Xebec Adsorption Inc.
Management's Discussion and Analysis
First Quarter, 2017

Additional information relating to the Company can be found on SEDAR at www.sedar.com

The following Management's Discussion and Analysis ("MD&A") of Xebec provides a review of the results of operations, financial conditions and cash flows of Xebec for the period ended March 31, 2017. This discussion should be read in conjunction with the information contained in the Company's unaudited consolidated financial statements and related notes for the same period. Additional information can be found on SEDAR at www.sedar.com.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards (IFRS) for financial statements and is expressed in Canadian dollars unless otherwise stated.

In this MD&A, unless otherwise indicated or required by the context, "Xebec", "the Company", "we", "us", "our", "our Company", "the Group" and "our Group" designate, as the case may be, Xebec Adsorption Inc. or Xebec Adsorption Inc. and its subsidiaries. The Company's other subsidiaries are designated as follows: "Xebec USA" for Xebec Adsorption USA, Inc., "Xebec Shanghai" for Xebec Adsorption (Shanghai) Co. Ltd and "Xebec Europe" for Xebec Adsorption Europe SRL. Also, the fiscal year ending December 31, 2017 and those ended in prior years are sometimes designated by the terms "Fiscal 2017", "Fiscal 2016" and so on.

The information contained in this MD&A and certain other sections of this report also includes some figures that are not performance measures consistent with IFRS, such as earnings (loss) before amortization, financial expenses, other items and income taxes ("EBITDA"). The Company uses EBITDA because this measure enables management to assess the Company's operational performance. This measure is a widely accepted financial indicator of a company's ability to repay and assume its debt. Investors should not regard it as an alternative to operating revenues or cash flows, or a measure of liquidity. As this measure is not established in accordance with IFRS, it might not be comparable to those of other companies.

The information contained in this Management's Report accounts for any major event occurring up to May 23, 2017, the date on which the Board of Directors approved the consolidated financial statements and Management's Report for the period ended March 31, 2017. It presents the Company's status and business context as they were, to management's best knowledge, at the time this report was written.

This document contains forward-looking statements, which are qualified by reference to, and should be read together with, the "Forward-looking Statements" cautionary notice on page 32 of this MD&A.

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1 OUR BUSINESS

1.1. Who We Are

Established in 1967, Xebec is a global player in the design, engineering and manufacturing of innovative products that transform raw gases into marketable sources of clean and renewable energy. Xebec has over 50 years of experience in adsorption technology, developing products and technology solutions for environmentally-responsible gas generation, purification, dehydration, separation, and filtration applications for corporations and governments looking to reduce their carbon footprints.

With more than 9,000 units and over 1,500 clients worldwide, Xebec's strategy is focused on establishing leadership positions in markets where demand for renewable energy through gas purification and generation, natural gas dehydration, and filtration is growing. As such, Xebec has divided its business into three distinct segments, concentrating and capitalizing on specific opportunities:

Clean Technology: Hydrogen Purification, Biogas to Renewable Natural Gas (RNG), and Renewable Hydrogen for a growing Fuel Cell Electric Vehicle (FCEV) market
Oil and Gas Processing: Polyimide Hollow Fiber Membranes for the upstream natural gas market for CO_2 removal, a step level change in efficiency vs amine systems and cellulose acetate membranes
Compressed Air and Gas Treatment: Compressed Air and Gas Dryers, a historically high margin business that creates a recurring revenue base for parts and service.

1.2. Products Include

- Hydrogen Purification Systems for fuel cell and industrial applications
- Renewable Hydrogen Generation from Renewable Natural Gas
- Biogas purification to renewable natural gas (RNG) from agricultural digesters, landfill sites and waste water treatment plants
- State-of-the-art Gas Processing Systems for removal of CO_2 from Natural Gas
- Natural Gas Dryers for Natural Gas Vehicles (NGV) refueling stations
- Energy-efficient Compressed Air Dryers & best-in-class Compressed Air and Gas Filters for a broad range of industrial applications

1.3. Customers Include

Our technologies are deployed throughout the industrial world and serve a wide variety of industries covering industry applications as diverse as hospitals to paint shops, food processing to algae production, and factory floors to upstream gas wells.

Our customer base is international with deliveries to countries like Madagascar, Kazakhstan, Malaysia, Thailand, China, Japan, South Korea, France, Italy, Austria, U.S., Mexico, Columbia, Argentina and many others.

1.4. Internationally Recognized

- Headquarters in Montreal, Quebec, Canada – Manufacturing, Sales & R&D
- Sales & Engineering Offices in Houston, Texas & Brescia, Italy
- Manufacturing, Sales and Engineering in Shanghai
- Sales Partners in Singapore, France, Austria, South Korea

1.5. Technology

- **Adsorption Technology**
  Adsorption is a process that occurs when a gas or liquid (solute) accumulates on the surface of a solid or a liquid (adsorbent) forming a film of molecules or atoms (adsorbate). Xebec designs, develops, builds, sells, and services engineered adsorption and filtration products for industrial air and gas

purification and separation applications employing the principles of Pressure Swing Adsorption (PSA) and Temperature Swing Adsorption (TSA).

- **Membrane Technology**
  Xebec's membrane solution is another proven technology for gas purification. When pressurized gas feed enters the membrane modules, certain molecules have a much stronger preference to diffuse and permeate through the polymer-based membrane than other molecules. As a result, the product stream, which is rich in a certain molecule type, is retained in the pressurized side as product gas.

- **Filtration Technology**
  Air and gas filters are used to separate liquid droplets, particles or solid contaminants, and oil vapor out of air and gas flows. Xebec also offers specialized natural gas filters for on-board natural gas fueled vehicles, for treatment of the natural gas prior to it entering into the combustion process.

1.6. Internationally accredited

2 OUR BUSINESS SEGMENTS

Clean Technology

Renewable Natural Gas, Hydrogen & Renewable Hydrogen

Oil and Gas Processing

Natural gas purification and CO_2 removal via membranes

Industrial Compressed Air & Gas Treatment

Industrial purification equipment, parts & service

2.1. CLEAN TECH – RENEWABLES AND HYDROGEN

Xebec's proprietary rotary valve technology replaces the complex and bulky network of piping and valves used in conventional Pressure Swing Adsorption (PSA) systems with two compact, integrated valves. Especially for biogas to renewable natural gas, Xebec's advanced biogas upgrading system improves methane recovery rates, reduces operating costs and consequently improves the profitability of the project for the owner. Xebec's structured adsorbent and rotary valve technologies are integrated into some of its advanced hydrogen and gas purification products, which operate at significantly higher cycle speeds (up to 50 cycles/minute) than conventional PSA systems. This results in a direct reduction in the amount of adsorbent material, the size of equipment and the amount of energy required to purify a given volume of feed gas.

Xebec has the most compact, economical and reliable PSA systems available today. With minimal pressure drop, remarkable uptime performance, occupying a fraction of the footprint of conventional systems, Xebec PSA systems have earned a reputation for easy, flexible installation and problem-free, economical performance.

