Xebec Adsorption Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited – Prepared by Management)
For the three-month and nine-month periods ended September 30, 2018 and 2017
(expressed in Canadian dollars)

These Unaudited Condensed Interim Consolidated Financial Statements have not been subject to a review by our independent Auditors.

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
As at September 30, 2018 and December 31, 2017

(expressed in Canadian dollars)

	September 30, 2018 $	December 31, 2017 $
Assets		
Current assets		
Cash	866,141	1,341,121
Trade and other receivables (Note 3)	11,475,433	4,133,259
Inventories	2,128,570	1,963,392
Investment tax credits receivable	38,021	15,943
Other current assets	159,014	260,157
Total current assets	14,667,179	7,713,872
Non-current assets		
Property, plant and equipment (Note 4)	182,050	208,632
Intangible assets (Note 5)	416,988	418,363
Total non-current assets	599,038	626,995
Total assets	15,266,217	8,340,867
Liabilities		
Current liabilities		
Credit facility (Note 7)	-	1,437,912
Trade, other payables and accrued liabilities	7,007,647	3,585,755
Deferred revenue	3,637,291	720,996
Current portion of long-term debt (Note 8a)	5,321	22,236
Current portion of government royalty program obligation (Note 8b)	97,531	86,826
Current portion of provisions	24,024	16,689
Total current liabilities	10,771,814	5,870,414
Non-current liabilities		
Long-term debt (Note 8a)	3,638,709	2,223,478
Government royalty program obligation (Note 8b)	453,596	504,546
Obligation arising from shares issued by a subsidiary (Note 9)	4,061,607	3,912,314
Deferred rent	133,352	132,815
Provisions	6,765	5,601
Deferred tax liabilities	81,989	81,989
Total non-current liabilities	8,376,018	6,860,743
Total liabilities	19,147,832	12,731,157
Equity		
Share capital (Note 10)	20,522,036	19,703,836
Contributed surplus	3,575,328	3,339,740
Equity component of convertible debentures	189,645	291,389
Accumulated other comprehensive loss	(1,079,614)	(1,049,455)
Deficit	(27,089,010)	(26,675,800)
Total equity	(3,881,615)	(4,390,290)
Total liabilities and equity	15,266,217	8,340,867

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

Approved by the Board of Directors

(signed) Kurt Sorschak Director

(signed) Guy Saint-Jacques Director

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Income (loss)
(Unaudited)
For the three-month and nine-month periods ended September 30, 2018 and 2017

(expressed in Canadian dollars)

	For the three-month period ended September 30, 2018	2017	For the nine-month period ended September 30, 2018	2017
	$	$	$	$
Revenue (Note 16)	8,247,642	4,129,381	18,017,897	11,486,751
Cost of goods sold	5,456,202	2,428,479	12,372,144	6,736,200
Gross margin	2,791,440	1,700,902	5,645,753	4,750,551
Research and development expenses	35,860	2,925	75,589	(41,361)
Selling and administrative expenses	1,762,745	1,488,582	4,885,381	3,582,743
Foreign exchange loss	169,576	113,084	173,239	234,721
Gain on insurance claim	-	(132,344)	-	(132,344)
Gain on conversion of shares issued by a subsidiary (Note 9)	(224,030)	(74,122)	(101,222)	(106,178)
	1,744,151	1,398,125	5,032,987	3,537,581
Operating income	1,047,289	302,777	612,766	1,212,970
Other charge (income)				
Finance (income) expense	(367)	6,992	(876)	(110,613)
Finance expenses (Note 13)	404,549	202,593	1,026,852	299,163
	404,182	209,585	1,025,976	188,550
Income (loss) before income taxes	643,107	93,192	(413,210)	1,024,420
Income taxes	-	-	-	-
Net income (loss) for the period	643,107	93,192	(413,210)	1,024,420
Net income (loss) per share				
Basic net income (loss) per share	0.01	0.00	(0.01)	0.02

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

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (loss)
(Unaudited)
For the three-month and nine-month periods ended September 30, 2018 and 2017

(expressed in Canadian dollars)

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	2017	2018	2017
	$	$	$	$
Net income (loss) for the period	643,107	93,192	(413,210)	1,024,420
Other comprehensive income (loss)				
Cumulative translation adjustment	15	34,769	(30,159)	65,074
Comprehensive income (loss) for the period	643,122	127,961	(443,369)	1,089,494

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

Xebec Adsorption Inc.

Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
As at September 30, 2018 and December 31, 2017
(expressed in Canadian dollars)

	Number						Amount
	Common shares	**Share capital – Common shares**	**Contributed surplus**	**Accumulated other comprehensive income (loss)**	**Deficit**	**Equity Component of convertible debentures**	**Total**
		$	**$**	**$**	**$**	**$**	**$**
Balance – January 1, 2017	39,363,867	19,318,856	2,996,621	(940,216)	(26,772,552)	150,304	(5,246,987)
Net income for the period	-	-	-	-	96,752	-	96,752
Other comprehensive loss	-	-	-	(109,239)	-	-	(109,239)
Comprehensive loss for the period	-	-	-	(109,239)	96,752	-	(12,487)
Stock-based compensation expense (Note 11)	-	-	372,603	-	-	-	372,603
Issuance of convertible debentures (net of deferred tax liability of $ 81,989)						186,177	186,177
Share issued from the exercise of options	1,140,500	88,535	(29,484)	-	-	-	59,051
Conversion of convertible debentures	2,000,000	296,445	-	-	-	(45,092)	251,353
Balance – December 31, 2017	42,504,367	19,703,836	3,339,740	(1,049,455)	(26,675,800)	291,389	(4,390,290)
Balance – January 1, 2018	42,504,367	19,703,836	3,339,740	(1,049,455)	(26,675,800)	291,389	(4,390,290)
Net loss for the period	-	-	-	-	(413,210)	-	(413,210)
Other comprehensive loss	-	-	-	(30,159)	-	-	(30,159)
Comprehensive loss for the period	-	-	-	(30,159)	(413,210)	-	(443,369)
Share issued from conversion of debentures	4,766,665	765,000	-	-	-	(101,744)	663,256
Share issued from the exercise of options	307,272	53,200	-	-	-	-	53,200
Stock-based compensation expense (Note 11)	-	-	235,588	-	-	-	235,588
Balance –September 30, 2018	47,578,304	20,522,036	3,575,328	(1,079,614)	(27,089,010)	189,645	(3,881,615)

Accumulated other comprehensive income (loss) relates solely to cumulative translation adjustments.

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

Xebec Adsorption Inc.

Condensed Interim consolidated Statements of Cash Flows

(Unaudited)

For the three-month and nine-month periods ended September 30, 2018 and 2017

(expressed in Canadian dollars)

	For the three-month period ended September 30, 2018	2017	For the nine-month period ended September 30, 2018	2017
	$	$	$	$
Cash flows from				
Operating activities				
Net income (loss) for the period	643,107	93,192	(413,210)	1,024,420
Items not affecting cash				
Depreciation of property, plant and equipment (Note 4)	17,492	20,730	57,390	66,216
Amortization of intangible assets (Note 5)	41,746	20,102	105,243	60,478
Reversal of inventory write-down	47,284	-	(44,222)	(128,524)
Government grant	-	-	-	(2,083)
Accretion finance expenses and gain on revaluation of govt. royalty program obligation (Note 8b)	6,823	7,384	20,755	(98,458)
Accretion of the obligation arising from shares issued by a subsidiary (Note 9)	83,728	81,933	250,515	243,308
Accretion of convertible debentures	53,413	41,131	172,089	119,507
Stock-based compensation expense (Note 11)	63,220	292,227	235,588	292,227
Reversal of trade payables	-	-	-	(697,655)
Reversal of allowance for doubtful accounts	-	-	-	(274,482)
Reimbursement from insurance claim	-	(132,344)	-	(132,344)
Deferred rent	179	6,596	537	19,788
	956,992	430,951	384,685	492,398
Change in non-cash working capital balances related to operations (Note 14)	(707,352)	(450,354)	(1,037,378)	(2,874,612)
	249,640	(19,403)	(652,693)	(2,382,214)
Investing activities				
Acquisition of property, plant and equipment	-	(14,154)	(30,821)	(26,110)
Acquisition of intangible assets	(17,500)	(1,664)	(117,933)	(2,084)
Receipt of R&D tax credit	-	-	13,634	-
	(17,500)	(15,818)	(135,120)	(28,194)
Financing activities				
Increase (decrease) of bank loan	(475,000)	75,000	-	(85,000)
Increase (decrease) of credit facility (Note 7)	(1,180,112)	(186,488)	(1,437,912)	1,813,512
Proceeds from issuance of share capital (Note 10)	4,400	-	53,200	88,535
Long-term debt	1,909,250	-	1,909,250	-
Repayment of long-term debt	(7,107)	(6,377)	(19,768)	(18,177)
Repayment of govt. royalty program obligation (Note 8b)	(21,000)	(15,000)	(61,000)	(60,000)
	230,431	(132,865)	443,770	1,738,870
Net increase (decrease) in cash and cash equivalent during the period	462,571	(168,086)	(344,043)	(671,538)
Cash and cash equivalent – Beginning of period	623,178	521,302	1,341,121	1,088,592
Effect of exchange rate changes on cash	(219,608)	10,327	(130,937)	(53,511)
Cash and cash equivalent – End of period	866,141	363,543	866,141	363,543
Additional information				
Interest paid	266,584	79,020	589,492	248,745

