



XEBEC ADSORPTION INC.

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2014

April 29, 2015

TABLE OF CONTENTS

1. Annual information form as at December 31, 2014	3
2. General disclosure matters.....	3
3. Forward Looking Statements.....	3
4. Corporate Structure.....	4
5. General Development of the Business.....	5
6. Description of the Business	11
7. Risk Factors	25
8. Dividends	35
9. Capital Structure	36
10. Market For Securities.....	37
11. Directors And Officers.....	38
12. Interest Of Management and others In Material Transactions.....	43
13. Material Contracts.....	44
14. Legal Proceedings.....	44
15. Experts	44
16. Audit Committee Information.....	44
17. Transfer Agents And Registrars.....	46
18. Additional Information	46

1. ANNUAL INFORMATION FORM AS AT DECEMBER 31, 2014

The information set out in this Annual Information Form (“AIF”) is stated as at December 31, 2014, unless otherwise specified.

2. GENERAL DISCLOSURE MATTERS

Unless otherwise indicated or the context otherwise requires, the “Company” refers to Xebec Adsorption Inc. and its subsidiaries.

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

Some of the information contained in this AIF may be found in other documents filed by Xebec (as defined hereinafter) with Canadian securities regulators, which Xebec makes available via SEDAR and which can be accessed at www.sedar.com. See also the section in this AIF entitled “Additional Information”.

3. FORWARD LOOKING STATEMENTS

This AIF contains forward-looking statements within the meaning of applicable securities laws, including statements regarding the future success of the Company’s (as defined hereinafter) business, technology, and market opportunities. Forward-looking statements typically contain words such as “believes”, “expects”, “anticipates”, “continue”, “could”, “indicates”, “plans”, “will”, “intends”, “may”, “projects”, “schedule”, “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 year 2015 and beyond; (v) trends in, and the development of, the Company’s target markets; (vi) the Company’s market opportunities; (vii) the benefits of the Company’s products, (viii) the intention to enter into agreements with partners; (ix) future outsourcing; (x) the intention not to sell integrated biogas plants in Europe; (xi) expectations regarding competitors; (xii) the expected impact of the described risks and uncertainties; and (xiii) intentions with respect to the payment of dividends; (xiv) the management of the Company’s liquidity risks in light of the prevailing economic conditions; (xv) the Company’s cost reduction plan; and (xvi) the search for additional financing over the next months. Readers are cautioned that the foregoing list is not exhaustive. 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 herein under the heading “Risk Factors”. Readers should carefully review and consider the risk factors described under the heading “Risk Factors”.

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 expressly qualified in their entirety by this cautionary statement. The forward-looking statements contained herein are made as of the date of this AIF 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.

4. CORPORATE STRUCTURE

Pursuant to a certificate of arrangement effective June 12, 2009, Xebec Adsorption Inc. and QuestAir Technologies Inc. (“**QuestAir**”) amalgamated (the “**Arrangement**”) under the provisions of the *Canada Business Corporations Act* (the “**CBCA**”). The entity resulting from such amalgamation is now Xebec Adsorption Inc. (the “**Company**” or “**Xebec**”). No material amendments to the articles or other constating documents have been made since that date. See also the section under the heading “General Development of the Business – History”.

The head and registered office of the Company is located at 730 Boulevard Industriel, Blainville (Québec) J7C 3V4.

This AIF specifically incorporates by reference the Management Information Circular of QuestAir dated April 20, 2009 filed with the securities authorities in each of the provinces of Canada and available on SEDAR at www.sedar.com.

Intercorporate Relationships

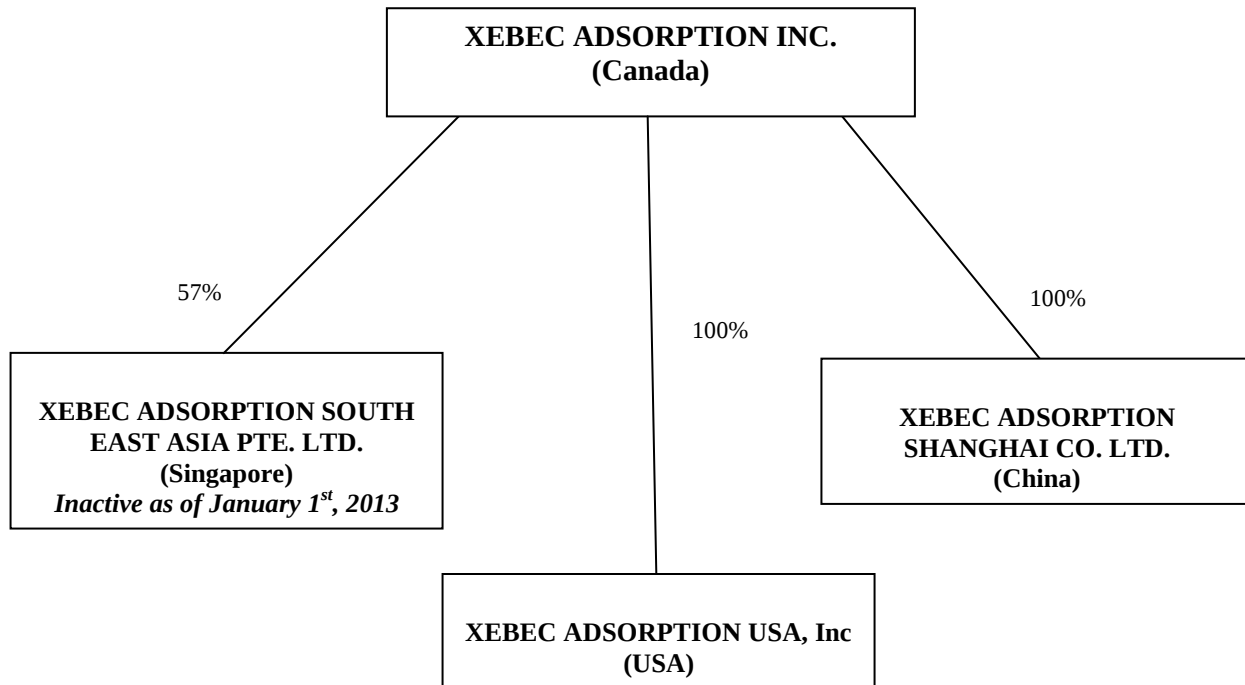
Xebec has one wholly-owned subsidiary, Xebec Adsorption Shanghai Co. Ltd. (“**Xebec China**”) incorporated under the laws of the People’s Republic of China on May 20, 2008.

Xebec has also one wholly-owned subsidiary, Xebec Adsorption USA, inc (“**Xebec USA**”) incorporated under the laws of the State of Delaware on February 25, 2014

In addition, Xebec has a majority interest in Xebec Adsorption South East Asia PTE. Ltd. (“**Xebec Singapore**”) incorporated under the laws of Singapore on January 16, 2009. The minority interest in Xebec Singapore is held by Angstrom Porous PTE. Ltd. (“**Angstrom**”). The relationship between Xebec and Angstrom is governed by a unanimous shareholders’ agreement effective January 16, 2009, as amended from time to time. On January 1, 2013, Bireme PTE Ltd., a company controlled by one of the principals of Angstrom has been appointed as Xebec’s reseller in South East Asia. It is expected that on, or before, September 30, 2015, Xebec Singapore will be dissolved.

The following chart sets forth the names of the material subsidiaries of Xebec, their respective jurisdictions of incorporation, and the current voting and equity interest therein

beneficially owned, or controlled or directed, directly or indirectly, by Xebec as at April 28, 2015.



5. GENERAL DEVELOPMENT OF THE BUSINESS

Xebec's Mission

Xebec's mission is to provide its customers with innovative biogas, hydrogen purification, field gas and natural gas treatment solutions that transform raw gases into marketable sources of clean energy.

Overview of Xebec's Business

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 four (4) key markets where demand for biogas upgrading, natural gas and field gas treatment, and hydrogen purification is growing.

Headquartered on the North Shore of Montreal, Xebec is a global company with two state-of-the-art manufacturing facilities in Blainville (Quebec) and Shanghai (China), research and development facilities in Blainville (Quebec), a sales office in Houston, Texas (USA) as well as a sales and distribution network in North America and Asia.

Blainville, Quebec (Head Office and Manufacturing Facility)

Xebec's head offices operate out of a 41,753 square foot leased manufacturing facility located in Blainville in which 54 people are currently employed. The Blainville operation houses corporate finance, sales for natural gas, field gas and biogas purification products, aftermarket support, global supply chain, operational engineering, manufacturing of gas separation and purification equipment and service and maintenance support.

Shanghai, China (Manufacturing Facility)

In light of the growing demand for natural gas as a transportation fuel in China and the Asian region at large, Xebec opened, in 2008, a 20,451 square foot leased manufacturing facility in the Songjiang district of Shanghai, China. This facility, leased and operated by Xebec China, currently employs 25 people and is responsible for product 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 China is also responsible for sales of Xebec's products, marketing, technical and after sales support for the Chinese and Middle East markets.

Houston, Texas (USA) (Sales office)

On February 17, 2014, Xebec announced the opening of a sales office in Houston, Texas. This new facility, leased and operated by Xebec USA, currently employs 4 people and is responsible for sales of all Xebec's products in the USA.

Xebec's Objectives and Strategies

Xebec is a provider of biogas upgrading, natural gas, field gas and hydrogen purification solutions for the clean energy and crude-derived fuels displacement markets.

Xebec seeks to become a leader in the design, manufacture and supply 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 immediate intention is to manage its working capital and to increase revenue with the expectation of becoming profitable. To be sustainable and cash flow positive while positioning itself as the recognized partner in the field for low carbon and alternative fuels from biogas sources, 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 fiscal year;

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 biogas plants can be 8 to 12 months. The management and funding of working capital is key to the success of the Company.

History

Overview of Xebec's Business Prior to the Arrangement

Prior to the Arrangement, Xebec was a private corporation. The following section presents an overview of Xebec's business history and complements the historical information already disclosed in the present AIF.

In 1967, Xebec's predecessor, Xebec Inc., was founded and began producing compressed air products in Sainte-Rose, a suburb north of Montreal. In 1998, Xebec Inc. was purchased by a Domnik Hunter operating in the air and gas compression industry and continued operating as a wholly-owned subsidiary thereof. In 2001, Xebec Inc. relocated its entire operations to the Company's manufacturing facility and head office in Blainville, Québec.

In 2002, Xebec Inc. was awarded its first International Organization for Standardization certification which consisted in the ISO9001:2000 certification for quality management. In 2005, Xebec Inc.'s then parent corporation was purchased by Parker Hannifin Corporation operating in the air and gas compression industry.

By 2007, Xebec Inc. had, in terms of the number of adsorption units sold, become the largest compressed air and gas adsorption company in North America, providing adsorption solutions to a number of original equipment manufacturers and selling approximately 1000 adsorption units annually.

In 2007, Xebec Inc.'s management comprised, at the time, of Kurt Sorschak, Daniel Gagnon, and Graham Robson purchased essentially all of the assets and business of Xebec Inc. in the compressed air and gas industries and continued to provide engineered adsorption solutions to its customers in these industries.

In March 2009, Xebec and QuestAir announced that they had entered into a definitive agreement to proceed with the Arrangement, whereby the parties had agreed to combine their

businesses to create a North American leader in the renewable natural gas and gas purification sectors.

QuestAir was founded in 1996 to develop and commercialize proprietary innovations in pressure swing adsorption technology. QuestAir was financed by venture capital investors and strategic investors before it went public in December 2004, concurrently listing its common shares on the AIM Market of the London Stock Exchange Plc and the Toronto Stock Exchange.

Prior to 2003, QuestAir was focused on developing hydrogen purifiers for use with hydrogen fuel cell vehicles. In 2003, QuestAir's board of directors endorsed a change of strategy in order to focus more energies and resources on nearer-term market opportunities for its products. This strategy was designed to decrease QuestAir's dependence on the mass adoption of vehicular fuel cells in order to achieve profitability. As a result, QuestAir focused on selling hydrogen Pressure Swing Adsorption ("PSA") systems into industrial markets, and increased the capacity of its products to address new markets. As part of this process, QuestAir entered into a joint development agreement with ExxonMobil Research and Engineering to develop a large scale hydrogen purifier for the refinery market. In addition, QuestAir developed methane purification systems that can be used to upgrade biogas to renewable natural gas.

Overview of 2012-2013-2014

This section contains historical information regarding material events and commitments of Xebec for 2012, 2013 and 2014.

