

Xebec Adsorption Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2012

(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

(expressed in Canadian dollars)

| | As at September 30, 2012 \$ | As at December 31, 2011 \$ |
|---|--------------------------------------|-------------------------------------|
| Assets | | |
| Current assets | | |
| Cash | 1,544,923 | 389,090 |
| Trade and other receivables | 3,673,783 | 2,444,842 |
| Inventories | 2,002,281 | 1,365,260 |
| Balance of sale short term portion | 200,000 | - |
| Investment tax credits receivable | 75,000 | 75,000 |
| Other current assets | 336,942 | 329,292 |
| Total current assets | 7,832,929 | 4,603,484 |
| Non-current assets | | |
| Balance of sale | 600,000 | 800,000 |
| Property, plant and equipment (note 4) | 325,523 | 548,671 |
| Intangible assets (note 5) | 1,048,112 | 3,988,317 |
| Goodwill (note 5) | 142,616 | 342,616 |
| Total non-current assets | 2,116,251 | 5,679,604 |
| Total assets | 9,949,180 | 10,283,088 |
| Liabilities | | |
| Current liabilities | | |
| Bank loan (note 3) | - | 500,000 |
| Trade payables | 2,620,460 | 4,547,515 |
| Accrued Liabilities | 1,022,449 | 1,195,825 |
| Deferred revenues | 2,710,245 | 2,506,474 |
| Current portion of long-term debt and obligation (note 3) | 74,798 | 141,786 |
| Current portion of Government royalty program obligation (note 3) | 213,319 | 195,949 |
| Provisions | 95,000 | 156,000 |
| Total current liabilities | 6,736,271 | 9,243,549 |
| Non-current liabilities | | |
| Loan from a related party (note 10) | - | 23,562 |
| Long-term debt and obligation (note 3) | 143,018 | 236,729 |
| Government royalty program obligation (note 3) | 706,116 | 752,972 |
| Government assistance | 23,333 | 27,083 |
| Deferred rent | 26,384 | 6,596 |
| Provisions | 437,486 | 299,718 |
| Total non-current liabilities | 1,336,337 | 1,346,660 |
| Total liabilities | 8,072,608 | 10,590,209 |
| Equity (Deficiency) | | |
| Share capital | 19,732,623 | 19,802,272 |
| Contributed surplus | 2,309,655 | 2,168,550 |
| Accumulated other comprehensive loss | 8,364 | (71,521) |
| Deficit | (20,335,842) | (22,211,793) |
| | 1,714,800 | (312,492) |
| Non-controlling interest | 161,772 | 5,371 |
| Total equity | 1,876,572 | (307,121) |
| Total liabilities and equity | 9,949,180 | 10,283,088 |

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)

(Unaudited)

(expressed in Canadian dollars)

| | For the three-month period ended September 30, | | For the nine-month period ended September 30, | |
|--|---|------------------|--|------------------|
| | 2012 \$ | 2011 \$ | 2012 \$ | 2011 \$ |
| Revenue | 3,690,855 | 2,945,291 | 9,425,901 | 11,504,851 |
| Cost of goods sold | <u>2,570,519</u> | <u>1,745,501</u> | <u>7,458,052</u> | <u>7,401,155</u> |
| Gross margin | <u>1,120,336</u> | <u>1,199,790</u> | <u>1,967,849</u> | <u>4,103,696</u> |
| Research and development expenses (note 8) | 21,373 | 100,765 | 43,429 | 487,105 |
| Selling and administrative expenses | 1,637,286 | 1,172,809 | 4,447,219 | 4,865,574 |
| Foreign exchange loss (gain) | 91,799 | 36,409 | 109,532 | (91,516) |
| Gain on disposition of assets (note 3) | - | (2,275,092) | (5,445,961) | (2,275,092) |
| Gain on revaluation of investment | - | 138,105 | - | 138,105 |
| | <u>1,750,458</u> | <u>(827,004)</u> | <u>(845,781)</u> | <u>3,124,176</u> |
| Operating Income (Loss) | <u>(630,122)</u> | <u>2,026,794</u> | <u>2,813,630</u> | <u>979,520</u> |
| Finance income | (32,489) | (192) | (35,908) | (9,348) |
| Finance expense (note 9) | <u>23,235</u> | <u>229,350</u> | <u>818,486</u> | <u>449,607</u> |
| Finance costs – net | <u>(9,254)</u> | <u>229,158</u> | <u>782,578</u> | <u>440,259</u> |
| Net income (loss) for the period | <u>(620,868)</u> | <u>1,797,636</u> | <u>2,031,052</u> | <u>539,261</u> |
| Earnings (loss) attributable to: | | | | |
| Shareholders of the Company | (734,538) | 1,766,337 | 1,875,951 | 507,962 |
| Non-controlling interest | 113,670 | 31,299 | 155,101 | 31,299 |
| | <u>(620,868)</u> | <u>1,797,636</u> | <u>2,031,052</u> | <u>539,261</u> |
| Earnings (loss) per share | | | | |
| Basic (note 6) | (0.02) | 0.04 | 0.05 | 0.01 |
| Diluted (note 6) | <u>(0.02)</u> | <u>0.04</u> | <u>0.04</u> | <u>0.01</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)

