

Xebec Adsorption Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2015

(expressed in Canadian dollars)

The Condensed Interim Consolidated Financial Statements which are included in this Report have not been subject to a review by the Company's External Auditors.

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(expressed in Canadian dollars)

	As at March 31, 2015 \$	As at December 31, 2014 \$
Assets		
Current assets		
Cash and cash equivalent	363,512	1,008,421
Restricted cash (Note 3)	72,946	221,930
Trade and other receivables	3,001,515	2,681,311
Inventories	1,497,956	1,669,350
Investment tax credits receivable	50,000	50,000
Other current assets	406,877	396,241
Total current assets	5,392,806	6,027,253
Non-current assets		
Property, plant and equipment (Note 4)	338,602	347,845
Intangible assets (Note 5)	881,638	919,297
Goodwill (Note 5)	142,616	142,616
Total non-current assets	1,362,856	1,409,758
Total assets	6,755,662	7,437,011
Liabilities		
Current liabilities		
Bank loan	-	136,437
Trade payables	3,260,837	3,491,897
Accrued liabilities	871,400	723,890
Deferred revenues	702,430	815,010
Current portion of long-term debt and obligation	27,341	50,475
Current portion of government royalty program obligation	769,256	762,825
Provisions	228,397	236,365
Total current liabilities	5,859,661	6,216,899
Non-current liabilities		
Government assistance	10,833	12,083
Deferred rent	92,344	85,748
Provisions	212,460	192,990
Total non-current liabilities	315,637	290,821
Total liabilities	6,175,298	6,507,720
Equity		
Share capital	19,732,623	19,732,623
Contributed surplus	2,473,752	2,460,146
Accumulated other comprehensive loss	(929,511)	(606,685)
Deficit	(20,968,218)	(20,914,588)
Total equity	580,364	929,291
Total liabilities and equity	6,755,662	7,437,011

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) William Beckett _____ Director

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Income (Loss)

For the three-month period ended March 31, 2015 and 2014 (Unaudited)

(expressed in Canadian dollars)

	2015 \$	2014 \$
Revenue	3,096,691	2,627,228
Cost of goods sold	2,417,226	1,977,765
Gross margin	679,465	649,463
Research and development expenses	10,059	126,318
Selling and administrative expenses	1,049,698	1,424,763
Foreign exchange gain	(356,603)	(54,233)
	703,131	1,496,848
Operating Loss	(23,666)	(847,385)
Finance income	(2,428)	(6,104)
Finance expense (Note 8)	23,642	33,949
Finance costs – net	21,214	27,845
Net loss before income taxes	(44,880)	(875,230)
Income tax expense	8,750	-
Net loss for the period	(53,630)	(875,230)
Loss attributable to:		
Shareholders of the Company	(53,630)	(839,818)
Non-controlling interest	-	(35,412)
	(53,630)	(875,230)
Loss per share		
Basic (Note 6)	(0.00)	(0.02)
Diluted (Note 6)	(0.00)	(0.02)

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

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
For the three-month period ended March 31, 2015 and 2014 (Unaudited)

(expressed in Canadian dollars)

	2015 \$	2014 \$
Net loss for the period	(53,630)	(875,230)
Other comprehensive income		
Cumulative translation adjustment	(308,903)	(27,883)
Comprehensive loss for the period	<u>(362,533)</u>	<u>(903,113)</u>
Attributable to:		
Shareholders of the Company	(376,456)	(879,070)
Non-controlling interest	13,923	(24,043)
	<u>(362,533)</u>	<u>(903,113)</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)

(expressed in Canadian dollars)

