

# **Xebec Adsorption Inc.**

Interim Consolidated Financial Statements  
(Unaudited)  
**June 30, 2009**

**Xebec Adsorption Inc.**  
**Interim Consolidated Balance Sheet**  
**(Unaudited)**

	<b>As at June 30, 2009 \$</b>	<b>As at December 31, 2008 \$ (restated – note 2)</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	4,927,017	550,377
Accounts receivable	4,053,717	4,538,842
Inventories (note 6)	5,513,669	2,579,877
Prepaid expenses	470,693	221,143
Investment tax credits	131,277	258,785
Derivative financial assets (note 7)	91,714	229,906
	<u>15,188,087</u>	<u>8,378,930</u>
<b>Property, plant and equipment</b> (note 8)	2,776,811	1,822,209
<b>Intangible assets</b> (note 9)	123,343	148,319
<b>Restricted cash</b>	302,537	324,577
<b>Goodwill</b> (note 5)	5,850,851	-
	<u>24,241,629</u>	<u>10,674,035</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loan (note 10)	655,368	1,760,931
Accounts payable and accrued liabilities	5,790,938	4,320,860
Deferred revenues	2,490,278	679,938
Income taxes payable	17,679	268,194
Current portion of obligations under capital leases	6,627	12,986
Current portion of long-term debt	93,000	217,200
Current portion of subordinated loan	67,704	-
Future income taxes	35,700	99,070
	<u>9,157,294</u>	<u>7,359,179</u>
<b>Long-term debt</b>	1,899,094	1,874,087
<b>Government assistance</b>	40,833	42,083
<b>Subordinated loan</b>	182,296	250,000
<b>Future income taxes</b>	76,500	23,545
	<u>11,356,017</u>	<u>9,548,894</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 11)	12,300,100	300,100
<b>Contributed surplus</b>	243,030	-
<b>Retained earnings</b>	342,482	825,041
	<u>12,885,612</u>	<u>1,125,141</u>
	<u>24,241,629</u>	<u>10,674,035</u>

See notes to interim consolidated financial statements.

**Approved by the Board of Directors**

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 Director

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 Director

## Xebec Adsorption Inc.

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

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2009 \$	2008 \$ (restated – note 2)	2009 \$	2008 \$ (restated – note 2)
<b>Revenue</b>	4,303,256	4,699,156	9,010,635	6,720,462
<b>Cost of goods sold</b>	2,629,139	3,150,141	5,523,625	4,704,293
<b>Gross margin</b>	1,674,117	1,549,015	3,487,010	2,016,169
<b>Operating expenses</b>				
Selling and administrative	2,089,720	1,054,500	3,461,567	2,026,595
Financial	46,908	95,536	116,388	182,200
Foreign exchange loss	213,256	39,953	202,158	37,729
Amortization	105,085	33,053	187,469	61,235
	2,454,969	1,223,042	3,967,582	2,307,759
<b>Income (loss) before income taxes</b>	(780,852)	325,973	(480,572)	(291,590)
<b>Provision for (recovery of) income taxes</b>				
Current	(32,598)	92,342	12,402	12,404
Future	(71,017)	32,907	(10,415)	4,420
	(103,615)	125,249	1,987	16,824
<b>Net income (loss) and comprehensive income (loss) for the period</b>	(677,237)	200,724	(482,559)	(308,414)
<b>Income (loss) per share</b>				
Basic and diluted	(0.06)	0.02	(0.05)	(0.04)

See notes to interim consolidated financial statements.

## **Xebec Adsorption Inc.**

Interim Consolidated Statement of Retained Earnings (Deficit)

(Unaudited)

**For the six-month period ended June 30, 2009**

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	<b>2009</b> \$	<b>2008</b> \$ (restated – note 2)
<b>Balance – Beginning of period</b>		
As previously reported	1,398,258	206,301
Changes in accounting policies (note 3)	<u>(573,217)</u>	<u>(227,418)</u>
As restated	825,041	(21,117)
Net loss for the period	<u>(482,559)</u>	<u>(308,414)</u>
<b>Balance – End of period</b>	<u>342,482</u>	<u>(329,531)</u>

See notes to interim consolidated financial statements.

