

Xebec Adsorption Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the periods ended March 31, 2022 and 2021

(Expressed in thousands of Canadian dollars)

Xebec Adsorption Inc.
 Condensed Interim Consolidated Statements
 (Unaudited)

(expressed in Canadian dollars)

Consolidated Statements of Loss

**For the three-month period
 ending March 31,**

2022 2021
\$ \$

Restated (Note 2)

Revenue from contracts	40,327	19,646
Government grants	866	978
Revenue (Note 3)	<u>41,193</u>	<u>20,624</u>
Cost of goods sold	<u>36,609</u>	<u>16,440</u>
Gross margin	<u>4,584</u>	<u>4,184</u>
Research and development expenses	731	543
Selling and administrative expenses	16,194	10,691
Share of after-tax profit of equity accounted investees	602	86
Other (gains) and losses (Note 4)	<u>3,716</u>	<u>1,662</u>
	<u>21,243</u>	<u>12,982</u>
Operating loss	<u>(16,659)</u>	<u>(8,798)</u>
Other charges (income)		
Net Finance expenses (Note 5)	<u>1,916</u>	<u>1,200</u>
Loss before income taxes	(18,575)	(9,998)
Income taxes	<u>(131)</u>	<u>107</u>
Net loss for the period	<u>(18,444)</u>	<u>(10,105)</u>
Net loss per share		
Basic and diluted (Note 6)	<u>(0.12)</u>	<u>(0.07)</u>

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

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements (Unaudited)

(expressed in Canadian dollars)

Consolidated Statements of Comprehensive Loss	For the three-month period ending March 31,	
	2022	2021
	\$	\$
Net loss for the period	(18,444)	(10,105)
Other comprehensive loss		
Items that will be reclassified subsequently to profit or loss		
Cumulative translation adjustment	<u>(6,858)</u>	<u>(10,936)</u>
Comprehensive loss for the period	<u>(25,302)</u>	<u>(21,041)</u>

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

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements (Unaudited)

(expressed in Canadian dollars)

Consolidated Statements of Financial Position

	March 31, 2022 \$	December 31, 2021 \$
Assets		
Current assets		
Cash	24,159	39,905
Restricted cash	10,547	11,214
Trade and other receivables	52,046	61,570
Inventories	58,766	52,693
Finance leases receivable	423	410
Prepaid expenses	1,301	1,446
	<u>147,242</u>	<u>167,238</u>
Non-current assets		
Finance leases receivable	8,582	9,053
Investment in associates and joint ventures	21,432	21,663
Deferred financing costs	3,616	3,616
Property, plant and equipment	40,986	42,687
Intangible assets	84,206	88,820
Goodwill	157,961	163,464
Other non-current assets	46	46
	<u>316,829</u>	<u>329,349</u>
Total non-current assets	<u>316,829</u>	<u>329,349</u>
Total assets	<u>464,071</u>	<u>496,587</u>
Liabilities		
Current liabilities		
Credit facility	5,000	5,000
Trade, other payables and accrued liabilities	36,236	33,359
Contract liabilities	25,661	29,730
Current portion of long-term debt	12,587	13,735
Current portion of government royalty program obligation	164	207
Current portion of provisions	1,820	1,780
Income taxes payable	908	1,325
	<u>82,376</u>	<u>85,136</u>
Total current liabilities	<u>82,376</u>	<u>85,136</u>
Non-current liabilities		
Long-term debt	65,197	69,356
Provisions	3,645	3,049
Deferred tax liabilities	23,086	24,236
	<u>91,928</u>	<u>96,641</u>
Total non-current liabilities	<u>91,928</u>	<u>96,641</u>
Total liabilities	<u>174,304</u>	<u>181,777</u>
Equity		
Share capital	398,566	398,566
Contributed surplus	15,596	15,337
Accumulated other comprehensive loss	(22,693)	(15,835)
Deficit	(101,702)	(83,258)
	<u>289,767</u>	<u>314,810</u>
Total equity	<u>289,767</u>	<u>314,810</u>
Total liabilities and equity	<u>464,071</u>	<u>496,587</u>