2014-2015

In this section, material events and commitments for the period between January 1, 2014 and April 28, 2015 are presented.

On April 22, 2015 Xebec announced that Mr. Prabhu Rao joined the Company's Board of Directors. Xebec announced also that Mr Jean Bedard has resigned from the Board of Directors on December 17, 2014.

On March 10, 2015 Xebec announced that, effective immediately, it will be integrating high efficiency membranes into its gas purification and separation solutions.

On October 27, 2014, Xebec also announced the departure of the Company's Chief Financial Officer, Eric Favreau, effective December 4, 2014 and appointed Mr Alnoor Mandjee, CPA.CA to assume the responsibility of Chief Financial Officer

On April 3, 2014 Xebec announced that it has commissioned the first biogas to renewable hydrogen purification system in Europe. This system was started up on January 17th, 2014 by ex-French Industry Minister Arnaud Montebourg.

On February 17, 2014, Xebec announced the opening of a US office in Houston, Texas, along with the Appointment of three senior executives, namely Paraj Jhonsa, Gary Blizzard and Peter Cheng.

2013

In this section, material events and commitments for the period between January 1, 2013 and December 31, 2013 are presented.

On December 23, 2013, xebec announced the transfer of its listing from the TSX to the TSX Venture Exchange, to be made effective on December 24, 2013. Xebec's common shares listed on the TSX Venture Exchange will continue to trade under the symbol "XBC" commencing on that date. Therefore, the TSX delisting review announced on September 18, 2013 was completed by the listing of Xebec's common shares on the TSX Venture Exchange.

On December 23, 2013, Xebec also announced 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 TSX Venture Exchange requirements. In accordance with the provisions of the Plan, the amendments did not require shareholder approval but required acceptance by the TSX Venture Exchange. The amendments include 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 25, 2013 Xebec announced that it has 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.

On November 25, 2013, Xebec announced that M. John Shakeshaft has resigned from the Board of Directors.

On November 11, 2013 Xebec announced that its Board of Directors has authorized the application process to have its Common Shares listed with the Toronto Stock Exchange Venture (TSX-V).

On November 11, 2013, Patrick Palerme resigned as a Director of the Company.

On September 18, 2013, Xebec announced that it was informed by the Toronto Stock Exchange regarding the review of its common shares with respect to meeting the continued listing requirements, as the market value of Xebec's freely-tradable, publicly held securities has been less than \$2,000,000 for a period of 30 consecutive trading days. The Company was granted 120 days in which to regain compliance with these requirements, pursuant to the remedial review process.

2012

In this section, material events and commitments for the period between January 1, 2012 and December 31, 2012 are presented.

On November 12, 2012 Xebec announced that Mr. Patrick Palerme joined the Company's board of directors.

On October 23, 2012, Xebec announced that it has received additional proceeds of \$1.0 million pursuant to its IP Transaction (as defined and described in greater detail hereinafter) of March 22, 2012. Xebec expects to receive further payments over the next 18 months, upon achievement of certain conditions.

On October 3, 2012 Xebec announced that it has received two orders valued at approx. \$1.0 million for two high pressure natural gas dehydration and purification units from two Canadian customers. Those units are aimed at industrial scale diesel and heavy fuel oil displacement.

On June 5, 2012 Xebec announced that it has received a purchase order valued at \$2.05 million for a H-3200 fast-cycle Pressure Swing Adsorption (PSA) hydrogen purification unit from Deok-Yang Company Ltd., the leading hydrogen supplier in South Korea.

On April 23, 2012 Xebec announced a first order for a BGX advanced kinetic landfill gas separation system, which will be installed in 2013 at a landfill in northern China's Liaoning province. In addition, the Chinese customer and Xebec entered into an exclusive distribution agreement for Xebec's range of BGX landfill gas upgrading systems in mainland China. Furthermore, Xebec has entered into an exclusive agreement with an environmental engineering firm for the potential delivery of 14 additional upgrading systems over the next 48 months. The value of these medium sized upgrading systems will be in the range of \$1.7 million to \$5.5 million each, depending on the landfill gas flow rates and gas composition. All systems will be designed, manufactured and cost optimized at Xebec's Shanghai facility.

On March 22, 2012 Xebec announced that it has sold to Air Products, a multinational company, its intellectual property (“**IP**”) portfolio, including the patents and patent applications relating to its gas separation technology (the “**IP Transaction**”). In the context of the IP Transaction, Xebec 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 IP Transaction, Xebec received aggregate gross proceeds of \$8.6 million. The IP Transaction was also subject to payments for the achievement of certain conditions to be met within the first 24 months after closing. Xebec also entered into a license agreement with Air Products, allowing Xebec to continue to sell, on a royalty-free and perpetual rights basis, its systems, predominantly in the biogas, natural gas and associated gas purification markets.

On January 25, 2012 Xebec announced that it has been awarded a \$2.2 million contract to supply a biogas upgrading plant for a waste to energy project located in South Korea. The order was placed by Potlatch Inc., a Korean developer and operator of renewable energy and fuel cell projects.

On January 10, 2012 Xebec announced that it has made significant commercial progress in the natural gas infrastructure market in Central and South East Asia during the fourth quarter of 2011. Xebec has recently received first orders from three new customers valued at \$540,000 for its NGX line of natural gas dryers for use in compressed natural gas refueling stations in Uzbekistan, Kazakhstan, Afghanistan and Thailand.

6. DESCRIPTION OF THE BUSINESS

General

Xebec is a provider of biogas upgrading, natural gas, field gas and hydrogen purification solutions for the clean energy and crude-derived fuels displacement markets

Xebec specializes in the design and manufacture of purification, separation, dehydration and filtration equipment for gases, including natural gas dehydration for natural gas refueling stations, biogas purification, and specialized gas adsorption units for other types of gases. Xebec's regenerative adsorption equipment filters, and other products provide cost-effective, environmentally responsible solutions to its customers.

Xebec's Pressure Swing Adsorption ("PSA") based biogas upgrading solutions are a growing business segment within Xebec. Its upgrading solutions offer leading performance characteristics compared to operating costs.

Xebec currently enjoys a relatively large share in the North American natural gas drying market for natural gas vehicle refueling stations and supplies many companies operating in this field.

Natural gas conversion of diesel-powered engines is a viable solution, utilizing the fuel from the wellhead. However, the high heating value (HHV) of liquid-rich shale gas or associated gas does not allow for immediate use in diesel displacement. The gas must first be conditioned. Xebec provides a proven, cost-efficient, flexible, containerized solution. Its AGX Solutions (as defined hereinafter) of conditioning systems removes heavier hydrocarbons from the field gas. This lowers the HHV making it useable on converted drilling rigs and with frack pumps.

Xebec also produces a wide variety of filtration equipment needed for gas treatment systems. These products include water separators used primarily for bulk water removal, coalescing filters used primarily for the removal of fine water droplets, and particulate filters used for the capture of particles.

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, sulphur 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”).

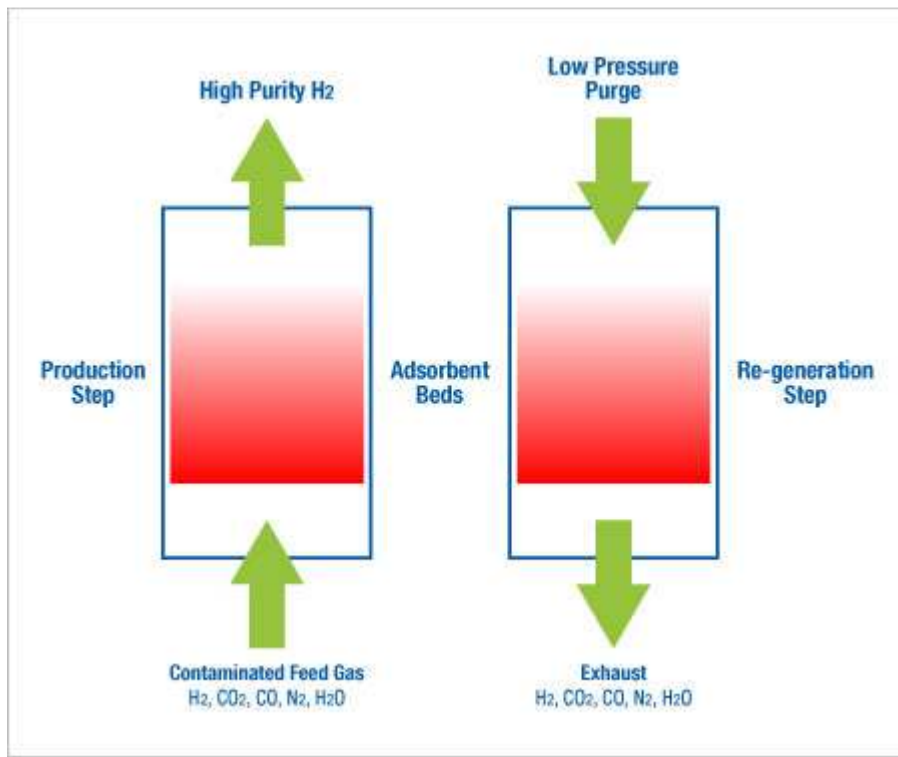
Adsorbents are a class of materials that have the property whereby gas molecules adhere to their surface. Because some molecules will adhere preferentially over others, by selecting the right adsorbent material it is possible to selectively remove an impurity from a gas stream. To maximize capacity, 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 consistently 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.

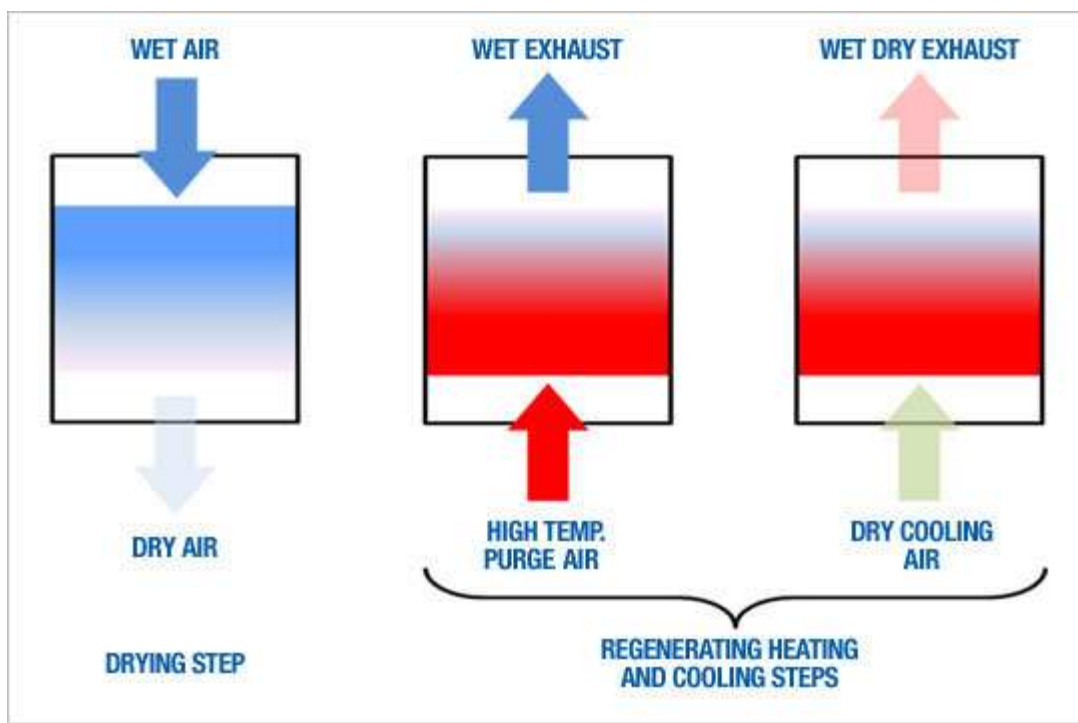
The purification of a gas implies the removal of a trace impurity or contaminant. The drying of air can be classified in this category since water molecules, considered as the contaminant in drying applications, are selectively adsorbed onto an adsorbent material as air passes over it. The impure moist 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 no moisture. 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. Xebec has sold and licensed back the patents associated to the technology it has developed to continue the development and marketing of its products. Management believes that Xebec's 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**”).

