

# **Xebec Adsorption Inc.**

Condensed Interim Consolidated Financial Statements  
(Unaudited)  
**September 30, 2013**  
(expressed in Canadian dollars)

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

# Xebec Adsorption Inc.

## Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(expressed in Canadian dollars)

	As at September 30, 2013 \$	As at December 31, 2012 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	584,333	1,344,114
Trade and other receivables	4,643,208	3,936,746
Inventories	1,928,903	1,662,494
Short-term portion of balance of sale	300,000	200,000
Investment tax credits receivable	298,635	75,000
Other current assets	501,415	425,102
<b>Total current assets</b>	<b>8,256,494</b>	<b>7,643,456</b>
<b>Non-current assets</b>		
Balance of sale	200,000	600,000
Property, plant and equipment (note 3)	321,605	369,976
Intangible assets (note 4)	851,636	978,258
Goodwill (note 4)	142,616	142,616
<b>Total non-current assets</b>	<b>1,515,857</b>	<b>2,090,850</b>
<b>Total assets</b>	<b>9,772,351</b>	<b>9,734,306</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loan	500,000	166,952
Trade payables	4,328,178	3,799,491
Accrued liabilities	1,041,278	1,144,539
Deferred revenues	1,399,829	1,067,987
Current portion of long-term debt and obligation	67,045	76,474
Current portion of government royalty program obligation	623,986	365,959
Provisions	174,879	161,692
<b>Total current liabilities</b>	<b>8,135,195</b>	<b>6,783,094</b>
<b>Non-current liabilities</b>		
Long-term debt and obligation	63,547	117,649
Government royalty program obligation	482,130	714,853
Government assistance	18,333	22,083
Deferred rent	52,768	32,980
Provisions	312,439	326,308
<b>Total non-current liabilities</b>	<b>929,217</b>	<b>1,213,873</b>
<b>Total liabilities</b>	<b>9,064,412</b>	<b>7,996,967</b>
<b>Equity</b>		
Share capital	19,732,623	19,732,623
Contributed surplus	2,388,063	2,316,580
Accumulated other comprehensive loss	(180,153)	(48,870)
Deficit	(21,516,835)	(20,528,866)
<b>Total equity</b>	<b>423,698</b>	<b>1,471,467</b>
<b>Total liabilities and equity</b>	<b>9,772,351</b>	<b>9,734,306</b>

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

**Approved by the Board of Directors**

*(signed)* Kurt Sorchak

Director

*(signed)* John Shakeshaft

Director

# Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Income (Loss)

For the three-month and nine-month period ended September 30, 2013 and 2012

(Unaudited)

(expressed in Canadian dollars)

	2013 \$	2012 \$	2013 \$	2012 \$
<b>Revenue</b>	1,929,497	3,690,855	8,499,037	9,425,901
<b>Cost of goods sold</b>	<u>1,419,961</u>	<u>2,570,519</u>	<u>7,161,785</u>	<u>7,458,052</u>
<b>Gross margin</b>	<u>509,536</u>	<u>1,120,336</u>	<u>1,337,252</u>	<u>1,967,849</u>
Research and development expenses (note 7)	62,982	21,373	41,358	43,429
Selling and administrative expenses	1,231,772	1,637,286	4,130,410	4,447,219
Foreign exchange (gain) loss	58,009	91,799	(155,302)	109,532
Gain on disposition of assets	<u>(1,336,038)</u>	<u>-</u>	<u>(1,836,038)</u>	<u>(5,445,961)</u>
	<u>16,725</u>	<u>1,750,458</u>	<u>2,180,428</u>	<u>(845,781)</u>
Operating Income (Loss)	<u>492,811</u>	<u>(630,122)</u>	<u>(843,176)</u>	<u>2,813,630</u>
<b>Finance income</b>	(29,566)	(32,489)	(38,507)	(35,908)
<b>Finance expense</b> (note 10)	<u>31,204</u>	<u>23,235</u>	<u>166,981</u>	<u>818,486</u>
<b>Finance costs – net</b>	<u>1,638</u>	<u>(9,254)</u>	<u>128,474</u>	<u>782,578</u>
<b>Net income (loss) for the period</b>	<u>491,173</u>	<u>(620,868)</u>	<u>(971,650)</u>	<u>2,031,052</u>
<b>Earnings (loss) attributable to:</b>				
Shareholders of the Company	498,992	(734,538)	(987,969)	1,875,951
Non-controlling interest	<u>(7,819)</u>	<u>113,670</u>	<u>16,319</u>	<u>155,101</u>
	<u>491,173</u>	<u>(620,868)</u>	<u>(971,650)</u>	<u>2,031,052</u>
<b>Earnings (loss) per share</b>				
Basic (note 5)	0.01	(0.02)	(0.03)	0.05
Diluted (note 5)	<u>0.01</u>	<u>(0.02)</u>	<u>(0.03)</u>	<u>0.04</u>