Xebec's strengths in this field:

- *25 recent RNG projects completed, while over 200 Xebec hydrogen purifiers are currently operating, with more coming on stream in 2017*
- *Strong quote/order book for 2017; and a solid order pipeline into 2018 and 2019*
- *Readiness to take advantage of opportunities driven by government incentives as well as regulations to curb CO_2 emissions. Interest is growing in Canada and the U.S. with a number of projects in advanced negotiation (Carbon Credits/Trading)*
- *Already in the field while expansion of clean natural gas refueling infrastructure both in the U.S. and Canada, combined with renewable natural gas as a transportation fuel, are gaining traction*
- *Uniquely positioned to offer a win-win business model: sell core technology to partners for them to develop and serve local markets while Xebec drives aftermarket revenue with its proprietary technology*

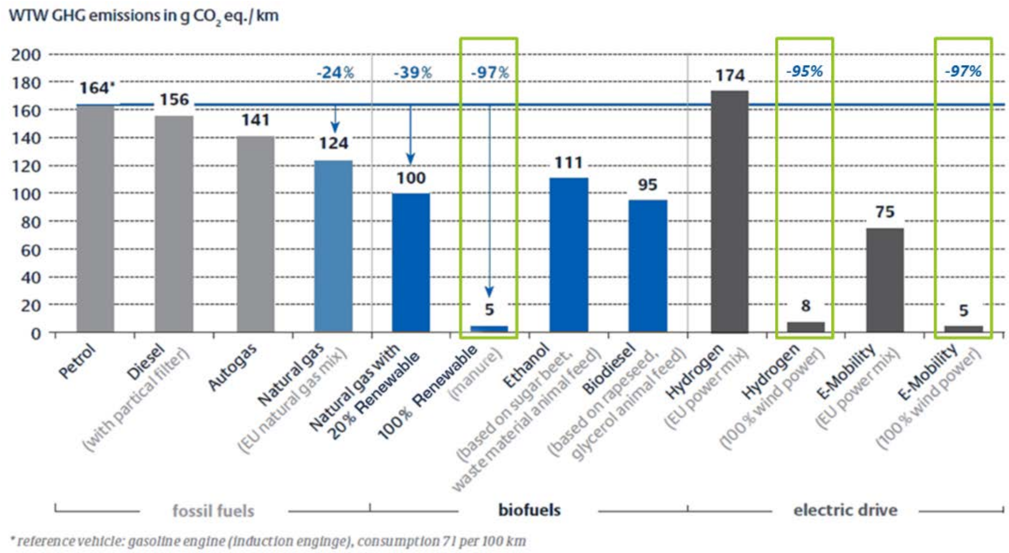
2.1.1. *Market Size for Renewable Hydrogen and Renewable Natural Gas (RNG)*

Xebec considers hydrogen purification for fuel cell applications and renewable hydrogen as a fuel for Fuel Cell Electric Vehicles (FCEV) to be one of the major opportunities over the next decade and beyond. Xebec is working with several fuel cell manufacturers to provide purification equipment to their refueling and/or hydrogen production equipment. As fuel cells gain traction over the next coming years the market will look for specialized purification solutions in a compact design.

- *Fuel Cell Electric Vehicles (FCEV) in transportation are forecast to increase to 250,000 by 2027 (0.1% of the U.S. vehicle population).*
- *Annual production of fuel cell vehicles is forecast to reach 50,000 per year by 2025.*
- *Each FCEV requires about 0.5 kg of hydrogen per day, or about 125 tons/day by 2027 (30% legislated to be renewable hydrogen (RH_2) in California)*
- *The market for renewable hydrogen is expected to grow from currently about $30 million annually to about $365 million annually by 2027*
- *Currently, only fossil hydrogen is readily available, and today fossil merchant hydrogen production worldwide equates to about 150 tons/day*
- *Fossil hydrogen today is either produced through electrolysis (electricity from coal or natural gas) or through steam methane reforming of natural gas (fossil natural gas). Renewable hydrogen is produced through electrolysis using renewable electricity, or through steam methane reforming of renewable natural gas (upgraded biogas to renewable natural gas), and consequently has an extremely low carbon content compared to fossil hydrogen and ideal for low carbon transport fuels.*

Low Carbon Fuels – The Renewable Natural Gas and Renewable Hydrogen Opportunity

(Xebec offers solutions for renewable natural gas and renewable hydrogen)



Source: NREL - Renewable Hydrogen Potential from Biogas in the United States, 2014, Department of Energy - https://energy.gov/eere, German Energy Agency, http://www.zevstates.us

- *The global RNG upgrading market will be worth an estimated $4 billion by 2025, or $350 million annually, with a CAGR of 26.9%*
- *Xebec has an 11% market share, 25 finalized projects and 21 on-going projects in the emerging Renewable Natural Gas category*
- *Between core technology and system sales, Xebec estimates a $20 million global market share in RNG by 2020*

2.1.2. Product Line / Customers

We offer a full suite of proprietary technology products to a wide range of customers such as natural gas utilities, government municipalities engaged in wastewater treatment, landfill projects, etc. through to industrial, transportation and energy companies. Products range from

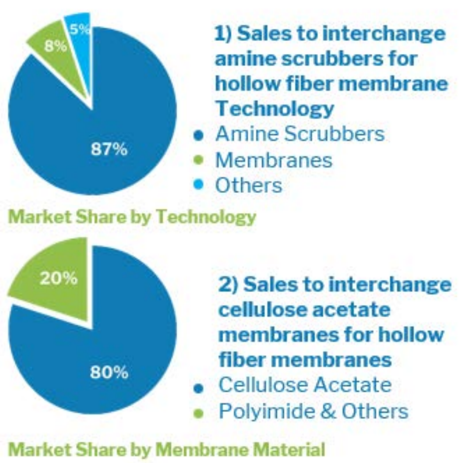
- *Hydrogen purification systems*
- *Biogas to renewable natural gas systems*
- *Natural gas dehydration units for refueling stations*
- *Solutions for the generation of renewable hydrogen (RH2), including filtration & separation products*

2.2. OIL AND GAS PROCESSING

Gas wells can produce natural gas with a CO_2 content that is too high for the intended product gas use, or is not of pipeline quality and can therefore not be sold. This well gas needs to be treated and the CO_2 content adjusted. After years of development work and field tests, Xebec's engineering team has been instrumental in the development and introduction of a high-performance hollow fiber polyimide membrane system (MTX Solutions®) that targets CO_2 in natural gas – providing outstanding selectivity combined with an easy, flexible, cost-effective approach that delivers increased recovery, lower operating costs, higher revenue and increased profits right to the bottom line, constituting a step-level change in membranes for the removal of CO_2 from natural gas.

Xebec strengths in this field:

- *Xebec's engineers have deployed over 200 membrane systems worldwide over the last 20 years, and its membrane group is highly experienced in the field of CO_2 removal from natural gas.*
- *Field tests have been successfully completed and results have shown significant operating cost reductions for producers, which have already led to first deployments.*
- *Xebec can offer customers complete membrane-based natural gas processing systems, including pre and post-treatment options.*
- *Amine treatment plants currently account for ~87% market share of acid gas removal (mainly CO_2) systems. Membrane technology currently accounts for only ~8% market share; other technologies like cryogenic separation and adsorption account for the remaining 5%. Xebec's polyimide hollow fiber membranes offer higher selectivity than most competing membranes in use today and are designed for interchangeability with existing systems in the field.*



This represents huge breakthrough potential on two fronts:

With its advanced membrane technology, Xebec expects to gain market share from amine systems, which are more expensive to operate, require a higher degree of environmental care and maintenance. Amine systems will most likely be replaced over time with more efficient and environmentally beneficial membrane technology for the removal of CO_2 from natural gas.

Xebec's hollow fiber membranes are expected to take market share from cellulose acetate membranes due to the higher selectivity of the latest membrane materials and designs.

2.2.1. Market Size for CO_2 Removal from Natural Gas

- *Xebec estimates that the CO_2 removal from natural gas segment is a USD $1.2 billion market, of which currently 8%, or USD $95 million, is being served by membrane based systems, and 87% by amine scrubbers.*
- *Going forward Xebec expects that membrane-based systems will gain market share compared to amine systems, which will allow Xebec to establish itself as a segment player.*

- *Xebec is targeting a 15% share of the membrane market*

2.2.2. Product Line / Customers

With natural gas growing as a primary energy source, both oil producers and mid-stream companies are likely customers for

- *Interchangeable polyimide hollow fiber membranes (replacement market)*
- *Complete Membrane Systems for the Removal of CO_2 from Natural Gas (new system sales)*

2.3. INDUSTRIAL COMPRESSED AIR AND GAS TREATMENT (CAGT)

Almost all industrial gases, whether they are inert, flammable, acid, reactive, or oxidizing, can be purified or dried using what is commonly known as adsorption or membrane technology to remove targeted impurities or separate bulk mixtures. These technologies are used in many industrial air and gas treatment processes including air separation, nitrogen and oxygen enrichment for medical and industrial applications as well as drying applications for air, natural gas, carbon monoxide, carbon dioxide, sulfur dioxide, acetylene, propylene, propane, and syngas.