(Unaudited)

(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>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> |
| | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Net income (loss) for the period | (620,868) | 1,797,636 | 2,031,052 | 539,261 |
| Other comprehensive income | | | | |
| Cumulative translation adjustment | <u>62,607</u> | <u>(188,993)</u> | <u>81,185</u> | <u>(176,937)</u> |
| Comprehensive income (loss) for the period | <u>(558,261)</u> | <u>1,608,643</u> | <u>2,112,237</u> | <u>362,324</u> |
| Attributable to: | | | | |
| Shareholders of the Company | (672,910) | 1,598,186 | 1,955,836 | 351,867 |
| Non-controlling interest | <u>114,649</u> | <u>10,457</u> | <u>156,401</u> | <u>10,457</u> |
| | <u>(558,261)</u> | <u>1,608,643</u> | <u>2,112,237</u> | <u>362,324</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 (Deficiency)

(Unaudited)

(expressed in Canadian dollars)

| | Number | | Amount | | | | | | |
|--|---------------|-------------|---|------------------------|--|--------------|---------------------------------------|-----------------------------|-----------|
| | Common shares | Warrants | Share capital – Common shares and warrants \$ | Contributed surplus \$ | Accumulated other comprehensive income (loss) \$ | Deficit \$ | Equity attributable to the Company \$ | Non-controlling interest \$ | Total \$ |
| Balance – January 1, 2011 | 39,363,867 | 15,456,424 | 19,964,218 | 1,841,741 | 72,622 | (20,764,670) | 1,113,911 | - | 1,113,911 |
| Net loss for the period | - | - | - | - | - | 507,962 | 507,962 | 31,299 | 539,261 |
| Other comprehensive income (net of tax) | - | - | - | - | (156,095) | - | (156,095) | (20,842) | (176,937) |
| Comprehensive income (loss) for the period | - | - | - | - | (156,095) | 507,962 | 351,867 | 10,457 | 362,324 |
| Expired warrants | - | (4,798,288) | (161,946) | 161,946 | - | - | - | - | - |
| Share-based compensation | - | - | - | 62,948 | - | - | 62,948 | - | 62,948 |
| Balance – September 30, 2011 | 39,363,867 | 10,658,136 | 19,802,272 | 2,066,635 | (83,473) | (20,256,708) | 1,528,726 | 10,457 | 1,539,183 |
| Balance – January 1, 2012 | 39,363,867 | 10,658,136 | 19,802,272 | 2,168,550 | (71,521) | (22,211,793) | (312,492) | 5,371 | (307,121) |
| Net income (loss) for the period | - | - | - | - | - | 1,875,951 | 1,875,951 | 155,101 | 2,031,052 |
| Other comprehensive income (net of tax) | - | - | - | - | 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 |
| Balance – September 30, 2012 | 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 |

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

(Unaudited)

(expressed in Canadian dollars)