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

Approved by the Board of Directors

(signed) William Becket Director

(signed) Peter Bowie Director

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(expressed in Canadian dollars)

	Number				Amount		
	Common shares	Warrants and Compensation Shares	Share capital – Common shares	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
			\$	\$	\$	\$	\$
Balance – December 31, 2020	152,342,986	3,418,267	389,864	8,147	(915)	(59,808)	337,288
Net loss for the period	-	-	-	-	-	(10,105)	(10,105)
Other comprehensive loss	-	-	-	-	(10,936)	-	(10,936)
Comprehensive loss for the period	-	-	-	-	(10,936)	(10,105)	(21,041)
Shares issued from public offering	-	-	(22)	-	-	-	(22)
Warrants and compensation shares exercised	106,782	(106,782)	525	(141)	-	-	384
Share-based compensation expense	-	-	-	(73)	-	-	(73)
Balance – March 31, 2021	152,449,768	3,311,485	390,367	7,933	(11,851)	(69,913)	316,536
Balance – December 31, 2021	154,717,934	7,500,000	398,566	15,337	(15,835)	(83,258)	314,810
Net loss for the period	-	-	-	-	-	(18,444)	(18,444)
Other comprehensive loss	-	-	-	-	(6,858)	-	(6,858)
Comprehensive loss for the period	-	-	-	-	(6,858)	(18,444)	(25,302)
Share-based compensation expense	-	-	-	259	-	-	259
Balance – March 31, 2022	154,717,934	7,500,000	398,566	15,596	(22,693)	(101,702)	289,767

Accumulated other comprehensive loss relates solely to cumulative translation adjustments

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

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(expressed in Canadian dollars)

For the three-month period
ending March 31,

2022 2021
\$ \$

Cash flows from

Operating activities

Net loss for the period	(18,444)	(10,105)
Items not affecting cash		
Depreciation and amortization (Note 3)	3,918	2,243
Inventory write-down	45	33
Accretion finance expenses and gain on revaluation of government royalty program obligation	2	4
Accretion of earn-out	69	-
Accretion of the obligation arising from shares issued by a subsidiary	-	47
Exchange gain/loss on the obligation arising from shares issued by a subsidiary	789	(47)
Share-based compensation expense	259	(72)
Share of after-tax profit of equity accounted investees	602	86
Future income taxes	(368)	(61)
Other operating activities	(41)	372
Change in non-cash working capital balances related to operations (Note 7)	1,823	(12,693)
	<u>(11,346)</u>	<u>(20,193)</u>

Investing activities

Business acquisitions, net of cash acquired	-	(33,195)
Acquisition of property, plant and equipment	(1,401)	(1,726)
Acquisition of intangible assets	(247)	(243)
Transfer to restricted cash	413	(918)
Other investing activities	383	(172)
	<u>(852)</u>	<u>(36,254)</u>

Financing activities

Increase of credit facility	-	(15)
Payment of debt liabilities	(3,157)	(3,803)
Proceeds from issuance of share capital	-	362
Earn-out repayment	(1,231)	-
Proceed from new debt	71	-
Repayment of government royalty program obligation	(45)	(40)
	<u>(4,362)</u>	<u>(3,496)</u>

Net (decrease) increase in cash during the period

(16,560) (59,943)

Cash – Beginning of the period

39,905 160,938

Effect of exchange rate changes on cash

814 (1,083)

Cash– End of the period

24,159 99,912

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

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three-month period ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on May 11, 2022.

1 Nature of business and summary of significant accounting policies

Xebec Adsorption Inc. (“Xebec” or the “Company”) is a global provider of clean energy solutions and specialized 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; hydrogen purification and generation systems for fuel cell and industrial applications; on-site oxygen and nitrogen generators for industrial, energy and healthcare applications; and services for compressed air and gas businesses. The Company is incorporated and domiciled in Canada and is listed on the TSX Exchange under the symbol XBC. The address of its registered office is 730 Industriel Boulevard, Blainville, Quebec, Canada.