**Xebec Adsorption Inc.**  
**Interim Consolidated Statement of Cash Flows**  
(Unaudited)

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2009 \$	2008 \$ (restated – note 2)	2009 \$	2008 \$ (restated – note 2)
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net income (loss) for the period	(677,237)	200,724	(482,559)	(308,414)
Items not affecting cash				
Amortization of property, plant and equipment	89,743	21,413	157,895	39,096
Amortization of intangible assets	15,342	11,640	29,574	22,139
Unrealized foreign exchange loss on derivative financial assets	157,770	-	138,192	-
Stock-based compensation expense (note 11(c) and note 12)	243,030	-	243,030	-
Future income taxes	(71,017)	32,907	(10,415)	4,420
	(242,369)	266,684	75,717	(242,759)
Changes in non-cash working capital components relating to operations				
Accounts receivable	521,848	(1,477,697)	1,940,426	(1,732,223)
Inventories	(911,948)	104,235	(495,026)	(309,940)
Prepaid expenses	(158,850)	24,442	(76,196)	(42,759)
Investment tax credits	192,204	-	127,508	-
Accounts payable and accrued liabilities	1,596,196	1,457,205	(48,954)	1,650,847
Deferred revenues	(9,154)	(203,256)	355,325	(112,681)
Income taxes payable	(288,388)	92,342	(250,515)	(31,582)
	941,908	(2,729)	1,552,568	(578,338)
	699,539	263,955	1,628,285	(821,097)
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(10,277)	(6,931)	(173,274)	(31,392)
Acquisition of intangible assets	-	(53,690)	(4,598)	(53,690)
Transaction costs paid on acquisition of a business	(863,888)	-	(1,068,076)	-
Cash acquired on acquisition of a business	5,122,028	-	5,122,028	-
Government assistance	-	(1,250)	(1,250)	(2,500)
	4,247,863	(61,871)	3,874,830	(87,582)
<b>Financing activities</b>				
Increase (decrease) of bank loan	(245,533)	(96,809)	(1,105,563)	467,729
Long-term debt	-	150,000	25,007	228,000
Repayment of long-term debt	(54,300)	(11,600)	(124,200)	-
Payment of obligations under capital leases	(3,211)	-	(6,359)	-
Decrease in restricted cash	80,316	155,000	84,640	155,000
	(222,728)	196,591	(1,126,475)	850,729
<b>Increase (decrease) in cash during the period</b>	4,724,674	398,675	4,376,640	(57,950)
<b>Cash – Beginning of period</b>	202,343	(77,832)	550,377	378,793
<b>Cash – End of period</b>	4,927,017	320,843	4,927,017	320,843

See notes to interim consolidated financial statements.

# **Xebec Adsorption Inc.**

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2009**

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### **1 Nature of business**

Xebec Adsorption Inc. (the "Company") is a manufacturer of gas purification and dehydration systems for clean energy, hydrogen and renewable natural gas. It results from the amalgamation of Xebec Adsorption Inc. ("Xebec") and QuestAir Technologies Inc. ("QuestAir") on June 12, 2009. The comparative financial statements are those of Xebec and the financial statements reflect the accounts of QuestAir from June 12, 2009 (note 5).

### **2 Basis of presentation**

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The same accounting policies have been used as described in the Company's latest annual consolidated financial statements, with the exception of the changes described in note 3 below. However, these unaudited interim consolidated financial statements do not include all disclosures required under Canadian GAAP for annual consolidated financial statements and accordingly should be read in conjunction with the Company's latest annual consolidated financial statements and the notes thereto. In the opinion of management, these unaudited interim consolidated financial statements contain all the adjustments considered necessary.

Certain comparative figures have been reclassified to conform to the presentation adopted for the period ended June 30, 2009.

### **3 Significant accounting policies**

#### **Basis of consolidation**

These unaudited interim consolidated financial statements include the accounts of the Company and its subsidiary, Xebec Adsorption (Shanghai) Co. Ltd. They also include the Company's portion of the accounts of a joint venture accounted for using the proportionate consolidation method.

#### **Revenue recognition**

Revenues are accounted for when there is persuasive evidence that an arrangement exists, title has transferred, the price is fixed or determinable and collection is reasonably assured.

Revenue from long-term production-type contracts and engineering service contracts are determined using the percentage-of-completion method whereby revenues are recognized on a pro rata basis in relation to contract costs incurred. Costs and estimated profit on contracts in progress in excess of amounts billed are reflected as work in progress. Cash received in advance of revenues being recognized on contracts is classified as deferred revenue.