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

## **Xebec Adsorption Inc.**

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)  
For the three-month and nine-month period ended September 30, 2013 and 2012  
(Unaudited)

(expressed in Canadian dollars)

	2013 \$	2012 \$	2013 \$	2012 \$
<b>Net income (loss) for the period</b>	491,173	(620,868)	(971,650)	2,031,052
<b>Other comprehensive income</b>				
Cumulative translation adjustment	<u>52,507</u>	<u>62,607</u>	<u>(129,233)</u>	<u>81,185</u>
<b>Comprehensive income (loss) for the period</b>	<u>543,680</u>	<u>(558,261)</u>	<u>(1,100,883)</u>	<u>2,112,237</u>
<b>Attributable to:</b>				
Shareholders of the Company	554,739	(672,910)	(1,119,252)	1,955,836
Non-controlling interest	<u>(11,059)</u>	<u>114,649</u>	<u>18,369</u>	<u>156,401</u>
	<u>543,680</u>	<u>(558,261)</u>	<u>(1,100,883)</u>	<u>2,112,237</u>

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

# Xebec Adsorption Inc.

## Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(expressed in Canadian dollars)

	Number		Amount						
	Common shares	Warrants	Share capital – Common shares and warrants \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Equity attributable to the Company \$	Non-controlling interest \$	Total \$
<b>Balance – January 1, 2012</b>	39,363,867	10,658,136	19,802,272	2,168,550	(71,521)	(22,211,793)	(312,492)	5,371	(307,121)
Net loss for the period	-	-	-	-	-	1,875,951	1,875,951	155,101	2,031,052
Other comprehensive income	-	-	-	-	79,885	-	79,885	1,300	81,185
Comprehensive income (loss) for the period	-	-	-	-	79,885	1,875,951	1,955,836	156,401	2,112,237
Expired warrants	-	(566,250)	(69,649)	69,649	-	-	-	-	-
Share-based compensation	-	-	-	71,456	-	-	71,456	-	71,456
<b>Balance – September 30, 2012</b>	39,363,867	10,091,886	19,732,623	2,309,655	8,364	(20,335,842)	1,714,800	161,772	1,876,572
<b>Balance – January 1, 2013</b>	39,363,867	10,091,886	19,732,623	2,316,580	(48,870)	(20,528,866)	1,471,467	265,872	1,737,339
Net loss for the period	-	-	-	-	-	(987,969)	(987,969)	16,319	(971,650)
Other comprehensive income	-	-	-	-	(131,283)	-	(131,283)	2,050	(129,233)
Comprehensive income (loss) for the period	-	-	-	-	(131,283)	(987,969)	(1,119,252)	18,369	(1,100,883)
Expired warrants	-	-	-	-	-	-	-	-	-
Share-based compensation	-	-	-	71,483	-	-	71,483	-	71,483
<b>Balance – September 30, 2013</b>	39,363,867	10,091,886	19,732,623	2,388,063	(180,153)	(21,516,835)	423,698	284,241	707,939

Accumulated other comprehensive income relates solely to cumulative translation adjustments.

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

# Xebec Adsorption Inc.

## Condensed Interim Consolidated Statements of Cash Flows

For the three-month and nine-month period ended September 30, 2013 and 2012

(Unaudited)

(expressed in Canadian dollars)