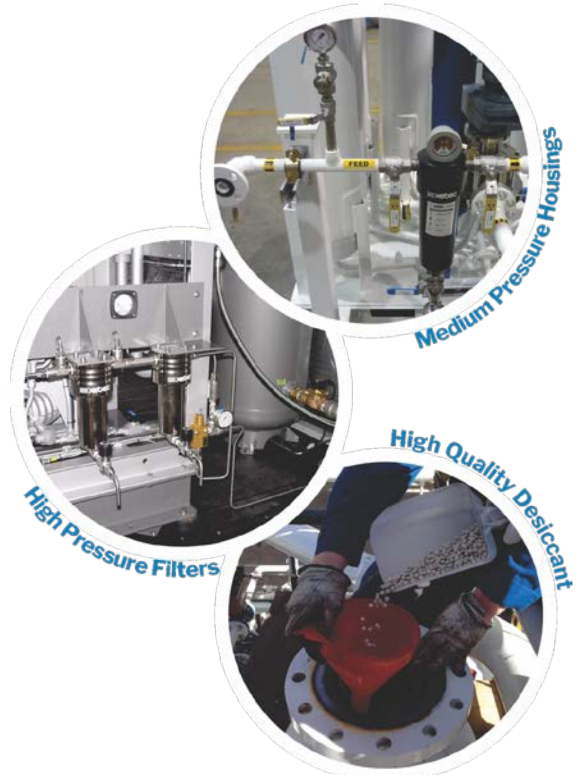
Xebec designs, develops, builds, sells, and services a range of adsorption and membrane air and gas purification solutions for natural gas dehydration and conditioning and for natural gas upgrading (NGX Solutions®); desiccant, refrigerant and modular air dryers for a wide range of industrial air applications (ADX Solutions®); and gas generators and systems for nitrogen (N2X Solutions™) and oxygen (O2X Solutions™). In addition, Xebec provides a complete range of compressed air and gas filtration products under its FSX Solution® brand as well as alternative brand replacements.

Xebec's strengths in this field:

- *Xebec can capitalize on this historically high margin business that creates a significant recurring revenue base from sales of parts and service to over 9,000 currently operating global installations*
- *Xebec has invested heavily over the last few years in product development of additional purification products that can be sold to existing and new customers, thanks to its strong reputation for quality*
- *Xebec has established a roll-up strategy focused on acquiring small to mid-sized Compressed Air and Gas service businesses ($3-5 million revenue) throughout Ontario, Alberta and BC to create a leading national Compressed Air & Gas distribution business*
- *Xebec is the only Canadian manufacturer of gas adsorption and gas membrane systems with a full product portfolio and all necessary Canadian and Provincial certifications (CRN, CSA etc.) and is well positioned for growth*

2.3.1. Market Size for CAGT - Xebec Product Range

- *Global Market approx. USD$7B - expected to grow to USD$10 billion by 2020*
- *U.S. Market approx. USD$700 to USD$800 million*
- *Canadian Market approx. CDN$60 to CDN$70 million, of which Xebec currently has a 9% market share, with a target of 30% by 2020*



2.3.2. Product Line & Services / Customers

There is a broad range of industrial customers, from aerospace to pharmaceutical who used CAGT products like

- *Compressed Air and Gas Dryers*
- *Compressed Air and Gas Filters*
- *Nitrogen and Oxygen Generators*
- *Spare Parts and Replacement Filter Elements*
- *Dew-point Probes and Calibration Services*

3 GROWTH STRATEGY

3.1. Business Drivers

- *Increasing demand for small scale decentralized hydrogen production and purification solutions for fuel cell applications in transport and power generation*
- *Hydrogen purification technologies poised to experience robust growth in the U.S., China, Russia, Japan, Canada and India in refining and electronics industries (industrial applications)*
- *Increasing usage of heavy oils in refining and higher demand for high-purity hydrogen as well as lower profit margins and stricter environmental regulations are driving improved purification technologies and equipment*
- *Upstream oil and gas clients need to improve financial performance through a reduction in OPEX while implementing environmentally friendly and cost efficient gas purification solutions*
- *Companies wanting to reduce bottlenecks and delays due to capacity, performance and regulatory constraints are replacing outdated amine plants*
- *Increasing demand for Compressed Air and Gas equipment across the food & beverage, medical and pharma industries that can deliver cleaner, purer, oil-free, dry and sterile compressed air*

3.2. Path to Sustainable, Profitable Growth

3.2.1. Build & Market Clean Energy Solutions

- *Focus on Hydrogen for Fuel Cells*

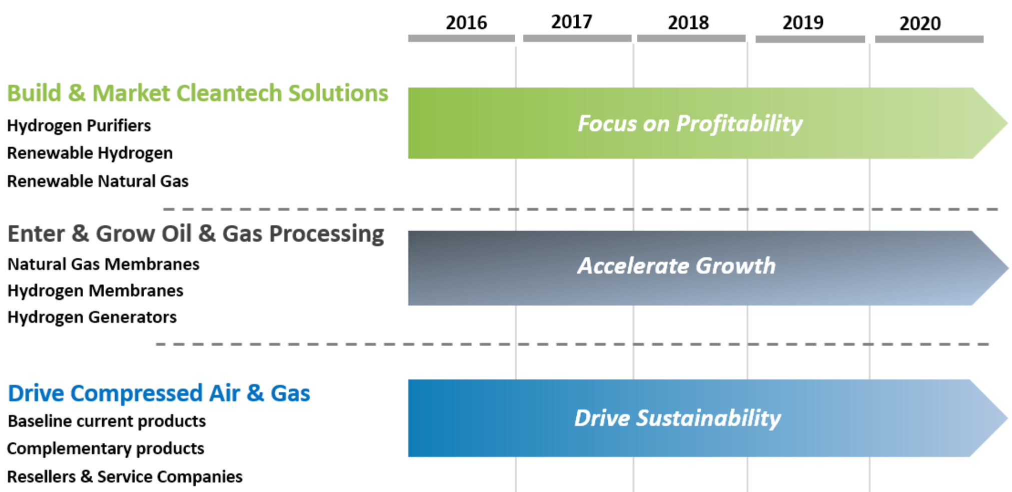
- *Expand RNG Opportunities in Europe*
- *Continue to Grow National & Int'l Partnerships*

3.2.2. Enter & Grow Oil & Gas Processing

- *Introduce a new generation of membrane solutions for Natural Gas & Hydrogen*
- *Continue market penetration with expanded product portfolio to grow the customer base*

3.2.3. Drive Recurring Revenue

- *Concentrate on Filtration, Parts & Service*
- *Optimize Supply Chain Network*
- *Develop Acquisition Strategy*



3.3. Summary of Forward Path

Xebec's short term goal is to return the company to profitability and build a sustainable business model that will allow for future growth and expansion of the company.

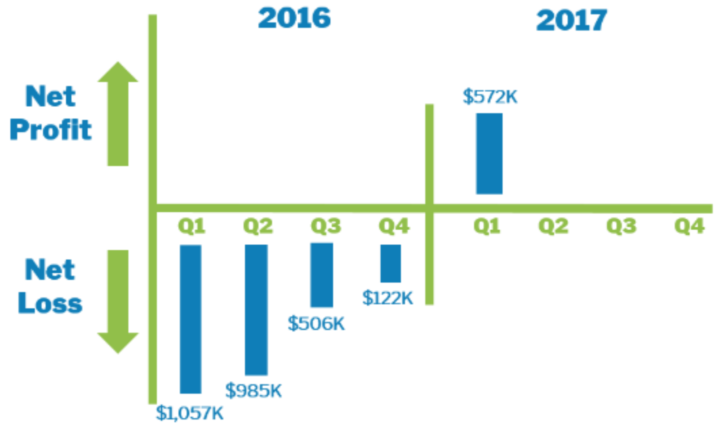
In the **Cleantech segment** Xebec is seeing a solid uptick in activity in Europe, mainly driven by its biogas to renewable natural gas product offering. In addition, Xebec is seeing an increased interest in its hydrogen purification products. Xebec is currently expanding its sales efforts in Europe, with the goal to capitalize on the ongoing European and national renewable energy programs and feed-in tariffs that drive the Cleantech segment.

