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## **Xebec Announces 2010 First Quarter Financial Results**

- Xebec expands volume and presence in biogas upgrading business segment
- Strategic biogas upgrading contracts awarded in several countries
- Ginette Gagné recently appointed Chief Financial Officer

**MONTREAL (Canada), May 13, 2010 - Xebec Adsorption Inc. (TSX: XBC)** ("Xebec" or the "Company"), a provider of biogas upgrading, natural gas and hydrogen purification solutions for the clean energy market, today reported its 2010 financial results for the three month period ended March 31, 2010. All figures in this release are in Canadian dollars.

### **Highlights**

- For the three-month period ended March 31, 2010, revenue of \$2.0 million compared to \$4.7 million in the first quarter of 2009
- Net loss of \$3.2 million or \$0.11 per share compared to net income of \$0.2 million or \$0.02 per share in the first quarter of 2009
- Strategic contracts in biogas upgrading awarded in California, Canada, South Korea, Austria and France
- Ms. Ginette Gagné appointed as Chief Financial Officer subsequent to quarter-end

Kurt Sorschak, President and CEO of Xebec said, "Our biogas business segment continued to expand this past quarter in terms of volume, as witnessed by our increasing order backlog, and presence in key markets, as new orders were awarded in several strategic countries. Our goal is to position Xebec as the global leader in biogas upgrading by accelerating our business development activity in our six core countries. Given new contracts being awarded and a stronger cost management program, Xebec is well positioned for long-term growth."

### **Financial Results**

For the first quarter ended March 31, 2010, total revenues were \$2.0 million, compared to \$4.7 million for the first quarter of 2009. This decline reflects to a large extent the impact of the Company's decision to not pursue new activities in specific Middle East markets, and the transition to a new business model.

Since the mid-2009 acquisition of QuestAir Technologies Inc. ("QuestAir"), Xebec has been undergoing a significant change in its business model. The Company is transforming itself from a supplier of components for clean-energy systems to a supplier of clean-energy systems. At the same time, the Company has been shifting its market focus to biogas upgrading solutions, which offer great opportunities and market leading performance metrics. The nature of these changes is such that the lead times for the sales process and the delivery of systems are much longer than in the previous business model. In recognition of this, it is a generally accepted industry practice for customers to pay some of the purchase price up-front, before systems are delivered and installed.

Thus, while the Company is gaining traction as a systems provider, the progress is not being seen in the revenue line of the income statement. Rather, it is being seen in the order backlog, which is now at about \$11.2 million, and in deferred revenues on the balance sheet, which were \$2.2 million as of March 31, 2010, compared to \$0.1 million as of December 31, 2009. These deferred revenues represent

payments that have been made by customers up-front for systems to be delivered at a future date. These amounts are accounted for as revenues in the income statement when either a certain percentage of work is completed on a system or the system has been delivered and installed.

Net loss was \$3.2 million or \$0.11 per share for the quarter, compared to net income of \$0.2 million or \$0.02 per share in the same period of 2009. This reflects a \$1.6 million decline in gross profit and a \$1.1 million increase in selling and administrative costs.

Gross profit was \$0.3 million in the first quarter of 2010, down from \$1.9 million for the first quarter of 2009. The lower levels of gross profit and margin reflects the Company's decision to no longer pursue new activities in specific Middle East countries which generated higher than average margins.

Selling and administrative expenses were \$2.5 million for the first quarter of 2010, compared to \$1.4 million for the same period in 2009. The year-over-year increase is attributable to increases in staff and office facilities as a result of the QuestAir merger, the addition of office facilities in Newcastle (U.K.) to support planned growth, and additional costs associated with being a public company.

The Company's cash position declined by \$0.3 million over the quarter to \$5.1 million as of March 31, 2010, reflecting an increase in up-front payments by customers resulting from new contracts and orders. The Company also continues to have access to \$0.7 million in unused credit facilities, giving it a total of \$5.8 million in available cash and credit facilities.

### **Product Developments**

Xebec' shift in strategic focus has yielded several contracts recently for Xebec's new biogas upgrading equipment.

The Company closed strategic contracts in Southern France and Austria for PSA (pressure swing adsorption) based biogas systems. These contracts should allow Xebec to position itself as market leader in the future to expand this growing segment of the business.

Xebec was awarded contracts in California and Canada to supply and install biogas upgrading plants to upgrade approximately 400 and 600 respectively normal cubic meters per hour (NCMH) of raw biogas to pipeline grade biomethane. Commissioning and start-up of these plants is expected to take place in the latter half of 2010. Terms of the agreements were not disclosed.

