</b>	<b>2,133</b>

### viii. Balance of business acquisition payable

The following table summarizes the activity related to the balance of business acquisition payable:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	\$	\$
Balance – Beginning the period	9,173	325
Additions through business combination	3,557	9,235
Repayment	(1,654)	(102)
Working capital adjustment	-	(221)
Accretion	67	22
Net exchange difference	(509)	(86)
Balance – End of the period	<b>10,634</b>	<b>9,173</b>
Current portion	(10,103)	(8,090)
	<b>531</b>	<b>1,083</b>

### ix. Government assistance

a) On May 3, 2020, CDA received an amount of \$479K (348K 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 pandemic. The principal bears an interest rate of 1.0% per annum and monthly repayments of \$15K USD shall be payable commencing

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on November 1, 2020. The loan is measured at the present value of future principal payments discounted at a rate of 4.75%. As at June 30, 2021, CDA did not pay any capital reimbursements as the Company met all the criteria for loan forgiveness.

b) An account receivable of \$580K (455K USD) was payable to Xebec Holding USA by the Sellers of Air Flow upon loan forgiveness for the Paycheck Protection Program as agreed by both parties. The total payment was made in the first quarter of 2021.

### x. Other loans

As at June 30, 2021, other loans balance amounted to \$641K (\$728K as at December 31, 2020) and includes various loans for vehicle acquisitions.

### 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.

The Company had to pay \$250K at the execution of the agreement and \$1,000K spread over four equal annual non-interest-bearing payments, starting on January 31, 2013. Furthermore, the Company was liable to pay up to \$750K in contingent payments based on proceeds from the sale by the Company of its intellectual property. In February 2017, new amendment to this agreement was reached extending the payment terms to January 1, 2023. The following table summarizes the activity related to the government royalty program obligation during the period ended:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of period	368	466
Accretion finance expenses	8	20
Repayment	(85)	(118)
Balance – End of period	<b>291</b>	<b>368</b>
Current portion	(190)	(185)
	<b>101</b>	<b>183</b>

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

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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### 11) 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 \$3,423K (RMB 16,370K).

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 \$186K (RMB 1 million) per year including 2018 until the EDC loan expiry or latest up to December 31, 2020 (whichever is earlier). The annual fees will be considered a deduction to the repurchase price at the time of repurchase.

In 2020 and 2021 no payments of the annual fee were processed. A conditional amount of \$1,731K was paid in December 2020 based of the achievement of some performance targets as agreed by both parties.

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) 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”.

On June 25, 2021, a new partnership with Shanghai based Shenergy Group Company Limited was approved by the Chinese authority. Xebec Shanghai received a direct equity investment of \$3,400K in exchange for the debt and interest owed by Xebec for its share buyback obligation. Xebec Adsorption Inc. participation reduced from 70% to 60% resulting in a change of control thus Xebec Shanghai have been deconsolidated from the date that control ceases. Following this transaction, the investment in the new partnership will be recognised and presented as an equity investment. Furthermore, the profit resulting from the deconsolidation is preliminary, subject to obtaining the evaluation of the investment’s fair value.

# Xebec Adsorption Inc.

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	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of period	2,972	4,180
Accretion interest	120	306
Effect of exchange rate change on obligation	(45)	217
Effect of deconsolidation	(3,047)	-
Conditional reimbursement	-	(1,731)
Balance – End of period	-	<b>2,972</b>
Current Portion	-	(2,972)
	-	-

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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### 12) Reconciliation of liabilities arising from financing activities

	Long-term debt	Government royalty obligation program	Obligation arising from non-controlling interest participation in a subsidiary	Leases liabilities	Total
<b>Balance as at December 31, 2020</b>	<b>48,888</b>	<b>368</b>	<b>2,972</b>	<b>7,790</b>	<b>60,018</b>
<b>Cash flows:</b>					
Balance of acquisition paid	(1,654)	-	-	-	(1,654)
Payments	(4,059)	(85)	-	(1,338)	(5,483)
<b>Non-cash:</b>					
Accretion	368	8	120	366	860
Additions	-	-	-	2,863	2,863
Additions through business combination	9,946	-	-	945	10,892
Disposal	-	-	-	(70)	(70)
Effect of deconsolidation	-	-	(3,047)	-	(3,047)
Debt forgiveness	(583)	-	-	-	(583)
Reclassification	(25)	-	-	-	(25)
Net exchange variation	(2,437)	-	(45)	(278)	(2,758)
<b>Balance as at June 30, 2021</b>	<b>50,444</b>	<b>291</b>	<b>-</b>	<b>10,278</b>	<b>61,013</b>