In the **Oil & Gas Processing segment** Xebec is working on getting its CO_2 removal products into "test & pay" installations with a number of international producers, and expects to have several ongoing "test & pay" sites by the end of 2017. These "test & pay" customers will be the foundation for further growth in this segment going into 2018.

The **Industrial Compressed Air and Gas segment** constitutes a large portion of the recurring revenue foundation needed for stability and sustainability. With over 9,000 adsorption units in operation, Xebec has a built-in parts and maintenance business that recurrently generates high margin revenue. As the only adsorption equipment manufacturer in Canada that is fully CRN/CSA certified, Xebec has been seeing a solid increase in sales and quote activity over the last 12 months. This increase is largely driven by the lower Canadian dollar versus the US dollar, combined with the fact that all equipment competitors in this segment are US based.

3.3.1. Year-To-Date

- Since Q1/16 Xebec has seen quarterly improvements in its financial performance and has turned profitable in Q1/17, delivering 5 consecutive quarters of financial improvements.
- In Q1/17 we have seen a 35% increase in revenues compared to Q1/16, an improvement from a net loss of CDN$ 1.05 million (EPS -0.03) in Q1/16 to a net profit of CDN$ 0.57 million (EPS 0.01) in Q1/17 and a gross margin expansion from 14.6% in Q1/16 to 43.3% in Q1/17.
- Order bookings have increased from CDN$ 5.7 million in Q1/16 to CDN$ 8.7 million in Q1/17, representing a 53% increase.
- Introduction of systems for the removal of CO_2 from Natural Gas for the Upstream Natural Gas Processing and Petrochemical Markets, started in November 2016, have led to first deployments in early 2017



3.3.2. Year-To-Go

- New partnerships in Europe, North America and Asia remain a possibility as Xebec is well positioned to capture Renewable Natural Gas (RNG) contracts
- Hydrogen purification opportunities tied to Fuel Cell Electric Vehicles and Fuel Cell Fork Trucks and Renewable Hydrogen (RH_2) interest continues to grow
- Xebec's focus on recurring revenue will continue – sales are strengthening and the breadth of the product portfolio continues to offer solid short term opportunities

4 OPERATING RESULTS

Selected Financial Information

(in thousands of $)

	Three months ended March 31,	
	2017	2016
Industrial Compressed Air & Gas Treatment	**1,150**	1,272
Clean Technology	**1,920**	1,182
Oil & Gas Processing	**240**	-
Total revenue	**3,310**	2,454
Gross margin	**1,433**	360
Gross Margin %	**43%**	15%
Research and Development expenses	**13**	57
Selling and administrative expenses	**991**	1,193
Foreign exchange loss (gain)	**74**	254
(Gain) on conversion of shares issued by a subsidiary	**(344)**	(207)
Operating profit (loss)	**700**	(937)
Finance loss	**128**	120
Net profit (loss)	**572**	(1,057)
Net profit (loss) per share	**0,01**	(0,03)
EBITDA (1)	**744**	(890)
Cash used in operating activities	**(1,571)**	(1,271)
Cash and cash equivalents	**820**	1,914
Working capital	**(118)**	(479)
Total Assets	**6,445**	6,289
Total non-current liabilities (excluding deferred revenue)	**5,155**	3,609

(1) EBITDA is Non-IFRS measure. Refer to section 16 - Reconciliation of Non-IFRS Measure.

Highlights for the three months ended March 31, 2017 compared to the three months ended March 31, 2016

Revenues increased by $0.9 million or 35% to $3.3 million for the three months ended March 31, 2017 compared to $2.5 million for the same period of the prior year. The increase is mainly due to additional sales in the Clean Technology business segment; more specifically, for biogas to renewable natural gas projects and hydrogen purification systems.

- Gross margin increased from $0.4 million to $1.4 million, or 43% of revenue, up from 15% of revenue. The first quarter 2017 includes higher margin projects.

- Selling and administrative expenses ("SG&A") for the first quarter of 2017 of $1.0 million were lower by $0.2 million or 17% compared to $1.2 million for the prior year quarter. This is primarily due to a reduction for the following expenses: salary and related fringe benefits, commission, stock option award expense, consulting, bad debts and audit fees. These cost reductions were partially offset by the increase of the investor relations activities which were absent in 2016.

- Net profit increased by $1.6 million or $0.04 per share to $0.6 million or $0.01 per share in the current quarter from $(1.1) million or $(0.03) per share in the prior period. The change is primarily due to higher volume of revenue, improvement of margins, decrease of the selling and administrative expenses, lower foreign exchange loss and a higher gain on conversion of shares issued by a subsidiary.

- EBIDTA increased to $0.7 million for the three months ended March 31, 2017 from $(0.9) million for the same period last year. The improvement resulted mainly from higher volume of revenue, improvement of margins and the decrease of the selling and administrative expenses

CURRENT BACKLOG

The order backlog is calculated considering contracts received and considered as firm orders.

Current backlog as of May 23, 2017:

Business Segment: In million of $	**May 23, 2017**	April 24, 2017	November 28, 2016	August 31, 2016	May 30, 2016
Industrial Compressed Air & Gas Treatment	**1,3**	2,3	1,2	1,1	1,5
Clean Technology	**7,4**	9,0	7,2	4,7	4,2
Oil and Gas Processing	**-**	0,2	-	-	-
Consolidated Backlog	**8,7**	**11,5**	**8,4**	**5,8**	**5,7**

Business Segment Review

We report our results in three business segments, being Clean Technology, Oil & Gas Processing, and Industrial Compressed Air & Gas Treatment. Our reporting structure reflects the way we manage our business and how we classify our operations for planning and measuring performance. The corporate office and administrative support is reported under Corporate and Other.

Clean Technology

Selected Financial Information

(in millions of $)

	Three months ended March 31,	
	2017	2016
Revenues	**1,9**	1,2
COGS	**1,2**	1,1
Gross margin	**0,7**	0,0
Gross Margin %	**39%**	3%
Research and Development expenses	**0,0**	0,1
Selling and administrative expenses	**0,2**	0,1
Segment gain (loss)	**0,6**	(0,1)

Revenues increased by $0.7 million or 58% to $1.9 million for the quarter ended March 31, 2017 compared to $1.2 million in 2016. The increase is mainly due to additional sales for biogas to renewable natural gas projects and hydrogen purification systems.

Gross Margin improved in the first quarter of 2017 to 39% compared to 3% in the first quarter of 2016, driven by higher margin projects.

SG & A Expenses increased by $0.1 million to $0.2 million mainly due to the increase of the revenue in the first quarter 2017 compared to the same period of last year.

Oil and Gas Processing

Selected Financial Information
(in millions of $)

	Three months ended March 31,	
	2017	2016
Revenues	0,24	-
COGS	0,0	-
Gross margin	**0,2**	**-**
Gross Margin %	100%	0%
Selling and administrative expenses	0,04	-
Segment gain (loss)	**0,2**	-

Revenues increased by $0.2 million or 100% to $0.2 million for the quarter ended March 31, 2017 compared to $nil in 2016. This consituted our first recorded revenue in this segment.

Gross Margin is 100% in the first quarter ended March 31, 2017 as the product cost was recorded in the prior year.

SG & A Expenses totaled $40 thousand for the quarter ended March 31, 2017 and $nil for 2016.

