Xebec Adsorption Inc.

Management's Discussion and Analysis
For the three -month period and the fiscal year ended December 31, 2013

April 25th, 2014

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

1. ABOUT THIS MANAGEMENT DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") provides a review of the results of operations, financial conditions and cash flows of Xebec for the three-month and fiscal year ended December 31, 2013. This discussion should be read in conjunction with the information contained in the Company's audited consolidated financial statements and related notes for the year ended December 31, 2013 and 2012. Additional information, including our annual information form (AIF), can be found on SEDAR at www.sedar.com.

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

In this MD&A, unless otherwise indicated or required by the context, "Xebec", "the Company", "we", "us", "our", "our Company", "the Group" and "our Group" designate, as the case may be, Xebec Adsorption Inc. or Xebec Adsorption Inc. and its subsidiaries. The Company's other subsidiaries are designated as follows: "Xebec SEA" for Xebec Adsorption South East Asia PTE. Ltd., "Xebec USA" for Xebec Adsorption USA, inc. and "Xebec Shanghai" for Xebec Adsorption (Shanghai) Co. Ltd. Also, the fiscal year ending December 31, 2013 and those ended December 31 of prior years are sometimes designated by the terms "fiscal 2013", "fiscal 2012" and so on.

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

The information contained in this Management's Report accounts for any major event occurring up to April 25th, 2014, the date on which the Board of Directors approved the consolidated financial statements and Management's Report for the year ended December 31, 2013. It presents the Company's status and business context as they were, to management's best knowledge, at the time this report was written.

FORWARD-LOOKING STATEMENTS

This Management Discussion and Analysis ("MD&A") contains forward-looking statements, including statements regarding the future success of the Company's business, technology, and market opportunities. Forward-looking statements typically contain words such as "believes", "expects", "anticipates", "continues", "could", "indicates", "plans", "will", "intends", "may", "projects", "schedules", "would" or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: (i) actions expected to be undertaken to achieve the Company's strategic goals; (ii) the key market drivers impacting the Company's success; (iii) intentions with respect to future biogas development work; (iv) expectations regarding business activities and orders that may be received in fiscal 2014 and beyond; (v) trends in, and the development of, the Company's target markets; (vi) the Company's market opportunities; (vii) the benefits of the Company's products, (viii) the intention to enter into agreements with partners; (ix) future outsourcing; (x) expectations regarding competitors; (xi) the expected impact of the described risks and uncertainties; (xii) intentions with respect to the payment of dividends; (xiii) the management of the Company's liquidity risks in light of the prevailing economic conditions; (xiv) the Company's cost reduction plan; and (xv) the search for additional financing over the next months. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause the Company's actual results, level of activity or performance to be materially different from any future results, levels of activity or performance expressed in or implied by these forward-looking statements. These risks include, generally, risks related to revenue growth, operating results, industry and products, technology, competition, the economy and other factors described in detail in Xebec's Annual Information Form for the year ended December 31, 2013 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.

Compliance with International Financial Reporting Standards

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

2. DESCRIPTION OF THE BUSINESS

CORPORATE OVERVIEW

General

Xebec is a Canadian provider of biogas upgrading, natural gas, field gas and hydrogen purification solutions for the clean energy and crude-derived fuels displacement markets. Xebec designs, engineers and manufactures innovative products that transform raw gases into marketable sources of clean energy mainly used as transportation fuel. Xebec is focused on establishing leadership positions in 4 key markets where demand for biogas upgrading, natural gas purification, associated gas purification and hydrogen purification is growing. Headquartered in Blainville (QC), Xebec also operates two manufacturing facilities in Blainville and Shanghai, as well as a sales and distribution network in North America, and Asia. Xebec (www.xebecinc.com) shares trade on the Toronto Stock Exchange Venture ("TSXV") under the symbol XBC-V. Since February 25th 2014, Xebec has opened a sales office in Houston, Texas (USA), in order to cover sales opportunities in the United States.

Xebec's products and services are an essential part of a growing industry of transforming raw gases into marketable sources of clean energy.

Xebec's head office is in Blainville, Quebec in a 41,753 square foot manufacturing facility in which 57 people are currently employed. The Blainville operation houses corporate finance, sales for natural gas, associated gas and biogas purification products, aftermarket support, global supply chain, operational engineering, manufacturing of gas separation and purification equipment and service and maintenance support.

Xebec's Asian 20,451 square foot manufacturing facility is located in the Song Jiang district of Shanghai, Peoples Republic of ("China"). This facility employs 30 people and is responsible for product engineering and assembly using components manufactured in the greater Shanghai industrial area. The facility also provides shared services including supply chain and engineering support to Xebec's head office. Xebec Shanghai is also responsible for sales of Xebec's products, marketing, technical and after-sales support for the Asian and South East Asian markets.

Xebec USA is located in Houston, Texas. The primary role of Xebec USA is to handle sales from the United States. This facility currently employs two employees.

Xebec opened in the first quarter of 2009 along with Angstrom, a regional sales office in Singapore and the office will be closed during the year 2014. Since January 1st 2013, Xebec sells Xebec's products in South East Asia through Bireme PTE Limited, a reseller owned by a former director of Xebec Singapore. Bireme provides local support and service to the South East Asian customer base including customers in Thailand, Malaysia, Indonesia, the Philippines, Vietnam, Brunei, Sri Lanka, Bangladesh and Pakistan. Bireme is primarily supplied by Xebec Shanghai.

Technology and Application

Overview.

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

Adsorption Technology.

Adsorption is a process that occurs when a gas or liquid (solute) accumulates on the surface of a solid or a liquid (adsorbent) forming a film of molecules or atoms (adsorbate). This process differs from the absorption process, in which a substance diffuses into a liquid or a solid to form a solution. Xebec designs, develops, builds, sells, and services engineered adsorption and filtration products for industrial air and gas purification and separation applications employing the principles of PSA and Temperature Swing Adsorption ("TSA").