| | For the three-month period ended September 30, | | For the nine-month period ended September 30, | |
|--|---|--------------------|--|--------------------|
| | 2012 \$ | 2011 \$ | 2012 \$ | 2011 \$ |
| Cash flows from | | | | |
| Operating activities | | | | |
| Net income (loss) for the period | (620,868) | 1,797,636 | 2,031,052 | 539,261 |
| Items not affecting cash | | | | |
| Amortization of property, plant and equipment | 25,560 | 80,269 | 117,345 | 305,851 |
| Amortization of intangible assets | 69,494 | 129,626 | 255,107 | 388,592 |
| Gain on disposal of property, plant and equipment | | (2,275,092) | | (2,275,092) |
| Gain on disposition of assets (note 3) | - | - | (5,445,961) | - |
| Gain on debt forgiveness | (9,471) | (77,869) | (98,650) | (77,869) |
| Government assistance | (1,250) | (1,250) | (3,750) | (3,750) |
| Unrealized foreign exchange loss on loan to a joint venture and restricted cash | - | - | 561 | (1,602) |
| Loss on loan to a joint venture | - | 138,105 | - | 138,105 |
| Accretion and revaluation of government royalty program obligation | 11,237 | 129,173 | 760,514 | 236,345 |
| Stock-based compensation expense | 9,861 | 60,253 | 71,456 | 62,948 |
| | <u>(515,437)</u> | <u>(19,149)</u> | <u>(2,312,326)</u> | <u>(687,211)</u> |
| Changes in non-cash working capital components relating to operations | | | | |
| Trade and other receivables | (110,181) | (867,328) | (1,228,941) | (1,055,528) |
| Inventories | (367,630) | (137,326) | (669,376) | 660,505 |
| Investment tax credits receivable | - | - | - | 28,489 |
| Other current assets | 42,147 | (261,335) | (7,650) | (210,552) |
| Trade payables and accrued liabilities | 444,217 | (72,462) | (2,001,781) | (1,413,950) |
| Deferred revenues | 84,983 | 859,990 | 353,250 | 595,420 |
| Income taxes payable (recoverable) | - | - | - | (8,286) |
| Other operating liabilities | 6,348 | (295,756) | 76,768 | (888,114) |
| | <u>99,884</u> | <u>(774,217)</u> | <u>(3,477,730)</u> | <u>(2,292,016)</u> |
| | <u>(415,553)</u> | <u>(793,366)</u> | <u>(5,790,056)</u> | <u>(2,979,227)</u> |
| Investing activities | | | | |
| Acquisition of property, plant and equipment | (21,523) | (692) | (46,041) | (692) |
| Acquisition of intangible assets | (31,765) | - | (84,442) | - |
| Net proceed from disposal of property, plant and equipment | | 2,462,076 | | 2,470,504 |
| Proceeds from disposal of assets (note 3) | - | - | 8,414,519 | - |
| Cash acquired on acquisition of a business | - | 47,066 | - | 47,066 |
| Decrease in restricted cash | - | (500,458) | - | (3,579) |
| | <u>(53,288)</u> | <u>2,007,992</u> | <u>8,284,036</u> | <u>2,513,299</u> |
| Financing activities | | | | |
| Repayment of bank loan | - | - | (500,000) | - |
| Increase in long-term debt | - | - | - | 9,568 |
| Repayment of loan from a shareholder of joint venture | (24,123) | - | (24,123) | - |
| Repayment of long-term debt | (24,795) | (1,663,464) | (160,699) | (1,728,133) |
| Repayment of government royalty program obligation | - | - | (790,000) | - |
| | <u>(48,918)</u> | <u>(1,663,464)</u> | <u>(1,474,822)</u> | <u>(1,718,565)</u> |
| Effect of exchange rate changes on cash | 71,609 | (177,602) | 136,675 | (165,144) |
| Increase (decrease) in cash during the period | (446,150) | (626,440) | 1,155,833 | (2,349,637) |
| Cash – Beginning of period | 1,991,073 | 539,076 | 389,090 | 2,262,273 |
| Cash – End of period | 1,544,923 | (87,364) | 1,544,923 | (87,364) |
| Additional information | | | | |
| Income tax recovered | - | - | - | (8,286) |
| Interest paid | 11,996 | 108,160 | 59,570 | 220,839 |

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, 2012

(expressed in Canadian dollars)

1 Nature of business

Xebec Adsorption Inc. (“Xebec” or the “Company”) is a global provider of clean energy solutions to corporations and governments looking to reduce their carbon footprint. The Company is incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The address of its registered office is 730 Industriel Boulevard, Blainville, Quebec, Canada.

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, 2011, as they follow the same accounting policies and methods of application, unless otherwise indicated. These consolidated interim financial statements were approved by the Board of Directors on November 12, 2012.

3 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.

Pursuant to this transaction, The Company has received aggregate gross proceeds of CAD\$8,600,000 and net proceeds of approximately CAD\$8,415,000. This agreement also foresees future proceeds related to the achievement of certain conditions to be met by Xebec within the next 24 months. With the net proceeds received, the Company reimbursed its bank loan of \$500,000 and its subordinated loan of \$83,700.