	2013 \$	2012 \$	2013 \$	2012 \$
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net income (loss) for the period	491,173	(620,868)	(971,650)	2,031,052
Items not affecting cash				
Amortization of property, plant and equipment	22,816	25,560	73,301	117,345
Amortization of intangible assets	42,324	69,494	126,933	255,107
Gain on disposition of assets	-	-	-	(5,445,961)
Gain on disposition of intangible assets	(1,336,038)	-	(1,836,038)	-
Gain on debt forgiveness	-	(9,471)	(1,034)	(98,650)
Government assistance	(1,250)	(1,250)	(3,750)	(3,750)
Deferred rent	6,596	6,596	19,788	19,788
Accretion and revaluation of government royalty program obligation	8,631	11,237	85,304	760,514
Stock-based compensation expense	522	9,861	71,483	71,456
	<u>(765,226)</u>	<u>(508,841)</u>	<u>(2,435,663)</u>	<u>(2,293,099)</u>
Changes in non-cash working capital components relating to operations				
Trade and other receivables	(1,285,442)	(110,181)	(706,462)	(1,228,941)
Inventories	(287,812)	(367,630)	(264,517)	(669,376)
Other current assets	72,046	42,147	(76,313)	(7,650)
Investment tax credits receivable	-	-	(223,635)	-
Trade payables	410,637	561,486	529,721	(1,828,405)
Accrued liabilities	(209,268)	(117,269)	(103,261)	(173,376)
Deferred revenues	355,595	84,983	331,842	353,250
Other operating liabilities	(20,382)	6,348	(682)	76,768
	<u>(964,626)</u>	<u>99,884</u>	<u>(513,307)</u>	<u>(3,477,730)</u>
	<u>(1,729,852)</u>	<u>(408,957)</u>	<u>(2,948,970)</u>	<u>(5,770,829)</u>
<b>Investing activities</b>				
Acquisition of property, plant and equipment	-	(21,523)	(25,323)	(46,041)
Acquisition of intangible assets	-	(31,765)	-	(84,442)
Proceeds from disposal of assets	1,336,087	-	1,841,005	8,414,519
Balance of sale	-	-	300,000	-
	<u>1,336,087</u>	<u>(53,288)</u>	<u>2,115,682</u>	<u>8,284,036</u>
<b>Financing activities</b>				
Increase (decrease) of bank loan	-	-	333,048	(500,000)
Repayment of loan from a shareholder of joint venture	-	(24,123)	-	(24,123)
Repayment of long-term debt	(25,389)	(24,795)	(63,531)	(160,699)
Repayment of government royalty program obligation	-	-	(60,000)	(790,000)
	<u>(25,389)</u>	<u>(48,918)</u>	<u>209,517</u>	<u>(1,474,822)</u>
Effect of exchange rate changes on cash	53,892	65,013	(136,010)	117,448
<b>Increase (decrease) in cash during the period</b>	<u>(365,262)</u>	<u>(446,150)</u>	<u>(759,781)</u>	<u>1,155,833</u>
<b>Cash – Beginning of period</b>	<u>949,595</u>	<u>1,991,073</u>	<u>1,344,114</u>	<u>389,090</u>
<b>Cash – End of period</b>	<u>584,333</u>	<u>1,544,923</u>	<u>584,333</u>	<u>1,544,923</u>
<b>Additional information</b>				
Interest paid	22,542	11,996	81,534	59,570

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

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**September 30, 2013**

---

(expressed in Canadian dollars)

### 1 Nature of business

#### a) Nature of business

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

#### b) Liquidity risk

The Company has realized an operating loss of \$843,176, had cash outflows from operations of \$2,948,970 for the period ended September 30, 2013 and finished the period with cash amounting to \$584,333, working capital of \$121,299 and had access to credit facilities totalling \$1,500,000 of which only \$531,000 has been used. The Company is currently in breach of its TPC agreement but negotiating its payment term. During the fourth quarter of 2012, management 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 revised budget and forecast for 2013 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 beyond December 31, 2013.

The Company is thus faced with uncertainties that may have an impact on future operating results and liquidity. 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 2013 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.

# **Xebec Adsorption Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**September 30, 2013**

(expressed in Canadian dollars)

---

### **2 Basis of preparation**

These condensed consolidated interim financial statements, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statement, including IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for annual financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012, as they follow the same accounting policies and methods of application, unless otherwise indicated. These condensed consolidated interim financial statements were approved by the Board of Directors on November 11, 2013.



# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2013

(expressed in Canadian dollars)

### 3 Property, plant and equipment

	Machinery and equipment	Office furniture and equipment	Computers	Moulds	Vehicles	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balance at December 31, 2012	446,738	98,960	226,716	82,367	35,984	9,542	900,307
Disposals	(4,230)	(14,531)	(32,293)	-	-	(9,458)	(60,512)
Additions	25,323	-	-	-	-	-	25,323
Effect of movements in exchange rates	5,138	3,425	5,377	4,280	-	( 84)	18,136
Balance at September 30, 2013	472,969	87,854	199,800	86,647	35,984	-	883,254
<b>Accumulated amortization</b>							
Balance at December 31, 2012	186,049	79,436	185,335	51,977	17,992	9,542	530,331
Amortization	32,468	10,589	12,480	12,366	5,398	-	73,301
Disposals	(3,160)	(11,625)	(31,351)	-	-	(9,458)	(55,594)
Effect of movements in exchange rates	3,101	2,976	4,757	2,861	-	( 84)	13,611
Balance at September 30, 2013	218,458	81,376	171,221	67,204	23,390	-	561,649
<b>Carrying Amount</b>							
At December 31, 2012	260,689	19,524	41,381	30,390	17,992	-	369,976
<b>At September 30, 2013</b>	<b>254,511</b>	<b>6,478</b>	<b>28,579</b>	<b>19,443</b>	<b>12,594</b>	<b>-</b>	<b>321,605</b>