Adsorbents are a class of materials that have the property whereby gas molecules adhere to their surface. Because some molecules will adhere preferentially over others, by selecting the right adsorbent material it is possible to selectively remove an impurity from a gas stream. To maximize capacity, adsorbents are made with an extremely high porosity, with the result that for a small quantity of adsorbent material, there is a very high surface area available for the impurities to be adsorbed. Once an adsorbent is laden with adsorbed molecules, it can be regenerated for re use in two ways. The first method is to reduce the pressure from normal operating conditions of 80 pounds per square inch to 160 pounds per square inch down to between 0 and 1 pound per square inch, at which point most of the adsorbed molecules are released. The second method is to regenerate using heat. By raising the adsorbent to temperatures of 200°C or higher, the adsorbed molecules are driven off. The adsorbent must then be cooled down to be ready for the next cycle.

The adsorbents and zeolites used by Xebec differ from conventional adsorbents in that their pore sizes are smaller and more orderly structured. This means that some molecules are physically too large to enter the pore, so that the selectivity for adsorption is determined by which molecules can actually enter the zeolite pore. In this way they act just like a sieve, therefore their common name - molecular sieve. One important property of adsorbents is their ability to remove impurities at very low concentrations. This means they can be used to purify a gas to a very high degree of purification. Certain adsorbents have larger pore sizes and are both used for removal of bulk quantities of impurities since they have a high loading capacity needed when impurity concentrations are high.

The purification of a gas implies the removal of a trace impurity or contaminant. The drying of air can be classified in this category since water molecules, considered as the contaminant in drying applications, are selectively adsorbed onto an adsorbent material as air passes over it. The impure moist air passes through the adsorbent material and the purified dry air is then released. Once the adsorbent material is saturated with water molecules, the adsorbed water can be released by changing the conditions under which it originally adhered in the first place. This regenerates the adsorbent so it can be used again. The principles of adsorption are not limited to the extraction of water, extending too many more types of gas purification. For instance, if the appropriate adsorbent material is used and other conditions are favorable, it is possible to selectively remove the carbon dioxide from air, to separate nitrogen from oxygen, or to dry any other gas such as natural gas.

Pressure Swing Adsorption (PSA).

Pressure swing adsorption is a widely used technology for the purification of gases. This regeneration process is accomplished by reducing the pressure. At the moderate pressures found in compressed air systems, such as 100 pounds per square inch, an adsorbent can support a certain amount of moisture. When that pressure is dropped to ambient air pressure, the adsorbent can only support a smaller amount of moisture. By swinging the pressure from high to low, it is possible to adsorb large quantities of moisture at the higher pressure, and then release that moisture at the low pressure. This technique is called pressure swing adsorption. By alternating between two adsorbent filled vessels, one vessel being on line and removing moisture at high pressure, and the other off line releasing the trapped moisture at low pressure, it is possible to thoroughly dry a gas.

Temperature Swing Adsorption (TSA).

Another method uses temperature in order to regenerate the adsorbent. At low temperatures, adsorbents can retain significant amounts of water. At temperatures above 200°C, however, adsorbents hold almost none. By swinging the temperature from low to high, it is possible to adsorb large quantities of moisture at a low temperature, such as 40°C, and release it at the high temperature.

Conventional PSA Technology.

Conventional PSA systems used today in industry are made up of four to sixteen large vessels, connected by a complex network of piping and valves to switch the gas flows between the vessels. Despite their widespread use in industry, Xebec believes that conventional PSA systems suffer from a number of inherent disadvantages. These PSA systems typically operate at slow cycle speeds of 0.05 to 0.5 cycles/minute since faster cycle speeds would cause the adsorbent beads to float or fluidize in the vessel, causing the beads to wear and ultimately fail. To meet customer demands for capacity, conventional PSA systems must utilize large vessels to compensate for the slow cycle speeds, leading to higher costs and a large equipment footprint. The use of large vessels also means that these PSA systems are typically erected in the field, increasing installation costs. The network of piping and valves used in large scale PSA systems, with the associated instrumentation and process control equipment, also adds cost to the overall system.

Xebec's licensed PSA Technology.

On March 22, 2012, Xebec has sold and licensed back the patent portfolio it has developed to continue the marketing of its products. Management believes that its products solve some of the inherent disadvantages of conventional PSA systems. Xebec's licensed rotary valve technology replaces the complex and bulky network of piping and valves used in conventional PSA systems with two compact, integrated valves. These rotary valves are included in Xebec's advanced purification and separation products, and they speed up (or intensify) the rate at which gas can be flowed into a PSA system that uses adsorbent beads in the separation process. In turn, the process intensification allows the PSA to be reduced in size, requiring smaller vessels (compared to conventional PSAs) to purify a particular volume of product gas. In addition, Xebec has a license to structured adsorbent material, which avoids the fluidization limitation of beaded adsorbents. Xebec's licensed structured adsorbent and rotary valve technologies are integrated into some of its advanced hydrogen and biogas purification products, which operate at significantly higher cycle speeds (up to 50 cycles/minute) than conventional PSA systems. This results in a direct reduction in the amount of adsorbent material, the size of equipment and the amount of energy required to purify a given volume of feed gas.

Products

Xebec designs, develops, builds, sells, and services a range of biogas purification PSA systems (BGX Solutions), natural gas dryers for natural gas vehicle refueling stations and for natural gas upgrading (NGX Solutions), hydrogen purification PSA systems (H2X Solutions), helium purification PSA systems (SGX Solutions), field gas purification systems (AGX Solutions) and filtration and separation equipment (FSX Solutions).