	Long-term debt	Government royalty obligation program	Obligation arising from non-controlling interest participation in a subsidiary	Leases liabilities	Total
<b>Balance as at December 31, 2019</b>	<b>3,728</b>	<b>466</b>	<b>4,180</b>	<b>2,395</b>	<b>10,769</b>
<b>Cash flows:</b>					
Financing fees	(20)	-	-	-	(20)
Balance of acquisition paid	(102)	-	-	-	(102)
Payments	(6,604)	(118)	(1,731)	(954)	(9,407)
Proceeds	10,061	-	-	-	10,061
<b>Non-cash:</b>					
Accretion	262	20	306	308	896
Sale price adjustment	(221)	-	-	-	(221)
Equity component	(2,954)	-	-	628	(2,326)
Additions through business combination	43,748	-	-	5,464	49,212
Deferred financing fees	1,477	-	-	-	1,477
Net exchange variation	(487)	-	217	(51)	(321)
<b>Balance as at December 31, 2020</b>	<b>48,888</b>	<b>368</b>	<b>2,972</b>	<b>7,790</b>	<b>60,018</b>

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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### 13) 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 June 26, 2020, Xebec Adsorption Inc. closed a bought deal public offering from which 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 \$28,752K for a total of 7,986,750 common shares and 479,205 compensation options (more fully described below). The issuance costs, excluding the non-transferable options to the agents, were \$2,315K. The fair value of the 479,205 compensation options was \$631K, which was estimated using the Black Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	0.28%
Annualized volatility	74.88%
Share price	\$3.60
Expected life of compensation options	1 year

In connection with the Offering, the Company 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 entitles 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.

- c) On December 30, 2020, Xebec Adsorption Inc. closed an upsized bought deal public offering of subscription receipts for gross proceeds of \$143,752K, including the full exercise of the over-allotment option by the Underwriters. The Public Offering was completed through a syndicate of underwriters, which purchased, on a bought deal basis, an aggregate of 24,784,800 Subscription Receipts at a price of \$5.80 per Subscription Receipt.

Each Subscription Receipt entitled the holder thereof to receive, upon closing of HyGear acquisition, without payment of additional consideration or further action, and subject to the terms and conditions of the Subscription Receipt Agreement, (i) one common share of Xebec and (ii) without duplication, an amount, if any, equal to the amount per Common Share of any dividends for which record dates have occurred during the period from the date of the Offering Closing up to, but not including the Acquisition Closing Date, less any applicable withholding taxes.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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The Company also closed an upsized concurrent private placement of subscription receipts with Caisse de dépôt et placement du Québec (“CDPQ”) during which, 10,905,174 subscription receipts were issued for gross proceeds of \$63,250K which includes the full exercise of the private placement option by CDPQ. The total issuance costs amounted to \$12,194K.

Following the December 30, 2020 public offering and private placement of subscription receipts, 35,689,974 common shares of the Company’s were to be issued as at December 31, upon the closing of HyGear acquisition. The shares were issued on January 4, 2021.

- d) On December 31, 2020 the Company acquired 100% of Green Vision Holding B.V., the parent company of HyGear Technology and Services B.V. for aggregate consideration of \$156,520K consisting of a cash payment of \$66,391K and 10,014,364 shares issued at a fair value of \$9.00 per share, the closing price of Xebec’s shares on December 31, 2020.
- e) On April 30, 2021, Xebec Holding USA Inc., a wholly owned subsidiary of Xebec Adsorption Inc., acquired all of the outstanding shares of Tennessee based Nortekbelair Corporation (Nortec) for a purchase price of \$9,300K CAD through a combination of cash on hand and 735,838 common shares of Xebec issued to the seller at a fair value of \$4.33 per share, the closing price of Xebec’s shares on April 30, 2021.