# **Xebec Adsorption Inc.**

## **Notes to Interim Consolidated Financial Statements**

(Unaudited)

**June 30, 2009**

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The Company monitors its contracts with customers on a regular basis to determine if a loss is likely to occur. If a loss is anticipated on a contract, the entire estimated loss is recorded as a cost of sales and a reduction in work in progress in the period in which the loss becomes evident and reasonably estimable.

### **Stock-based compensation plans**

The Company accounts for stock options using the fair value method calculated using the Black-Scholes option pricing model. For options granted to directors, officers and employees, the compensation cost is measured at fair value at the date of grant and is expensed to operations over the award's vesting period. For options granted to non-employees, the fair value is measured when performance is complete, a performance commitment is made or the options are fully vested and non-forfeitable, whichever is earliest, and the expense is recognized over the period in which the goods or services from the non-employees are received. A corresponding increase in contributed surplus is recorded when stock options are expensed. When stock options are exercised, capital stock is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus. The effects of forfeitures are accounted for as they occur.

### **Foreign operations**

The Company's integrated foreign operations are translated using the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date and non-monetary assets and liabilities at rates prevailing at the transaction dates. Revenues and expenses (other than amortization, which is translated at the rate applicable on the date of the acquisition of the related asset) are translated at average rates for the year. Gains and losses arising on translation are included in the statement of income (loss) for the period.

### **Changes in accounting policies**

On January 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and which resulted in (i) the withdrawal of Section 3450, "Research and Development Costs" and Emerging Issues Committee Abstract 27, "Revenues and Expenditures During the Pre-operating Period", and (ii) the amendment of Accounting Guideline 11, "Enterprises in the Development Stage". This new standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, whether those assets are separately acquired or internally developed, as well as clarification on the application of the concept of matching revenues and expenses. The adoption of Section 3064 eliminated the deferral of start-up costs, which are now recognized as an expense when they are incurred. Consequently, the Company adjusted opening retained earnings as if the new rules had always been applied in the past and the prior period figures have been restated. As well, the Company made reclassifications in order to present certain assets, mainly software, as intangible assets instead of presenting them as property, plant and equipment.

# Xebec Adsorption Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

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As a result of the adoption of these new rules, the following table summarizes the adjustments that were recorded in the unaudited interim consolidated balance sheet as at December 31, 2008:

	For the three-month period ended June 30, 2008 \$	For the six-month period ended June 30, 2008 \$
<b>Balance sheet</b>		
Increase (decrease) in		
Property, plant and equipment		(143,619)
Intangible assets		(446,022)
Future income tax liabilities		16,424
Retained earnings		(573,217)
<b>Statement of income</b>		
Increase (decrease) in		
Amortization of property, plant and equipment	(10,499)	(22,139)
Amortization of intangible assets	9,614	18,077
Selling and administrative	240,877	371,675
Net income for the period	239,992	(367,613)
Income per share – Basic and diluted	(0.03)	(0.04)

#### 4 Recently issued accounting standards

The CICA issued three new accounting standards in January 2009: Section 1582, “Business Combinations”; Section 1601, “Consolidated Financial Statements”; and Section 1602, “Non-controlling Interests”, to converge the accounting for business combinations and the reporting of non-controlling interests to International Financial Reporting Standards (“IFRS”).



# **Xebec Adsorption Inc.**

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2009**

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### **Business combinations**

Section 1582 replaces Section 1581, "Business Combinations", and establishes new guidance on the recognition and measurement of all assets and all liabilities of the acquired business at fair value. Non-controlling interests are measured at either their fair value or at their proportionate share of the fair value of identifiable assets and liabilities. The measurement of consideration given now includes the fair value of any contingent consideration as of the acquisition date, and subsequent changes in fair value of the contingent consideration classified as a liability are recognized in income. Acquisition-related costs are excluded from the purchase price and are expensed as incurred. In addition, restructuring costs related to a business combination are no longer part of the purchase price equation and are expensed as incurred. Section 1582 applies prospectively to business combinations realized in or subsequent to the first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted.

