Xebec Adsorption Inc.

Management Discussion and Analysis
For the three months ended March 31, 2010

May 12, 2010

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

ABOUT XEBEC ADSORPTION INC.

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

ABOUT THIS MANAGEMENT DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") provides a review of the results of operations, financial condition and cash flows of Xebec Adsorption Inc. for the three-month period ended March 31, 2010. This discussion should be read in conjunction with the information contained in the Company's interim consolidated financial statements and related notes for the three-month periods ended March 31, 2010 and 2009, as well as the Company's audited consolidated financial statements for the year-ended December 31, 2009. Our consolidated financial statements, reported in Canadian dollars except where otherwise noted, have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for financial information.

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 2010 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) the intention not to sell integrated biogas plants in Europe; (xi) expectations regarding competitors; (xii) the expected impact of the described risks and uncertainties; and (xiii) intentions with respect to the payment of dividends. 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 described in detail in Xebec's Annual Information Form for the year ended December 31, 2009 under the heading "Risk Factors" which is available on SEDAR at www.sedar.com and on Xebec's website at www.xebecinc.com.

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.

Unless specifically stated otherwise, all dollar amounts set forth in this MD&A are in Canadian dollars.

OVERALL PERFORMANCE

On June 12, 2009, Xebec completed a reverse takeover of QuestAir Technologies Inc. ("QuestAir") and became listed on the TSX. This transaction was undertaken to bring together complementary gas purification technologies, global distribution networks in high growth markets in North America, Asia and Europe, and low-cost manufacturing and supply chain capabilities. The Company intends to leverage all available synergies to expand its market share in clean energies, such as biogas upgrading, natural gas dehydration and hydrogen purification. Further details regarding the transaction may be found in Note 5 to the financial statements for the year-ended December 31, 2009.

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

The impact of this transition can be seen in the year-over-year comparison of revenues. Revenues for the first quarter of 2010 were $2.0 million, compared to $4.7 million for the first quarter of 2009. While the progress being made as a systems provider is not particularly evident in the income statement, it is being seen in the order backlog as of May 12, 2010, which is now at about $11.2 million, and in deferred revenues on the balance sheet, which were $2.2 million as of March 31, 2010, compared to $0.1 million as of December 31, 2009. These deferred revenues represent payments that have been made by customers up-front for systems and equipment to be delivered at a future date. These amounts are accounted for as revenues in the income statement when either a certain percentage of work is completed on a system or the system has been delivered and installed.

While the transition is having a significant impact on current revenue streams, and consequently earnings, operating, selling and administrative costs were also significantly higher than for the same period last year due to the QuestAir acquisition. As a result, the Company incurred a net loss of $3.2 million for the first quarter of 2010, compared to net income of $0.2 million for the first quarter of 2009.

In the short and medium term, the future for renewable energy is very positive. Green energy initiatives are moving up the agendas of municipal, provincial and federal governments worldwide. Corporations and consumers are increasingly looking for green energy solutions to protect the environment. Management is confident that Xebec, with its complementary product lines, strong customer relationships, global footprint and low-cost manufacturing and supply chain, is well positioned to respond to this growing demand.

The Company's immediate efforts are focused on the acceleration of new business development. With the integration of QuestAir, Xebec is well positioned to capture market share in the expanding biogas upgrading market.

While some of the target markets were soft in the latter part of 2009, there are signs of increased activity across all business segments, especially the interest for renewable energy projects in the U.S., China, Germany and Canada.

During the quarter, Xebec was successful in signing three biogas upgrading contracts in California, Canada and South Korea. The Company also sold biogas upgrading equipment to the French and Austrian markets, providing the Company with a footprint in markets which are generally viewed as strategically important for this industry.

The Company's cash position declined only slightly over the quarter to $5.1 million as of March 31, 2010, from $5.4 million as of December 31, 2009, reflecting an increase in up-front payments by customers resulting from new contracts and orders. The Company also continues to have access to $0.7 million in unused credit facilities, giving it a total of $5.8 million in available cash and credit facilities.

RESULTS OF OPERATIONS

Revenues

Customer location

	Three months ended March 31,	
In millions of $	2010	2009
North America	1.1	1.7
Middle East	0.1	2.5
Asia	0.5	0.5
Europe	0.3	-
Total	2.0	4.7

Product line

	Three months ended March 31,	
In millions of $	2010	2009
Natural Gas Dryers	0.5	3.5
Compressed Gas Filtration	1.0	0.6
Air Dryers	0.1	0.6
Gas Purification	0.3	-
Engineering Services	0.1	-
Total	2.0	4.7

Total revenues for the first quarter of 2010 were $2.0 million, compared to $4.7 million for the first quarter of 2009. This decline reflects to a large extent the impact of the Company's decision to no longer pursue new activities in specific Middle East markets, and the transition to a new business model as discussed in the overall performance section of this document.