As at June 30, 2021, compensation options, compensation warrants and warrants are as follows:

Description	Expiry date	Exercise Price	Beginning balance	Issued	Cancelled	Exercised	Balance end of period
Compensation Options	June-21	\$3.60	418,267	-	-	(418,267)	-
Warrants	May-22	\$4.58	3,000,000	-	-	-	3,000,000
		\$4.46	3,418,267	-	-	(418,267)	3,000,000

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

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

Description	Expiry date	Exercise Price	Beginning balance	Issued	Cancelled	Exercised	Balance end of year
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	-	(14,356)	(8,258,501)	-
Compensation Options	Jul-20	\$1.40	347,760	-	-	(347,760)	-
Compensation warrants	Jul-20	\$1.85	149,040	347,760	-	(496,800)	-
Compensation Options	Dec-20	\$2.10	657,156	-	-	(657,156)	-
Compensation Options	June-21	\$3.60	-	479,207	-	(60,940)	418,267
Warrants	May-22	\$4.58	-	3,000,000	-	-	3,000,000
		\$4.46	11,975,544	3,826,967	(14,356)	(12,369,888)	3,418,267

f) Loss per share

i) Basic

Basic loss per share is calculated using net loss as the numerator and the weighted average number of shares as denominator. No adjustments to net loss were necessary for the three-month and six-month periods ended June 30, 2021 and 2020.

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Net loss attributable to shareholders of the Company	(7,495)	(764)	(16,704)	(1,507)
Weighted average number of shares used in basic income per share	153,138,535	88,884,226	152,836,023	87,086,137
Basic loss per share	(0.05)	(0.01)	(0.11)	(0.02)

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

### ii) Diluted

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Net loss attributable to shareholders of the Company	(7,495)	(764)	(16,704)	(1,507)
Increase (decrease) of net income attributable to shareholders of the Company assuming dilution	-	-	-	-
Net loss attributable to shareholder of the Company after diluted effect	(7,495)	(764)	(16,704)	(1,507)
Weighted average number of shares used in basic income per share	153,138,535	88,884,226	152,836,023	87,086,137
Increase of number weighted average number of shares assuming dilution	-	-	-	-
Weighted average number of shares after diluted effect	153,138,535	88,884,226	152,836,023	87,086,137
Diluted loss per share	(0.05)	(0.01)	(0.11)	(0.02)

For the three-month and six-month periods ended June 30, 2021 warrants, compensation options, compensation warrants, outstanding stock options and outstanding DSUs and RSUs would have been anti-dilutive.

For the three-month and six-month periods ended June 30, 2020 convertible debentures, warrants, compensation options, compensation warrants, and outstanding stock options would have been anti-dilutive.

### 14) Long term incentive plan

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 (“RSUs”) and Deferred Share Units (“DSUs”), (collectively the “Awards”) to eligible participants of the Company and is administered with the oversight of the Compensation Committee.

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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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 8,393,115.

No awards shall be granted under the Prior Stock Option Plan and all existing options granted under the Stock Option Plan will remain outstanding and subject to the terms of the prior Stock Option Plan.

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

The aggregate number of common 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 common 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  $\frac{1}{4}$  of the options vesting in any three month period.

The exercise price under an option shall be determined by the Compensation Committee and shall not be less than 100% of the fair market value of a common 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.

## Xebec Adsorption Inc.

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(Unaudited)

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(expressed in Canadian dollars)

a) Stock option activity for the six-month period ended June 30, is presented below:

	2021		2020	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding – Beginning of period	2,178,528	0.35	4,081,860	0.35
Exercised	(34,000)	0.60	(291,000)	0.26
Forfeited	(245,000)	0.70	-	-
Expired	(1,063,194)	0.49	-	-
			-	
Outstanding – End of period	836,334	0.41	3,790,860	0.35
Exercisable – End of period	636,334	0.38	2,797,192	0.26

As at June 30, 2021, 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 19, 2022	\$0.55	200,000	1.72	200,000
January 7, 2023	\$0.05	200,000	1.77	200,000
August 29, 2024	\$0.49	350,000	3.41	150,000
December 19, 2024	\$0.55	86,334	3.71	86,334
	<b>\$0.41</b>	<b>836,334</b>	<b>2.65</b>	<b>636,334</b>

## Xebec Adsorption Inc.

### Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

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(expressed in Canadian dollars)

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
	<b>\$0.35</b>	<b>3,790,861</b>	<b>3.75</b>	<b>2,797,192</b>

During the six-month period ended June 30, 2021, the Company expensed (\$97K) (\$103K for the same period in 2020) and during the three-month period ended June 30, 2021, the Company expensed \$14K (\$51K for the same period in 2020) which relates to stock options granted in 2014, 2017 and 2018.