### **Consolidated financial statements and non-controlling interests**

Section 1601 and Section 1602, which together replace Section 1600, "Consolidated Financial Statements", establish new guidance on accounting for non-controlling interests and for transactions with non-controlling interests. The new sections require that non-controlling interests be presented as a separate component of shareholders' equity. In the statement of income, net income is calculated before non-controlling interests and is then attributed to shareholders and non-controlling interests. In addition, changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are now accounted for as equity transactions. These sections apply to interim and annual consolidated financial statements relating to financial years beginning on or after January 1, 2011, and are required to be adopted concurrently with Section 1582. Early adoption is permitted.

## **5 Business combination**

Pursuant to the arrangement between Xebec and QuestAir, the shareholders of Xebec (the "Vendors") sold all of the issued and outstanding shares in the capital of Xebec to QuestAir in exchange for up to an aggregate of 15,241,976 common shares in the capital of QuestAir and 6,180,000 warrants of QuestAir. As a result of this transaction, the Vendors have received enough common shares of QuestAir to effect a reverse takeover of QuestAir. Accordingly, the financial statements of the Company reflect the accounts of QuestAir from June 12, 2009. The comparative financial statements included in these unaudited interim consolidated financial statements are those of Xebec. Subsequent to that transaction, QuestAir and Xebec have amalgamated and have continued as one corporation under the name of Xebec Adsorption Inc.

At the time of closing of the arrangement, the Vendors were issued 9,407,727 common shares, resulting in the Vendors initially controlling 45% of the outstanding common shares of the amalgamated company. The Vendors may increase their holdings in the amalgamated company by up to 5,834,249 common shares, resulting in an increase in the Vendors' holdings from 45% to 57% pursuant to the earn-out provisions contained in the combination agreement if certain adjusted EBITDA performance targets are achieved by the amalgamated company following completion of the arrangement (in respect of the 2009 and 2010 fiscal years). These shares issued by QuestAir on completion of the arrangement are currently held in escrow (note 11(c)).

# Xebec Adsorption Inc.

## Notes to Interim Consolidated Financial Statements

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The acquisition is accounted for using the purchase method of accounting. This method requires the determination of the aggregate purchase price, estimated at \$13,068,076, for the net assets of QuestAir and allocation of this amount to assets acquired and liabilities assumed based on their estimated fair value.

The following table represents the estimated fair value of the assets acquired and liabilities assumed on the effective acquisition date. The excess of the purchase price over the net identifiable assets acquired is preliminarily allocated to goodwill on the unaudited interim consolidated balance sheet. Management intends to complete a formal valuation of the tangible and intangible assets acquired and liabilities assumed, including tax loss carryforwards amounting to \$20.8 million, in order to finalize allocation of the total purchase price.

Also as a result of this acquisition, management began to assess and formulate a plan to realize potential synergies.

	\$
<b>Assets acquired</b>	
Cash and cash equivalents	5,122,028
Accounts receivable – net	1,455,301
Inventories	2,438,766
Prepaid expenses	173,354
Property, plant and equipment	939,223
Goodwill	5,850,851
Restricted cash	<u>62,600</u>
Total assets	<u>16,042,123</u>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	1,519,032
Deferred revenues	<u>1,455,015</u>
Total liabilities	<u>2,974,047</u>
<b>Net assets acquired</b>	<u>13,068,076</u>
<b>Consideration</b>	
11,269,318 Common shares, 6,180,000 warrants and 199,347 stock options	12,000,000
Acquisition costs	<u>1,068,076</u>
	<u>13,068,076</u>

# Xebec Adsorption Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

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### 6 Inventories

	As at June 30, 2009 \$	As at December 31, 2008 \$
Raw materials	2,783,937	1,880,618
Work in progress	1,353,112	699,259
Finished goods	1,094,416	-
Costs and anticipated profits in excess of billings	282,204	-
	<hr/> 5,513,669	<hr/> 2,579,877

### 7 Derivative financial assets

The Company has engaged in a sales contract with a foreign counterparty for which the contract is denominated in a currency other than the Canadian dollar or the functional currency of the foreign party. As at June 30, 2009, the fair market value of the bifurcated embedded derivative was \$91,714 and the change in fair value from the prior period was included in the foreign exchange loss on the statement of income (loss) and comprehensive income (loss). This bifurcated embedded derivative has a nominal value of €3,062,640.