Industrial Compressed Air & Gas Treatment

Selected Financial Information
(in millions of $)

	Three months ended March 31,	
	2017	2016
Revenues	**1,2**	1,3
COGS	**0,7**	0,9
Gross margin	**0,4**	0,3
Gross Margin %	**39%**	25%
Selling and administrative expenses	**0,2**	0,2
Segment gain (loss)	**0,3**	0,1

Revenues decreased by $0.1 million or 8% to $1.2 million for the quarter ended March 31, 2017 compared to $1.3 million in 2016. The decrease is mainly explained by some late delivery of material by suppliers.

Gross Margin improved in the first quarter of 2017 to 39% compared to 25% in the first quarter of 2016, mainly driven by a mix of sales of higher margin products.

SG & A Expenses totaled $0.2 million in the first quarter of 2017 and 2016.

Corporate and Other

Selected Financial Information
(in millions of $)

	Three months ended March 31,	
	2017	2016
Selling and administrative expenses	**0,6**	0,8
Foreign exchange loss (gain)	**0,1**	0,3
(Gain) on conversion of shares issued by a subsidiary	**(0,3)**	(0,2)
Total	**0,3**	0,9
Finance loss	**0,1**	0,1
Corporate Expenses	**0,5**	1,0

5 FINANCIAL CONDITION

Summary Balance Sheet

In thousands of $	**March 31, 2017**	**December 31** 2016
Current assets	**6 016**	5 104
Non-current assets	**429**	465
	6 445	5 569
Current liabilities	**6 134**	6 310
Non-current liabilities	**5 155**	4 506
Shareholders' equity	**(4 844)**	(5 247)
	6 445	5 569

The increase in the company's total assets between December 31, 2016 and March 31, 2017 represents $0.9 million. This is mainly reflected by the increase in trade and other receivables of $1.2 million which was partially offset by the decrease of the cash and cash equivalent of $0.3 million.

The increase in liabilities of $0.5 million is mainly reflected through the new loan with Export Development Canada for an amount of $2.0 million and the increase, due to currency variation, of the obligation arising from non-controlling interest participation in a subsidiary of $0.09 million. These increases were partially offset by the decreases of the bank loan ($0.1 million), the trade payables and accrued liabilities ($0.85 million), the deferred revenues ($0.4 million), the Government royalty program obligation, some provisions ($0.2 million), and others ($.04 million).

Negative working capital improved to $0.1 million for a current ratio of 0.98:1 compared with a negative working capital of $1.2 million and a 0.8:1 ratio as at December 31, 2016.

Shareholders' equity totalled $(4.8) million as at March 31, 2017, up by $0.4 million from December 31, 2016. The change is mainly due to the net profit of $0.4 million for the quarter ended March 31, 2017.

Indebtedness

In thousands of $	March 31, 2017	December 31 2016
Bank loans	**645**	755
Short term debt	**2 081**	780
Long-term debt	**5 001**	4 359
Total indebtedness	**7 727**	5 894

Total debt (bank loans, short term and long-term debt) amounted to $7.7 million as at March 31, 2017, up by $1.8 million from December 31, 2016. This increase is mostly due to the new loan with Export Development Canada for an amount of $2.0 million which was partially reduced by the lower usage of the line of credit of $0.1 million and the regular repayments of the long term debt of $0.1 million.

Capital Stock Information

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares.

As at March 31, 2017, Xebec had 39,463,867 common shares issued.

Share Purchase Warrants Outstanding

As at March 31, 2017, no Warrants were outstanding.

Stock Options Outstanding

The Company Stock Option Plan (the "Plan") allows for the issuance of stock options. Under the Plan, the maximum number of common shares available for issuance was 5,904,580.

As at March 31, 2017, the maximum number of common shares available for issuance under all stock-based compensation arrangements was 5,904,580.

Under the terms of the Plan, stock options are granted with an exercise price not less than the discounted market price (as such terms are defined in the Policies of the TSX Venture Exchange) of the common shares at the time of grant. Stock options generally vest quarterly over four years and are exercisable for seven years from the date of grant.

Subject to the approval of the TSX Venture Exchange and the approval of the shareholders of the Company at the next annual meeting, the Board of Directors has amended the Plan in order to change the relevant provisions therein so that the aggregate number of common shares reserved for issuance under the amended plan be fixed at 7,892,773 common shares (being 20% of all issued and outstanding common shares of the Company). Until the Company obtains the TSX Venture Exchange and shareholder's approvals, it may grant options above the initial limit of 5,904,580 but such options will not be exercisable by their holders before such approvals are obtained.

As at March 31, 2017, the Company had 5,755,337 options outstanding under the Plan with a weighted average exercise price of $0.11.

6 SUMMARY OF QUARTERLY RESULTS

In thousands of $, except net earnings (loss) per share	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	**3 310**	3 265	1 795	2 072	2 453	4 001	2 049	2 205
Net income (loss)	**572**	(122)	(506)	(986)	(1 057)	(979)	(992)	(1 162)
Earnings (loss) per share								
Basic	**0,01**	(0,003)	(0,01)	(0,02)	(0,03)	(0,02)	(0,03)	(0,03)
Diluted	**0,01**	(0,01)	(0,01)	(0,02)	(0,03)	(0,02)	(0,03)	(0,03)

7 LIQUIDITY AND CAPITAL RESOURCES

Analysis of principal cash flows for the first quarter 2017 (unaudited)

Cash flow from (used in)	**Three months ended March 31,**		
in thousands of $	**2017**	2016	Change
Operating activities	**(1 571)**	(1 271)	(300)
Investing activities	**(9)**	-	(9)
Financing activities	**(140)**	270	(410)

Operating activities in the first quarter of 2017 used $1.6 million of cash, compared to $1.3 million of cash used for the same period in 2016, a difference of $0.3M. The use of cash of $1.6 million in the first quarter 2017 is mainly explained as follows: increases of the trades and other receivables ($-1.2 million) and the inventories ($-0.1million), and decreases of trade payables and accrued liabilities ($-0.9 million). These usages were partially offset by net profit of the first quarter 2017 ($+0.6 million), the accretion of the convertible debenture, the government royalty program and the obligation arising from non-controlling interest participation in a subsidiary ($+0.4 million), and the decrease of the deferred revenues ($-0.4 million).

Investing activities Cash outflow in the first quarter 2017 relates mainly to acquisition of equipment; no cash outflow in the first quarter of 2016.

Financing activities for the first quarter of 2017 resulted in a cash outflow of $0.1 million explained mainly by the lower usage of the line of credit of $0.1 million and the repayment of some debts.

Contractual Obligations

in millions of $	Payments Due by Period			
	1 year	2 -5 years	Beyond 5 years	Total
Operating leases	0,5	1,3	1,8	3,6
Software licenses agreements	-	0,1	-	0,0
Total contractual obligations	0,5	1,4	1,8	3,6

Credit Facilities

As at March 31, 2017, the Company had access to credit facilities in the amount of $750,000 with the TD Bank which were guaranteed by Export Development of Canada and bore interest at the TD Bank's prime rate plus 3.0% per annum. This credit facility was used up to $645,000 as at March 31, 2017.

The bank loan is secured by a first ranking hypothec of $2,000,000 on all movable property of the Company.

As at March 31, 2016, the Company had a non-brokered private placement of convertible unsecured debentures of the Company, maturing November 29, 2019, for aggregate gross proceeds to the Company of $1 million. The debentures bear interest at a rate of 9% per annum. The debentures may be converted into common shares of the Company, at any time prior the maturity date, at the request of a holder of debentures, at a conversion price of $0.15 per common share.

On December 12 2016, the Company contracted a facility loan with Export Development Canada ("EDC") for an amount of $2,000,000. The facility bears an interest of prime rate plus 6.3% annum. This interest is payable every month. On March 31 2017, the balance of the loan was $1,990,000 and the reimbursements will be made following the completion of certain project milestones.