Benefits

Management believes that Xebec’s products offer the following benefits:

Compact size: The increased cycle speed and rotary mechanical design significantly reduce the size of Xebec’s PSA systems compared to conventional PSA systems. The smaller footprint makes it easier to install at sites that have limited space available for purification equipment.

Modular, scalable design: The integrated mechanical design of Xebec’s PSA systems is inherently modular and is designed to be skid-mounted. Xebec’s basic rotary system architecture is scalable from small portable applications to industrial scale, providing its customers with increased operational flexibility regarding desired capacity.

Low cost structure: The smaller size and integrated design of Xebec’s PSA systems results in a lower capital cost structure. In addition, the modular, skid-mounted design of Xebec’s products reduces equipment installation time and cost.

Operational benefits: Rotary valves offer significant operational benefits, including reduced power consumption and reduced maintenance and down-time compared to conventional PSAs. In addition, Xebec’s PSAs adapt to changing operating conditions faster than conventional PSAs, which provides significant benefit in environments such as biogas upgrading and hydrogen recovery when the feed gas components change over time.

Flexibility: Xebec’s PSA systems can be modified to purify a range of different gases in a range of capacities by changing the type of adsorbent material and the design of the rotary valve. Xebec has successfully extended its product “platforms” into multiple markets and gas purification applications with minimal incremental investment in product development.

Biogas

BGX Solutions – Biogas Upgrading Plants and PSA Systems

Biogas is a renewable source of natural gas generated from the anaerobic digestion of waste materials in municipal landfills, waste water treatment plants and anaerobic digesters processing agricultural and industrial organic wastes.

The growing trend towards higher demand for renewable energy has created strong demand for equipment to upgrade raw biogas to purified biomethane. Biomethane is a purified form of renewable biogas that meets pipeline natural gas quality specifications and can be distributed and sold by injection into existing pipeline gas utility pipelines.

Biomethane can also be used as a carbon-neutral CNG (**Compressed natural gas**) vehicle fuel for vehicles including refuse trucks, heavy duty transportation trucks, transit buses and passenger cars.

Featuring ruggedness and reliability, Xebec's compact, easily installed systems purify gas streams to meet stringent quality specifications for pipeline natural gas and vehicle fuel. For biogas streams such as landfill gas and digester gas, Xebec's PSA based upgrading systems are designed to operate reliably with minimal maintenance.

Xebec's fast-cycle PSA technology is based on its hydrogen product platform but modified to remove carbon dioxide from low quality methane streams. BGX solutions combine Xebec rotary valve technology with conventional beaded adsorbents, and operate with approximately two seconds cycles compared to three-to-five minutes per cycle for conventional PSA systems. Our fast-cycle systems require only a fraction of the space of conventional PSAs. Our simple, compact and reliable technology also has significant advantages over membrane and amine systems for the removal of carbon dioxide from methane.

The BGX systems remove carbon dioxide, water vapor and most trace gases present in biogas streams to meet and exceed levels for natural gas pipelines or vehicle fuel requirements. In some applications, Xebec integrates pre-treatment to reduce contaminants such as non-methane organics (NMOC's) and hydrogen sulfide (H₂S). The purification process is based on physical adsorption of gas molecules on specially selected adsorbent materials. At operating pressure, the adsorbents remove contaminants such as carbon dioxide and water vapor from the biogas stream and allow upgraded methane to pass through at near operating pressure. Typical pressure loss of the biomethane product is less than 1 bar or 15 psi. The off-gas or exhaust stream removes the contaminants as part of the continuous PSA cycle by allowing the adsorbents to regenerate under vacuum pressure (typically 0.5 bar or 7.4 psi). The process repeats continuously to provide constant production of high-quality methane gas unlike other upgrading processes which require re-compression of the product biomethane.

Xebec's BGX solutions represented approximately 8% of the Company's revenues for the year ended December 31, 2014 and 13% for the year ended December 31, 2013.

Natural Gas

NGX Solutions - Natural gas dryers for natural gas vehicle refuelling stations

Xebec offers a full product line of compressed natural gas dryers to serve the needs of the compressed natural gas refueling as well as the high pressure virtual pipeline markets. Natural gas dryers, or natural gas dehydration units, are essential for the proper operation of natural gas vehicle refueling stations. According to ISO 15403: 2000 the single most important safety requirement of CNG fuel is a very low water dew point temperature to preclude the formation of liquid water at any time. Natural gas must be dried prior to compression for two reasons. First,

when compressing natural gas to the 3600 pounds per square inch needed for vehicle fuel tank storage, there is a risk that the residual humidity in the gas will condense, raising the possibility of corrosion and ice formation within the high pressure fuel tank. Consequently, it is essential the compressed natural gas be dried so that extremely cold winter temperatures do not cause condensation in the fuel tank. Second, at the final stage of compression where the 3600 pounds per square inch of pressure is produced, it is possible for the residual humidity in the gas to form water droplets within the compressor. Liquid water formed inside the compressor may cause severe damage, namely, to the fuel tank.

Single Tower Natural Gas Dryers (STVNGX): These products are designed for customers with very low duty cycle natural gas drying applications. The dryers are designed with no moving parts or electrical controls. They consist of an adsorbent filled pressure vessel with an inlet coalescing filter and outlet particulate filter. They are designed to provide adequate drying capacity to last approximately six months based on the low demand of the application. After a six month period, the adsorbent is simply replaced.

Regenerable Single Tower Natural Gas Dryers (STRNGX): These products are designed for customers with low duty cycle gas drying applications. The design of this product also employs only one vessel tower. By eliminating the traditional dual tower arrangement, significant capital cost reductions are realized because there is one less pressure vessel and many fewer automated valves. Capital costs are kept low due to minimal automation and the use of a single vessel tower.

Regenerable Twin Tower Natural Gas Dryers (DTRNGX): These products are designed for continuous duty gas drying applications and are fully automated. They are intermediate between the manual STRNGX line and the fully customized HRBNGX line. Because these dryers have a standardized off-the-shelf design, they are typically not customized for specific drying applications. However, their standardized design provides customers with a lower cost alternative to the HRBNGX design.

Fully Automatic Heat Reactivated Twin Tower Natural Gas Dryers (HRBNGX). These products are a fully automated, custom designed line of gas dryers for severe duty gas drying applications where reliability is paramount. A typical application for these dryers are refueling stations for natural gas operated bus fleets where such vehicles require regular refueling over a short period of time.

NGX Solutions – Natural Gas Upgrading

Natural gas is a growing lower carbon energy source worldwide. The United States Department of Energy estimates that natural gas production worldwide will increase from 90 trillion cubic feet per year in 2002 to 118 trillion cubic feet per year in 2015. A significant portion of natural gas produced worldwide is considered sub-quality due to contamination by carbon dioxide. According to the Gas Technology Institute the production of carbon dioxide contaminated gas accounted for 13% of total North American gas production (1999).

Natural gas pipeline operators have strict specifications with respect to the carbon dioxide content of gas distributed via pipeline and carbon dioxide must typically be removed from sub-quality gas before the gas can be transported to market.

Xebec's M-3100 and M-3200 PSA systems utilize its proven rotary valve technology. These adsorption systems operate at high efficiency through advanced 6 or 9 bed PSA cycles and are capable of producing pipeline grade methane by removing carbon dioxide and heavier molecular weight hydrocarbons. Fully skid mounted and up to 1/10th of the size of conventional PSA systems, these products offer high reliability and low maintenance costs in a cost effective platform design.

Xebec's NGX solutions represented approximately 46% of the Company's revenues for the year ended December 31, 2014 and 39% for the year ended December 31, 2013.

Hydrogen

H2X Solutions - Hydrogen Purification Systems

Xebec's H2X solutions efficiently upgrade hydrogen-containing reformat, petrochemical process gas streams, and refinery off-gas streams to pure and ultra-pure hydrogen. H2X solutions have minimal pressure drop, remarkable uptime performance, and simple installation and operation. While occupying a fraction of the footprint of conventional systems, Xebec's PSA systems have earned a reputation for easy, flexible installation and problem-free, economical performance.

Xebec's PSA systems are purifying hydrogen from steam reforming and off-gas streams containing hydrogen at numerous installations in Asia, North America and Europe. The high purity hydrogen is being used at refineries, chemical plants, metal production and edible oils operations worldwide.

The Xebec H-3100, H-3200 and H-3300 PSA systems remove contaminants in the adsorber bed at feed pressure. Virtually pure hydrogen passes through the bed with minimal loss in pressure. The impurities are desorbed from the bed as the pressure is reduced to the PSA exhaust pressure. This process is completely reversible and repeats to provide continuous flows, essentially splitting the mixed-feed flow into purified product and exhaust flows. The exhaust gas is typically used as the primary fuel input to the hydrogen-generating reforming process or other fuel, making it a very efficient, integrated process.

Xebec's H2X solutions represented approximately 16% of the Company's revenues for the year ended December 31, 2014 and 15% for the year ended December 31, 2013.

Helium

SGX Solutions - Helium Purification Systems

Helium, a scarce non-renewable gas, is used in the production of fiber-optic equipment and semiconductors. Other industrial uses of helium include optoelectronics, laser welding, cold gas spraying, chemical processing, and leak detection.

Rising demand and declining reserves of helium have led to dramatic increases in the price of helium, intensifying the market for helium recovery systems. Helium recovery is used when the gas is required for, but not used up in an industrial process or system. In the production of optical fiber, the cooling rate and the quality of the product can be dramatically impacted if a less-than-effective helium recovery system is used.

With today's high helium prices, the XEBEC He-3200 is an attractive product since this compact, economical system efficiently recovers high-purity helium from contaminated off-gas streams. Fully skid-mounted and configurable for a range of sizes and market applications, the He-3200 is easily installed in almost any setting, offering a quick payback and ongoing returns.

The XEBEC He-3200 is based on the Company's H-3200 product platform, modified to remove impurities from helium. The He-3200 combines licensed rotary valve technology and conventional beaded adsorbents with an optimized process cycle to deliver higher recovery performance than conventional systems. The XEBEC He-3200 requires only one-quarter of the space of conventional systems and, with only two valves, is simpler to operate. The He-3200 provides a compact, economical solution for the recovery and recycling of helium in leak testing, metals deposition processes and fiber-optic and semiconductor manufacturing facilities.

Gas Filtration and Separation

FSX Solutions - Filtration and Separation Equipment

Filtration products are required in most gas and compressed gas applications. Filters are used, for example, to remove entrained liquid droplets or solid particulates such as dust from gas streams. Xebec's filtration solutions include compressed gas filters, high pressure filters, stainless steel process filters, landfill and biogas filters, and replacement filter elements and accessories. Typical applications of Xebec's filtration solutions, which may take the form of coalescing filters, particulate filters or water separators, include coalescing water and oil removal, particulate removal and hydrocarbon vapour removal.

Xebec's FSX solutions represented approximately 27% of the Company's revenues for the year ended December 31, 2014 and 35% for the year ended December 31, 2013.

Field gas

AGX Solutions

Shale gas exploration companies need to mitigate rising diesel fuel costs and address environmental concerns in the face of low natural gas and Natural Gas Liquids (NGLs)' prices. These two critical needs can be met by Xebec's unique technology and product offering. Xebec provides a cost-efficient, containerized solution to displace diesel fuel with on-site field gas. The field gas upgrading system, called AGX, separates well gas into a natural gas stream and produces an exhaust stream rich in NGLs, allowing oil & gas drillers to replace 40% to 60% of their diesel fuel with field gas and frac pump operators to displace 40% to 60% of their diesel fuel with field gas.

Services

To date, all of Xebec's services relate to gas purification technologies that incorporate Xebec's licensed technology. Xebec maintains global service support out of Canada, China and Singapore, which provide installation, start up, maintenance, and technical support services worldwide.

For installations, repairs or modifications, Xebec employs trained technicians capable of travelling worldwide to perform the work required to service Xebec's products. Xebec also offers training for customers and business partners who wish to perform their own installation or service of Xebec's products. These training sessions are offered at Xebec's Blainville facility or at the customer's location.

Xebec provides aftermarket support for replacement parts and certain equipment upgrades. A supply chain is maintained for all currently used components, so that replacement parts are readily available for Xebec's products. For discontinued products, engineering records are kept so that aftermarket parts services can still be maintained via correct re-specification of new parts for old equipment.

Market Drivers

There are a number of key market drivers that will have an important impact on Xebec's long term prospects and its ability to create shareholder value:

Energy Security: Concerns regarding energy security in both Europe and North America have prompted the development of domestic (and in many cases renewable) energy sources. Biogas generated from municipal waste at landfills and waste water treatment facilities, or from agricultural waste on farms is a large secure, domestic source of energy.