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2013

(expressed in Canadian dollars)

### 4 Intangible assets

	Customer relations \$	Other Software \$	Internally generated Engineering drawings \$	Total intangible assets \$	Goodwill \$
<b>Cost</b>					
Balance at December 31, 2012	1,900,000	245,573	4,700	2,150,273	142,616
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Effect of movements in exchange rates	-	4,537	-	4,537	-
Balance at September 30, 2013	1,900,000	250,110	4,700	2,154,810	142,616
<b>Accumulated amortization</b>					
Balance at December 31, 2012	950,000	217,315	4,700	1,172,015	-
Amortization of the period	118,750	8,183	-	126,933	-
Disposals	-	-	-	-	-
Effect of movements in exchange rates	-	4,226	-	4,226	-
Balance at September 30, 2013	1,068,750	229,724	4,700	1,303,174	-
<b>Carrying Amount</b>					
At December 31, 2012	950,000	28,258	-	978,258	142,616
<b>At September 30, 2013</b>	<b>831,250</b>	<b>20,386</b>	-	<b>851,636</b>	<b>142,616</b>

For the nine-month period ended September 30, amortization of \$126,933 (2012 - \$255,107) is included in the consolidated statement of income (loss): \$3,604 (2012 - \$49,814) in 'cost of goods sold' and \$123,329 (2012 - \$205,293) in 'selling and administrative expenses'.

For the three-month period ended September 30, amortization of \$42,324 (2012 - \$69,494) is included in the consolidated statement of income (loss): \$627 (2012 - \$227) in 'cost of goods sold' and \$41,697 (2012 - \$69,267) in 'selling and administrative expenses'.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**September 30, 2013**

(expressed in Canadian dollars)

### 5 Share capital

Earnings (loss) per share

i) Basic

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

	<u>For the three-month period ended September 30,</u>		<u>For the nine-month period ended September 30,</u>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net income (loss) attributable to owners of the parent	498,992	(734,538)	(987,969)	1,875,951
Weighted average number of common shares in issue	<u>39,363,867</u>	<u>39,363,867</u>	<u>39,363,867</u>	<u>39,363,867</u>
	<u>0.01</u>	<u>(0.02)</u>	<u>(0.03)</u>	<u>0.05</u>

ii) Diluted

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

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2013

(expressed in Canadian dollars)

	<u>For the three-month period ended September 30,</u>		<u>For the nine-month period ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net income (loss) attributable to owners of the parent	498,992	(734,538)	(987,969)	1,875,951
Weighted average number of common shares in issue	39,363,867	39,363,867	39,363,867	39,363,867
Dilutive effect of stock options	2,400,000	-	-	3,121,838
Diluted weighted average number of shares	41,763,867	39,363,867	39,363,867	42,485,705
	0.01	(0.02)	(0.03)	0.04
Items excluded from the calculation of diluted net income per share because the exercise price was greater than the average market price of the common shares or due to their anti-dilutive effect				
Stock options	1,965,554	3,144,051	4,365,554	22,213
Warrants (number of equivalent shares)	4,541,349	4,541,349	4,541,349	4,541,349

## 6 Stock options

The stock option plan (the “2010 Plan”) allowed for the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based awards. Under the 2010 Plan, common shares approved for issuance under all stock-based compensation arrangements were limited to the greater of 591,560 and 10% of the common shares issued and outstanding.

The Compensation Committee has recommended to the directors, on May 9, 2013, who have approved, on May 9, 2013, the renewal of the 2010 Plan and that it be amended and restated in order (i) to change the name of the plan to “Xebec Adsorption 2013 Amended and Restated Omnibus Plan” (the “2013 Plan”) and (ii) to change the relevant provisions therein so that the aggregate number of Common shares which could be granted pursuant to the 2013 Plan not exceed 15% of all issued and outstanding common shares of the Company from time to time (versus 10% in the Plan). The 2013 Plan was approved by the Shareholders on June 13, 2013. As at September 30, 2013, the maximum number of common shares available for issuance under all stock-based compensation arrangements is 5,904,580.