8 OUTSTANDING SHARE DATA

As at May 23, 2017, the following common shares and stock options were outstanding:

	Number of shares	Exercise Price	Expiring Date
Issued and outstanding Common Shares as of May 23 2017	39 463 867		
Debentures	6 666 667	$0.15	November 29, 2019
Stock Options	258 065	$0.16	March 31, 2018
	237 272	$0.22	August 11, 2018
	1 560 000	$0.10	December 22, 2018
	100 000	$0.15	April 25,2021
	200 000	$0,14	May 29, 2021
	2 000 000	$0.12	September 22, 2021
	1 400 000	$0.05	January 7, 2023
	2 108 193*	$0.18	March 5, 2024
	7 863,530	$0.12	
Fully diluted as at May 23, 2017	**53 994 064**		

** Conditional to the approval of the increase of the pool of the stock options of the Company by the TSX-V and the shareholders at the Annual General Meeting planned in June 2017*

9 CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that affect the Company's unaudited condensed interim consolidated financial statements.

Inventories must be valued at the lower of cost and net realizable value.
A write-down of inventory will occur when its estimated market value less applicable variable selling expenses is below its carrying amount. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. This estimation process involves significant management judgment and is based on the Company's assessment of market conditions for its products determined by historical usage, estimated future demand and, in some cases, the specific risk of loss on specifically identified inventory. Any change in the assumptions used in assessing this valuation will impact the carrying amount of the inventory and have a corresponding impact on cost of goods sold.

Impairment of customer relations
The Company performs a test for customer relations impairment when there is any indication that customer relations have suffered any impairment in accordance with the accounting policy stated in the summary of significant accounting policies of these consolidated financial statements. The recoverable amounts of customer relations have been determined based on value-in-use calculations. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including strength of customer relationships, degree of variability in cash flows as well as other factors are considered when making assumptions with regard to future cash flows and the appropriate discount rate. A change in any of the significant assumptions or estimates used to evaluate customer relations could result in a material change to the results of operations.

Percentage of completion and revenues from long-term production-type contracts
Revenues recognized on long-term production-type contracts reflect management's best assessment by taking into consideration all information available at the reporting date and the result on each ongoing contract and its estimated costs. The management assesses the profitability of the contract by applying important judgments regarding milestones marked, actual work performed and estimated costs to complete. Actual results could differ because of these unforeseen changes in the ongoing contracts' models.

Allowance for doubtful accounts
The Company reviews all amounts periodically for indications of impairment and the amounts impaired have been provided for as an allowance for doubtful accounts.

Liquidity risk
The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operations expenditures, meets its liabilities for the ensuing year, involve significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

10 CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING PRONOUNCEMENTS

The following standards have been issued but are not yet effective:

In May 2014, the IASB issued IFRS 15, "Revenues from Contracts with Customers", to specify how and when to recognize revenue as well as requiring the provision of more information and relevant disclosure. IFRS 15 supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts", and other revenue-related interpretations. The standard will be mandatory on January 1, 2018 for the Company with earlier adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In July 2014, the IASB amended IFRS 9, “Financial Instruments”, to bring together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The standard supersedes all previous versions of IFRS 9 and will be mandatory on January 1, 2018 for the Company with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In January 2016, IASB issued IFRS 16, “Leases”, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard will be mandatory for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

11 OUTLOOK

11.1. Current Market and Guidance for 2017

Current market conditions are favorable in the Industrial, Cleantech and Oil & Gas segments, allowing us to plan for significant increases in total revenue in 2017. At this point we expect revenue growth of 60% to 80% for 2017 compared to 2016, leading to revenues in the range of CDN$ 14 to 17 million. For Fiscal 2017 Xebec expects earnings per share (EPS) in the range of 0.01 to 0.03.

Our goal in 2017 is profitability and growth, in line with the respective segment strategy and specific operational assumptions.

11.2. Clean Technology – Hydrogen and Renewables

In our Cleantech segment we made significant progress on order bookings since the middle of 2016. We have seen our market for renewable gas units (RNG) increase significantly in Europe, especially since we announced a break-through in our adsorption technology that will improve methane recovery, reduce operating costs and therefore improve the profitability of our customers. We also anticipate further opportunities in our hydrogen purification for fuel cell applications in the near future.

11.3. Oil and Gas Processing

After two years of development work, Xebec has started commercialization of its membrane products under the “MTX Solutions” brand. Xebec has several planned deployments of membranes into existing operating plants for client verification purposes. These test deployments will be on a “test & pay” basis, i.e. if the tests are successful the client will have to pay for the membranes that have been installed. As we move through the year, Xebec expects an acceleration in revenue generation in the oil & gas segment. In line with our strategy for the oil & gas business segment, Xebec has started to quote complete gas treatment systems to selected customers, and expects that this quotation activity will lead to first sales orders for complete systems within the next 12 to 18 months.

With our advanced membrane systems for CO_2 removal from natural gas, Xebec offers operators a significant reduction in operating costs, which is particularly important if the underlying commodity (natural gas) is depressed in price. The operating cost reductions can be as high as 30% to 40% compared to conventional amine scrubbers and membrane products. Xebec expects initial “test & pay” revenues for 2017 to accelerate as the year progresses.

11.4. Industrial Compressed Air and Gas Treatment

Since 2015 Xebec has been working on completing its product portfolio with additional complementary products and services, like refrigerated air dryers, modular air dryers, vacuum regenerated air dryers, nitrogen and oxygen generators, including specialized air and gas filters for stationary and mobile applications. In 2017 Xebec expects double-digit growth in this segment compared to last year, while maintaining solid gross margins.

11.5. Delivery Outlook

Our order lead times are between 12 weeks to 9 months, and we normally enjoy good visibility over at least two to three quarters. We operate in various end markets so our delivery outlook is subject to a number of factors that are within our control, such as product availability, delivery lead times, price and market engagement initiatives, as well as a number of factors beyond our control, such as macroeconomic conditions. As part of our annual budget planning cycle, we make a number of underlying assumptions regarding delivery outlook in each of our relevant market segments in order to plan capacity and appropriately allocate our resources.

The following table is a summary assessment of those factors we anticipate will most significantly influence deliveries by relevant business segment, as well as our anticipated level of deliveries by relevant segment. We caution that readers should not place undue reliance on this assessment and refer to our forward-looking statement in Section 18 of this MD&A.

Business Segment	Economic Activity in 2016	External and Corporate Specific Considerations	Anticipated Economic Activity in 2017
Industrial Compressed Air and Gas	Revenues and orders delivered were modestly higher than in 2015.	We continue to see growth in our end markets, especially the MRO segment. Expanded product portfolio will be positive going forward.	We anticipate revenues and orders delivered will be higher than in 2016.
Cleantech – Hydrogen and Renewables	Revenues and orders delivered were lower than in 2015.	Governments continue to support programs to accelerate the use of renewable natural gas, especially in Europe. Fuel Cell Electric Vehicles are becoming commercially available increasing demand for hydrogen and renewable hydrogen.	We anticipate revenues and orders delivered will be significantly higher than in 2016.
Oil & Gas Processing	No revenues or orders were recorded in either 2015 or 2016.	We expect to have several “test & pay” installations in 2017, which will constitute recognizable revenue as the year progresses.	Revenues and orders delivered will be higher than in 2016.

11.6. Outlook Summary

The timing and full realization of the opportunities above, under the current market environment, cannot be assured or specifically established. It is however important to understand the magnitude of these opportunities and the transformative impact that any one of them will have on the business going forward.

Over the past few years, we have taken significant steps to reduce operating and product costs, streamline our operations, and we are in the process of strengthening our consolidated financial position and repair our balance sheet. While we may still see volatility in our revenue over the short-term, our expectations for the long-term are that our revenue trend will continue to improve. At May 23, 2017, our order backlog was CDN$ 8.7 million (May 30, 2016 – CDN$ 5.7 million) spread across our three business segments and numerous geographical regions. Xebec expects to be converting the complete backlog into revenue in Fiscal 2017.