### 8 Property, plant and equipment

	<u>As at June 30, 2009</u>		
	Cost \$	Accumulated amortization \$	Net \$
Land	173,180	-	173,180
Building	981,353	101,902	879,451
Machinery and equipment	664,703	51,051	613,652
Office furniture and equipment	88,622	12,977	75,645
Computers and software	295,423	47,123	248,300
Molds	199,762	16,185	183,577
Leasehold improvements	672,773	91,197	581,576
	<hr/> 3,075,816	<hr/> 320,435	<hr/> 2,755,381
Machinery and equipment under capital leases	24,967	3,537	21,430
	<hr/> 3,100,783	<hr/> 323,972	<hr/> 2,776,811

# Xebec Adsorption Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

	As at December 31, 2008 (restated – note 2)		
	Cost \$	Accumulated amortization \$	Net \$
Land	173,180	-	173,180
Building	981,353	77,368	903,985
Machinery and equipment	310,109	33,945	276,164
Office furniture and equipment	62,498	5,422	57,076
Computers and software	126,205	24,451	101,754
Molds	79,094	2,462	76,632
Leasehold improvements	254,895	43,947	210,948
	1,987,334	187,595	1,799,739
Machinery and equipment under capital leases	24,967	2,497	22,470
	2,012,301	190,092	1,822,209

### 9 Intangible assets

	As at June 30, 2009		
	Cost \$	Accumulated amortization \$	Net \$
Software	219,046	99,619	119,427
Engineering drawing	4,700	784	3,916
	223,746	100,403	123,343

	As at December 31, 2008 (restated – note 2)		
	Cost \$	Accumulated amortization \$	Net \$
Software	212,580	68,961	143,619
Engineering drawing	4,700	-	4,700
	217,280	68,961	148,319

# Xebec Adsorption Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

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### 10 Bank loan

The Company has access to credit facilities in the amount of \$1,500,000, which bear interest at the Company's bank's prime rate plus 0.60% per annum. The Company also has access to credit facilities in the amount of \$208,906, which bear interest at the Company's bank's prime rate plus 3.55% per annum. These credit facilities are limited by certain margin requirements concerning accounts receivable. In addition, the Company has access to credit facilities in the amount of \$500,000, which bear interest at the Company's bank's prime rate plus 1.50% per annum and are limited by certain requirements concerning pre-shipment costs. The bank loan is secured by a first ranking hypothec of \$4,500,000 on all moveable property of the Company. The Company must also comply with certain covenants requiring a minimum current ratio and maximum funded debt to tangible net worth. As at June 30, 2009, the Company is in compliance with the covenants.

As well, the Company has access to a revolving demand facility in the amount of \$1,000,000 by way of letters of credit and letters of guarantee.

### 11 Share capital

- a) The Company is incorporated under the Canada Business Corporations Act.

Authorized share capital consists of an unlimited number of common and preferred shares, without par value.

- b) Issued and outstanding

	<u>Number</u>			<u>Amount</u>	
	<u>Warrants</u>	<u>Preferred shares</u>	<u>Common shares</u>	<u>Preferred shares</u>	<u>Common shares and warrants</u>
				\$	\$
Balance on December 31, 2008 <sup>(1)</sup>	5,868,108	300,000	8,638,496	300,000	100
Conversion of preferred shares <sup>(1)</sup>	311,892	(300,000)	769,231	(300,000)	300,000
Deemed issuance of shares and warrants on reverse takeover transaction	6,180,000	-	11,269,318	-	12,000,000
Balance on June 30, 2009	<u>12,360,000</u>	<u>-</u>	<u>20,677,045</u>	<u>-</u>	<u>12,300,100</u>

<sup>(1)</sup> These represent the shares and warrants issued to the shareholders of Xebec on reverse takeover (note 5).

# Xebec Adsorption Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

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c) Share purchase warrants – Issued and outstanding

As at June 30, 2009, 12,360,000 warrants are outstanding, of which 12,180,000 warrants entitle the holder to acquire per warrant one additional common share at a price of \$2.15 until May 13, 2010. The remaining 180,000 warrants entitle the holder to acquire per warrant one common share at a price of \$1.50 until May 13, 2010. The ability to exercise the 6,180,000 warrants issued on the reverse takeover transaction is contingent on the exercise of the remaining pre-existing warrants.

d) As a result of the business combination (note 5), the Company issued 5,834,249 common shares which are held in escrow as at June 30, 2009. These shares could be released to Xebec shareholders on the achievement of specified financial targets. These targets will be measured at December 31, 2009 and 2010. Consequently, these shares are considered restricted share awards that are issued but not outstanding. Stock-based compensation is recorded based on management's best estimate of the ultimate achievement of the financial targets over the vesting periods, namely until December 31, 2009 and 2010.

e) Loss per share is calculated using the weighted average number of common shares outstanding of 11,046,206 for the three-month period ended June 30, 2009 and 9,835,700 for the six-month period ended June 30, 2009 (for the year ended December 31, 2008 – 8,638,496). Outstanding share options and warrants to purchase common shares were not included in the computation of diluted income (loss) per share as their impact are anti-dilutive.