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

1 Nature of business and liquidity risk

a) Nature of business

Xebec Adsorption Inc. ("Xebec" or the "Company") is a global provider which specializes in the design and manufacture of cost-effective and environmentally responsible purification, separation, dehydration and filtration equipment for gases and compressed air. Xebec's main product lines are: biogas plants for the purification of biogas from agricultural digesters, landfill sites and waste water treatment plants, natural gas dryers for natural gas refuelling stations, associated gas purification systems which enable diesel displacement on drilling sites, and hydrogen purification systems for fuel cell and industrial applications. The Company is incorporated and domiciled in Canada and is listed on the TSX Venture (TSXV) Exchange under the symbol XBC-V. The address of its registered office is 730 Industriel Boulevard, Blainville, Quebec, Canada. The Company's web site address is www.xebec.com.

b) Going concern

The condensed interim consolidated financial statements have been prepared on the basis of the going concern assumption, meaning that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has realized, for the nine-month period, an operating income of $612,766 in 2018 ($1,212,970 in 2017), had cash outflows from operations of $652,693 for the nine-month period ended September 30, 2018 ($2,382,214 in 2017), finished the period with cash amounting to $866,141 ($363,543 in 2017) and a working capital of $3,895,365 ($1,119,521 in 2017). The company has access to credit facilities totalling $750,000 of which NIL has been used ($670,000 in 2017) (see Note 6). During the quarter, 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 2018 for which management believes the assumptions are reasonable. Achieving budgeted results is dependent on improving the volume of revenues, delivering on sales and contract schedules, meeting expected overall operating margin levels and controlling general and administrative costs.

The Company is thus faced with uncertainties that may have an impact on future operating results and liquidity. These uncertainties include fluctuations in foreign currency rates and achieving the Company's business plan goals as mentioned in the previous paragraph. 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 including accessing liquidities from China if events or conditions develop that are not consistent with management's expectations, key budget assumptions for 2018 and planned courses of action. Therefore, the Company may require additional external funding, and there is no assurance that it would be successful. 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.

2 Summary of significant accounting policies

Basis of presentation

These condensed consolidated interim financial statements, have been prepared in accordance with International Financial Reporting Standards ("IFSR") applicable to the preparation of interim financial statement, including IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for annual statements, and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017, as they follow the same accounting policies and methods of application, unless otherwise indicated.

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Company, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Intercompany transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated. Subsidiaries comprise Xebec Adsorption (Shanghai) Co. Ltd., which is 70% owned, Xebec Adsorption USA Inc. (Houston) and Xebec Adsorption Europe SARL which are wholly owned. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases. The Company has the obligation to repurchase the Minority Shareholders' interest owned in Xebec Adsorption (Shanghai) Co. Ltd. under certain circumstances (see Note 9). Therefore, the accounts of Xebec Adsorption (Shanghai) Co. Ltd. are consolidated at 100% and the Minority Shareholders' interest is presented as a financial liability in these consolidated financial statements.

Changes in the Company's ownership interests in subsidiary that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions or liability transactions depending on the conditions that these changes occurred. The carrying amounts of the Company's interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Foreign currency translation

Functional and presentation currency:

Items included in the condensed interim financial statements of each entity consolidated in the Company group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The condensed interim financial statements of entities that have a functional currency different from that of the Company (foreign operations) are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the year (to the extent this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income (loss) as cumulative translation adjustment.

Revenues from Contracts with Customers

Since January 1, 2018, the Company is following IFRS 15. There is no material impact of this standard on its condensed interim consolidated financial statements.

The Company earns revenues mainly from the sale of natural gas dryers, air dryers and hydrogen purification solutions (commercial equipment). The Company recognizes revenue on commercial equipment sales when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product has been obtained. Provisions are established for estimated product returns and warranty costs at the time revenue is recognized. Cash received in advance of all of these revenue recognition criteria being met is recorded as deferred revenue.

Revenues from long-term production-type contracts such as biogas purification equipment and engineering service contracts are determined under the percentage-of-completion method whereby revenues are recognized based on the costs incurred to date in relation to the total expected costs of a contract (costs being composed mainly of materials and labour). Costs and estimated profit on contracts in progress in excess of amounts billed are reflected as work in progress. Cash received in advance of revenues being recognized on contracts is recorded as deferred revenue.