As a global company, we are subject to the risks arising from adverse changes in global economic and political conditions. Political conditions such as government commitments and policies towards environmental protection and renewable energy may change over time. Economic conditions in leading and emerging economies have been, and remain, unpredictable. In particular, currency fluctuations could have the impact of significantly reducing revenue and gross margin as well as the competitive positioning of our product portfolio. These macroeconomic and geopolitical changes could result in our current or potential customers reducing purchases or delaying shipment which could cause revenue recognition on these products to shift into 2018 or beyond.

12 RELATED PARTY TRANSACTIONS

	For the three-month period ended March 31,	
In thousands of $	**2017**	2016
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	**48**	27
Total	**48**	27

13 DISCLOSURE CONTROLS

Our management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") designed to provide reasonable assurance that the information we are required to disclose in our annual filings, interim filings and other reports (the "reports") filed or submitted under the applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in the applicable securities legislation. DC&P include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by an issuer in the reports filed or submitted under the applicable securities legislation is accumulated and communicated to the issuer's management, including its Chief Executive Officer and acting Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As at December 31, 2016, an evaluation was carried out, under the supervision of and with the participation of our management, including the President and Chief Executive Officer and the Chief Financial Officer, of the design and effectiveness of our disclosure controls and procedures as defined under NI 52-109. This evaluation was based on the framework set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Upon such review, the Chief Executive Officer and the acting Chief Financial Officer determined that there were material weaknesses in the design of our DC&P.

Entity Level Controls

We did not maintain a completely effective control environment as defined in accordance with COSO control framework. Specifically, we do not have comprehensive procedure manuals to clearly communicate management's and employees' roles and responsibilities in our internal control over financial reporting. To mitigate the risk, management relies heavily on manual procedures and detection controls, management meetings, quarterly reviews of financial statements of our subsidiaries. These manual procedures were performed during the interim and annual periods ended December 31, 2016 and 2015. The Company did not adopt the 2013 COSO framework.

14 INTERNAL CONTROL OVER FINANCIAL REPORTING

Our internal control over financial reporting ("ICFR") includes, among others, those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that our receipts and expenditures are being made only in accordance with authorization of our management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

We carried out an evaluation of our ICFR, under the supervision of and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer as to the material weaknesses relating to the design of our ICFR as of December 31, 2016. This evaluation was based on the previous Internal Control-Integrated Framework issued by the COSO. The evaluation considered the procedures designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the applicable securities legislation is recorded, processed, summarized and reported in the time periods specified in the rules and forms of the applicable securities legislation and communicated to our management as appropriate to allow discussions regarding required disclosure. Upon such review, our Chief Executive Officer and Chief Financial Officer have determined that there existed material weaknesses in the design of our ICFR. The ICFR weaknesses we identified did not result in adjustments to our interim and annual consolidated financial statements for 2016 and 2015. Following our assessment, we identified the following material weaknesses:

Segregation of Duties

We have deficient controls within our accounting department over segregation of duties inherent to the department's size and turnover in 2016. Specifically, as a result of the limited number of personnel in the accounting department, certain financial personnel had incompatible duties that allowed for the creation, review and processing of certain financial data without independent review and authorization. To mitigate the risk, our management relies heavily on manual procedures and detection controls, regular management meetings, as well as reviews of our financial statements and of our subsidiaries. These manual procedures were performed for the periods ended December 31, 2016 and 2015.

Information Technology

We have deficient controls within our Enterprise Resources Planning ("ERP") system inherent to the limited support available from its vendor and the limitation of the application in respect of controls related to password. To mitigate the risk, our management relies heavily on manual procedures and detection controls, regular management meetings, as well as reviews of our financial statements and of our subsidiaries. These manual procedures were performed for the periods ended December 31, 2016 and 2015.

Remediation of Material Weaknesses in Internal Control over Financial Reporting and Disclosure Controls

We have initiated the following actions to address the material weaknesses in our DC&P and ICFR identified as of December 31, 2016.

- *Entity Level Controls*

Our Management has taken an active role in responding to the deficiencies identified, including overseeing management's implementation of the remedial measures described below.

- *Information Technology General Controls*

Management decided to outsource the support aspect of its information technology platform. The IT manager position was filled for a portion of the year until September 2015. Management intends to hire a new IT manager to implement a global information technology strategic plan and a business continuity plan.

Inadequate Segregation of Duties

We will continue to use appropriate measures to restrict or independently monitor systems access and properly assign job roles and responsibilities to employees to ensure the proper segregation of duties where feasible. As the Company grows, we will expand the number of individuals involved in the accounting function.

We realize that some of the above weaknesses are inherent to a company of our size. Nevertheless, we believe in and are committed to establishing rigorous DC&P and ICFF. It will take time to put in place the rigorous controls and procedures desired by our management and Board of Directors. We cannot at this time estimate how long it will take to complete the steps identified above. Our management will continue to evaluate the effectiveness of our overall control environment and will continue to refine existing controls as they, in conjunction with our Audit Committee, Chief Executive Officer and acting Chief Financial Officer, think necessary.

Other than the remediation efforts discussed above and the implementation of the Company's' ICFR, there have been no changes in our ICFR that occurred since the beginning of the period ended March 31, 2017 that have materially affected or are reasonably likely to materially affect our ICFR. Our management, including our Chief Executive Officer and our acting Chief Financial Officer, has discussed these issues and remediation efforts with our Audit Committee.

We will provide updates on the remediation plan in our quarterly and annual management reports.

It should be noted that while our management believes that current disclosure and internal controls and procedures provide a reasonable level of assurance, it cannot be expected that existing disclosure controls and procedures or internal financial controls will prevent all human errors and circumvention or overriding of the controls and procedures. A control system, no matter how well conceived or operated, can provide only reasonable assurance, not absolute, that the objectives of the control system are met.

15 RECONCILIATION OF NON-IFRS MEASURES

EBITDA (unaudited)

	Three months ended March 31,	
In thousands of $	**2017**	**2016**
Net income (loss)	**572**	(1 057)
Income Tax	**-**	-
Depreciation of property	**25**	25
Amortization of intangible assets	**20**	18
Finance cost net	**127**	121
EBITDA	**744**	(893)

* EBITDA is a non-IFRS financial measure.

EBITDA

Is not a performance measure defined under IFRS and is not considered an alternative to income from operations or net (loss) earnings in the context of measuring a company's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies.

The positive EBITDA for the first quarter of 2017 has amounted to $0.7 million compared to a negative EBITDA of $(0.9) million in the first quarter of 2016, an increase of $1.6 million. This improvement is mainly due to the increase of the revenues of $0.9 million combined with an improved gross margin from 14.7% in the first quarter 2016 to 43.3% in the first quarter 2017, a significant reduction of the selling and administrative expenses of $0.2 million, a lower foreign exchange loss of $0.2 million and the higher gain on conversion of shares issued by a subsidiary of $0.1 million.

Net income (loss)

Net profit for the first quarter of 2017 totaled $0.6 million compared to a net loss for the first quarter of 2016 of $(1.1 million).

Net financial expenses

For the first quarter of 2017 increased slightly by $8.0 thousands compared to the fourth quarter of 2015. The increase of the expense of $0.1 million, mainly due to the interest on the debentures of $1.0 million issued on November 30, 2016, the higher use of the line of credit and the $2.0 loan by Export Development Canada was offset partially by the accretion and revaluation of the government royalty program obligation.

16 ENTERPRISE RISK MANAGEMENT

Our Definition of Business Risk

We define business risk as the degree of exposure associated with the achievement of key strategic, financial, organizational and process objectives in relation to the effectiveness and efficiency of operations, the reliability of financial reporting, compliance with laws and regulations and the safeguarding of assets within an ethical organizational culture.

Our enterprise risks are largely derived from the Corporation's business environment and are fundamentally linked to our strategies and business objectives. We strive to proactively mitigate our risk exposures through rigorous performance planning and effective and efficient business operational management. We strive to avoid taking on undue risk exposures whenever possible and ensure alignment with business strategies, objectives, values and risk tolerances.

The following sections summarize the principal risks and uncertainties that could affect our future business results going forward and our associated risk mitigation activities.