	Number		Amount						
	Common shares	Warrants	Share capital – Common shares and warrants \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Equity attributable to the Company \$	Non-controlling interest \$	Total \$
Balance – January 1, 2014	39,363,867	10,091,886	19,732,623	2,388,063	(313,486)	(20,131,974)	1,675,226	283,762	1,958,988
Net loss for the period	-	-	-	-	-	(839,818)	(839,818)	(35,412)	(875,230)
Other comprehensive income (loss)	-	-	-	-	(39,252)	-	(39,252)	11,369	(27,883)
Comprehensive loss for the period	-	-	-	-	(39,252)	(839,818)	(879,070)	(24,043)	(903,113)
Balance – March 31, 2014	39,363,867	10,091,886	19,732,623	2,388,063	(352,738)	(20,971,792)	796,156	259,719	1,055,875
Balance – January 1, 2015	39,363,867	10,091,886	19,732,623	2,460,146	(606,685)	(20,914,588)	671,496	257,795	929,291
Net loss for the period	-	-	-	-	-	(53,630)	(53,630)	-	(53,630)
Other comprehensive income (loss)	-	-	-	-	(322,826)	-	(322,826)	13,923	(308,903)
Comprehensive income (loss) for the period	-	-	-	-	(322,826)	(53,630)	(376,456)	13,923	(362,533)
Share-based compensation	-	-	-	13,606	-	-	13,606	-	13,606
Balance – March 31, 2015	39,363,867	10,091,886	19,732,623	2,473,752	(929,511)	(20,968,218)	308,646	271,718	580,364

Accumulated other comprehensive income 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

For the three-month period ended March 31, 2015 and 2014 (Unaudited)

(expressed in Canadian dollars)

	2015 \$	2014 \$
Cash flows from		
Operating activities		
Net loss for the period	(53,630)	(875,230)
Items not affecting cash		
Amortization of property, plant and equipment	28,291	20,433
Amortization of intangible assets	38,480	42,365
Gain on debt forgiveness	(168,066)	(10,003)
Government assistance	(1,250)	(1,250)
Deferred rent	6,596	6,596
Accretion of government royalty program obligation	6,431	9,538
Stock-based compensation expense	13,606	-
	<u>(129,542)</u>	<u>(807,551)</u>
Net change in non-cash working capital balances related to operations (note 9)	<u>(176,008)</u>	<u>1,291,488</u>
	<u>(305,550)</u>	<u>483,938</u>
Investing activities		
Acquisition of property, plant and equipment	(13,269)	(16,066)
Balance of sale	-	300,000
	<u>(13,269)</u>	<u>283,934</u>
Financing activities		
Decrease (increase) in restricted cash (note 3)	145,386	(145,386)
Decrease of bank loan	(136,437)	-
Repayment of long-term debt	(23,134)	(22,995)
Repayment of government royalty program obligation	-	(73,500)
	<u>(14,185)</u>	<u>(96,495)</u>
Effect of exchange rate changes on cash	(311,905)	(28,618)
Increase (decrease) in cash and cash equivalent during the period	<u>(644,909)</u>	<u>497,372</u>
Cash and cash equivalent – Beginning of period	<u>1,008,421</u>	<u>2,835,051</u>
Cash and cash equivalent – End of period	<u>363,512</u>	<u>3,332,423</u>
Additional information		
Interest paid	17,211	24,411

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)

March 31, 2015

(expressed in Canadian dollars)

1 Nature of business

a) Nature of business

Xebec Adsorption Inc. (“Xebec” or the “Company”) is a global provider which specializes in the design and manufacture of cost-effective, environmentally responsible, purification, separation, dehydration, and filtration equipment for gases and compressed air. Xebec’s main product lines are: Biogas Plants for the purification of biogas from agricultural digesters, landfill sites and waste water treatment plants, Natural Gas Dryers for NGV refuelling stations, Associated Gas Purification Systems which enable diesel displacement on drilling sites, and Hydrogen Purification Systems for fuel cell and industrial applications. The Company is incorporated and domiciled in Canada and is listed on the TSX Venture Exchange under the symbol XBC-V. The address of its registered office is 730 Industriel Boulevard, Blainville, Quebec, Canada.

b) Liquidity risk

The Company has realized an operating loss of \$23,666, had cash outflows from operations of \$305,550 for the period ended March 31, 2015 and finished the period with cash and cash equivalent amounting to \$363,512, working capital deficit of \$466,855, and had no access to credit facilities. During the year, management undertook various initiatives and developed a plan to manage its operating and liquidity risks in light of prevailing economic conditions. Management is also currently seeking alternative financings for its operations. The Company has prepared a budget for 2015 for which management believes the assumptions are reasonable. Achieving budgeted results is dependent on improving the volume of revenues in Canada, United States and China, delivering on sales and contracts schedules, meeting expected overall operating margin levels and controlling general and administrative costs. Management expects to meet its budget and to have enough liquidity to fund operations to at least beyond December 31, 2015.