Net Income

Net loss for the three months ended March 31, 2010 was $3.2 million, or $0.11 per share, compared to net income of $0.2 million, or $0.02 per share, for the same period in 2009, reflecting a $1.6 million decline in gross profit and a $1.1 million increase in selling and administrative costs.

Gross Profit

In millions of $	Three months ended March 31, 2010	2009
Revenue	2.0	4.7
Cost of Goods Sold	1.7	2.8
Gross Profit	0.3	1.9
Gross Margin (%)	16%	40%

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

Selling and Administrative

Selling and administrative expenses were $2.5 million in the first quarter of 2010 compared to $1.4 million for the same period of 2009.

The year-over-year increase is attributable to increases in staff and office facilities as a result of the QuestAir merger, the addition of office facilities in Newcastle (U.K.) to support planned growth, and additional costs associated with being a public company.

Research and Development

Research and development expenses, net of research and tax credits were $542,892 in the first quarter of 2010, compared to $73,747 for the same period in 2009, reflecting the Company's increased focus on R&D in biogas field since the QuestAir acquisition.

Financial

Financial expenses increased for the three months ended March 31, 2010 to $91,110, from $69,480 for the same period in 2009, as a result of increases in amounts accrued for royalties under the Technology Partnerships Canada program (See "Contingent Off-Balance-Sheet Financing Arrangements" below for more details).

Foreign Exchange Loss

In the first quarter of 2010, the Company had a foreign exchange loss of $164,935 compared to a foreign exchange gain of $11,098 for the first quarter of 2009. The year-over-year change was primarily due to the impact of a strengthening Canadian dollar on foreign exchange transactions and the fair market value of derivative financial instruments, resulting in derivative financial instruments increasing to $172,963 as at March 31, 2010. The derivative financial instruments relate to Euro-denominated contracts with a foreign counterparty.

Amortization

Amortization expense increased to $214,710 in the first quarter of 2010, from $81,209 for the same period in 2009, reflecting the addition of property, plant and equipment following the QuestAir merger.

SUMMARY OF QUARTERLY RESULTS

In millions of $ (except for per share data)	2010	2009				2008**		
	Mar 31	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**
Revenues	2.0	3.8	5.9	4.3	4.7	7.4	2.7	4.7
Net income (loss)	(3.2)	(5.0)	(1.2)	(0.7)	0.2	1.1	(0.2)	0.2
Earnings (loss) per share - basic and diluted*	(0.11)	(0.23)	(0.06)	(0.06)	0.02	0.13	(0.03)	0.02

***** Xebec was not a publicly-listed company prior to June 12, 2009. For the purpose of the March 2009 and 2008 quarterly per share calculations, the Company has used the number of common shares issued and outstanding as of June 12, 2009.

** Some quarterly results for 2008 differ from previously disclosed results as they were restated following the changes in accounting policies (refer to note 3 of the Company's audited financial statements for the year-ended December 31, 2009) .

Given the nature and early stage of Xebec's business, there are no apparent seasonal or other discernible trends at this time.

Xebec resulted from the amalgamation with QuestAir on June 12, 2009. The financial results for the last three quarters of 2009 include the accounts of QuestAir from June 12, 2009. The first quarter of 2009 and the three quarters of 2008 are those of Xebec. In addition to transaction costs, there have been integration costs and additional operating, compliance and regulatory costs in the second half of 2009 and the first quarter of 2010.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flows from operating, investing and financing activities, as reflected in the consolidated statements of cash flows, are summarized in the following table:

(in millions of $)	Three months ended March 31,		
	2010	**2009**	**Change**
Cash provided (used) by operating activities	(0.3)	0.9	(1.2)
Cash provided (used) by investing activities	-	(0.4)	0.4
Cash provided (used) by financing activities	-	(0.9)	0.9

Given the nature and early stage of Xebec's business in 2009, the Company has required external financing to meet its operating and investing cash needs.

In the first quarter of 2010, the Company's operating activities used $0.3 million of cash, while in the first quarter of 2009 the Company generated $0.9 million of cash. The year-over-year decline in cash flow from operating activities reflects the impact of the net loss incurred in the first quarter of 2010, substantially offset by increases in deferred revenues resulting from up-front payments made on new orders and contracts. Investing activities used $8,548 of cash in the first quarter of

2010, compared to $371,858 in the first quarter of 2009, as a result of significantly lower levels of additions to property, plant and equipment and intangible assets this year. Financing activities provided $3,326 of cash in the first quarter of 2010, while having used $908,071 of cash in the first quarter of 2009, mainly due to lower amounts of debt repayment this year.