MARKETS

Xebec mainly targets four key market and business segments focused on gaseous fuels used for transportation:

1- Biogas upgrading plants
2- Natural gas dehydration for NGV refueling stations
3- Hydrogen pressure swing adsorption ("PSA") for hydrogen recovery
4- Associated gas purification

Natural gas dryers for NGV refueling stations

Growing market

Cost leadership through Chinese manufacturing

Key Customers: Clean Energy, Petrochina, Sinopec, Shell

Biogas upgrading plants

Rapidly growing market

- High recovery, high purity, low energy plants

Key Customers: SEMPRA, Montauk Energy, Halla Engineering, Terasen Gas

Hydrogen purifiers for hydrogen recovery

Evolving market segment

- Market-leading performance for small-capacity hydrogen purifiers
- **Syngas purification**

Key Customers: HydroChem, Air Liquide, Linde, Iwatani

Associated Gas (Oil & Gas industry)

Evolving market segment

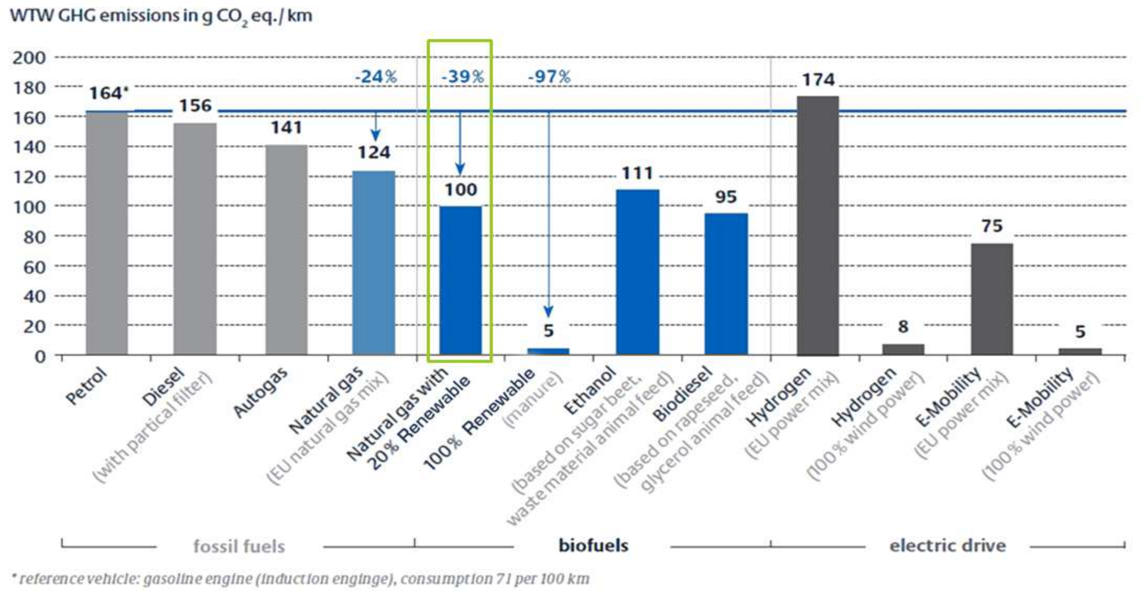
- Market-leading performance for associated gas purification

Key Customer: Venocco, Warren

Xebec's current strategy is based on a number of key market drivers and global macro trends driving the demand for Natural Gas and Renewable Gas as a low carbon cleaner energy source of transportation fuel, amongst them are:

- The abundance and low cost of Natural Gas;
- The rising price of oil and need for greater energy independence and security;
- Climate Changes and the urgent need to reduce greenhouse gas emission (GHG);
- Gas flaring reduction targets;
- The growing government commitments to renewable energy;
- Diesel displacement in favor of natural gas; and
- Technological advancements.

These market drivers are anticipated to fuel demand for renewable gas. The low cost of natural gas and biogas drives the demand for solutions aimed at displacing diesel and other crude oil derivatives for power applications for transportation and oil rigs, therefore creating new business opportunities for Xebec.



COMPETITION

Xebec faces competition within its target markets primarily from other manufacturers of biogas purification, natural gas, associated gas and hydrogen purification equipment. The natural gas and biogas purification and separation market has not yet seen considerable consolidation, unlike other industrial or renewable industries. Most competitors of Xebec today are small to medium companies working in niche segments of the natural gas and biogas business.

BGX Solutions: In the emerging biogas purification market, Xebec expects to compete with manufacturers of competing technologies including membrane separation, amine and water wash systems, as well as advanced and conventional adsorption based systems for the purification of biogas. These competitors include, Acrion Technologies Inc. *[USA]*, Cirmac International BV *[The Netherlands]*, Läckeby Water Group (PURAC) *[Sweden]*, Guild Associates Inc *[USA]*, MT-Biomethan GMBH *[Germany]*, Carbotech AC GmbH *[Germany]*, Haase Energietechnik AG *[Germany]*, Ros Roca Group *[Spain]*, Flotech/Greenlane *[Canada]*, Yit Vatten Och Misjoteknik *[Sweden]*, Air Liquide *[Canada]*, MalmBerg Water AB *[Sweden]* and A.R.C. Technologies Corp *[USA]*.

NGX Solutions: In the natural gas dryer market Xebec competes with a number of companies who manufacture gas dryers. These companies include SPX Corp. *[USA]*, Parker Hannifin Corporation *[USA]*, Aircel Corp. *[USA]*, PSB Industries Inc. *[USA]*, Xi'An Unionfilter Purification Equipment Co. Ltd. *[Republic of China]* and Tecno Project Industriale s.r.l. *[Italy]*.

H2X Solutions: In the hydrogen purification market, Xebec's competition includes Air Liquide *[Canada]*, HydroChem *[USA]*, Linde *[Germany]* and Air Products *[USA]*.