Another contract was awarded to Xebec from Halla Energy and Environment ("Halla") for a biogas upgrading plant to be used in a biogas project currently being developed by the Sudokwon Landfill Corporation in Seoul, Korea. The Xebec plant will purify biogas produced from food waste, producing high quality renewable compressed natural gas (CNG) to be used as vehicle fuel. Renewable CNG produced from the project will be used to fuel the City of Seoul's fleet of low-emission CNG buses from an existing CNG station at the Sudokwon landfill site. Halla will provide on-site civil engineering, construction and project management services for the Sudokwon project. Commissioning and start-up of the upgrading plant is expected to take place in the latter half of 2010. Terms of the agreement were not disclosed.

### **Corporate Developments**

Xebec announced the appointment of Ms. Ginette Gagné as Chief Financial Officer effective April 8, 2010. Ms. Gagné brings with her more than 20 years of corporate finance, strategic planning and international management experience to Xebec. Ms. Gagné most recently held the position of CFO at CryoCath Technologies, a publicly-traded, Montreal-based company which was recently acquired by a multinational medical technology company. Previously, she held various financial executive roles,

including eight years with Boston Scientific Corporation as VP of the Intercontinental Business and later as VP Finance for Europe. As part of her responsibilities, Ms. Gagné was a member of their European Executive Committee.

### **Outlook**

In addition to signing several biogas upgrading contracts during the quarter, Xebec was successful in selling some equipment into the French and Austrian markets, giving it an entrance to markets which are generally viewed as strategically important for this industry.

While some of the target markets were soft in the latter part of 2009, there are clear signs of increased activity across all business segments, especially the interest for renewable energy projects in the U.S., China, Germany, and Canada. At the same time, the industry is regaining its support from municipal, provincial and federal governments worldwide, as they renew their focus on green energy initiatives.

The outlook for the renewable energy sector is very positive in general and, in particular, the biogas upgrading market. The Company's immediate efforts are focused on the acceleration of new business development in this area. With its complementary product lines, strong customer relationships, global footprint and low-cost manufacturing and supply chain, Xebec is well positioned to capture market share and become a market leader.

### **2010 First Quarter Results Available**

The complete financial statements, notes to financial statements, and management's discussion and analysis for the three month period ended March 31, 2010 are available on Xebec's website at [www.xebecinc.com](http://www.xebecinc.com). These documents are also accessible on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### **Annual Meeting of Shareholders Notice**

Xebec will hold its annual meeting of shareholders today at 10:00 a.m. (Montreal Time). The meeting will be held at the Fairmont The Queen Elizabeth, Room Hochelaga 3, located at 900 René-Lévesque Blvd. West, Montreal, Quebec.

### **About Xebec Adsorption Inc.**

Xebec Adsorption Inc. is a global provider of clean energy solutions to corporations and governments looking to reduce their carbon footprints. With more than 1300 customers worldwide, Xebec designs, engineers and manufactures innovative products that transform raw gases into marketable sources of clean energy. Xebec's strategy is focused on establishing leadership positions in markets where demand for biogas upgrading, natural gas dehydration and hydrogen purification is growing. Headquartered in Montreal (QC), Xebec is a global company with two state-of-the-art manufacturing facilities in Montreal and Shanghai, a R&D facility in Vancouver (BC) as well as a sales and distribution network in North America, Asia and Europe. Xebec trades on the TSX under the symbol XBC. For additional information on the Company and its products and services, please visit the Xebec web site at [www.xebecinc.com](http://www.xebecinc.com).

### **Caution Concerning Forward-Looking Statements**

*Certain statements in this press release may constitute "forward-looking" statements within the meaning of applicable securities laws. This forward looking information includes, but is not limited to, the expectations and/or claims of management of Xebec with respect to information regarding the business, operations and financial condition of Xebec. Forward-looking information contained in this press release involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Xebec or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. This list is not exhaustive of the factors that may affect forward-looking information contained in this press release. When used in this press release, such statements use such words as "anticipate", "believe", "plan", "estimate", "expect", "intend", "may", "will" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this presentation. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results*

*will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements.*

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# Interim Consolidated Balance Sheet

[Unaudited]