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2013

(expressed in Canadian dollars)

### 7 Research and development expenses

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2013 \$	2012 \$	2013 \$	2012 \$
Employee benefits	53,158	5,994	197,484	15,299
Professional fees	4,500	-	57,005	-
Material	5,926	16,037	12,426	29,216
Office expense	-	592	1,180	1,019
Travel expenses	648	-	648	1,645
Government Grants	(1,250)	(1,250)	(3,750)	(3,750)
Tax credit	-	-	(223,635)	-
	<u>62,982</u>	<u>21,373</u>	<u>41,358</u>	<u>43,429</u>

### 8 Expenses by nature

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2013 \$	2012 \$	2013 \$	2012 \$
Employee benefits	1,158,659	1,767,599	4,393,810	4,717,970
Material	717,074	1,454,182	3,632,893	3,705,445
Subcontracting costs	85,013	237,474	776,814	676,545
Travel expenses	137,163	166,667	557,309	518,500
Professional fees	98,893	116,761	455,214	493,240
Rent and repairs and maintenance	176,686	219,111	510,783	667,447
Other	117,854	33,140	362,278	290,179
Office expense	94,730	107,954	295,345	392,037
Amortization	65,140	95,056	200,234	372,452
Stock-based compensation	521	9,861	71,483	71,456
Commission	-	-	36,032	-
	<u>2,651,733</u>	<u>4,207,805</u>	<u>11,292,195</u>	<u>11,905,271</u>

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2013

(expressed in Canadian dollars)

### 9 Gain on disposition of assets

On March 22, 2012, the Company sold to Air Products and Chemicals Inc. (“Air Products”) its intellectual property (“IP”) portfolio, including the patents and patent applications relating to its gas separation technology. In this transaction, the Company has also transferred ownership of its research and development facilities in Burnaby and Surrey, as well as other equipment located in British Columbia.

This agreement also foresees future proceeds related to the achievement of certain conditions to be met by Xebec within the next 6 months. The Company met one milestone during the quarter.

### 10 Finance expenses

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2013 \$	2012 \$	2013 \$	2012 \$
Accretion and revaluation of government royalty program obligation	8,630	11,236	85,303	760,513
Interest and bank charges	7,661	9,640	44,924	33,800
Interest charges	14,625	1,610	35,752	20,482
Interest on long-term debt	288	749	1,002	3,691
	<u>31,204</u>	<u>23,235</u>	<u>166,981</u>	<u>818,486</u>

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2013

(expressed in Canadian dollars)

### 11 Related party transactions

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

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2013 \$	2012 \$	2013 \$	2012 \$
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	25,840	15,437	76,618	51,070
Sales to entities controlled by a Company director	93,669	3,579	329,987	21,992
Sale of property, plant and equipment to an entity controlled by a Company director	-	-	4,918	-
Management fees paid to an entity controlled by a Company director	10,516	-	26,693	-
Repayment of loan from a Company director	-	24,123	-	24,123
Cash advances to an entity controlled by a Company director	-	-	207,076	-
Accrued interest on loan from a Company director	-	163	-	1,841

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

# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2013

(expressed in Canadian dollars)

### 12 Segmented information

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

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

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2013 \$	2012 \$	2013 \$	2012 \$
<b>Revenue</b>				
Korea	18,228	314,150	2,359,911	492,362
United States	833,729	632,753	2,216,688	1,683,394
Canada	445,445	654,145	1,614,261	2,556,043
China	240,952	186,197	712,216	569,375
Other	391,143	1,903,610	1,595,961	4,124,727
	<u>1,929,497</u>	<u>3,690,855</u>	<u>8,499,037</u>	<u>9,425,901</u>

Revenue summarized by product line is as follows:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2013 \$	2012 \$	2013 \$	2012 \$
<b>Product line</b>				
Natural gas dryers	813,229	886,202	3,058,740	2,054,848
Gas purification	341,513	2,181,809	2,429,181	5,228,685
Compressed gas filtration	774,755	564,164	2,783,268	1,597,596
Associated Gas	-	-	227,848	-
Air dryers	-	58,680	-	117,580
Engineering services	-	-	-	427,192
	<u>1,929,497</u>	<u>3,690,855</u>	<u>8,499,037</u>	<u>9,425,901</u>



# Xebec Adsorption Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**September 30, 2013**

(expressed in Canadian dollars)

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

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2013 \$	2012 \$	2013 \$	2012 \$
Customer A	-	107,553	1,146,315	125,861
Customer B	-	126,225	1,135,209	223,535
Customer C	-	1,077,737	-	2,043,381
Customer D	-	387,334	23,470	1,478,342
Customer E	-	403,976	51,919	1,027,724
	-	2,102,825	2,356,913	4,898,843

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

	September 30, 2013 \$	December 31, 2012 \$
<b>Non-current assets</b>		
Canada	1,441,058	1,982,855
Asia	74,799	107,995
	1,515,857	2,090,850