Waste Management: Animal manure represents a significant source of air emissions (odor and volatile organics) and groundwater contamination in the agricultural sector worldwide. Anaerobic digestion of this waste material generates a more environmentally benign solid that can be spread directly on crop land, with a lower risk of groundwater contamination. This anaerobic digestion process produces raw biogas which is available for upgrading to renewable natural gas.

Low natural gas prices: In just four years, natural gas price has declined almost 80% and according to energy analysts, there is nothing stopping it from going lower as the markets are local because the most efficient way to transport natural gas is on land, through pipelines. Natural gas in North America does not go overseas. There is an oversupply and basic economics dictates that too much supply and too little demand results in lower prices. Finally, as fracking becomes more cost effective, there is a growing supply of natural gas. For years, drillers knew that gas and oil were trapped in shale rock all over North America, but getting it out of the ground in a cost effective way was a challenge.

Market Opportunities

Sustainable Energy –Biogas Upgrading Plants

Biogas is a renewable gaseous fuel containing approximately 50% to 70% methane and 30% to 40% carbon dioxide. Biogas is produced as a by-product from the decomposition of organic waste in landfills, municipal waste water and anaerobic digesters that process agricultural or municipal organic wastes. Rising demand for low carbon fuels, concerns about energy prices and increasing demand for the supply of renewable energy have increased attention on recovering energy from these renewable sources of methane, either by combusting the biogas to generate electricity or heat, or upgrading the biogas to high purity methane which can be injected into the natural gas distribution grid or used as a transportation fuel. In addition, anaerobic digestion of animal manure and other agricultural wastes offers a number of additional benefits to farmers, including reducing air and water pollution, odor management and the production of environmentally benign co-products including organic fertilizer and animal bedding material.

Historically, biogas plants combined anaerobic digestion systems or landfill wells with associated electricity generators such as gas turbines or gas engines. Electricity produced from these generators is sold into the national power grid. To date, electricity generation has been the most common option for recovering energy from biogas. However, electrical generators are known to be about 35% efficient in producing energy, whereas upgraded biogas to renewable natural gas, which is injected into the pipeline grid, or used as transportation fuel, can be about 80% efficient.

The long term trend of low carbon fuels has created stronger interest in upgrading biogas to biomethane as an alternative to electricity generation. Upgrading of biogas to pipeline quality allows the methane resource to be stored and transported to centralized high efficiency power stations which typically have a use for waste heat. Biomethane can also be sold as carbon-neutral CNG for use as transportation fuel in passenger cars and buses given the cost advantage over gasoline and diesel.

Pursuant to the budget of the Québec government released on March 19, 2009, the government announced the establishment of a program to develop green energy technologies to further stimulate innovation in this sector and develop new markets. The Québec government will, among other things, set up financial support programs to promote investment in bio energy production and will invite the federal government to help fund such initiatives as part of its promise to invest approximately \$1 billion in green energy infrastructure within the next five years. To that end, the Québec government will, among other things, be introducing a program for municipalities aimed at the installation of anaerobic digestion technologies to produce biogas as a replacement for fossil fuels. The intended investment of \$650 million will be funded by the Québec government, the federal government and municipalities.

Natural gas vehicles

A desire for energy security, cheaper and cleaner fuels, and improved air quality, make natural gas an interesting alternative source of energy for motor vehicle propulsion. Sales of

natural gas vehicles are presently growing at an annual rate of 18% worldwide and it is expected that there will be approximately 65 million natural gas vehicles in circulation worldwide by 2020. In terms of regional growth in the natural gas vehicle market, since 2000, Asia leads with a growth rate of 50.1%, South America is next at 27.9%, Africa follows with 21.3%, Europe at 12.9%, while North America is at 3.7%. When compared to the rest of the world, the natural gas vehicle market in North America has yet to realize its full potential. The natural gas vehicle market may represent a significant growth opportunity for Xebec's natural gas dehydration products.

Field gas upgrading

Shale gas exploration companies need to mitigate rising diesel fuel costs and address environmental concerns in the face of low natural gas and Natural Gas Liquids (NGLs)' prices. These two critical needs can be met by Xebec's unique technology and product offering. Xebec provides a cost-efficient, containerized solution to displace diesel fuel with on-site field gas. The field gas upgrading system, called AGX, separates well gas into a natural gas stream and produces an exhaust stream rich in NGLs, allowing oil & gas drillers to replace 40% to 60% of their diesel fuel with field gas and frac pump operators to displace 40% to 60% of their diesel fuel with field gas. It has also the added benefit of producing a cleaner burning fuel than diesel, and of reducing CO2 emissions as well as flaring. Finally, productivity improvements are seen as extraction does not need to be turned down because of flaring quotas

Xebec has identified market size, customer needs and competition, and now knows that its solution addresses a significant customer base of Exploration and Production (E&P) operators, particularly those in unconventional sources like shale oil and shale gas. Xebec solutions have tremendous growth potential due to continuing environmental legislation and rising diesel fuel costs and offers plug & play flexibility

Xebec's field gas conditioning system offers significant benefits to potential customers. With two current operating systems successfully deployed and functioning for over 5 years, Xebec can point to a proven concept for this quickly developing market. Xebec has already delivered solutions for upgrading field gas into natural gas in 2006 to Venoco and PXP and has developed a standard, containerized solution that can easily be deployed to E&P operators for substantial fuel cost savings

Filtration products for natural gas

Xebec's filtration products for compressed natural gas dryers and compressed air dryers complement its adsorption product offering. These filtration products cover a complete range of filter housings and filter elements for Xebec's products as well as for some of its competitor's products. Each of Xebec's adsorption products requires between 2 to 4 filters, generating excellent aftermarket opportunities. As the installed base of adsorption units systems grows, the aftermarket and replacement element sales will increase, generating a recurring revenue stream for Xebec.

Sales and Marketing

Xebec sells its products and services through a number of channels including direct sales, channel partners, and project developers. Xebec's Blainville based sales team is dedicated primarily to North American sales but is also responsible for other areas including Europe and South America.

The Xebec China sales team focuses its efforts on natural gas dryer sales and biogas upgrading solutions to Chinese customers, compressor OEM's (original equipment manufacturers), and gas companies. At the international level, Xebec China's customers include packagers of natural gas compression equipment for refueling stations and their agents. Xebec uses a formal process for targeting and evaluating new business and product development opportunities. Xebec draws on a wide range of internal and external resources and a wide range of industry contacts, to identify and pursue leads with potential business and product development partners.

Xebec sells its products in South East Asia through Bireme PTE Limited, a reseller owned by a former employee 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 China.

Competition

Xebec faces competition within its target markets primarily from other manufacturers of natural gas and biogas purification and filtration 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 Acron Technologies Inc., Cirmac International BV, Lackeby Water Group (PURAC), Guild Associates Inc, MT-Biomethan GMBH, Carbotech AC GmbH, Haase Energietechnik AG, Ros Roca Group, Flotech/Greenlane, Yit Vatten Och Misjoteknik, Air Liquide, MalmBerg Water AB and A.R.C. Technologies Corp.

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

AGX Solutions: In the associated gas market, Xebec's competition includes Competitor #1 (CNG Hauling): CanGas Solutions and Prometheus Energy

H2X Solutions: In the hydrogen purification market, Xebec's competition includes Air Liquide, HydroChem, Linde and Iwatani.

FSX Solutions: The filtration market is dominated by large multinational companies. In this market segment, Xebec's competition includes Parker-Hannifin Corporation, Donaldson Company Inc., SPX Corp., Atlas Copco AB and Walker Filtration Ltd.

Research and Development

After the IP Transaction on March 22, 2012, Xebec's research and development activities are now conducted at Blainville Quebec. Xebec's research and development staff of 3 employees consists of engineers and technicians. Xebec will utilize in-house resources for its research activities, allowing it to maintain control over its intellectual property related to the design, process and manufacturing of Xebec's products.

Xebec's development activities are presently focused on the development of high performance biogas upgrading systems, standardization and containerization of biogas systems.

Manufacturing and Quality Assurance

Xebec employs a combination of internal and external resources to manufacture its products. Through its establishment of a shared service supply chain function in China, Xebec can fully benefit from low-cost country sourcing, making its products highly competitive while maintaining quality through the deployment of supply quality engineers (SQE) at its Chinese facility. In addition, for special projects, Xebec maintains its own welding capability in Blainville, allowing for flexible production schedules, even for complex products and certification processes.

Xebec applies lean manufacturing techniques in its manufacturing facilities in Blainville and Shanghai carefully managing the purchase of its raw materials and outsourced components to minimize inventories stored at its facilities. Xebec sources materials and components from multiple suppliers and is not dependent on any single supplier for any key components of its products.

Xebec's Blainville facility is a dedicated pressure vessel welding and assembly facility, whereas Xebec China's facility is responsible for assembly only, with pressure vessel welding outsourced to local firms.

Quality assurance is an integral part of Xebec's management and manufacturing philosophy. Xebec holds many high level manufacturing certifications from various organizations including the International Organization for Standardization, the Occupational Health and Safety Assessment Series, the American Society of Mechanical Engineers, the Canadian Standards Association for Canada, the Canadian Standards Association for the United States of America and the Canadian Registration Number. In addition, Xebec is a member of the American Natural Gas Vehicle Association, the Canadian Natural Gas Vehicle Alliance and the National Quality Institute of Canada. Xebec's facility in Blainville is ISO 9001 certified and Xebec Shanghai's facility is ISO 9001 certified.

Other Business Considerations

Key Relationships

Intellectual Property License

On March, 22, 2012, Xebec entered into a license agreement with Air Products pursuant to which Xebec licensed back its intellectual property and patents sold to Air Products and will continue to develop and sell its systems.

Xebec also depends on a combination of licensed patents, including licensed patents on its technology and applications of its technology (sold to Air Products as of March 22, 2012), licenses, trademarks, copyrights and trade secrets to protect its products and brands. Xebec also identifies and monitors intellectual property owned by others on an ongoing basis, in order to avoid potential intellectual property infringements.

The Company registered the HyQuestor® brand name and Pure Innovations® as trademarks in the United States and Canada, and the Xebec® brand name as a trademark in Canada, the United States and Japan. Additional registrations in the United States of America as well as in certain countries in South East Asia, in China and in certain countries in Europe are pending.

Employees

Xebec's human resources goal is to develop policies and programs that support the attraction and retention of the skilled individuals needed to develop its business. Xebec maintains a high performance work environment and works to invest in high performing employees by providing additional development opportunities. Through a reward and recognition program, Xebec recognizes and rewards effort that goes above and beyond when that effort delivers tangible business results. Certain employees participate in a bonus program that is only payable based on the successful achievement of financial objectives.

Xebec has 54 full-time permanent employees at its Blainville head office, 25 full-time permanent employees at its Shanghai manufacturing facility and 4 employees at its USA office for a total of 83. No employees of Xebec are unionized. All indirect employees are subject to written terms of employment and confidentiality agreements as a condition of their employment at Xebec.

7. RISK FACTORS

Xebec's ability to generate revenue and profit from its operations is subject to a number of risks and uncertainties. The risks and uncertainties described below are not the only ones Xebec faces. Additional risks and uncertainties, including those that Xebec is not aware of now, or that management may believe are currently not material, may also adversely affect the ability to maintain a viable business. The risk factors presented below are divided into categories of risks impacting Xebec's internal and external environment.

Risk factors related to Xebec's business

Xebec has a limited operating history and it may be difficult to assess its business and future prospects.

Xebec's historical operating data may be of limited value in evaluating Xebec's future prospects in light of the Arrangement. Xebec, as a privately-held issuer, commenced operations in June 2007 following the management buy-out of the assets and business of Xebec Inc., and since that time, Xebec has been engaged in the development, manufacture, and supply of compressed air and gas products. For the fiscal year ended December 31, 2014, Xebec's revenues totaled approximately \$14.4 million. For the year ended December 31, 2013, Xebec's revenues totaled approximately \$11.3 million.

Liquidity risk

The Company has realized an operating loss of \$678,754, had cash outflows from operations of \$960,969 for the year ended December 31, 2014 and finished the year with cash amounting to \$1,008,421, working capital deficit of \$189,646 and had access to credit facilities totaling \$500,000 of which no amount 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 2015 for which management believes the assumptions are reasonable. Achieving budgeted results is dependent on improving the volume of revenues, delivering on sales and contracts schedules, meeting expected overall operating margin levels and controlling general and administrative costs. Management expects to meet its budget and to have enough liquidity to fund operations to at least beyond December 31, 2015.