	As at March 31, 2010 \$	As at December 31, 2009 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	5,132,067	5,447,702
Accounts receivable	1,829,009	3,105,834
Inventories	3,053,646	2,867,922
Prepaid expenses	192,637	183,564
Income taxes recoverable	29,855	62,492
Investment tax credits receivable	65,217	80,843
Restricted cash	206,997	223,261
Current portion of loan to a joint venture	45,980	37,777
	10,555,408	12,009,395
<b>Loan to a joint venture</b> , bearing interest at 7.93%, repayable by minimum annual installments of \$79,940 plus accrued and unpaid interest, maturing on July 1, 2012	64,373	75,554
<b>Property, plant and equipment</b>	2,413,471	2,604,931
<b>Intangible assets</b>	263,094	279,046
<b>Goodwill</b>	5,951,390	5,942,152
	19,247,736	20,911,078
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loan	487,692	496,900
Accounts payable and accrued liabilities	4,984,690	5,578,505
Deferred revenues	2,170,920	146,228
Derivative financial instruments (note 5)	172,963	96,645
Current portion of long-term debt	321,653	321,653
Current portion of subordinated loan	62,496	62,496
	8,200,414	6,702,427
<b>Long-term debt</b>	1,791,654	1,763,496
<b>Government assistance</b>	35,833	37,083
<b>Subordinated loan</b>	140,632	156,256
	10,168,533	8,659,262
<b>Shareholders' Equity</b>		
<b>Share capital</b>	17,942,821	17,942,821
<b>Contributed surplus</b>	222,966	216,368
<b>Deficit</b>	(9,086,584)	(5,907,373)
	9,079,203	12,251,816
	19,247,736	20,911,078

## Interim Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)

[Unaudited]

For the three-month period ended March 31, 2010

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Revenue</b>	1,991,650	4,707,379
<b>Cost of goods sold</b>	1,670,043	2,820,739
<b>Gross margin</b>	321,607	1,886,640
<b>Operating expenses</b>		
Selling and administrative	2,487,171	1,373,022
Research and development, net of research and development tax credits of \$24,200 (2009 – \$64,696) and government grants of \$1,250 (2009 – \$1,250)	542,892	73,747
Financial	91,110	69,480
Foreign exchange loss (gain)	164,935	(11,098)
Amortization of property, plant and equipment	198,758	45,624
Amortization of intangible assets	15,952	35,585
	3,500,818	1,586,360
<b>Income (loss) before income taxes</b>	(3,179,211)	300,280
<b>Provision for income taxes</b>		
Current	-	45,000
Future	-	60,602
	-	105,602
<b>Net income (loss) and comprehensive income (loss)</b>	(3,179,211)	194,678
<b>Income (loss) per share</b>		
Basic and diluted	(0.11)	0.02

# Interim Consolidated Statement of Cash Flows

[Unaudited]

For the three-month period ended March 31, 2010

	2010 \$	2009 \$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net income (loss) for the period	(3,179,211)	194,678
Items not affecting cash		
Amortization of property, plant and equipment	198,758	45,624
Amortization of intangible assets	15,952	35,585
Unrealized foreign exchange loss (gain) on derivative financial instruments	76,318	(19,578)
Unrealized foreign exchange loss on loan to a joint venture and restricted cash	19,242	-
Stock-based compensation expense	6,598	4,324
Future income taxes	-	60,602
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	(2,862,343)	321,235
Changes in non-cash working capital components relating to operations		
Accounts receivable	1,276,825	1,418,578
Inventories	(185,724)	416,922
Prepaid expenses	(9,073)	82,654
Income taxes recoverable	32,637	37,873
Investment tax credits receivable	15,626	(64,696)
Accounts payable and accrued liabilities	(603,053)	(1,645,150)
Deferred revenues	2,024,692	364,479
	<hr/>	<hr/>
	2,551,930	610,660
	<hr/>	<hr/>
	(310,413)	931,895
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(7,298)	(140,469)
Acquisition of intangible assets	-	(230,139)
Government assistance	(1,250)	(1,250)
	<hr/>	<hr/>
	(8,548)	(371,858)
<b>Financing activities</b>		
Decrease in bank loan	(9,208)	(860,030)
Increase in long-term liabilities	99,867	25,007
Repayment of long-term debt	(87,333)	(73,048)
	<hr/>	<hr/>
	3,326	(908,071)
<b>Decrease in cash during the period</b>		
	(315,635)	(348,034)
<b>Cash – Beginning of period</b>	<hr/>	<hr/>
	5,447,702	550,377
<b>Cash – End of period</b>	<hr/>	<hr/>
	5,132,067	202,343