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 workforce and facilities, our customers, our sales and operations and our supply chain.

The full extent and impact of the COVID-19 pandemic remains unknown and 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.

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, 2021, as they follow the same accounting policies and methods of application, unless otherwise indicated.

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three-month period ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

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 these estimates, which are based on its 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.

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, 2021.

2 Business combinations

The consolidated statement of loss of the Company for the period ending March 31, 2021 was restated to reflect the impact of the amortization of intangibles resulting from the finalization of the determination of the fair value of the assets acquired and liabilities assumed arising from the acquisitions of HyGear and the adjusted determination of the fair value of the assets acquired and liabilities assumed arising from the acquisitions of Inmatec.

During the three months ended March 31, 2022, the Company completed its final assessment of the determination of the fair value of the assets acquired and liabilities assumed for Inmatec which was acquired in fiscal 2021.

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three-month period ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

3 Segmented information

The Company operates three business segments and specializes in Systems, Support and Corporate.

The profitability measure employed by the Company for making decisions about allocating resources to segments and assessing segment performance is adjusted segment income. Adjusted segment income is a non IFRS measure calculated by taking operating income and excluding depreciation, amortization, integration and acquisition costs, and other gains and losses arising from significant transactions or material events, which gives an indication of the profitability of each segment excluding the impact of items not specifically related to the segment's ongoing performance.

Income (loss) summarized by business segment for the three-month period ended March 31 as follows:

	Systems		Support		Corporate		Total	
	2022 \$	2021 \$	2022 \$	2021 \$	2022 \$	2021 \$	2022 \$	2021 \$
Revenues	18,799	9,956	22,394	10,668	-	-	41,193	20,624
Gross Margin	(1,666)	412	6,250	3,771	-	-	4,584	4,183
Gross Margin %	(9%)	4%	28%	35%	-	-	11%	21%
Depreciation and amortization	3,249	1,812	669	431	-	-	3,918	2,243
Segment income	(5,700)	(2,836)	3,278	1,555	(16,022)	(8,824)	(18,444)	(10,105)
Adjusted Segment income	(2,451)	(1,024)	3,947	1,986	(10,521)	(5,855)	(9,025)	(4,893)
Adjusted Segment income excluding BGX activities	190	2,155	3,947	1,986	(10,521)	(5,855)	(6,384)	(1,714)

Reconciliation of adjusted segment income for the three-month period ended March 31 is as follows:

	Systems		Support		Corporate		Total	
	2022 \$	2021 \$	2022 \$	2021 \$	2022 \$	2021 \$	2022 \$	2021 \$
Segment income	(5,700)	(2,836)	3,278	1,555	(16,022)	(8,824)	(18,444)	(10,105)
Depreciation and amortization	3,249	1,812	669	431	-	-	3,918	2,243
Net finance expense	-	-	-	-	1,916	1,200	1,916	1,200
Income taxes	-	-	-	-	(131)	107	(131)	107
Other (gains) and losses	-	-	-	-	3,716	1,662	3,716	1,662
Adjusted Segment income	(2,451)	(1,024)	3,947	1,986	(10,521)	(5,855)	(9,025)	(4,893)
Legacy BGX activities	(2,641)	(3,179)	-	-	-	-	(2,641)	(3,179)
Adjusted Segment income excluding Legacy BGX activities	190	2,155	3,947	1,986	(10,521)	(5,855)	(6,384)	(1,714)

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three-month period ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

The revenue summarized by country, as determined by location of the customers, is as follows:

	For the three-month period ended March 31,	
	2022	2021
	\$	\$
United States	24,535	9,143
Canada	5,124	4,664
Germany	2,638	2,967
France	2,051	12
Other	6,845	3,838
Total Revenues	41,193	20,624

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

	March 31,	December 31
	2022	2021
	\$	\$
Canada	42,709	60,869
Europe	226,209	219,104
United States	47,911	49,376
Asia	-	-
Total Non-Current assets	316,829	329,349

4 Other (gains) and losses

	For the three-month period ending March 31,	
	2022	2021
	\$	\$
Foreign exchange loss (gain)	1,124	650
Loss (gain) on disposal of assets	-	32
Loss (gain) on conversion of shares issued by a subsidiary	-	(47)
Legal settlement and related costs	1,768	-
Integration and acquisition costs	812	1,027
Miscellaneous other (gains) and losses	12	-
Other (gains) and losses	3,716	1,662

For the period ended March 31, 2022, costs related to acquisitions amounted to \$154 (2021 – \$587).