The Company is thus faced with uncertainties that may have an impact on future operating results and liquidity. These uncertainties include fluctuations in foreign currency rates and achieving the Company’s business plan goals as mentioned in the previous paragraph, which includes the development of a new business segment. While management believes it has developed planned courses of action to mitigate operating and liquidity risks, there is no assurance that management will be able to achieve its business plan and maintain the necessary liquidity level including accessing liquidities from China if events or conditions develop that are not consistent with management’s expectations, key budget assumptions for 2015 and planned courses of action. Therefore, the Company may require additional external funding and there is no assurance that it would be successful. Future changes in capital markets conditions could result in such funding not being available when required or at acceptable costs. The Company is unable to predict the possible effects, if any, of such uncertainties and the potential adjustments to the carrying values of assets and liabilities that could be needed should the Company have insufficient liquidity. Such adjustments could be material.

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2015

(expressed in Canadian dollars)

2 Basis of preparation

These condensed consolidated interim financial statements, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statement, including IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for annual financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014, as they follow the same accounting policies and methods of application, unless otherwise indicated. These consolidated interim financial statements were approved by the Board of Directors on June 1st, 2015.

3 Restricted cash

Restricted cash consist in a cash equivalent to \$72,946 retained by the liquidator of the South East Asia subsidiary. The guarantee investment certificate equivalent to \$152,827 and pledge against a loan to the China subsidiary existing at the end of the fiscal year 2014 was refunded during the first current quarter.

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2015

(expressed in Canadian dollars)

3 Property, plant and equipment

	Machinery and equipment	Office furniture and equipment	Computers	Moulds	Vehicles	Total
Cost						
Balance at December 31, 2014	484,754	143,672	232,642	163,431	35,984	1,060,483
Additions	-	333	12,936	-	-	13,269
Effect of movements in exchange rates	11,037	8,228	11,609	9,129	-	40,003
Balance at March 31, 2015	495,791	152,233	257,187	172,560	35,984	1,113,755
Accumulated amortization						
Balance at December 31, 2014	282,517	101,882	206,130	89,724	32,385	712,638
Amortization	11,419	3,483	6,503	5,087	1,799	28,291
Effect of movements in exchange rates	8,177	7,458	10,572	8,017	-	34,224
Balance at March 31, 2015	302,113	112,823	223,205	102,828	34,184	775,153
Carrying Amount						
At December 31, 2014	202,237	41,790	26,512	73,707	3,599	347,845
At March 31, 2015	193,678	39,410	33,982	69,732	1,800	338,602

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

March 31, 2015

(expressed in Canadian dollars)

4 Intangible assets and goodwill

	Customer relations \$	Other Software \$	Internally generated Development costs \$	Total intangible assets \$	Goodwill \$
Cost					
Balance at December 31, 2014	1,900,000	270,894	298,485	2,469,379	142,616
Additions	-	-	-	-	-
Effect of movements in exchange rates	-	10,429	-	10,429	-
Balance at March 31, 2015	1,900,000	281,323	298,485	2,479,808	142,616
Accumulated amortization					
Balance at December 31, 2014	1,266,666	254,376	29,040	1,550,082	-
Amortization for the year	19,972	3,764	14,924	38,480	-
Effect of movements in exchange rates	-	9,608	-	9,608	-
Balance at March 31, 2015	1,286,458	267,748	43,964	1,598,170	-
Carrying amount					
At December 31, 2014	633,334	16,518	269,445	919,297	142,616
At March 31, 2015	613,542	13,575	254,521	881,638	142,616

Amortization of \$38,480 (2014 - \$42,366) is included in the consolidated statement of income (loss): \$2,604 (2014 - \$669) in 'cost of goods sold' and \$35,876 (2014 - \$41,697) in 'selling and administrative expenses'.

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

March 31, 2015

(expressed in Canadian dollars)

5 Share capital

Earnings (loss) per share

i) Basic

Basic loss per share is calculated by dividing the net income attributable to owners of the parent by the weighted average number of common shares in issue during the year.

	For the three- month ended March 31, 2015	For the three- month ended March 31, 2014
		\$
Net loss attributable to owners of the parent	(53,630)	(839,818)
Weighted average number of common shares in issue	<u>39,363,867</u>	<u>39,363,867</u>
	<u>(\$0.00)</u>	<u>(\$0.02)</u>

ii) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: warrants and stock options. For both, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the period), based on the monetary value of the subscription rights attached to the warrants and stock options. The number of shares calculated below is compared with the number of shares that would have been issued assuming exercise of the warrants and stock options. For the periods ended March 31, the diluted net loss per share was the same as the basic net loss per share, since the effect of assumed exercise of share options and warrants to purchase common shares was anti-dilutive.