As of March 31, 2010, the Company had $5.1 million of cash on hand, $0.5 million outstanding in short-term bank loans, and $2.2 million of long-term debt outstanding, of which $0.4 million is due within one year.

The Company has access to credit facilities in the amount of $1.5 million which bear interest at the Company's bank prime rate plus 0.60% per annum and are limited by certain margin requirements concerning accounts receivable. In addition, the Company has access to credit facilities in the amount of $0.5 million which bear interest at the Company's bank 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 $4.0 million on all movable property of the Company. The Company must also comply with covenants requiring a minimum current ratio and maximum funded debt to tangible net worth. As at March 31, 2010, the Company is in compliance with these covenants and the unused amounts of the credit facilities are approximately $1.5 million for the first one and $12,300 for the second one.

As well, the Company has access to a revolving demand facility by way of letters of credit and letters of guarantee amounting to $1.0 million. As at March 31, 2010, the unused portion of this demand facility is approximately $0.5 million.

There have been no material changes in the contractual obligations of the Company since its MD&A for the year-ended December 31, 2009 was issued on March 29, 2010.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Although the Company has incurred an operating loss of $3.2 million and had total cash outflows of $0.3 million for the period ended March 31, 2010, the Company finished the quarter with cash amounting to $5.1 million, working capital of $2.3 million and had access to unused credit facilities totaling $0.7 million. During the fourth quarter of 2009, management concluded a share offering which provided the Company with net proceeds of $5.9 million; the Company also undertook various initiatives and developed a plan to manage its operating and liquidity risks in light of prevailing economic conditions. The Company has prepared a budget for 2010 for which management believes the assumptions are reasonable. Achieving budgeted results is dependent on improving the volume of revenues, delivering on sales and contracts schedules, meeting expected overall operating margin levels and controlling general and administrative costs. Management expects to meet its budget and to have enough liquidity to fund operations to at least beyond March 31, 2011.

The Company is thus faced with uncertainties that may have an impact on future operating results and liquidity. These uncertainties include reduced spending in renewable energy projects reflecting the weakness in the economy, 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 if events or conditions develop that are not consistent with management's expectations, key budget assumptions for 2010 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. 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.

OUTSTANDING SHARE DATA

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares. No preferred shares are issued.

During the first quarter of 2010, no warrants were exercised.

As of May 12, 2010, Xebec had, 35,106,230 common shares issued, including 5,834,249 common shares held in escrow, as described above.

Share Purchase Warrants Outstanding

As at March 31, 2010, 17,167,824 warrants were outstanding, of which 12,180,000 warrants entitle the holder to acquire one additional common share per warrant at a price of $2.15 until May 13, 2010, and 180,000 warrants entitle the holder to acquire one common share per warrant at a price of $1.50 until May 13, 2010. Of the remaining 4,807,824 warrants, 4,292,700 warrants entitle the holder to acquire one common share per warrant at a price of $1.10 until May 25, 2011 and 515,124 warrants entitle the holder to acquire one common share at a price of $0.77 per share until May 25, 2011.

These latter warrants are subject to an accelerated expiry if, at any time after December 31, 2009, the published closing trade price of the Common Shares on the TSX is equal or superior to $1.60 for any 20 consecutive trading days, in which event Xebec may give the holder a written notice that the warrants will expire at 5:00 p.m. (Toronto Time) on the 30th day from the receipt of such notice.

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.

Stock Options Outstanding

Upon the reverse takeover, the Company assumed QuestAir's omnibus 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 or 10% of the common shares issued and outstanding. As at March 31, 2010, the maximum number of common shares available for issuance under all stock-based compensation arrangements is 2,780,998.

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.

As at March 31, 2010, the Company had 115,188 options outstanding under the plan with a weighted average exercise price of $5.80.

CONTINGENT OFF-BALANCE-SHEET FINANCING ARRANGEMENTS

Prior to the transaction on June 12, 2009, Xebec (previously "QuestAir") received funding contributions from various programs of the Canadian Government to support the development and commercialization of our gas purification technology. The Company has not entered into any new contingent off-balance sheet financing arrangements since then. Existing arrangements are described in the Company's MD&A issued March 29, 2010 for the year-ended December 31, 2009.

FINANCIAL AND OTHER INSTRUMENTS

Derivative Financial Instruments

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 March 31, 2010, the fair market value of the bifurcated embedded derivative was a liability of $172,963 and the change in fair value from the prior period was included in the foreign exchange gain on the statement of income (loss) and comprehensive income (loss). This bifurcated embedded derivative has a nominal value of €765,660.

Currency Risk

The Company realizes approximately 65% of its sales and 55% of its purchases in foreign currency. Consequently, some assets and liabilities are exposed to foreign exchange fluctuations. The Company does not use financial instruments to reduce this risk.