The Company has also entered into a license agreement with Air Products allowing it to continue using the gas separation technology to sell its systems, predominantly in the biogas, natural gas and associated gas purification markets.

The Company will utilize its non-capital losses carried forward to offset the taxable gain resulting from this sale.

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

September 30, 2012

(expressed in Canadian dollars)

The following table summarizes the gain on disposition of assets:

| | March 22, 2012 |
|-------------------------------|-----------------------|
| | \$ |
| Gross proceeds | 8,600,000 |
| Transaction fees | (185,481) |
| | <hr/> |
| Net proceeds | 8,414,519 |
| Goodwill disposition | (200,000) |
| Carrying value of assets | (2,918,037) |
| Others | 149,479 |
| | <hr/> |
| Gain on disposition of assets | <u>5,445,961</u> |

In conjunction with the closing of the IP transaction, the Company signed a settlement agreement with Technology Partnership Canada (“TPC”) with regard to its Fast Cycle Pressure Swing Adsorption and Gas Management systems and Pulsar Pressure Swing Adsorption project. The Company had to pay \$250,000 at the execution of the agreement and \$1,000,000 spread over four equal annual non-interest bearing payments. Furthermore, the Company is liable to pay up to \$750,000 in contingent payments based on cumulative funds generated from the sale by the Company of its intellectual property. Upon closing of the transaction, the company paid \$540,000 out of the \$750,000 total contingent based payments.

The following table summarizes the activity related to the government royalty program obligation during the period:

| | |
|------------------------------|-----------|
| Balance- Beginning of period | 948,921 |
| Accretion interests | 78,234 |
| Loss on revaluation | 682,280 |
| Repayment | (790,000) |
| | <hr/> |
| Balance- End of period | 919,435 |

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

September 30, 2012

(expressed in Canadian dollars)

4 Property, plant and equipment

| | Machinery and equipment | Office furniture and equipment | Computers | Moulds | Vehicles | Leasehold improvements | Total |
|---------------------------------------|--|---|------------------|---------------|-----------------|-----------------------------------|----------------|
| Cost | | | | | | | |
| Balance at December 31, 2011 | 742,821 | 107,230 | 338,157 | 67,648 | 71,968 | 663,023 | 1,990,847 |
| Disposals (note 3) | (363,788) | (11,911) | (155,863) | - | - | (415,523) | (947,085) |
| Additions | 18,234 | 3,878 | 23,608 | 321 | - | - | 46,041 |
| Effect of movements in exchange rates | (3,092) | (1,826) | (3,034) | (2,141) | - | (7,323) | (17,416) |
| Balance at September 30, 2012 | 394,175 | 97,371 | 202,868 | 65,828 | 71,968 | 240,177 | 1,072,387 |
| Accumulated amortization | | | | | | | |
| Balance at December 31, 2011 | 445,861 | 71,076 | 324,639 | 38,897 | 21,590 | 540,113 | 1,442,176 |
| Amortization | 43,054 | 14,354 | 12,701 | 9,948 | 10,796 | 26,492 | 117,345 |
| Disposals (note 3) | (312,993) | (10,641) | (155,863) | - | - | (319,103) | (798,600) |
| Effect of movements in exchange rates | (1,596) | (1,293) | (2,505) | (1,338) | - | (7,325) | (14,057) |
| Balance at September 30, 2012 | 174,326 | 73,496 | 178,972 | 47,507 | 32,386 | 240,177 | 746,864 |
| Carrying Amount | | | | | | | |
| At December 31, 2011 | 296,960 | 36,154 | 13,518 | 28,751 | 50,378 | 122,910 | 548,671 |
| Balance at September 30, 2012 | 219,849 | 23,875 | 23,896 | 18,321 | 39,582 | - | 325,523 |

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2012

(expressed in Canadian dollars)