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### b) LTIP

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2021	2020	2021	2020
	Number of Options	Number of Options	Number of Options	Number of Options
Outstanding – Beginning of period	-	-	-	-
Granted	50,000	-	50,000	-
Exercised	-	-	-	-
Outstanding – End of period	50,000	-	50,000	-

On May 21, 2021, 50,000 stock options were granted under the new Company's LTIP to an officer of the Company. The stock options will vest on stages until May 2025.

The fair value of the 50,000 stock options was \$167K, which was estimated using the Black Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	0.15%
Annualized volatility	73.14%
Share price	\$5.01
Expected life of stock options	7 years

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c) DSU activity for the three-month and six-month periods ended June 30, is presented below:

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2021	2020	2021	2020
	Number of DSU	Number of DSU	Number of DSU	Number of DSU
Outstanding – Beginning of period	66,231	-	66,231	-
Granted	-	-	-	-
Exercised	-	-	-	-
Outstanding – End of period	66,231	-	66,231	-

As at December 31, 2020, 66,231 DSUs were granted under the Company's LTIP to directors of the board and a consultant of the Company for a fair value of \$261K. The DSUs are payable in common shares of Xebec upon the holder ceasing to be a director or consultant of the Company, as the case may be. One quarter of the DSUs vested in September 2020, upon grant, the second quarter vested on December 14, 2020, the third quarter vested on March 14, 2021 and the last quarter vested on June 4, 2021.

During the six-month period ended June 30, 2021, the Company expensed \$58K (\$NIL as at June 30, 2020) for share-based compensation related to the DSUs.

During the three-month period ended June 30, 2021, the Company expensed \$15K (\$NIL as at June 30, 2020) for share-based compensation related to the DSUs.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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(expressed in Canadian dollars)

d) RSU activity for the three-month and six-month periods ended June 30, is presented below:

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2021	2020	2021	2020
	Number of RSU	Number of RSU	Number of RSU	Number of RSU
Outstanding – Beginning of period	265,300	-	265,300	-
Granted	180,501 <sup>1</sup>	-	180,501 <sup>1</sup>	-
Cancelled	(28,658)	-	(28,658)	-
Exercised	(16,342) <sup>2</sup>	-	(16,342) <sup>2</sup>	-
Outstanding – End of period	400,801	-	400,801	-

As at December 31, 2020, 265,300 RSUs were granted under the Company's LTIP to employees of the Company for a fair value of \$2,103K of which 179,300 RSUs were granted under the Company's achievement of specific targets determined by the Board of Directors.

RSUs are payable in common shares of Xebec upon the holder ceasing to be an employee or a consultant of the Company or upon the third anniversary date after grant date, whichever is earlier. The RSUs will vest in stages until November 2023.

<sup>1</sup>On May 21, 2021, 186,501 RSUs (net of an adjustment of 6,000 RSUs) were granted under the Company's LTIP to employees of the Company for a fair value of \$934K. These RSUs will vest in stages until April 2024.

<sup>2</sup>From the 16,342 RSU exercised, only 8,414 units were issued to shares and the rest were used to cover employee's fiscal obligations.

During the six-month period ended June 30, 2021, the Company expensed \$177K (NIL as at June 30, 2020) for share-based compensation related to the RSUs.

During the three-month period ended June 30, 2021, the Company expensed \$182K (NIL as at June 30, 2020) for share-based compensation related to the RSUs.

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### 15) Segmented information

The Company operates two business segments and specializes in Systems (Cleantech) and Support (Industrial Air and Gas Products, Parts, Service and Operational Support).

For the three-month and six-month periods 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,	
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Revenue</b>				
United States	16,888	11,840	26,036	17,121
Germany	8,941	-	11,908	0
Canada	3,983	3,743	8,941	7,060
China	2,254	2,249	3,813	4,733
Others	598	1,756	2,590	2,867
	<u>32,664</u>	<u>19,588</u>	<u>53,288</u>	<u>31,781</u>

No single customer contributed more than 10% to the Company's revenue for the six-month and three-month periods ended June 30, 2021 and June 30, 2020.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

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(expressed in Canadian dollars)