## 12 Stock options

Upon the reverse takeover, the Company assumed QuestAir's stock option plan (the "Plan"), which allows for the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based awards. Under the Plan, common shares approved for issuance under all stock-based compensation arrangements are limited to the greater of 591,560 and 10% of the common shares issued and outstanding. As at June 30, 2009, the maximum number of common shares available for issuance under all stock-based compensation arrangements is 2,445,548.

Under the terms of the Plan, stock options are granted with an exercise price not less than the volume weighted average trading price of the common shares for the five trading days prior to the date of grant. Stock options generally vest quarterly over four years and are exercisable for seven years from the date of grant.

Stock option activity for the six-month period ended June 30, 2009 is presented below:

# Xebec Adsorption Inc.

Notes to Interim Consolidated Financial Statements

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**For the six-month period ended June 30, 2009**

	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Expiry dates</b>
Outstanding – December 31, 2008	-	-	
Assumed upon the closing of the reverse takeover	199,347	5.79	
Granted	-	-	
Exercised	-	-	
Expired	(23,824)	10.69	
<hr/>			
Outstanding – June 30, 2009 (117,611 options exercisable)	175,523	5.12	August 15, 2009 to September 26, 2016

As at June 30, 2009 options outstanding the Plan and options exercisable are as follows:

	<b>Options outstanding – June 30, 2009</b>			<b>Options exercisable – June 30, 2009</b>	
<b>Exercise price range \$</b>	<b>Number of options outstanding</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price \$</b>	<b>Number of options exercisable</b>	<b>Weighted average exercise price \$</b>
0.44–2.40	115,856	3.68	1.35	77,394	1.40
4.60–6.90	4,115	3.59	6.14	2,854	6.26
9.00–13.90	41,836	5.96	11.52	23,647	11.27
16.20–17.50	13,716	5.25	17.16	13,716	17.16
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	175,523	4.35	5.12	117,611	5.34

# Xebec Adsorption Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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### 13 Supplementary cash flow information

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2009 \$	2008 \$ (restated – note 2)	2009 \$	2008 \$ (restated – note 2)
Interest paid	44,425	65,007	98,170	138,831
Income taxes paid	27,351	-	27,351	-

### 14 Segmented information

The Company 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.

Revenue summarized by geographic area, as determined by the location of the customer, is as follows:

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Middle East	1,595,475	-	4,113,244	-
North America	1,428,284	2,768,640	3,120,266	4,781,158
South America	1,202,271	-	1,202,271	-
Europe	-	1,793,600	490,590	1,793,600
Asia	77,226	136,916	84,264	145,704
	<u>4,303,256</u>	<u>4,699,156</u>	<u>9,010,635</u>	<u>6,720,462</u>



# Xebec Adsorption Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

Revenue summarized by product line is as follows:

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Natural gas dryers	3,062,626	3,383,988	6,583,214	4,572,890
Compressed gas filtration	679,157	966,751	1,273,440	1,677,576
Air dryers	245,847	348,417	838,355	469,996
Gas purification	93,071	-	93,071	-
Engineering services	222,555	-	222,555	-
	<u>4,303,256</u>	<u>4,699,156</u>	<u>9,010,635</u>	<u>6,720,462</u>

Major customers representing 10% or more of total sales is as follows:

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Customer A	1,311,624	-	3,102,904	-
Customer B	1,202,271	-	1,202,271	-
Customer C	-	1,793,600	-	1,793,600
Customer D	-	718,713	-	1,194,868
	<u>2,513,895</u>	<u>2,512,313</u>	<u>4,305,175</u>	<u>2,988,468</u>

The location of the Company's capital assets and goodwill by geographic region is as follows:

	As at June 30, 2009 \$	As at December 31, 2008 \$ (restated – note 2)
Canada	8,196,211	1,420,012
Asia	554,794	550,516
	<u>8,751,005</u>	<u>1,970,528</u>