17 RISK FACTORS

An investment in our common shares involves risk. Investors should carefully consider the risks and uncertainties described below and in our Annual Information Form. The risks and uncertainties described below and in our Annual Information Form are not the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently deem immaterial, may also adversely affect our business. For a more complete discussion of the risks and uncertainties which apply to our business and our operating results (which are summarized below), please see our Annual Information Form and other filings with Canadian Regulatory Authorities (www.sedar.com).

Our business entails risks and uncertainties that affect our outlook and eventual results of our business and commercialization plans. The primary risks relate to meeting our product commercialization milestones, which require that our products exhibit the functionality, cost and performance required to be commercially viable against competing technologies and that we have sufficient access to capital to fund these activities. There is also a risk that key markets for certain of our products may not be as large as we anticipate or never develop, or that market acceptance might take longer to develop than anticipated – in particular for applications such as advanced CO2 removal from natural gas, which requires industry acceptance and uptake, or our renewable natural gas (RNG) product offering which depends on government programs and regulatory support.

A summary of our identified risks and uncertainties are listed below:

17.1. Macroeconomic and Geopolitical

- The uncertain and unpredictable condition of the global economy could have a negative impact on our business, results of operations and consolidated financial condition, or our ability to accurately forecast our results, and it may cause a number of the risks that we currently face to increase in likelihood, magnitude and duration.
- Significant markets for renewable natural gas (RNG) and other hydrogen purification products may never develop or may develop more slowly than we anticipate. This would significantly harm our revenues and may cause us to be unable to recover the losses we have incurred.
- Changes in government policies and regulations could hurt the market for our products.
- Lack of new government policies and regulations for the renewable energy technologies could hurt the

development of our renewable natural gas (RNG) and hydrogen generation and purification products.

- We currently face and will continue to face significant competition from other developers and manufacturers of renewable natural gas (RNG) products and hydrogen purification systems. If we are unable to compete successfully, we could experience a loss of market share, reduced gross margins for our existing products and a failure to achieve acceptance of our proposed products.
- We face competition for CO_2 removal from natural gas systems from developers and manufacturers of traditional technologies and other alternative technologies.
- Rapid technological advances or the adoption of new codes and standards could impair our ability to deliver our products in a timely manner and, as a result, our revenues would suffer.
- Our articles of incorporation authorize us to issue an unlimited number of common and preferred shares. Significant issuances of common or preferred shares could dilute the share ownership of our shareholders, deter or delay a takeover of us that our shareholders may consider beneficial or depress the trading price of our common shares.
- Our share price is volatile and we may continue to experience significant share price and volume fluctuations.

17.2. Operating

- We may not be able to implement our business strategy and the price of our common shares may decline.
- Our quarterly operating results are likely to fluctuate significantly and may fail to meet the expectations of securities analysts and investors causing the price of our common shares to decline.
- We currently depend on a relatively limited number of customers for a majority of our revenues and a decrease in revenue from these customers could materially adversely affect our business, consolidated financial condition and results of operations.
- Our insurance may not be sufficient.
- Hydrogen Fuel Cell systems and applications may not be readily available on a cost-effective basis, in which case our hydrogen generation and purification products may not find a sufficient end market and our revenues and results of operations would be materially adversely affected.
- We could be liable for environmental damages resulting from our research, development or manufacturing operations.
- Our strategy for the sale of renewable natural gas products depends on developing partnerships with OEMs, governments, systems integrators, suppliers and other market channel partners who will incorporate our products into theirs.
- We are dependent on third party suppliers for key materials and components for our products. If these suppliers become unable or unwilling to provide us with sufficient materials and components on a timely and cost-effective basis, we may be unable to manufacture our products cost- effectively or at all, and our revenues and gross margins would suffer.
- We may not be able to manage successfully the anticipated expansion of our operations.
- If we do not properly manage foreign sales and operations, our business could suffer.
- We will need to recruit, train and retain key management and other qualified personnel to successfully expand our business.
- We may acquire technologies or companies in the future, and these acquisitions could disrupt our business and dilute our shareholders' interests.
- We must continue to lower the cost of our renewable natural gas and hydrogen generation and purification products and demonstrate their reliability or consumers will be unlikely to purchase our products and we will therefore not generate sufficient revenues to achieve and sustain profitability.
- Any failures or delays in field tests of our products could negatively affect our customer relationships and increase our manufacturing costs.
- The components of our products may contain defects or errors that could negatively affect our customer relationships and increase our development, service and warranty costs.

- We depend on intellectual property and our failure to protect that intellectual property could adversely affect our future growth and success.
- Our products use flammable fuels that are inherently dangerous substances and could subject us to product liabilities.

17.3. Liquidity

Our inability to generate sufficient cash flows, raise additional capital and actively manage our liquidity may impair our ability to execute our business plan, and result in our reducing or eliminating product development and commercialization efforts, reducing our sales and marketing efforts, and having to forego attractive business opportunities.

The Company has realized an operating profit of $572,050, had cash outflows from operating activities of $1,569,046 for the quarter ended March 31, 2017 and finished the period with cash and cash equivalents amounting to $819,532, a working capital deficit of $117,563 and had access to credit facilities totaling $750,000 of which $645,000 has been used. During the quarter, 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 revised budget and forecast for 2017 for which management believes the assumptions are reasonable. Achieving budgeted results is dependent on improving the volume of revenues in Canada, United States, Europe and China, delivering on sales and contracts schedules, meeting expected overall operating margin levels and controlling general and administrative costs.

The Company is thus faced with uncertainties that may have an impact on future operating results and liquidity. These uncertainties include reduced spending in biogas upgrading projects reflecting the weakness of the market, 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 2017 and planned courses of action. Therefore, the Company may require additional external funding and there is no assurance that it would be successful. It is possible that 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.

17.4. Foreign Currency Exchange

Our operating results may be impacted by currency fluctuation.

18 FORWARD-LOOKING STATEMENTS

This Management Discussion and Analysis (“MD&A”) contains forward-looking statements, including statements regarding the future success of the Company’s business, technology, and market opportunities. Forward-looking statements typically contain words such as “believes”, “expects”, “anticipates”, “continues”, “could”, “indicates”, “plans”, “will”, “intends”, “may”, “projects”, “schedules”, “would” or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: (i) actions expected to be undertaken to achieve the Company's strategic goals; (ii) the key market drivers impacting the Company's success; (iii) intentions with respect to future biogas development work; (iv) expectations regarding business activities and orders that may be received in fiscal 2016 and beyond; (v) trends in, and the development of, the Company's target markets; (vi) the Company's market opportunities; (vii) the benefits of the Company's products, (viii) the intention to enter into agreements with partners; (ix) future outsourcing; (x) expectations regarding competitors; (xi) the expected impact of the described risks and uncertainties; (xii) intentions with respect to the payment of dividends; (xiii) the management of the Company's liquidity risks in light of the prevailing economic conditions; (xiv) the Company's cost reduction plan; and (xv) the search for additional financing over the next months.

These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause the Company's actual results, level of activity or performance to be materially different from any future results, levels of activity or performance expressed in or implied by these forward-looking statements. These risks include, generally, risks related to revenue growth, operating results, industry and products, technology, competition, the economy and other factors. Although the forward-looking statements contained herein are based upon what management believes to be current and reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. Examples of such assumptions include, but are not limited to: (i) trends in certain market segments and the economic climate generally; (ii) the pace and outcome of technological development; (iii) the identity and expected actions of competitors and customers; and (iv) the value of the Canadian dollar. The forward-looking statements contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except to the extent required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements contained herein.

19 CORPORATE GOVERNANCE

The Board of Directors of Xebec Adsorption Inc. is comprised of four directors, two of whom are considered to be independent.

20 APPROVAL

The Board of Directors of Xebec Adsorption Inc. has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

21 ADDITIONAL INFORMATION

Additional information relating to Xebec Adsorption Inc. is on SEDAR at www.sedar.com or by contacting:

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