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

**For the three-month period ended June 30, 2021**

	<b>Systems</b>	<b>Support</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues	21,509	11,155	-	32,664
COGS	20,154	7,518	-	27,672
Gross margin	1,355	3,637	-	4,992
Gross Margin %	6%	33%	-	15%
Research and Development expenses	862	-	-	862
Selling and administrative expenses	1,954	2,866	7,487	12,307
Foreign exchange loss	-	-	(132)	(132)
Loss on disposal of assets	-	-	(1)	(1)
Gain on conversion of shares issued by a subsidiary	-	-	2	2
Financial income	-	-	(218)	(218)
Gain on deconsolidation of a subsidiary	-	-	(2,154)	(2,154)
Financial expense	-	-	1,478	1,478
Income taxes	-	-	344	344
Total expenses	2,816	2,866	6,806	12,488
Segment income (loss)	(1,461)	771	(6,806)	(7,496)

# Xebec Adsorption Inc.

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(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

### For the six-month period ended June 30, 2021

	Systems	Support	Corporate	Total
	\$	\$	\$	\$
Revenues	31,465	21,823	-	53,288
COGS	29,698	14,414	-	44,112
Gross margin	1,767	7,409	-	9,176
Gross Margin %	6%	34%	-	17%
Research and Development expenses	1,405	-	-	1,405
Selling and administrative expenses	4,659	5,082	13,505	23,246
Foreign exchange loss	-	-	487	487
Loss on disposal of assets	-	-	31	31
Gain on conversion of shares issued by a subsidiary	-	-	(45)	(45)
Financial income	-	-	(439)	(439)
Gain on deconsolidation of a subsidiary investments	-	-	(2,154)	(2,154)
Financial expense	-	-	2,899	2,899
Income taxes	-	-	450	450
Total expenses	6,064	5,082	14,734	25,880
Segment income (loss)	(4,297)	2,327	(14,734)	(16,704)

### For the three-month period ended June 30, 2020

	Systems	Support	Corporate	Total
	\$	\$	\$	\$
Revenues	13,946	5,642	-	19,588
COGS	11,676	3,618	-	15,294
Gross margin	2,270	2,024	-	4,294
Gross Margin %	16%	36%	-	22%
Research and Development expenses	12	-	-	12
Selling and administrative expenses	562	941	3,217	4,720
Foreign exchange gain	-	-	144	144
Gain on conversion of shares issued by a subsidiary	-	-	(171)	(171)
Financial income	-	-	(78)	(78)
Financial expense	-	-	438	438
Income taxes	-	-	(7)	(7)
Total expenses	574	941	3,543	5,058
Segment income (loss)	1,696	1,083	(3,543)	(764)

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

### For the six-month period ended June 30, 2020

	Systems	Support	Corporate	Total
	\$	\$	\$	\$
Revenues	21,954	9,827	-	31,781
COGS	18,206	6,240	-	24,446
Gross margin	3,748	3,587	-	7,335
Gross Margin %	17%	37%	-	23%
Research and Development expenses	20	-	-	20
Selling and administrative expenses	880	1,888	5,806	8,574
Foreign exchange gain	-	-	(749)	(749)
Gain on conversion of shares issued by a subsidiary	-	-	141	141
Financial income	-	-	(96)	(96)
Financial expense	-	-	929	929
Income taxes	-	-	23	23
Total expenses	900	1,888	6,054	8,842
Segment income (loss)	2,848	1,699	(6,054)	(1,507)

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

	June 30, 2021 \$	December 31, 2020 \$
<b>Non-current assets</b>		
Canada	31,713	166,889
Europe	214,861	33,609
United States	24,434	17,827
Asia	-	229
	<u>271,008</u>	<u>218,554</u>

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

### 16) Expenses by nature

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
Material	20,722	12,467	31,428	17,384
Employee salaries and benefits	9,272	4,431	17,682	7,988
Subcontract cost	2,536	559	3,865	1,651
Professional fees	1,861	559	4,352	1,356
Amortization and depreciation	1,694	283	3,040	1,500
Merger and acquisition fees	903	403	1,490	403
Office expense	701	256	1,468	555
Rent and repairs and maintenance	658	236	1,441	538
Warranty	519	106	526	417
Travel expenses	499	78	978	345
Marketing	265	51	649	97
Stock-based compensation	210	51	138	103
Bad debt	90	470	115	542
Other	49	64	186	141
	<u>39,979</u>	<u>20,014</u>	<u>67,358</u>	<u>33,020</u>