5 Intangible assets

| | | | Other | Internally generated | | |
|---------------------------------------|-------------|--------------------|----------------|----------------------|-------------------------|----------------|
| | Patents | Customer relations | Software | Engineering drawings | Total intangible assets | Goodwill |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | | |
| Balance at December 31, 2011 | 3,315,985 | 1,900,000 | 214,074 | 4,700 | 5,434,759 | 342,616 |
| Additions | 52,677 | - | 31,765 | - | 84,442 | - |
| Disposals (note 3) | (3,368,662) | - | - | - | (3,368,662) | (200,000) |
| Effect of movements in exchange rates | - | - | (2,537) | - | (2,537) | - |
| Balance at September 30, 2012 | - | 1,900,000 | 243,302 | 4,700 | 2,148,002 | 142,616 |
| Accumulated amortization | | | | | | |
| Balance at December 31, 2011 | 549,835 | 678,572 | 213,335 | 4,700 | 1,446,442 | - |
| Amortization of the period | 49,275 | 203,571 | 2,261 | - | 255,107 | - |
| Disposals (note 3) | (599,110) | - | - | - | (599,110) | - |
| Effect of movements in exchange rates | - | - | (2,549) | - | (2,549) | - |
| Balance at September 30, 2012 | - | 882,143 | 213,047 | 4,700 | 1,099,890 | - |
| Carrying Amount | | | | | | |
| At December 31, 2011 | 2,766,150 | 1,221,428 | 739 | - | 3,988,317 | 342,616 |
| Balance at September 30, 2012 | - | 1,017,857 | 30,255 | - | 1,048,112 | 142,616 |

For the nine-month period ended September 30, 2012, amortization of \$255,107 (2011 - \$388,592) is included in the condensed interim consolidated statement of income (loss): \$49,814 (2011 - \$175,573) in 'cost of goods sold' and \$205,293 (2011 - \$213,019) in 'selling and administrative expenses'.

For the three-month period ended September 30, 2012, amortization of \$69,494 (2011 - \$129,626) is included in the condensed interim consolidated statement of income (loss): \$227 (2011 - \$58,572) in 'cost of goods sold' and \$69,267 (2011 - \$71,054) in 'selling and administrative expenses'.

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2012

(expressed in Canadian dollars)

6 Share capital

Earnings (loss) per share

i) Basic

Basic earnings (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> | |
|--|---|-------------------|--|-------------------|
| | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> |
| | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Net income (loss) attributable to owners of the parent | (734,538) | 1,766,337 | 1,875,951 | 507,962 |
| 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>\$(0.02)</u> | <u>\$0.04</u> | <u>\$0.05</u> | <u>\$0.01</u> |

ii) Diluted

Diluted loss 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.

| | <u>For the three-month period ended September 30,</u> | | <u>For the nine-month period ended September 30,</u> | |
|---|---|-------------------|--|-------------------|
| | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> |
| | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Weighted average number of common shares in issue - basic | 39,363,867 | 39,363,867 | 39,363,867 | 39,363,867 |
| Diluted effect of stock options | - | - | 3,121,838 | - |
| Weighted average number of common shares in issue - diluted | <u>39,363,867</u> | <u>39,363,867</u> | <u>42,485,705</u> | <u>39,363,867</u> |

Xebec Adsorption Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2012

(expressed in Canadian dollars)

7 Expenses by nature

| | For the three-month period ended September 30, | | For the nine-month period ended September 30, | |
|----------------------------------|---|------------------|--|-------------------|
| | 2012 \$ | 2011 \$ | 2012 \$ | 2011 \$ |
| Employee benefits | 1,767,599 | 1,530,376 | 4,717,970 | 5,027,006 |
| Stock-based compensation | 9,861 | 60,253 | 71,456 | 62,948 |
| Material | 1,454,182 | 775,396 | 3,705,445 | 4,003,404 |
| Subcontracting costs | 237,474 | 53,303 | 676,545 | 351,996 |
| Professional fees | 116,761 | 9,536 | 493,240 | 868,138 |
| Travel expenses | 166,667 | 124,416 | 518,500 | 432,028 |
| Rent and repairs and maintenance | 219,111 | 182,138 | 667,447 | 634,299 |
| Office expense | 107,954 | 128,980 | 392,037 | 383,296 |
| Amortization | 95,056 | 209,896 | 372,452 | 694,443 |
| Other | 33,140 | (155,984) | 290,179 | (190,829) |
| | <u>4,207,805</u> | <u>2,918,310</u> | <u>11,905,271</u> | <u>12,266,729</u> |

8 Research and development expenses

| | For the three-month period ended September 30, | | For the nine-month period ended September 30, | |
|-----------------------------------|---|----------------|--|----------------|
| | 2012 \$ | 2011 \$ | 2012 \$ | 2011 \$ |
| Research and development expenses | 22,623 | 102,015 | 47,179 | 563,182 |
| Government grants | (1,250) | (1,250) | (3,750) | (76,077) |
| | <u>21,373</u> | <u>100,765</u> | <u>43,429</u> | <u>487,105</u> |

Xebec Adsorption Inc.