AGX Solutions: In the associated gas market, Xebec's competition includes several membrane equipment suppliers.

STRATEGY AND OBJECTIVES

Xebec 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 segments are: Biogas Plants for the purification of biogas from agricultural digesters, landfill sites and waste water treatment plants, Natural Gas Dryers for NGV refueling stations, Associated Gas Purification Systems which enables diesel displacement on drilling sites, and Hydrogen Purification Systems for fuel cell and industrial applications.

Xebec's continues to manage its cost structure and working capital, while increasing its revenue. Xebec intends to actively pursue and implement the following measures:

1. Standardize product offering with strong focus on smaller to medium gas flows, where Xebec's solutions offer inherent size and cost benefits;
2. Xebec has monetized some its intellectual property portfolio and created additional liquidity to complete its restructuring plan implemented during its 2011 and 2012 fiscal years;
3. Enforce and implement tight cost control measures on all general and administrative costs;
4. Maintain regional sales, service and support infrastructure for Xebec's key markets to strengthen Xebec's sales abilities and support products and systems in the market place;
5. Execution and operational excellence, allowing Xebec to deliver products and solutions at the best price, on time and on budget while meeting or exceeding targeted gross margins;
6. Leverage key relationships with leading channel partners and project developers to penetrate target markets;
7. Continue to proactively address and manage its liquidity and working capital requirements. Xebec's delivery cycle for gas plants can be 8 to 12 months which put constraints on its working capital. Xebec is currently reviewing its product design in order to supply a more competitive offering.

RECENT DEVELOPMENTS

On February 17, 2014, announce its expansion into the US with the opening of a Houston, Texas, office and dedicated senior management team

On December 23, the Company transferred its listing from the TSX to the TSX Venture Exchange ("TSXV"). The Company's common shares listed on the TSXV started to trade under the symbol "XBC-V" commencing on that date. The TSX delisting review announced on September 18, 2013 was completed by the listing of the Company's common shares on the TSXV.

The Company also announced on the same day that its Board of Directors has approved amendments to the Xebec Adsorption 2013 Amended and Restated Omnibus Plan (the "Plan") that were required to comply with TSXV requirements. In accordance with the provisions of the Plan, the amendments did not require shareholder approval but required acceptance by the TSXV. The amendments included renaming the Plan as the "Xebec Adsorption Stock Option Plan" and moving from a rolling 15% of stock options available for issuance to a fixed number of 5,904,580 Common Shares available for grants.

On November 27, 2013, the Company received additional proceeds of $4.138 million pursuant to its intellectual property transaction of March 22, 2012. The reception of these proceeds concluded this transaction.

CURRENT BACKLOG

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

Current backlog as of

Product Line: In million of $	**April 25, 2014**	November 11, 2013	August 14, 2013	May 9, 2013
Gas Purification	**3,3**	2,6	3,1	1,9
Natural Gas Dryers	**3,6**	2,3	1,7	3,3
Others	**1,5**	1,0	0,8	1,3
Associated Gas	1,0	-	-	-
Consolidated Backlog	**9,4**	5,9	5,6	6,5

3. SELECTED CONSOLIDATED QUARTERLY INFORMATION

Three and twelve-month periods ended December 31, 2013 and 2012

(in million of $, except per-share amounts) *(unaudited)*

	Three months ended December 31,		**Twelve months ended December 31,**	
	2013	**2012**	**2013**	**2012**
Revenues	**2.8**	5.8	**11.3**	15.2
Gross margin	**10.2%**	20.5%	**14.4%**	20.7%
EBITDA	**1.5**	0.1	**0.8**	3.3
Net income (loss)	**1.4**	(0.1)	**0.4**	1.9
Net income (loss) per share - basic ($/share)	**0.04**	(0.00)	**0.01**	0.04
Net income (loss) per share - diluted ($/share)	**0.04**	(0.00)	**0.01**	0.04

Balance Sheet Data	**December 31 2013**	December 31 2012
Total assets	9.7	9.7
Shareholder's equity	2.0	1.7
Total long-term debt	1.0	1.3
Cash, cash equivalents	2.8	1.3

4. OPERATING RESULTS

Analysis of Consolidated Operating Results for the Fourth Quarter of 2013 Compared with the Fourth Quarter of 2012

Consolidated Revenues by Product Line *(unaudited)*

	Three months ended December 31,		Twelve months ended December 31,	
In millions of $	**2013**	**2012**	**2013**	**2012**
Natural gas dryers	**1.4**	2.2	**4.5**	4.3
Gas purification	**0.2**	3.0	**2.7**	8.2
Compressed gas filtration	**1.2**	0.5	**3.9**	2.1
Associated Gas	**-**	0.1	**0.2**	0.1
Engineering services	**-**	-	**-**	0.4
Air dryers	**-**	-	**-**	0.1
Total	**2.8**	5.8	**11.3**	15.2

Consolidated revenues for the fourth quarter of 2013, total revenues amounted to $2.8 million, compared to $5.8 million for the fourth quarter of 2012. The decrease is mainly explained by the declined of revenues in the gas purification and the natural gas dryer segments, respectively by $2.8 million and $0.8 million, and partly offset by an increase of $0.7 million in the compressed gas filtration product line.

For the twelve-month period ended December 31, 2013, total revenues amounted to $11.3 million compared to $15.2 million for the corresponding period. This decrease of $3.9 million is due mainly to the $5.5 million decline in sales of the gas purification segment, which was partly offset by an increase in revenues of natural gas dryers and in the compressed gas filtration segments of respectively $0.2 million and $1.8 million. The compressed gas filtration product line showed a significant increase in revenues this year compared to the last fiscal year as a result of increased sales efforts.