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 2015 and planned courses of action. Therefore, the Company may require additional external funding and there is no assurance that it would be successful. It is possible that future changes in capital markets conditions could result in such funding not being available when required or at acceptable costs. The Company is unable to predict the possible effects, if any, of such uncertainties and the potential adjustments to the carrying values of assets and liabilities that could be needed should the Company have insufficient liquidity. Such adjustments could be material. Xebec's fluctuating operating results

There can be no assurance that Xebec will operate profitably in the future. Xebec's operating results may vary from quarter to quarter, depending on a number of factors, including:

- the introduction and market acceptance of new products and technologies and new

variations of existing products and technologies;

- the activities of our competitors;
- our ability to control our expenses;
- variations in the timing of orders and subsequent deliveries;
- the length of our customers' approval processes or market tests;
- changes in our mix of products and technologies;
- lack of liquidity;
- changes in capital spending;
- unforeseeable or unavoidable delays in larger-scale customer projects;
- higher interest rates;
- changes in currency rates; and
- general economic conditions.

Any variation in the rate and timing of conversion of our sales prospects into revenue could cause us to plan or budget inaccurately, and those variations could adversely affect our financial results. Delays, reductions in amounts or cancellations of customers' purchases could adversely affect our business, financial condition and results of operations. In light of the foregoing, quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of likely future performance or annual operating results. Reductions in revenue or net income between quarters or our failure to achieve expected quarterly earnings per share could cause the market price of our Common Shares (as defined hereinafter) to decline or adversely affect our business, financial condition and results of operations.

Xebec depends upon a limited number of customers for potential revenue due to the nature of its markets.

To date, a small number of customers have accounted for a majority of Xebec's revenues. As Xebec's gas purification business expands, the Company expects that revenue distribution will be over a large number of different customers. For the year ended December 31, 2014, sales to the two principal customers accounted for approximately 30% of Xebec's total revenue. For the year ended December 31, 2013, sales to the two principal customers accounted for approximately 20% of Xebec's total revenue. The loss of, or a reduction in, purchase orders or anticipated purchase orders from these two principal customers could have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, if one of the Company's customers is unable to meet its commitments to Xebec, the Company's business, financial condition and results of operations could be adversely affected.

Xebec sells its products to a limited number of customers, some of which may experience financial difficulty, which may result in bad debt for Xebec.

Xebec sells to customers of varying financial strengths in various geographic locations. Some of these customers, particularly smaller companies with limited financial resources, may be unable to pay their invoices when they become due. This risk is amplified by the current liquidity crisis and general decline in global economies which is calling into question the sustainability of some of Xebec's customers. Xebec mitigates this risk through its standard contract terms for significant equipment sales, which require payment of the majority of the contract value prior to shipment. Nevertheless, it is possible that some of Xebec's customers will default on certain amounts owing. Account receivable insurance provided by Export Development Canada and Sinasure in China may only partially protect Xebec from potential losses resulting from such commercial risks if customers refuse to pay or are in default.

New Products and Technological Change

The markets for the Company's products, technologies and services are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. Xebec's products embody complex technology and are designed to be compatible with current and evolving industry standards and Xebec invests significant resources in the development of products for the markets it serves. Xebec's success continues to depend upon market acceptance of its existing products, technologies and services, its ability to enhance those products, technologies and services and its ability to introduce new products, technologies and services to meet changing customer requirements. Any delays in developing new products or enhancements or any failure by such products, technologies or services or enhancements to gain market acceptance could adversely affect the business, financial condition and results of operations.

Xebec may be unable to pursue its long term development and commercialization plans and may have to forego attractive business opportunities.

Xebec requires additional capital to fund its operations and to acquire or invest in complementary businesses or products or obtain the right to use complementary technologies. Xebec may be unable to raise additional capital or may not be able to do so on acceptable terms to pursue its long-term development and commercialization plans. Either of these outcomes could adversely affect the ability of Xebec to respond to competitive pressures or prevent Xebec from conducting all or a portion of its planned operations.

The development and commercialization of its products could be delayed or discontinued if Xebec is unable to fund its research and product development activities or the continued development of its manufacturing capabilities. In addition, it may be forced to reduce its sales and marketing efforts or forego attractive business opportunities.

Xebec's strategy for the sale of its products depends upon developing key relationships with a number of customers who will incorporate its products and technologies into theirs.

Other than with respect to a limited number of specific markets, the success of Xebec's business depends on its ability to develop relationships with parties who will integrate Xebec's

products and technologies into their products. The ability of Xebec to sell its products and technologies to its target markets depends to a significant extent upon its partners' worldwide sales and distribution network and service capabilities. The inability to effectively leverage off these sales and distribution networks could adversely affect the business, financial condition and results of operations.

Xebec has foreign currency risk.

The majority of Xebec's revenues are in Canadian and U.S. dollars and Chinese Yuan, while a significant portion of the operating expenses are in Canadian dollars and Chinese Yuan. Foreign exchange gains and losses are included in results from operations. A large decline in the U.S. dollar, or Chinese Yuan relative to the Canadian dollar could impair revenues, margins, and other financial results. Xebec has not entered into foreign exchange contracts to hedge against gains and losses from foreign currency fluctuations.

Xebec will need to recruit, train and retain key management and other qualified personnel to successfully expand its business.

Xebec's future success will depend in large part upon its ability to recruit and retain experienced research and development, engineering, manufacturing, operating, sales and marketing, customer service, and management personnel. If Xebec does not attract and retain such personnel, it may not be able to expand its business. Competition for qualified personnel in its industry is intense. Even if Xebec invests significant resources to recruit, train, and retain qualified personnel, Xebec may not be successful in its efforts. Xebec's success also depends upon the continuing contribution of its key management, research, product development, engineering, marketing, and manufacturing personnel, many of whom would be difficult to replace. While Xebec has entered into employment agreements and/or confidentiality and non-competition agreements with some of its key employees, Xebec could be significantly adversely impacted if any of its key employees become unable or unwilling to continue their employment with the Company. The loss of key employees to a competitor and an inability to attract and retain experienced key employees could adversely affect the business, financial condition and results of operations.

Xebec faces significant competition from other developers and manufacturers of gas purification systems.

Xebec competes with a number of companies that manufacture conventional gas purification equipment and other competing technologies. New developments in technology may adversely affect the development or sale of some or all of Xebec's products and technologies, or make its products and technologies uncompetitive or obsolete. Other companies, some of which might have substantially greater resources than Xebec does, are currently engaged in the development of products and technologies that are similar to, and competitive with, many of Xebec's products and technologies. Xebec's competition includes numerous companies located throughout the world, some of which may have advantages over Xebec in terms of government incentives, labour, component costs and technology. Each of these competitors has the potential to capture market share in Xebec's target markets, which could harm its position in the industry. New competitors may also emerge and entire product lines may be threatened by new

technologies or market trends which reduce the commercial viability of Xebec's product lines. In addition, Xebec's customers could potentially become its competitors if they decide to develop and manufacture their own gas purification systems. As the markets for gas purification systems develop, other large industrial companies may enter these fields and compete with Xebec. These large industrial companies may have research and development, manufacturing, marketing and sales resources necessary to deliver gas purification systems more quickly and effectively than Xebec does. Xebec may not be able to compete effectively with all of these competitors, which could adversely affect its business, financial condition and results of operations.

Protection of Technology and Development

There can be no assurances that Xebec will meet its targeted development or integration timelines, secure components at reasonable prices such that it will be able to offer its products and technologies at competitive pricing, or that Xebec can continue to enhance and improve the functionality and features of its technologies. In addition, Xebec depends on its ability to develop and maintain proprietary aspects of its technology, if and when required.

Xebec's products incorporate complex technology and software. Accordingly, they may contain errors that could be detected at any point. Such errors could materially and adversely affect Xebec's reputation, or that of its customers and partners, resulting in claims and/or significant costs to Xebec, and/or cause customers and other parties to abandon Xebec and impair its ability to market and sell its products in the future.

Project Execution

In the normal course of its business, Xebec may be subject to various litigation, claims, and legal actions arising from its contractual liability with respect to project execution and that can implicate, although not exclusively, subcontractors, suppliers, employees and customers. Xebec undertakes contracts as packaged activities wherein it can subcontract a portion of the project or the supply of material and equipment to third parties. Should the subcontractors or suppliers fail to meet the Company's standards by not delivering their portion of a project according to the contractual terms, including not meeting the delivery schedule or quality requirements or experiencing a deterioration of their financial conditions, the ability of the Company to perform and/or to achieve the project may be impacted and the Company may be liable for such defaults.

Xebec is dependent upon third party suppliers for materials and components for its products.

Xebec relies upon third party suppliers to provide materials and components for its products. A supplier's failure to provide materials or components in a timely manner, or to provide materials and components that meet Xebec's quality, quantity or cost requirements, or its inability to obtain substitute materials and components in a timely manner or on terms acceptable to Xebec, may harm Xebec's ability to manufacture its products. To the extent that Xebec is unable to develop and patent its own technology and manufacturing processes, and to the extent that the processes, which its suppliers use to manufacture materials and components, are proprietary, Xebec may be unable to obtain comparable materials or components from

alternative suppliers, and that could adversely affect its ability to produce commercially viable products.

Xebec is subject to a variety of governmental regulations

Xebec is subject to a variety of federal, provincial, state, local and international laws and regulations relating namely to the environment, health and safety, export controls, currency exchange, labor and employment and taxation, namely in Canada, China and Singapore. These laws and regulations are complex, change frequently and have tended to become more stringent over time. Failure to comply with these laws and regulations may result in a variety of administrative, civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions as to future compliance. From time to time, as part of Xebec's operations, including newly acquired operations, Xebec may be subject to compliance audits by regulatory authorities in the various countries in which it operates.

Insurance

Xebec's operations are subject to risks inherent in the compressed air and gas purification sectors. Xebec subscribes for insurance in amounts which it considers appropriate in the circumstances and having regard to industry norms. Xebec may become liable in relation to risks in respect of which it cannot obtain insurance or for which it chooses not to obtain insurance as a result of high premiums or for other reasons, or for damages which exceed the maximum coverage provided for in the insurance policies. Such liability claims could adversely affect Xebec's business, financial condition and results of operations.

Credit Facilities

Xebec's credit facilities and financing agreements mature on various dates. There can be no assurance that such credit facilities or financing agreements will be renewed or refinanced, or if renewed or refinanced, that the renewal or refinancing will occur on equally favourable terms to Xebec. Xebec's ability to continue operating may be adversely affected if Xebec is not able to renew its credit facilities or arrange refinancing, or if such renewal or refinancing, as the case may be, occurs on terms materially less favorable to Xebec than at present. Xebec's current credit facilities and financing agreements impose covenants and obligations on Xebec. There is a risk that such loans may go into default if there is a breach in complying with such covenants and obligations, which could result in the lenders realizing on their security and causing the shareholders to lose some or all of their investment.

As at December 31, 2014, 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.

Xebec has 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 and letters of credit guarantees. These credit facilities were not used as at December 31, 2014.

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

Product Liability

Difficulties in product design, performance and reliability could result in lost sales, delays in customer acceptance of Xebec's products and lawsuits which would be detrimental to market reputation. Xebec's products are not error free. Undetected errors or performance problems may be discovered in the future. Xebec may not be able to successfully complete the development of planned or future products in a timely manner or to adequately address product defects, which could harm the business and prospects. In addition, product defects may expose Xebec to product liability claims, for which it may not have sufficient product liability insurance. Difficulties in product design, performance and reliability or product liability claims could adversely affect Xebec's business, financial condition and results of operations.

Third Party Suppliers

Xebec relies on third-party suppliers, in some cases sole suppliers or limited groups of suppliers, to provide materials and components necessary for the manufacture of its products. As a result of worldwide demand for and shortage of components, some suppliers have from time to time limited the number of components that can be purchased. If unable to obtain sufficient allocations of these components, Xebec's production and shipment of products will be delayed, Xebec may lose customers and profitability will be affected. Reliance on suppliers also reduces Xebec's control over production costs, delivery schedules, reliability and quality of materials. Any inability to obtain timely deliveries of quality materials, or any other circumstances that would require Xebec to seek alternative suppliers, could adversely affect its ability to deliver products to customers. In addition, Xebec regularly outsources limited aspects of the manufacturing of its products to contract manufacturers and a significant increase in the price of the services provided by these manufacturers, or delays in their deliveries, could adversely affect Xebec's business, financial condition and results of operations.