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three-month period ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

5 Net finance expenses

	For the three-month period ending March 31,	
	2022	2021
	\$	\$
Accretion of the obligation arising from shares issued by a subsidiary	-	47
Financing fees	337	185
Interest and bank charges	366	176
Guarantee letter fees	12	3
Interest on debt	1,296	1,006
Accretion and revaluation of government royalty program obligation	2	4
Finance income	(97)	(221)
	1,916	1,200

6 Income (loss) per share

	For the three-month period ending March 31,	
	2022	2021
Weighted average number of common shares outstanding	154,717,934	152,398,367
Dilutive effect on number of shares	-	-
Weighted average number of common shares outstanding for diluted earning per share calculation	154,717,934	152,398,367

For the period ended March 31, 2022, warrants, compensation options, compensation warrants, outstanding stock options and outstanding DSUs and RSUs to acquire 8,886,528 shares (2021 – 4,527,349) have been excluded from the above calculation since their inclusion would have had an anti-dilutive effect.

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three-month period ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

7 Supplemental Cash flow information

Changes in non-cash working capital balances are as follows:

	For the three-month period ending March 31,	
	2022	2021
	\$	\$
Cash (used in) provided by non-cash working capital:		
Trade and other receivables	8,667	(1,850)
Inventories	(6,748)	(5,526)
Other current assets	133	124
Other non-current assets	-	(7)
Trade payables accrued liabilities	3,410	(7,133)
Contract liabilities	(3,906)	989
Income tax payable	(394)	83
Provisions	661	627
	1,823	(12,693)
Income tax paid	80	87
Interest paid	1,662	1,171

8 Financial instruments

Measurement categories and fair values, including valuation methods and assumptions

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

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

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

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three-month period ended March 31, 2022 and 2021

(Unaudited)

(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).

The following table shows the carrying values and fair values of assets and liabilities by category as of:

	March 31, 2022		December 31, 2021	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	\$	\$	\$	\$
Cash	24,159	24,159	39,905	39,905
Restricted cash	10,547	10,547	11,214	11,214
Trade and other receivables	49,057	49,057	40,274	40,274
Finance lease receivables	9,005	9,005	9,463	9,463
Credit facility	(5,000)	(5,000)	(5,000)	(5,000)
Trade, other payables and accrued liabilities	(28,631)	(28,631)	(28,404)	(28,404)
Long-term debt	(64,517)	(71,451)	(68,964)	(74,749)
Government royalty program obligation	(164)	(164)	(207)	(207)

9 Related party transactions

The Company's transactions with equity accounted investees are as follows:

	For the three-month period ending March 31,	
	2022	2021
	\$	\$
Revenue	514	-

The Company's outstanding balances with equity accounted investees are as follows:

	March 31,	December 31,
	2022	2021
	\$	\$
Accounts receivables	779	1,141

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three-month period ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

10 Subsequent event

On May 11, 2022, in line with its three-year plan to optimize Operations, the Company formalized a comprehensive Center of Excellence Framework to assess all activities to improve margins and increase cash generation from operations. This review will focus on three main elements: assessing core vs. non-core activities, product rationalization and workforce and supply chain synergies. This framework includes wrapping up the continued costs of legacy BGX activities which impacted adjusted EBITDA negatively by \$2,641 in Q1 2022. The Company estimates that execution of the plan over twelve months is expected to drive a 2%–4% absolute improvement in adjusted EBITDA margin. The financial impact of this comprehensive review is on track to be finalized in the upcoming quarter and any required provisions will be recorded in the second quarter of the current fiscal year.