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2015

(expressed in Canadian dollars)

6 Expenses by nature

	For the three- month ended March 31, 2015 \$	For the three- month ended March 31, 2014 \$
Salaries	1,318,532	1,412,377
Material	1,357,726	1,209,270
Travel expenses	160,599	223,705
Rent and repairs and maintenance	140,292	155,645
Professional fees	142,866	138,511
Office expenses	170,054	111,794
Amortization	66,771	62,798
Subcontracts cost	53,728	51,727
Other	42,727	36,701
Commission	-	
Stock-based compensation	13,606	
	<u>3,466,901</u>	<u>3,402,528</u>

7 Finance expenses

	For the three- month ended March 31, 2015 \$	For the three- month ended March 31, 2014 \$
Interest and bank charges	9,852	8,500
Accretion and revaluation of government royalty program obligation	6,431	9,538
Interest charges	7,305	15,720
Interest on long-term debt	54	191
	<u>23,642</u>	<u>33,949</u>

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

March 31, 2015

(expressed in Canadian dollars)

8 Supplemental Cash flow information

Net change in non-cash working capital balances related to operations consists of the following:

	For the three-month ended March 31, 2015 \$	For the three-month ended March 31, 2014 \$
Decrease (increase) in assets:		
Trade and other receivables	(320,204)	936,011
Inventories	171,394	3,359
Investment tax credits receivable	-	87,760
Other current assets	(10,636)	(79,446)
Increase (decrease) in liabilities:		
Trade payables	(62,994)	(249,574)
Accrued liabilities	147,510	(3,529)
Deferred revenues	(112,580)	664,442
Other operating liabilities	11,502	(67,535)
	<u>(176,008)</u>	<u>1,291,488</u>

9 Related party transactions

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

	For the three- month ended March 31, 2015 \$	For the three- month ended March 31, 2014 \$
Marketing and professional services expenses paid to a company controlled by a member of the immediate family of an officer	26,980	26,600
Sales to entities controlled by a subsidiary manager	638,101	702,639

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

10 Segmented information

The Company has only one segment and specializes in the design and manufacture of filtration, purification, separation and dehydration equipment for gases and compressed air. The Company has four product lines and provides related engineering services.

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2015

(expressed in Canadian dollars)

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

	For the three-month ended March 31, 2015	For the three-month ended March 31, 2014
	\$	\$
Revenue		
United States	950,403	741,514
Canada	779,753	573,431
Singapore	637,494	702,639
China	456,617	303,021
Other	272,424	306,623
	<hr/>	<hr/>
	3,096,691	2,627,228

Revenue summarized by product line is as follows:

	For the three-month ended March 31, 2015	For the three-month ended March 31, 2014
	\$	\$
Product line		
Natural gas dryers	1,633,742	1,360,266
Compressed gas filtration	1,005,149	955,130
Gas purification	335,981	244,507
Associated Gas	68,850	67,325
Air dryers	52,969	-
	<hr/>	<hr/>
	3,096,691	2,627,228

Major customers representing 10% or more of total sales include:

	For the three-month ended March 31, 2015	For the three-month ended March 31, 2014
	\$	\$
Customer A	<hr/>	<hr/>
	587,737	702,639

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

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2015

(expressed in Canadian dollars)

	March 31, 2015	December 31, 2014
	\$	\$
Non-current assets		
Canada	1,290,110	1,337,833
Asia	67,507	66,826
United States	5,240	5099
	<hr/>	<hr/>
	1,362,856	1,409,758
	<hr/>	<hr/>

11 Subsequent events

In April 2015, the Company renegotiated its payments terms with TPC moving from a monthly payment of \$24,500 to a monthly payment of:

- \$5,000 starting from April 30, 2015 to September 30, 2015
- \$10,000 starting from October 31, 2015 to March 31, 2016
- \$24,500 starting from April 30, 2016 to December 31, 2016
- And the balance of \$504,500 on January 31, 2017.

In May 2015, the Company had access to a new credit line facility totalling \$500,000 with TD Bank.