Foreign Operations

The majority of Xebec's revenues derive from international sales. There are a number of risks inherent to Xebec's international business activities, including government policies concerning the import and export of goods, services and other regulatory requirements, tariffs and other trade barriers, costs and risks of localizing products and subcontractors in foreign countries, costs and risks associated with the use of foreign agents, higher credit risks, potentially adverse tax consequences, limits on repatriation of earnings, the burdens of complying with a wide variety of foreign laws, slower payment of invoices, nationalization and possible social, labour, political and economic instability. Government-owned petroleum companies located in some of the countries in which Xebec operates have adopted policies, or are subject to governmental policies, giving preference to the purchase of goods and services from companies that are majority-owned by local nationals. As a result of these policies, Xebec may rely on

contractual arrangements with local nationals in these countries. In addition, political considerations may disrupt the commercial relationships between Xebec and government-owned petroleum companies. The lack of well-developed legal systems in certain jurisdictions in which Xebec operates creates additional risks in conducting business. Although an evaluation is made of the creditworthiness of all new customers and Xebec maintains an ongoing review of their financial condition and subscribes to accounts receivable insurance, credit risks associated with international sales remain higher than for domestic customers. These practices may create potential problems and liabilities for which Xebec may have to incur additional costs. There can be no assurance that such risks will not adversely affect Xebec's business, financial condition and results of operations. The risks inherent in establishing new business ventures in international markets where Xebec has not previously conducted business, especially in market where local customs, laws and business procedures present special challenges, may affect Xebec's ability to be successful in these ventures or avoid losses that could have a material adverse effect on Xebec's business, financial condition, results of operations and cash flows.

Compliance with Anti-Corruption and Anti-Bribery Laws

Xebec is subject to various laws and regulations relating to bribery and corruption in the jurisdictions in which it operates. Although Xebec has procedures and controls in place to monitor internal and external compliance, if Xebec is found to be liable for anti-corruption or anti-bribery law violations (either due to its own acts or inadvertence, or due to the acts or inadvertence of others, including actions taken by Xebec's agents), Xebec could suffer from severe civil and criminal penalties or other sanctions, which could adversely affect its business, financial condition and results of operations.

In addition, Xebec operates in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-corruption or anti-bribery laws may conflict with local customs and practices. Xebec's compliance program and its internal monitoring may not always protect Xebec from reckless or negligent acts committed by its employees or agents. Violations of these laws, or allegations of such violations, could disrupt Xebec's business and result in a material adverse effect on its business and operations. Xebec may be subject to competitive disadvantages to the extent that its competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence or using other methods that are prohibited by international laws and regulations to which Xebec is subject. Furthermore, customers may cease doing business with Xebec if Xebec decides to stop using certain agents' services.

Risk factors related to Xebec's target markets

Xebec's markets are exposed to recessionary risk.

A continuation of the current global recession may result in lost or delayed sales orders, as many of Xebec's existing and targeted customers may cut back their proposed capital spending in the face of economic uncertainty and limited access to project financing. This would impact the ability of Xebec to grow its business, and as a result sales orders may be lower than expected. Any decrease in sales would negatively impact Xebec's cash flows and other financial

results. Different air and gas purification markets and different geographies may be impacted to different extents, making it difficult to forecast the likely impact.

Volatility of oil and natural gas prices.

Xebec's systems represent a significant potential capital cost to Xebec's existing and target customers and their ability to purchase Xebec's products is dependent upon factors which affect energy industries. Xebec's existing and target customers' results of operations and financial condition are dependent on the prices they receive for oil, natural gas and renewable natural gas. Oil and natural gas prices have fluctuated widely during recent years and are determined by local and worldwide supply and demand factors, including actions by the Organization of Petroleum Exporting Countries, weather conditions, the U.S. dollar exchange rate, transportation, competition, and general economic conditions as well as conditions in other oil producing regions, which are beyond Xebec's control. Any material decline in oil or natural gas prices could have a material adverse effect on Xebec's existing and target customers' operations, financial condition, and the amount they spend on new capital equipment and the development of new technology, which could have a material adverse effect on Xebec's existing and target customers' ability to purchase Xebec's products. In addition, Xebec's prospects would be adversely affected should the cost of natural gas fall to levels where production of natural gas becomes uneconomic.

Risks with conducting business in international markets.

Xebec conducts business in many geographic markets outside Canada. Changes in local economic or political conditions, namely in China and South Korea, could have a material adverse effect on Xebec's business, financial condition, results of operations and cash flows. Additional risks inherent in Xebec's international business activities include the following:

- difficulties in managing international operations, including Xebec's ability to timely and cost effectively execute projects;
- unexpected changes in regulatory requirements;
- training and retaining qualified personnel in international markets;
- inconsistent product regulation or sudden policy changes by foreign agencies or governments;
- the burden of complying with multiple and potentially conflicting laws;
- tariffs and other trade barriers that may restrict Xebec's ability to enter new markets;
- governmental actions that result in the deprivation of contract rights, including possible law changes, and other difficulties in enforcing contractual obligations;
- foreign currency exchange rate risks;
- difficulty in collecting international accounts receivable;
- potentially longer receipt of payment cycles;
- changes in political and economic conditions in the countries in which Xebec

- conducts business, including the nationalization of energy related assets, civil uprisings, riots, kidnappings and terrorist acts;
- potentially adverse tax consequences or tax law changes;
 - restrictions on repatriation of earnings or expropriation of property without fair compensation;
 - the geographic, time zone, language and cultural differences among personnel in different areas of the world; and
 - difficulties in establishing new international offices and risks inherent in establishing new relationships in foreign countries.

In addition, Xebec may expand its business into international markets where it has not previously conducted business. The risks inherent in establishing new business ventures, especially in international markets where local customs, laws and business procedures present special challenges, may affect Xebec's ability to be successful in these ventures or avoid losses that could have a material adverse effect on Xebec's business, financial condition, results of operations and cash flows.

Environmental Risks

All phases of the oil and natural gas business, and of the processing of organic wastes, are subject to environmental regulation pursuant to a variety of Canadian federal, provincial, state and municipal laws and regulations, as well as international conventions (collectively, "**Environmental Legislation**"). Environmental Legislation imposes, among other things, restrictions, liabilities, and obligations in connection with the generation, handling, storage, transportation, treatment, and disposal of hazardous substances and waste, and in connection with spills, releases, and emissions of various substances to the environment. Environmental Legislation also requires that wells, facility sites, and other properties associated with oil and natural gas operations be operated, maintained, abandoned, and reclaimed to the satisfaction of applicable regulatory authorities. In addition, certain types of operations, including exploration and development projects and significant changes to certain existing projects, may require the submission and approval of environmental impact assessments. Compliance with Environmental Legislation can require significant expenditures and failure to comply with Environmental Legislation may result in the imposition of fines, penalties and liability for cleanup costs and damages. Changes in Environmental Legislation due to, namely, climate change concerns, may require, among other things, reductions in emissions to the air from Xebec's existing and target customers' operations and result in increased capital expenditures. Future changes in Environmental Legislation could occur and result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, which could have a material adverse effect on Xebec's existing and target customers' ability to purchase Xebec's products.

8. DIVIDENDS

To date, the Company has not paid any dividends on any of its shares. The future payment of dividends will be dependent on the financial requirements to fund future growth, and other factors which the Board of Directors may consider appropriate in the circumstances. As it is anticipated that

all available cash will be needed to implement the Company's business plan and growth, there are no intentions to pay dividends in the foreseeable future. As at the date hereof, the company is not in a position to declare any dividend

9. CAPITAL STRUCTURE

The share capital of the Company consists of an unlimited number of common shares ("**Common Shares**") without par value and an unlimited number of preferred shares ("**Preferred Shares**") without par value.

As at December 31, 2014, 39,363,867 Common Shares were issued and outstanding, and no Preferred Shares were issued and outstanding. In addition, as at December 31, 2014, the Company had 5,838,402 options outstanding to purchase Common Shares ("**Options**") and 10,091,886 share purchase warrants outstanding ("**Share Purchase Warrants**").

The Common Shares, Preferred Shares, Share Purchase Warrants and Options have the following material rights, privileges, restrictions and conditions:

Common Shares

Holders of Common Shares shall be entitled to receive notice of and attend all meetings of the shareholders of the Company and each holder of Common Shares shall have one (1) vote for each Common Share held on all matters to be voted on by shareholders (except matters requiring the vote of another specified class or series voting separately as a class or series).

Subject to the prior rights of holders of Preferred Shares, holders of Common Shares will be entitled to receive dividends, if any, as and when declared by the Board of Directors, in such amount and in such form as the Board of Directors may from time to time determine.

On liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company among its shareholders for the purpose of winding-up its affairs, after payment of all outstanding debts and subject to the prior rights of holders of Preferred Shares, the holders of Common Shares will be entitled to receive the remaining property and assets of the Company. The holders of the Common Shares have no pre-emptive, redemption or conversion rights. All Common Shares, when issued, are and will be issued as fully paid and non-assessable shares without liability for further calls or to assessment by the Company.

Preferred Shares

Preferred Shares are issuable in series. The Board of Directors has the right to fix the number of and to determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series.

The Preferred Shares of each series, with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, rank on a parity with the Preferred Shares of every other series and are entitled to a preference and priority over the Common Shares.

The holders of a series of Preferred Shares shall not, as such, be entitled to receive notice of or attend any meetings of the shareholders of the Corporation and shall not be entitled to vote at any such meetings, except (i) where holders of a specified class or series of shares are entitled to vote separately as a class or series as provided in the CBCA or (ii) as may be provided for in the rights, privileges, restrictions and conditions attached to any series of Preferred Shares.

The holders of any series of Preferred Shares are entitled to receive, in priority to the holders of Common Shares, as and when declared by the Board of Directors, dividends in the amounts specified or determinable in accordance with the rights, privileges, restrictions and conditions attaching to the series of which such Preferred Shares form part.

Share Purchase Warrants

As at December 31, 2014, 10,091,886 Share Purchase Warrants were outstanding which entitle the holder to acquire one Common Share at a price of \$0.45 per share until November 2nd, 2015.

Stock Options

The Company maintains an omnibus plan (the “**Omnibus Plan**”), which allows for the issuance of stock options. Under the Omnibus Plan, Common Shares approved for issuance under stock-based compensation arrangements are limited to a fixed number of 5,904,580.

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

As at December 31, 2014, the Company had 5,838,402 Options outstanding under the Omnibus Plan with a weighted average exercise price of \$0.16.

10. MARKET FOR SECURITIES

The outstanding Common Shares of the Company are listed on the Toronto Stock Exchange under the trading symbol “XBC”.

The price ranges and average daily volume of Common Shares traded on the Toronto Stock Exchange were as follows:

Toronto Stock Exchange ⁽¹⁾			
Month	High (\$)	Low (\$)	Average Volume
January 2014	0.09	0.04	107,700
February 2014	0.09	0.05	118,100
March 2014	0.12	0.07	8,500
April 2014	0.18	0.07	36,700
May 2014	0.17	0.12	3,800
June 2014	0.14	0.12	5,300
July 2014	0.17	0.10	9,600
August 2014	0.13	0.10	2,200
September 2014	0.13	0.11	14,100
October 2014	0.13	0.11	14,000
November 2014	0.16	0.11	5,800
December 2014	0.17	0.05	173,500

(1) Data supplied by Yahoo Finance.

No securities of the Company are subject to any escrow requirements.

11. DIRECTORS AND OFFICERS

Directors

The directors of the Company (the “**Directors**”) are elected by shareholders at the annual general meeting and hold office until their term expires at the following annual general meeting, subject to resignation, retirement or re-election.

The following table sets forth the name, municipality, province or state and country of residence of each Director as of the date of this AIF, his principal occupation, the period during which each has acted as a director and the Common Shares in number and percentage each Director holds.

Name, Province/State and Country of Residence	Director Since	Common Shares beneficially owned, directly or indirectly or on which control or direction is exercised ⁽⁴⁾	Principal Occupation
Kurt Sorschak ^{(1) (2) (3)} Pointe-Claire, Québec	June 2009	10,402,546 26,4%	President and Chief Executive Officer of

Canada			Xebec Adsorption Inc.
William Beckett ^{(1) (2) (3)} Beaconsfield, Québec Canada	June 2011	0	Vice President of Operations Dart Aerospace
Dr Prabhu Rao ^{(1) (2)} ⁽³⁾ Boston, MassachusettsUSA	April 2015	0	Chief Executive Officer, McPhy Energy North America.