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

### 17) Finance expenses

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Accretion of the obligation arising from shares issued by a subsidiary (Note 11)	73	78	120	152
Financing fees	185	-	369	-
Interest and bank charges	103	61	279	207
Guarantee letter fees	-	-	3	119
Interest on long term debt	1,113	294	2,120	440
Accretion and revaluation of government royalty program obligation (Note 10b)	4	5	8	11
	<u>1,478</u>	<u>438</u>	<u>2,899</u>	<u>929</u>

### 18) 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,		For the six-month period ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Decrease (increase) in assets:				
Trade and other receivables	1,976	(4,842)	126	(6,835)
Inventories	(5,610)	(852)	(11,136)	(4,691)
Other current assets	120	136	244	40
Other non-current assets	1	-	8	-
Investment tax credits receivable	16	-	16	-
Increase (decrease) in liabilities:				
Trade payables, other payables and accrued liabilities	4,215	(654)	(2,918)	(2,040)
Contract liabilities	2,881	(5,234)	3,870	(38)
Provisions	463	(80)	1,090	112
Income tax payable (recoverable)	21	(61)	105	27
	<u>4,083</u>	<u>(11,587)</u>	<u>(8,595)</u>	<u>(13,425)</u>

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

### 19) Commitments

- Research Agreement with McGill University

In August 2018, Xebec Adsorption Inc. (“Xebec”), 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 \$360K over a period of three years.

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

- xi. \$30K upon signing
- xii. \$30K upon the first anniversary of the Effective Date
- xiii. \$30K upon receiving the final report.

- Contractual obligations

Following is a summary of Xebec’s contractual obligations :

As at June 30, 2021

<b>Payment Due by Period</b>			
		Beyond 5	
1 year	2 - 5 years	years	Total
\$	\$	\$	\$
220	184	-	404

Contractual obligations include various equipment leases and other services. The contractual obligations expenses for the six-month period ended June 30, 2021 amounted to \$499K (\$202K for the six-month period ended June 30, 2020) and \$318K for the three-month period ended June 30, 2021 (\$108K for the three-month period ended June 30, 2020).

# Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

## 20) 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,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	6	10	13	61
Rent paid to companies controlled by members of the immediate family of an officer	18	-	36	-
Salaries and short-term benefits paid to members of immediate family of an officer	87	53	130	92
Material purchased to companies controlled by members of the immediate family of an officer	12	5	28	14
	<u>123</u>	<u>68</u>	<u>207</u>	<u>167</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 and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

## 21) 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, 2021	Amortized Cost		Amortized Cost	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Cash	70,262	70,262		
Restricted cash	9,630	9,630		
Trade and other receivables	17,760	17,760		
Finance lease receivables	9,914	9,914		
Trade, other payables and accrued liabilities			21,037	21,037
Long-term debt			50,444	51,052
Government royalty program obligation			291	291

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

(expressed in Canadian dollars)

December 31, 2020	Amortized Cost		Amortized Cost	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Cash	160,938	160,938		
Restricted cash	7,642	7,642		
Trade and other receivables	17,918	17,918		
Other current assets	16	16		
Finance lease receivables	3,145	3,145		
Bank loan			975	975
Trade, other payables and accrued liabilities			24,576	24,576
Long-term debt			48,888	48,329
Government royalty program obligation			368	368
Obligation arising from shares issued by a subsidiary			2,972	2,972

The carrying values of cash, restricted cash, trade and other receivables, trade and other payables, accrued liabilities and bank loan 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 carry 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.

# **Xebec Adsorption Inc.**

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three-month and six-month periods ended June 30, 2021 and 2020

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(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).

## **22) Subsequent event**

On July 16<sup>th</sup>, 2021, Xebec Holding USA Inc., a wholly owned subsidiary of the Company, signed a credit facility agreement with Export Development Canada for USD \$15,000K to assist with the acquisition of businesses operating in the United States. Principal repayments are required in 84 consecutive monthly installments commencing on the 18<sup>th</sup> day of each calendar month after the date of the first advance. Interest is calculated and payable in arrears at US Prime Rate plus 4.25% per annum on the 18<sup>th</sup> day of every calendar month after the date of the first advance. Xebec Adsorption Inc., CDA Systems, and Each Target Company are guarantors.