In the short and medium term, the future of natural gas as an alternative to crude oil remains very positive. Green energy initiatives are on the agendas of municipal, provincial and federal governments worldwide. Corporations and consumers are increasingly looking for cost efficient green energy solutions to reduce their costs, with the added benefit of protecting the environment and reduce their carbon footprint Management believes that Xebec, with its complementary product lines, strong customer relationships, global footprint and low-cost opportunities in manufacturing and supply chain, is well positioned to respond to this growing demand.

The Company's immediate efforts are primarily focused on maintaining its market position, addressing and managing its liquidity and working capital requirements. Xebec is well positioned to capture market share in the expanding biogas upgrading, hydrogen purification and associated gas markets.

Operating profit margin *(unaudited)*

	Three months ended December 31,		Twelve months ended December 31,	
In millions of $	**2013**	**2012**	**2013**	**2012**
Revenues	**2.8**	5.8	**11.3**	15.2
Cost of Goods Sold	**2.5**	4.5	**9.7**	12.0
Gross Profit*	**0.3**	1.3	**1.6**	3.2
Gross Profit Margin (%)	**10.2%**	20.5%	**14.4%**	20.7%

* Gross Profit is a non-IFRS financial measure.

The operating profit margin for the fourth quarter of 2013 stood at 10.2%, down by 10.3% compared to the fourth quarter of 2012. The decline versus the same period last year is mostly explained by the poor operating performance of Xebec Shanghai, an inventory write-down of $475,000 and an additional provision for loss on a biogas project.

For the twelve-month period ended December 31, 2013 the operating profit margin stood at 14.4%, down by 6.3% compared to fiscal 2012. Margins were affected negatively by a $300,000 provision for an ongoing biogas project in Asia, the completion of a biogas project with a negative margin during the year and the inventory write-down of $475,000 at Xebec Shanghai. The sales increase in the gas compression product line mitigated the margin decrease for the compressed gas purification product line.

Selling and administrative expenses for the fourth quarter of 2013 decreased by $0.3 million or 15% to $1.8 million. This decrease is mainly attributable to the reduction of expenses in salaries, commissions and professional fees partly offset by an increase of bad debts expense.

For the twelve-month period ended December 31, 2013 the selling and administrative expense decreased by $0.6 million or 10% to $5.9 million. The decrease is mainly explained by the reduction of expenses in salaries, commissions, professional fees, amortization, rent and travelling expenses and by an increase of bad debts expense. Global reduction for the twelve-month period includes decrease of $0.4 million related to the closing process of Xebec SEA.

EBITDA *(unaudited)*

	Three months ended December 31,		Twelve months ended December 31,	
In millions of $	**2013**	**2012**	**2013**	**2012**
Net income (loss)	**1.4**	(0.1)	**0.4**	1.9
Depreciation of property	**-**	-	**0.1**	0.1
Amortization of intangible assets	**0.1**	-	**0.2**	0.3
Finance cost net	**-**	0.2	**0.1**	1.0
EBITDA	**1.5**	0.1	**0.8**	3.3

* EBITDA is a non-IFRS financial measure.

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

EBITDA for fourth quarter in 2013 improved by $1.4 million to $1.5 million. The improvement is mainly explained by the additional $1.7 million net proceeds received for the accomplishment of all the remaining milestones targeted in the sale agreement of the IP portfolio to Air Products. This variation of the EBITDA for the fourth quarter of 2013 is also attributable to the decrease of $1.0 million in gross margin, the reduction of $0.3 million in selling and administrative expenses, resulting mainly by the reductions in salaries, commissions and professional fees and by an increase of the provision for bad debts.

For the twelve-month period ended December 31, 2013, the EBITDA declined by $2.5 million to $0.8 million. The EBITDA decline reflects primarily the $6.4 million non-recurring gain on the sale of our IP portfolio to Air Products in 2012, compared to additional non-recurring proceeds totaling $4.5 million in 2013 related to this transaction.

Net financial expenses for the fourth quarter of 2013 decreased by $0.2 million or 101.29% compared to last year as the additional milestone realized triggered a $0.2 million in interest charges for the Technology Partnerships Canada program ("TPC Program").

For the twelve-month period ended December 31, 2013, the net financial expenses decreased by $0.9 million or 86.88% due to the loss on revaluation of $0.7 million for the Technology Partnerships Canada program pursuant to the settlement agreement between the Company and Industry Canada executed in the first quarter of 2012.

Net income (loss)
Net income for the three-month period ended December 31, 2013 was $1.4 million, or $0.04 per share, compared to a net loss $0.1 million, or nil per share, for the same period in 2012. This increase of $1.5 million in net income is mainly explained by a gain of $2.7 million in Q4-2013 on the final additional proceeds pursuant to the agreement with Air Product, compared to a gain of $1.0 million in Q4-2012 on additional proceeds related to this agreement, combined with decreases of $0.3 million in selling and administrative expenses and of $0.3 million in research and development expenses and net financial expenses, partly offset by a decrease in gross margin by $1.0 million.

For the twelve-month period ended December 31, 2013, net income was $0.4 million, or $0.01 per share, compared to a net income of $1.9 million, or $0.04 per share, for the same period in 2012, reflecting the additional nonrecurring gains on the disposition of the IP portfolio to Air Products of $4.5 million in 2013, compared to the non recurring proceeds of $6.4 million in 2012, and resulting from a decrease of gross margin by $1,5 million, partly offset by a decrease of $0.6 million in selling and administrative expenses, a decrease of $0.9 million in net financial expenses and an increase of $0.3 million in foreign exchange gains, compared to the same period last year.