Management does not believe that the impact of foreign exchange fluctuations will be significant and, therefore, has not provided a sensitivity analysis of the impact of fluctuations on net loss and comprehensive loss.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as market interest rates change. The Company does not use financial instruments to reduce this risk.

The Company is exposed to interest rate risk on its bank debt, both short-term and long-term, for which the interest rates charged fluctuate based on the bank prime rate. The short-term bank loan as at March 31, 2010 is $0.5 million and the long-term debt that is subject to the variability of the interest rate fluctuation is $1.9 million.

The annual interest is the bank prime rate plus 0.60%. If the interest rate on the bank debt had been 50 basis points higher (lower), related to the bank debt outstanding during the first quarter of 2010, net income would have been $2,972 (first quarter of 2009 – $3,696) higher (lower).

TRANSACTIONS WITH RELATED PARTIES

There has been no change in related party transactions from that described in the MD&A issued March 29, 2010 for the year-ended December 31, 2009.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There has been no material change to the Company's critical accounting policies and estimates as described in the Company's MD&A issued March 29, 2010 for the year-ended December 31, 2009. A more complete description of the Company's accounting policies and estimates can be found in its audited consolidated financial statements for the year-ended December 31, 2009.

Revenue Recognition

In December 2009, the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants issued Abstract EIC-175, "Multiple Deliverable Revenue Arrangements" ("EIC-175"), which requires a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. EIC-175 also changes the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. Given the requirement to use the relative selling price method of allocating arrangement consideration, EIC-175 prohibits the use of the residual method. EIC-175 may be applied prospectively and is applicable to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011, with early adoption permitted.

International Financial Reporting Standards (IFRS)

The AcSB announced that accounting standards in Canada are to converge with IFRS. The changeover date from current Canadian GAAP to IFRS has been established as January 1, 2011. While IFRS use a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed.

A diagnostic assessment was started in the first quarter of 2010 to examine the extent of the impact that the conversion may have on financial reporting, business processes and information systems. The Company's current plan is aimed in particular at identifying the differences between IFRS and the Company's current accounting policies, as well as assessing the impact of various accounting alternatives offered pursuant to IFRS. In addition, a high level assessment of the Company's Information Technology Systems and tax processes is being conducted. The financial impact of the transition to IFRS cannot be reasonably estimated at this time, however, there may be changes in accounting policies and these may impact the Company's financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In order for the Company to comply with its disclosure requirements under applicable securities laws, the Company and its consolidated subsidiaries must maintain controls and procedures that are designed to provide reasonable assurances that material information disclosed in this MD&A and related financial statements is properly recorded, processed, summarized and reported in a timely manner to the Board of Directors and the Audit Committee.

The Company's management, under the direction and supervision of the Chief Executive Officer and Chief Financial Officer, is also responsible for establishing and maintaining internal control over financial reporting (ICFR). These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Company's management has performed a high-level evaluation of the effectiveness of the Company's disclosure controls and procedures, as well as its internal control over financial reporting. Certain weaknesses were identified. Specifically, the Company did not have sufficient accounting documentation, policy, procedures or segregation of duties for certain transaction cycles.

To address the above issues, the Company is recruiting additional financial staff at the head office to oversee the financial reporting. During the first four months of 2010, a Corporate Controller was hired and a new Chief Financial Officer was appointed. The Company has also consulted with tax advisors on various issues. The Company continues to determine other appropriate remediation plans, such as reviewing the organizational structure of the accounting group, to strengthen its resources to reflect the Company's growth. While the Company has been making progress, there have been some delays in implementing the remediation plans.

The Company is also planning to conduct a more detailed and documented evaluation of its ICFR compliance under National Instrument 52-109, which is expected to be completed in 2010. An independent professional firm has been appointed to help the Company, in 2010, develop processes to convert to IFRS.

Furthermore, a formal Disclosure Policy and Authorization Policy have been approved by the Board of Directors. A formal Disclosure Committee has been established to oversee corporate disclosures and the Disclosure Policy and the Authorization Policy has been communicated to senior management and implemented throughout the Company. This entire process is expected to be completed in 2010.

The Company believes that the weaknesses in internal control over financial reporting have been mitigated by the active involvement of senior management and the Board of Directors in all the affairs of the Company; open lines of communication within the Company; the present levels of activities and transactions within the Company being readily transparent; and the thorough review of the Company's financial statements by management and the Board of Directors.

Based upon the results of management's evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were sufficiently effective to provide reasonable assurance that the information required to be disclosed in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms.

The Company's management believes that the consolidated financial statements for the period ended March 31, 2010, to which this MD&A relates, correctly presents in all material aspects the Company's financial position, results of operations and cash flows for the period covered therein.