(1) Member of Governance Committee.

(2) Member of Compensation Committee.

(3) Member of Audit Committee.

(4) The information as to Common Shares beneficially owned, controlled or directed by each director has been furnished by the respective Directors individually.

During the past five years, each of the above directors has held his present principal occupation or other management positions with the same firm or with other associated companies or firms, including affiliates and predecessors, indicated beside his name.

Current Director Biographies

The following biographies are presented in alphabetical order:

William Beckett, Director, member of the Audit Committee

William Beckett is the Vice President of Operations for Dart Aerospace. He has extensive operations and executive management experience in the industrial and aerospace sectors. He started his career with Canadian General Electric, and continued his professional development with other industry leaders including Pratt & Whitney Canada. During this time he developed strong management, financial and technical skills, including an expertise in Lean Manufacturing. He holds a degree in Mechanical Engineering.

Dr. Prabhu Rao, Director, member of the Audit Committee

Dr. Rao is CEO of McPhy Energy North America, a leading manufacturer of equipment that optimizes electricity resources based on a unique technology - hydrogen storage in solid form, in association with technology for hydrogen production by water electrolysis that has been reinvented and perfectly adjusted to the production needs of renewable energy.

Dr. Rao holds a Master and PhD degree in mechanical engineering from Drexel University in Philadelphia, PA. He also participates in the following organizations:

- Board Member, North East Electrochemical Cluster
- Founding Member of Massachusetts Hydrogen Coalition
- Founding Member of TIE Angels, An Angel Investment Fund
- Charter Member, TIE, A Global Entrepreneurship Organization
- Chair, Clean Tech Special Interest Group, TIE –Boston

Kurt Sorschak, President and Chief Executive Officer, Director, Chairman of the Board

Kurt Sorschak is the President and the Chief Executive Officer, Director and Chairman of the Board of Xebec, a company he co-founded and which he developed from a local compressed air and gas dryer manufacturer into an internationally active gas purification company. He played an important role in establishing strong relationships with different universities and laboratories in Canada and the United States of America, for the development of innovative gas purification and liquefaction technologies. In 2008, he became the sole director of Xebec China, which serves the Chinese and Asian/Pacific market with gas purification and filtration equipment. From 2004 to 2007, he was the General Manager of the Canadian division of Domnick Hunter's air dryer manufacturing facility, at that time the largest adsorption dryer plant in North America. In 2005, he became the General Manager for the Xebec division of Parker-Hannifin Corporation, a U.S. based multinational, after Parker-Hannifin Corporation bought Domnick Hunter Ltd. In June 2007, he bought the Xebec division from Parker-Hannifin Corporation through a management buy-out transaction with two other partners. Mr. Sorschak also worked in different managerial capacities in Europe. He obtained an Associate Degree from the American University in Paris, France, in 1982, and a Masters of Law Degree from the University of Munich, Germany, in 1988.

Officers

The following table sets forth the name, municipality, province or state and country of residence of each executive officer who does not currently sit on the Board of Directors as of the date of this AIF, his principal occupation and the Common Shares in number and percentage each officer holds.

Name and country or province of residence	Position	Principal occupation during the past five years
Alnoor Mandjee Montreal, Quebec	Vice President, Chief Financial Officer	Vice President, Chief Financial Officer of Xebec; Corporate Controller of Prosep Inc.
Paraj Jhonsa Houston, Texas	Corporate Vice President, Business Development, and President of Xebec USA	Executive Vice-President, Operations, Prosep inc. President and General Manager, ProSep USA Inc
Gary Blizzard	Corporate Vice President, Sales, and Vice President, Business Development and Process Engineering for Xebec USA	Executive Vice President of Process Engineering & Product Development, ProSep USA Inc., Business Development Director, Alcoa Oil & Gas Vice President, Marketing & Business Development, NATCO Group
Peter Cheng	General Manager, Xebec China	Principal, Energy & Process Industry Practice A.T. Kearney

(1) The information as to Common Shares beneficially owned, controlled or directed by each director has been furnished by the respective Directors individually.

Executive Officer Biographies

Officers who do not currently sit on the board of directors are set forth below:

Alnoor Mandjee, Chief Financial Officer

Mr. Alnoor Mandjee is Vice-President and Chief Financial Officer of Xebec since November 2014. Mr. Mandjee has more than 15 years of experience in Corporate finance, Cost control and Risk management within international exposure (multi-entity and multi-currency environments) for public and private companies. Mr. Mandjee is a CPA, CA.

Parag Jhonsa, Corporate Vice President, Business Development, and President of Xebec USA

Mr. Parag Jhonsa is Corporate Vice President, Business Development of Xebec, and President of Xebec since February 17, 2014. Mr. Jhonsa brings over 20 years of experience in the energy field in operations, QHSE, business development, engineering, and project and production management. Prior to joining Xebec, Parag was President and General Manager with ProSep USA Inc. where he led the business unit that provided the oil and gas industry with custom-engineered process equipment system solutions for oil, gas, and water processing and purification. Mr. Jhonsa holds both a Bachelor's and Master's degree in Chemical Engineering.

Gary Blizzard, Corporate Vice President, Sales, and Vice President, Business Development and Process Engineering, Xebec USA

Mr. Gary Blizzard joined Xebec on February 17, 2014 as Corporate Vice President, Sales, and Vice President, Business Development and Process Engineering for Xebec USA. Mr. Blizzard has over 25 years of diverse experience in the energy industry in the areas of international business development, marketing, engineering, and project management. In his last position as Executive Vice President of Process Engineering & Product Development with ProSep, he provided strategic guidance for the worldwide process engineering team. Prior to that, Gary was Business Development Director at Alcoa Oil & Gas and previously Vice President, Marketing & Business Development at NATCO Group, where he provided leadership for growth in specialized gas treating technology. He holds a Bachelor of Science in Chemical Engineering from Texas A&M University and a Master of Business Administration from The University of Texas in Austin.

Dr. Peter Cheng, General Manager, Xebec China

Dr. Peter Cheng joined Xebec China on February 17, 2014 as General Manager. Over the past 20 years, Dr. Cheng has held various executive positions with ABB, Ontario Power Generation, Hong Kong and China Gas Investment Limited, as well as A.T. Kearney, developing expertise in the fields of energy business development, strategic planning, and engineering and operations improvement. He holds a Ph.D. in mechanical engineering and an MBA, majoring in finance and strategy. Dr. Cheng is a professional engineer in Ontario, a qualified senior engineer in China, a member of the American Society of Mechanical Engineers, an advisor to the Enterprise Management Committee of the China Gas Association, and an expert in the category of foreign technology and economy in China.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Company, no Director or executive officer of the Company is, as at the date hereof, or has been, within the 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company that:

- (i) while that person was acting in such capacity was subject to a cease trade or similar order or an order that denied the relevant corporation access to any exemption under securities legislation, in effect for a period of more than 30 consecutive days; or
- (ii) was subject to a cease trade or similar order or an order that denied the relevant corporation access to any exemption under securities legislation, in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer in the relevant corporation.

To the knowledge of the Company, no Director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (i) is, as at the date hereof, or has been, within the 10 years before the date hereof, a director or executive officer of any company that, while that person was acting in such capacity, or within a year of that person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to the bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets, save and except for Paraj Jhonsa and Gary Blizzard who were respectively Executive Vice-President Operations and Executive Vice President of Process Engineering & Product Development of ProSep Inc, a company which on October 29, 2013 has obtained creditor protection pursuant to the Companies' Creditors Arrangement Act (Canada).
- (ii) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to the bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

To the knowledge of the Company, no Director or executive officer of the Company, or a shareholder holding sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

- (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

To the best of the Company's knowledge, and other than as disclosed herein, there are no known existing or potential conflicts of interest between the Company and any Directors or officers of the Company, except that certain of the directors and officers serve as directors, officers, promoters and members of management of other companies and, therefore, it is possible that a conflict may arise from time to time between their duties as a director or officer of the Company and their duties as a director, officer, promoter or member of management of such other companies. Management of the Company and the Board of Directors will address any such conflict of interest which may arise in the future in accordance with reasonable expectations and objectives of the Company and will act in accordance with any duty of care and any duty to act in good faith owed to the Company. Furthermore, the Directors and officers of the Company are aware of the existence of laws governing the accountability of directors and officers for corporate opportunity and requiring disclosure by directors of conflicts of interest, and the Company will rely upon such laws in respect of any directors and officers conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with applicable laws and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by applicable laws.

Interest of Directors and Officers

The Directors and officers of the Company, as a group, beneficially own or control, directly or indirectly, 10,402,546 Common Shares, representing approximately 26.4% of the Common Shares issued and outstanding as at December 31, 2014.

12. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of the Company, no person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the Company's outstanding voting securities and no associate or affiliate of any of such persons or companies has any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Company other than as disclosed below.

	2014\$	2013\$
Marketing and professional services expenses paid to companies controlled by members of the immediate family of Kurt Sorschak	108,165	132,077
	<u>108,165</u>	<u>132,077</u>

13. MATERIAL CONTRACTS

The following is a list of the material contracts which were entered into within the most recently completed financial year, or before the most recently completed financial year but that are still in effect:

Licensing Agreement

On March 22, 2012, Xebec has entered into a license agreement with Air Products allowing Xebec to continue to sell its systems, predominantly in the biogas, natural gas and associated gas purification markets.

14. LEGAL PROCEEDINGS

The Company is party to various ongoing and pending litigations along with other contingencies arising out of the normal course of business. None of these legal proceedings involve a claim for damages that would represent an amount exceeding 10% of the Company's assets. Management believes that these claims, when resolved, will not have any material adverse effect on the consolidated financial position or results of operations of the Company.

15. EXPERTS

The Company's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditor's report dated April 28, 2015 in respect of the Company's consolidated financial statements as at December 31, 2014 and 2013 and for the years then ended, and the related notes including a summary of signification accounting policies. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Ordre des comptables professionnels agréés du Québec.

16. AUDIT COMMITTEE INFORMATION

Charter of the Audit Committee

The primary function of the audit committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to monitoring the Company's accounting and financial reporting and practices and procedures; the adequacy of the Company's internal accounting controls and procedures; the quality and integrity of financial statements and other financial information provided by the Company to shareholders, and others; and for liaising with the external auditors of the Company. The audit committee charter of the Company, which sets out the audit committee's responsibilities and duties, is attached as Schedule "A" to this AIF.

Composition of the Audit Committee

The audit committee of the Company currently consists of Dr Prabhu Rao, William Beckett (Chair of the Audit Committee) and Kurt Sorschak.

Each member of the audit committee of the Company is independent (save and except for Kurt Sorschak who is president and CEO of Xebec) and financially literate; as such terms are defined in *National Instrument 52-110 – Audit Committees*.

Relevant Education and Experience

The education and experience of each audit committee member of the Company that is relevant to the performance of his or her responsibilities as an audit committee member is described below:

William Beckett is the President of Dart Aerospace. He has extensive operations and executive management experience in the industrial and aerospace sectors. He started his career with Canadian General Electric, and continued his professional development with other industry leaders including Pratt & Whitney Canada. During this time he developed strong management, financial and technical skills, including an expertise in Lean Manufacturing. He holds a degree in Mechanical Engineering.

Dr. Rao is CEO of McPhy Energy North America, a leading manufacturer of equipment that optimizes electricity resources based on a unique technology - hydrogen storage in solid form, in association with technology for hydrogen production by water electrolysis that has been reinvented and perfectly adjusted to the production needs of renewable energy.

Pre-Approval Policies and Procedures

The Company's Audit Committee annually reviews and approves the terms and scope of the external auditors' engagement. The Audit Committee oversees the procedures and the conditions pursuant to which permissible services proposed to be performed by PricewaterhouseCoopers LLP, the Company's external auditors, are pre-approved.

The Company's Audit Committee annually reviews and approves the terms and scope of the external auditors' engagement. The Audit Committee oversees the procedures and the conditions pursuant to which permissible services proposed to be performed by PricewaterhouseCoopers LLP, the Company's external auditors, are pre-approved.

All non-audit service engagements of PricewaterhouseCoopers LLP, regardless of the cost estimate, are required to be coordinated and approved by the Audit Committee to further ensure that adherence to this policy is monitored.