Principal Quarterly Financial Information
(in thousands of $, except per-share amounts) *(unaudited)*

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	**2.8**	1.9	2.8	3.8	5.8	3.7	4.2	1.5
Net income (loss)	**1.4**	0.5	(0.4)	(1.1)	(0.1)	(0.7)	(0.5)	3.2
Earnings (loss) per share								
Basic	**0.04**	0.01	(0.01)	(0.03)	0.00	(0.02)	(0.01)	0.08
Diluted	**0.04**	0.01	(0.01)	(0.03)	0.00	(0.02)	(0.01)	0.08

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

5. FINANCIAL POSITION

Analysis of Principal Cash Flows for the Fourth Quarter and Year End of Fiscal 2013 *(unaudited)*

Cash flow from (used in)	Three months ended December 31,			Twelve months ended December 31,		
in millions of $	**2013**	2012	Change	**2013**	2012	Change
Operating activities	**0.1**	(1.2)	1.3	**(2.8)**	(7.0)	4.2
Investing activities	**2.7**	0.9	1.8	**4.8**	9.2	(4.4)
Financing activities	**(0.4)**	0.2	(0.6)	**(0.2)**	(1.3)	1.1

Operating activities in the fourth quarter of 2013 generated $0.1 million of cash, compared to a use of $1.2 million for the same period in 2012. The decrease in uses of cash is mainly outlined as follows: the net income for the fourth quarter of 2013 increased by $1.5 million compared to the fourth quarter of 2012 and the non cash items included in the net income increased by $1.5 million, resulting to a net cash flow of nil. Compared to the same period in 2012, other net increases in cash inflow totaling $1.3 million come from trades receivables, deferred revenues, investment tax credit receivable and other operating liabilities respectively by $2.0 million, $1.6 million, $0.2 million and $0.4 million, and increases of cash outflows are related to inventories, trades payables and accrued liabilities respectively by $0.5 million, $2.0 million and $0.4 million.

For the twelve-month period ended December 31, 2013 operating activities used $2.8 million of cash compared to $7.0 million for the same period last year. The decreased in cash outflow is mainly explained as follows: the net income for 2013 decreased by $1.5 million compared to 2012 and the non cash items included in the net income decreased by $1.3 million, resulting to a net cash inflow decrease of $0.2 million. Compared to 2012, other increases in net cash inflow totaling $4.3 million come from trades receivables, deferred revenues, trades payables and other operating liabilities respectively by $2.5 million, $1.6 million, $0.4 million and $0.3 million, and increases of cash outflows are related to inventories, investment tax credit receivable and accrued liabilities respectively by $0.1 million, $0.1 million and $0.3 million.

Investing activities generated $2.7 million of cash in the fourth quarter of 2013, compared to $0.9 million for the corresponding fourth quarter of 2012. The cash inflow increase of $1.8 million is mainly explained by the net additional proceeds of $2.7 million on the disposal of the IP assets related to the transaction with Air Products during the fourth quarter of 2013, compared to $1.0 million during the same period in 2012.

For the twelve-month period ended December 31, 2013 investing activities generated a cash inflow of $4.8 million compared to $9.2 million for the same period last year. The cash inflow decrease is mainly explained by the proceeds on the disposal of the IP assets related to the transaction with Air Product of $9.4 million in 2012, compared to additional proceeds of $4.5 million in 2013 pursuant the above mentioned transaction.

Financing activities in the fourth quarter of 2013 used cash of $0.4 million compared to a cash inflow of $0.2 million for the same period of 2012.

For the twelve-month period ended December 31, 2013 financing activities used $0.2 million of cash compared to a use of $1.3 million for the same period in 2012. The decrease in cash outflow is mainly explained as follows: a net increase of $0.2 million of the bank loan in 2013, compared to a net decrease of $0.3 million in 2012, a decrease of $0.1 million cash outflow used for the repayment of the long-term debt and a decrease of $0.5 million cash outflow used for the payment of the TPC Program. The closing of the sale of IP assets to Air Products and the settlement agreement reached with The TPC program in March 2012, triggered the repayments of $0.1 million on the Investissement Quebec's long term debt and of $0.8 million on the TPC Program.

As of December 31, 2013, the Company had $2.8 million of cash on hand, $0.4 million of bank loan and $1.0 million of long-term debt outstanding, of which $0.3 million is due within one year.

Balance Sheet Analysis as at December 31, 2013

Summary Balance Sheet

	December 31 2013	December 31 2012
Current assets	**$ 8.3**	$ 7.6
Long-term assets	**1.5**	2.1
	$ 9.8	$ 9.7
Current liabilities	**$ 6.8**	$ 6.8
Long-term liabilities	**1.0**	1.2
Shareholders' equity	**2.0**	1.7
	$ 9.8	$ 9.7

The change in the company's long-term assets between December 31, 2013 and December 31, 2012 reflects the renegotiation of the Company's balance of sale which led to a shorter repayment schedule. The change in current asset is mainly explained by an increase in cash of $1.5 million and by a decrease in trade receivables of $1.0 million. The change in long-term liabilities is explained by the portions of the long-term debt and of the government royalty program obligation that became current in 2013.

As at December 31, 2013 **total assets** amounted to $9.8 million, up by $0.1 million from December 31, 2012. **Working capital** stood at $1.5 million for a current ratio of 1.2:1 compared with $0.8 million and a 1.1:1 ratio as at December 31, 2012.

Shareholders' equity totalled $2.0 million as at December 31, 2013 up by $0.3 million from December 31, 2012. The change is mainly due to net income of $0.4 million for the year 2013.

Indebtedness

	December 31 2013	December 31 2012
Bank loans	**$ 0.4**	$ 0.2
Current portion of long-term debt	**0.3**	0.5
Long-term debt	**0.7**	0.8
Total indebtedness	**$ 1.4**	$ 1.5

Total interest-bearing debt (bank loans, current portion of long-term debt and long-term debt) amounted to $1.4 million as at December 31, 2013, down by $0.1 million from December 31, 2012. This decrease is due primarily by the payment of long term debts.