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September 30, 2012

(expressed in Canadian dollars)

9 Finance expenses

| | For the three-month period ended September 30, | | For the nine-month period ended September 30, | |
|---|---|----------------|--|----------------|
| | 2012 \$ | 2011 \$ | 2012 \$ | 2011 \$ |
| Interest and bank charges | 9,640 | 23,152 | 33,800 | 53,289 |
| Interest on bank loan | - | 19,594 | - | 28,505 |
| Interest on long-term debt and subordinated loan | 749 | 44,252 | 3,691 | 98,463 |
| Interest charges | 1,610 | 13,179 | 20,482 | 33,005 |
| Other finance charges – TPC | 11,236 | 129,173 | 760,513 | 236,345 |
| | <u>23,235</u> | <u>229,350</u> | <u>818,486</u> | <u>449,607</u> |

10 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, | |
|--|---|------------|--|------------|
| | 2012 \$ | 2011 \$ | 2012 \$ | 2011 \$ |
| Marketing and professional services expenses accrued to companies controlled by members of the immediate family of an officer | 15,437 | 11,946 | 51,070 | 26,529 |
| Sales to a shareholder of a subsidiary (a joint venture partner in 2011) | 3,579 | 32,984 | 21,992 | 73,588 |
| Accrued interest to a joint venture partner | - | - | - | 854 |
| Accrued interest on a loan from a Company director | 163 | - | 1,841 | - |
| Repayment of loan from a Company director | 24,123 | - | 24,123 | - |

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

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11 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, | |
|----------------|---|------------------|--|-------------------|
| | 2012 \$ | 2011 \$ | 2012 \$ | 2011 \$ |
| Revenue | | | | |
| Canada | 654,145 | 392,936 | 2,556,043 | 1,049,064 |
| India | 1,074,284 | - | 2,040,666 | - |
| United States | 632,753 | 1,214,268 | 1,683,394 | 7,131,294 |
| Japan | 397,125 | 58,574 | 1,102,285 | 154,664 |
| Other | 932,548 | 1,279,513 | 2,043,513 | 3,169,829 |
| | <u>3,690,855</u> | <u>2,945,291</u> | <u>9,425,901</u> | <u>11,504,851</u> |

Xebec Adsorption Inc.

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Revenue summarized by product line is as follows:

| Product line | For the three-month period ended September 30, | | For the nine-month period ended September 30, | |
|---------------------------|---|--------------------|--|--------------------|
| | 2012 \$ | 2011 \$ | 2012 \$ | 2011 \$ |
| Gas purification | 2,181,809 | 1,618,787 | 5,228,685 | 4,541,659 |
| Natural gas dryers | 886,202 | 688,959 | 2,054,848 | 2,721,266 |
| Compressed gas filtration | 564,164 | 344,928 | 1,597,596 | 1,237,136 |
| Engineering services | - | 257,134 | 427,192 | 1,383,281 |
| Licensing | - | - | - | 1,464,887 |
| Air dryers | 58,680 | 35,483 | 117,580 | 156,622 |
| | <u>3,690,855</u> | <u>2,945,291</u> | <u>9,425,901</u> | <u>11,504,851</u> |

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, | |
|------------|---|--------------------|--|--------------------|
| | 2012 \$ | 2011 \$ | 2012 \$ | 2011 \$ |
| Customer A | 1,077,737 | - | 2,043,381 | - |
| Customer B | 387,334 | 106,904 | 1,478,342 | 164,060 |
| Customer C | 403,976 | 58,574 | 1,027,724 | 154,664 |
| | <u>1,869,047</u> | <u>165,478</u> | <u>4,549,447</u> | <u>318,724</u> |

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

| | As at September 30, 2012 \$ | As at December 31, 2011 \$ |
|---------------------------|--|---|
| Non-current assets | | |
| Canada | 2,014,176 | 5,563,424 |
| Asia | 102,075 | 116,180 |
| | <u>2,116,251</u> | <u>5,679,604</u> |

Xebec Adsorption Inc.

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12 Subsequent event

On October 23, 2012, the Company received additional proceeds of \$1.0 million pursuant to its intellectual property transaction of March 22, 2012.