The following table sets forth, by category, the fees paid to the Company's auditors, in each of the fiscal years ended December 31, 2014, and 2013

Fee category	2014	2013
Audit fees	120,400	108,000
Audit-related fees	-	-
Tax fees	17,600	10,000
All other fees	-	-
Total	\$138,000	\$118,000

The nature of each category of fees is described below.

Audit Fees: Audit fees were for professional services rendered by PricewaterhouseCoopers LLP for the audit of the annual consolidated financial statements of the Company.

Audit-Related Fees: Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual statements and are not reported under the heading audit fees above. These services consisted of consultations related to accounting matters and amounts incurred in respect of interim reviews of the Company's quarterly financial statements.

Tax Fees: Tax fees were for tax compliance and tax advice. These services consisted of tax compliance related to the preparation of tax returns and tax advice related to various agreements the Company entered into.

All Other Fees: Fees to be disclosed under this category would be for products and services other than those described under the headings audit fees, audit-related fees and tax fees above. These fees mainly related to tax fees.

17. TRANSFER AGENTS AND REGISTRARS

The Company's transfer agent and registrar for its Common Shares is Canadian Stock Transfers at its offices in Montreal, Québec.

18. ADDITIONAL INFORMATION

Additional information, including information as to directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities of the Company authorized for issuance under equity compensation plans, is contained in the Company's management proxy circular for the most recent annual meeting of shareholders.

Additional financial information is contained in the audited financial statements and management discussion and analysis for the year ended December 31, 2014.

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

SCHEDULE A: AUDIT COMMITTEE CHARTER

The following Audit Committee Charter was updated in June 2009 following an annual review of all Board committee charters.

I. PURPOSE

The Audit Committee (the “Committee”) is a standing committee of the Board of Directors. The primary function of the Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to monitoring the Corporation’s accounting and financial reporting and practices and procedures; the adequacy of the Corporation’s internal accounting controls and procedures; the quality and integrity of financial statements and other financial information provided by the Corporation to shareholders, and others; and for liaising with the external auditors of the Corporation.

II. STRUCTURE AND OPERATIONS

The Committee shall be comprised of three or more members of the Board of Directors, who all satisfy the “independence” and “financial literacy” requirements of Regulation 52-110 – Audit Committees (“52-110”), as amended. No member of the Committee shall be an officer or employee of the Corporation, or any affiliate of the Corporation.

For the purposes of this Charter, a member of the Committee is “independent” if the member has no direct or indirect material relationship with the Corporation, as more fully defined in 52-110, and a member of the Committee is “financially literate” if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the financial statements of the Corporation.

The members of the Committee shall be annually appointed by the Board of Directors and shall serve until such member’s successor is duly elected and qualified or until such member’s earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority of the Board of Directors.

The Chair shall be annually appointed by the Board of Directors. The Chair shall not be entitled to a casting vote, and instead will refer any matter which results in a tie vote to the full Board of Directors for consideration and resolution. The Chair will set the agendas for Committee meetings and chair all meetings of the Committee unless the Chair is not present at such meeting in which case the members present shall elect a chair for the conduct of the meeting.

III. MEETINGS

The Committee shall meet at least quarterly or more frequently as circumstances dictate. As part of its goal to foster open communication, the Committee shall periodically meet with management and the external auditors in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. The Committee may meet privately with outside counsel of its choosing and the Chief Financial Officer, as necessary.

In addition, the Committee shall meet with the external auditors and management quarterly to review the Corporation's financial statements in a manner consistent with that outlined in Section IV of this Charter.

All non-management directors that are not members of the Committee may attend meetings of the Committee but may not vote. Additionally, the Committee may invite to its meetings any directors, management of the Corporation and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

A majority of the Committee members, but not less than two, will constitute a quorum. A majority of members present at any meeting at which a quorum is present may act on behalf of the Committee. The Committee may meet by telephone or videoconference and may take action by unanimous written consent with respect to matters that may be acted upon without a formal meeting.

The Chair of the Committee shall designate a person, who need not be a member thereof, to act as Secretary, who shall record the proceedings of the meetings. The agenda of each meeting will be prepared by the Secretary, upon consultation with the Chair, and, whenever reasonably practicable, circulated to each member prior to each meeting. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

IV. RESPONSIBILITIES, DUTIES, AUTHORITY

The following functions shall be the common recurring activities of the Committee in carrying out its responsibilities outlined in Section I of this Charter. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal and other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time related to the purposes of this Committee outlined in Section I of this Charter.

In discharging its oversight role, the Committee is empowered to investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside counsel, accounting, or other advisors for this purpose, including authority to approve the fees payable to such advisors and other terms of retention.

The Committee shall be given full access to the Board of Directors, management, employees of the Corporation, directly and indirectly responsible for financial reporting, and independent accountants, as necessary, to carry out these responsibilities. While acting within the scope of this stated purpose, the Committee shall have all the authority of the Board of Directors.

Notwithstanding the foregoing, the Committee is not responsible for certifying the financial statements of the Corporation or guaranteeing the external auditors' report. The fundamental responsibility for the financial statements and disclosures rests with management and the external auditors.

Document Reports/Reviews

Annual Financial Statements

1. The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination:
 - (a) the annual audited consolidated financial statements;
 - (b) the external auditor's review of the annual consolidated financial statements and their report;
 - (c) any significant changes that were required in the external audit plan;
 - (d) any significant issues raised with management during the course of the audit, including any restrictions on the scope of activities or access to information; and
 - (e) those matters related to the conduct of the audit that are required to be discussed under generally accepted auditing standards applicable to the Corporation.

Following completion of the matters contemplated above, the Committee shall make a recommendation to the Board of Directors with respect to the approval of the annual financial statements with such changes contemplated and further recommended as the Committee considers necessary.

Interim Financial Statements

2. The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination, the interim unaudited consolidated financial statements of the Corporation, including a discussion with the external auditors of those matters required to be discussed under generally accepted auditing standards applicable to the Corporation.

The Committee shall make a recommendation to the Board of Directors with respect to the approval of the interim financial statements with such changes contemplated and further recommended as the Committee considers necessary.

Management's Discussion and Analysis

3. The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination, the annual and interim Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").

The Committee shall make a recommendation to the Board of Directors with respect to the approval of the MD&A with such changes contemplated and further recommended as the Committee considers necessary.

Press Releases

4. The Committee shall review with management, prior to public dissemination, the annual and interim earnings press releases (paying particular attention to the use of any “pro forma” or “adjusted non-GAAP” information) as well as financial information and earnings guidance provided to analysts and rating agencies.

Reports and Regulatory Returns

5. The Committee shall review and discuss with management, and the external auditors to the extent the Committee deems appropriate, such reports and regulatory returns of the Corporation as may be specified by law.

Other Financial Information

6. The Committee shall review the financial information included in any prospectus, annual information form or information circular with management and the external auditors, together and separately, prior to public dissemination, and shall make a recommendation to the Board of Directors with respect to the approval of such prospectus, annual information form or information circular with such changes contemplated and further recommended as the Committee considers necessary.

EBITDA Targets and Earn-Out Shares

7. The Committee shall implement a process to oversee the achievement of certain adjusted EBITDA performance targets pursuant to the terms and conditions of the escrow agreement executed between some shareholders of the Corporation and QuestAir Technologies Inc. on March 17, 2009 (the “Escrow Agreement”) and shall take with external auditors all necessary measures to manage and assess such process. The Escrow Agreement has been terminated and common shares cancelled on May 10, 2011.

Financial Reporting Processes

Establishment and Assessment of Procedures

8. The Committee shall satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the financial statements of the Corporation and assess the adequacy of these procedures annually.

Application of GAAP

9. The Committee shall assure itself that the external auditors are satisfied that the accounting estimates and judgements made by management, and management’s selection of accounting principles reflect an appropriate application of generally accepted accounting principles.

Practices and Policies

10. The Committee shall review with management and the external auditors, together and separately, the principal accounting practices and policies of the Corporation.

External Auditors

Oversight and Responsibility

11. The Committee is directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting.

Reporting

12. The external auditors shall report directly to the Committee and are ultimately accountable to the Committee.

Performance and Review

13. The Committee shall annually review the performance of the external auditors and recommend to the Board of Directors the appointment of the external auditors or approve any discharge of the external auditors when circumstances warrant, for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.

Annual Audit Plan

14. The Committee shall review with the external auditors and management, together and separately, the overall scope of the annual audit plan and the resources the external auditors will devote to the audit. The Committee shall annually review and approve the fees to be paid to the external auditors with respect to the annual audit.

Non-Audit Services

15. "Non-audit services" means all services performed by the external auditors other than audit services. All "non-audit" services to be provided to the Corporation by the external auditors must either be approved explicitly in advance by the Committee, or pursuant to certain pre-approval policies and procedures established by the Committee that are detailed as to the particular services that may be pre-approved, do not permit the delegation of approval authority to the Corporation's management, and require management to inform the Committee of each service approved and performed under the policies and procedures.
16. The Committee may delegate to one or more members of the Committee the authority to grant such pre-approvals. The decisions of such member(s) regarding approval of "non

audit” services shall be reported by such member(s) to the full Committee at its first scheduled meeting following such pre-approval. Notwithstanding the foregoing, pre-approval is not necessary for certain *de minimis* non-audit services performed by the external auditors, as specified in Section 2.4 of 52-110.

Independence Review

17. The Committee shall review and assess the qualifications, performance and independence of the external auditors, including the requirements relating to such independence of the law governing the Corporation. At least annually, the Committee shall receive from and review with the external auditors, their written statement delineating all relationships with the Corporation and, if necessary, recommend that the Board of Directors take appropriate action to satisfy itself of the external auditors’ independence and accountability to the Committee.

Reports to Board of Directors

Reports

18. In addition, to such specific reports contemplated elsewhere in this Charter, the Committee shall report regularly to the full Board of Directors regarding such matters, including:
 - (a) with respect to any issues that arise with respect to the quality or integrity of the financial statements of the Corporation, compliance with legal or regulatory requirements by the Corporation, the performance and independence of the external auditors of the Corporation;
 - (b) following meetings of the Committee; and
 - (c) with respect to such other matters as are relevant to the Committee’s discharge of its responsibilities.

Recommendations

19. In addition, to such specific recommendations contemplated elsewhere in this Charter, the Committee shall provide such recommendations as the Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chair or any other member of the Committee designated by the Committee to make such report.

Whistle-Blowing

Procedures

20. The Committee shall establish procedures for:

- (a) the receipt, retention and treatment of complaints received by the Corporation regarding questionable accounting, internal accounting controls, or auditing matters; and
- (b) the confidential, anonymous submission by employees of the Corporation and of concerns regarding questionable accounting or auditing matters.

Notice to Employees

21. To comply with the above, the Committee shall ensure the Corporation advises all employees of the Corporation, by way of a written code of business conduct and ethics (the “Code”), or if such Code has not yet been adopted by the Board of Directors, by way of a written or electronic notice, that any employee who reasonably believes that questionable accounting, internal accounting controls, or auditing matters have been employed by the Corporation or its external auditors is strongly encouraged to report such concerns by way of written communication directly to the Chair or any other member of the Audit Committee. Matters referred to a member of the Audit Committee, may be done so anonymously and in confidence.

The Corporation shall not take or allow any reprisal against any employee for, in good faith, reporting questionable accounting, internal accounting, or auditing matters. Any such reprisal shall itself be considered a very serious breach of this policy.

All reported violations shall be investigated by the Audit Committee following rules of procedure and process as shall be recommended by outside counsel.

General

Access to Counsel

22. The Committee shall review, periodically, with outside counsel of its choosing, any legal matter that could have a significant impact on the financial statements of the Corporation.

Hiring of Partners and Employees of External Auditors

23. The Committee shall annually review and approve the Corporation’s hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

General

24. The Committee shall perform such other duties and exercise such powers as may, from time to time, be assigned or vested in the Committee by the Board of Directors, and such other functions as may be required of an audit committee by law, regulations or applicable stock exchange rules.

V. ANNUAL PERFORMANCE REVIEW

Annual Review

The Committee shall perform a review and evaluation, annually, of the performance of the Committee and its members, including a review of the compliance of the Committee with this Charter. In addition, the Committee shall evaluate the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors.

VI. DISCLOSURE OF CHARTER

This Charter will be made available on the Corporation's website at www.xebecinc.com



A world powered
by **clean energy**