Credit Facilities

As at December 31, 2013, the Company had a revolving demand facility by way of letters of credit and letters of guarantee amounting to $1,000,000 with Royal Bank of Canada which bore interest at the Royal Bank's prime rate plus 2.50% per annum and which were limited by certain margin requirements concerning accounts receivable. This credit facility was used up to $85,000 as at December 31, 2013.

In addition, the Company had access to credit facilities in the amount of $500,000 with Royal Bank of Canada which were guaranteed by Export Development of Canada and bore interest at the Royal Bank's prime rate plus 2.5% per annum and were limited by certain requirements concerning pre-shipment costs. These credit facilities were used up to $370,000 as at December 31, 2013.

The bank loan is secured by a first ranking hypothec of $4,000,000 on all movable property of the Company.

Capital Stock Information

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

As at December 31, 2013 and April 25, 2014, Xebec had 39,363,867 common shares outstanding.

Share Purchase Warrants Outstanding
As at December 31, 2013, 10,091,886 Share Purchase Warrants were outstanding and entitle the holder to acquire one Common Share at a price of $0.45 per share until November 2nd 2015.

The 10,091,886 warrants are subject to an accelerated expiry if, at any time after December 31, 2010, the published closing trade price of the Common Shares on the TSX-V is equal or superior to $0.75 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.

Stock Options Outstanding
The Company plan (the "2010 Plan"), which 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 or 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. On December 23, 2013, the Board of Directors has approved amendments to the 2013 Plan that were required to comply with the TSXV requirements. In accordance with the provisions of the 2013 Plan, the amendments did not require shareholder approval but required acceptance by the TSXV. The amendments included renaming the 2013 Plan as the "Xebec Adsorption Stock Option Plan" and moving from a rolling 15% of stock options available for issuance to a fixed number of 5,904,580 Common Shares available for grants.

As at December 31, 2013, the maximum number of common shares available for issuance under all stock-based compensation arrangements is 5,904,580.

Under the terms of the 2013 Plan, stock options are granted with an exercise price not less than the volume weighted average trading price of the common shares on the TSXV 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 December 31, 2013, the Company had 4,316,804 options outstanding under the 2013 Plan with a weighted average exercise price of $0.18.

Contractual Commitments

The following table is a summary of the contractual obligations including payments due for the next five years and thereafter:

As at December 31, 2014	Payments Due by Period			
	1 year	2 -5 years	Beyond 5 years	Total
Operating leases	0.4	1.3	2.6	4.3
Software licenses agreements	0.3	-	-	0.3
Total contractual obligations	0.7	1.3	2.6	4.6

There have been no significant changes in the contractual obligations of the Company since its MD&A for the three and twelve-month period ended December 31, 2013 issued on April 25, 2014.

6. FINANCIAL AND OTHER INSTRUMENTS

Liquidity Risk

The Company has realized an operating profit of $531,184, had cash outflows from operations of $2,843,567 for the twelve-month period ended December 31, 2013 and finished the period with cash amounting to $2,835,051, working capital of $1,522,361 and had access to credit facilities totaling $1,500,000 of which only $455,000 has been used. During the year, management undertook various initiatives and developed a plan to manage its operating and liquidity risks in light of prevailing economic conditions. Management is also currently seeking alternative financings for its operations. The Company has prepared a budget for 2014 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, 2014. The Company is thus faced with uncertainties that may have an impact on future operating results and liquidity. These uncertainties include reduced spending in biogas projects reflecting the weakness of the market, fluctuations in foreign currency rates and achieving the company's business plan goals as mentioned in the previous paragraph, which includes the development of a new business segment. While management believes it has developed planned courses of action to mitigate operating and liquidity risks, there is no assurance that management will be able to achieve its business plan and maintain the necessary liquidity level if events or conditions develop that are not consistent with management's expectations, key budget assumptions for 2014 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.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party fails to meet its contractual obligations. The Company's primary credit risk is its cash and outstanding trade accounts receivable. The carrying amount of its outstanding trade accounts receivable represents the Company's estimate of its maximum credit exposure. The Company regularly monitors its credit risk exposure and takes steps such as employing credit-approval procedures, establishing credit limits, using credit assessments and monitoring practices to mitigate the likelihood of these exposures from resulting in an actual loss. An allowance for doubtful accounts amounting to $433,420 (2012 – $232,216) was established, based on prior experience and an assessment of current financial conditions of customers as well as the general economic environment. In the case where an allowance for doubtful accounts provision is recorded and a receivable balance is considered uncollectible, it is written off against the allowances for doubtful accounts. Bad debts provision resulted to net expense of $277,283 for the fourth quarter in 2013 and of $266,235 for the twelve-month period ended December 31, 2013 (corresponding period 2012 – $16,344 and $15,444). As at December 31, 2013, the Company's three largest trade debtors accounted for 26% (15%, 6% and 5%) of the total accounts receivable balance (2012 – 36% (16%, 13% and 7%)).

Currency Risk
Some assets and liabilities are exposed to foreign exchange fluctuations. The Company does not use financial instruments to reduce this risk.

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 loan, for which the interest rates charged fluctuate based on the bank prime rate. As at December 31, 2013, the short term bank loan amounted to $370,000 (2012 – $166,952). If the interest rate on the bank debt had been 50 basis points higher (lower), related to the bank loan as at December 31, 2013, net income would have been $2,076 (2012 – $417) lower.

7. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Inventories

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

Impairment of customer relations

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

Percentage of completion and revenues from long-term production-type contracts

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

Related party transactions

The following table presents a summary of the related party transactions during the year *(unaudited)*:

	For the three-month periode ended December 31,		For the twelve-month periode ended December 31,	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	55,459	22,338	132,077	73,408
Sales to an entity controlled by a subsidiary manager	154,090	2,332	484,077	24,324
Management fees paid to an entity controlled by a subsidiary manager	7,176	-	33,869	-
Repayment of loan from a subsidiary manager	-	-	-	24,123
Cash Advance to an entity controlled by a subsidiary manager	-	-	207,076	-
	216,725	24,670	857,099	121,855

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

Accounting standards issued but not yet applied

Unless otherwise noted, the following revised standards and amendments are effective to the Company for annual periods beginning on or after January 1, 2014 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

IFRS 9, Financial Instruments, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 was amended in November 2013, to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI, without having to adopt the remainder of IFRS 9, and to (iii) remove the previous mandatory effective date for adoption of January 1, 2015, although the standard is available for early adoption.

IAS 32 addresses inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014, although the standard is available for early adoption.

8. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

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

As at December 31, 2013, an evaluation was carried out, under the supervision of and with the participation of our management, including the President and Chief Executive Officer and the Chief Financial Officer, of the design and effectiveness of our disclosure controls and procedures as defined under NI 52-109. This evaluation was based on the framework set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Upon such review, the Chief Executive Officer and the Chief Financial Officer determined that there were material weaknesses in the design of our DC&P. The DC&P deficiencies we identified resulted in adjustments to our annual consolidated financial statements for fiscal 2013. We have identified the following material weaknesses:

Entity Level Controls

We did not maintain a completely effective control environment as defined in accordance with COSO control framework. Specifically, we do not have comprehensive procedure manuals to clearly communicate management's and employees' roles and responsibilities in our internal control over financial reporting. To mitigate the risk, management relies heavily on manual procedures and detection controls, management meetings, quarterly reviews of financial statements of our subsidiaries. These manual procedures were performed during the interim and annual periods ended December 31, 2013 and 2012.

Internal Control over Financial Reporting

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

We carried out an evaluation of our ICFR, under the supervision of and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer as to the material weaknesses relating to the design of our ICFR as of December 31, 2013. This evaluation was based on the Internal Control-Integrated Framework issued by the COSO. The evaluation considered the procedures designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the applicable securities legislation is recorded, processed, summarized and reported in the time periods specified in the rules and forms of the applicable securities legislation and communicated to our management as appropriate to allow discussions regarding required disclosure. Upon such review, our Chief Executive Officer and Chief Financial Officer have determined that there existed material weaknesses in the design of our ICFR. The ICFR weaknesses we identified did not result in adjustments to our interim and annual consolidated financial statements for 2013 and 2012. Following our assessment, we identified the following material weaknesses:

Information Technology General Controls

We did not adequately maintain effective control over access to our accounting system within our accounting department. In addition, the backup tapes were not periodically tested to ensure their accuracy and there is no information technology strategic plan and no business continuity plan. There is also no periodic review performed on the security logs for failed logins. We are actually in the process of implementing controls over program development and program changes.

The potential ability for someone to improperly access and change accounting records is mitigated by the fact that management relies heavily on manual procedures and detection controls, and quarterly reviews of financial statements by management and by the Audit Committee.

Segregation of Duties

We have deficient controls within our accounting department over segregation of duties inherent to the department's size. Specifically, as a result of the limited number of personnel in the accounting department, certain financial personnel had incompatible duties that allowed for the creation, review and processing of certain financial data without independent review and authorization. To mitigate the risk, our management relies heavily on manual procedures and detection controls, regular management meetings, as well as reviews of our financial statements and of our subsidiaries. These manual procedures were performed for the periods ended December 31, 2013 and 2012.

Unusual Transactions

We detected unusual transactions in our subsidiary Xebec Shanghai during a routine audit. These transactions resulted in adjustments to the Company's annual consolidated financial statements as at December 31, 2013. A Xebec Shanghai management employee involved in these unusual transactions has been dismissed.

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

We have initiated the following actions to address the material weaknesses in our DC&P and ICFR identified as of December 31, 2013.

Entity Level Controls

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

Information Technology General Controls

We will implement enhanced information technology policies and procedures specifically with regard to inventory controls and to the system's change management, program development, access over end-of-period process spreadsheets, IT operations and related monitoring. We will implement new procedures that will overcome the accounting system inventory controls and access deficiencies. We will also develop and implement a global information technology strategic plan and a business continuity plan.

Inadequate Segregation of Duties

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

Unusual Transactions

In addition to dismissing the Xebec Shanghai management employee that oversaw the said transactions, new policies and controls are being implemented in order to prevent that type of unusual transaction in the future.

We realize that some of the above weaknesses are inherent to a company of our size. Nevertheless, we believe in and are committed to establishing rigorous DC&P and ICFF. It will take time to put in place the rigorous controls and procedures desired by our management and Board of Directors. We cannot at this time estimate how long it will take to complete the steps identified above. Our management will continue to evaluate the effectiveness of our overall control environment and will continue to refine existing controls as they, in conjunction with our Audit Committee, Chief Executive Officer and Chief Financial Officer, think necessary. Again, the control deficiencies which we identified did not result in adjustments to our interim and annual consolidated financial statements for the fiscal year end of 2013 or any previous periods.

Other than the remediation efforts discussed above and the implementation of the Company's' ICFR, there have been no changes in our ICFR that occurred since the beginning of the period ended December 31, 2013 that have materially affected or are reasonably likely to materially affect our ICFR. Our management, including our Chief Executive Officer and our Chief Financial Officer, has discussed these issues and remediation efforts with our Audit Committee.

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

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

RISKS AND UNCERTAINTIES

An investment in our securities involves a high degree of risk and should be considered speculative due to the nature of our business and the businesses of our subsidiaries and their current respective stage of development. Before making any decision to purchase or to sell any of our securities, you should carefully consider the complete statement of the risk factors and uncertainties described in the Management's Report and Annual Information Form for fiscal 2013. The Company is pursuing an ongoing risk review and management process.