The Company monitors its contracts with customers on a regular basis to determine if a loss is likely to occur. If a loss is anticipated on a contract, the entire estimated loss is recorded as a cost of goods sold in the year in which the loss becomes evident and reasonably estimable.

Revenue is measured based on the price specified in the sales contract, net of discounts and estimated returns at the time of sale. Historical experience is used to estimate and provide for discounts and returns.

Financial Instruments

Since January 1, 2018, the Company is following IFRS 9. There is no material impact of this standard on its condensed interim consolidated financial statements.

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Cash	Loans and receivables
Trade and other receivables	Loans and receivables
Bank loan	Other financial liabilities
Trade and other payables	Other financial liabilities
Accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities
Government royalty program obligation	Other financial liabilities
Obligation arising from shares issued by a subsidiary	Other financial liabilities

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if any.

Finance income and expense are recognised by applying the effective interest rate, except for short-term receivable when the effect of discounting is immaterial. Other financial liabilities are initially measured at fair value and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Segment reporting

The Company operates four business segments:

1) *Clean Technology* - Provide Renewable Natural Gas, Hydrogen and Renewable Hydrogen plants and technology for a variety of applications, from fuel cells to fossil fuel replacement applications for low carbon transportation fuels.

2) *Industrial Air and Gas Products* – Design, engineer, build, and sell Industrial air and gas purification equipment, parts and services for applications as diverse as manufacturing, food processing, medical, pharma, and petrochemical industries.

3) *Renewable Gas Generation* – Project development of renewable natural gas production facilities, in the build, own and operate (BOO) model that will generate low-carbon renewable transport fuels and carbon credits.

4) *Oil and Gas* - Commercialization of innovative membrane technology.

Accounting standards issued but not yet applied that have relevance to the Company

In January 2016, IASB issued IFRS 16, “Leases”, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard will be mandatory for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

(expressed in Canadian dollars)

3 Trade and other receivables

	September 30, 2018 $	December 31, 2017 $
Trade receivables	3,080,340	2,760,659
Other receivables	8,495,915	1,462,159
Less : Allowance for doubtful accounts	(100,822)	(89,559)
Trade and other receivables – net	11,475,433	4,133,259

Trade and other receivables are pledged as security for the credit facilities (see notes 6 and 7).

4 Property, plant and equipment

	Machinery and equipment[1]	Office furniture and equipment	Computers[1]	Moulds	Vehicles	Leasehold Improvement	Total
	$	$	$	$	$	$	$
Cost							
Balance at December 31, 2016	577,892	147,712	270,845	166,577	35,984	-	1,199,010
Additions	5,431	6,951	13,728	-	-	-	26,110
Effect of movements in exchange rates	(3,192)	(1,761)	550	(103)	-	-	(4,506)
Balance at December 31, 2017	580,131	152,902	285,123	166,474	35,984	-	1,220,614
Additions	7,708	-	2,663	-	-	20,450	30,821
Effect of movements in exchange rates	(2,362)	(1,743)	(3,543)	(2,269)	-	-	(9,917)
Balance at September 30, 2018	585,477	151,159	284,243	164,205	35,984	20,450	1,241,518
Accumulated depreciation							
Balance at December 31, 2016	381,738	128,906	249,450	128,394	35,984	-	924,472
Depreciation	46,208	9,154	15,224	16,998	-	-	87,584
Effect of movements in exchange rates	(72)	(387)	510	(125)	-	-	(74)
Balance at December 31, 2017	427,874	137,673	265,184	145,267	35,984	-	1,011,982
Depreciation	30,362	6,445	8,794	10,034	-	1,755	57,390
Effect of movements in exchange rates	(2,700)	(1,752)	(3,184)	(2,268)	-	-	(9,904)
Balance at September 30, 2018	455,536	142,366	270,794	153,033	35,984	1,755	1,059,468
Carrying Amount							
At December 31, 2017	152,257	15,229	19,939	21,207	-	-	208,632
At September 30, 2018	129,941	8,793	13,449	11,172	-	18,695	182,050

[1]) including equipment under finance lease. The cost of equipment under finance lease amount to $55,664 ($42,745 in 2017) and the accumulated depreciation amount to $11,904 ($3,562 in 2017).

(expressed in Canadian dollars)

Depreciation of $57,390 (2017 – $66,216) is included in the consolidated statement of income (loss) for the nine-month period ended in September 30: $42,477 (2017 – $51,477) in cost of goods sold; and $14,913 (2017 – $14,739) in selling and administrative expenses.

Depreciation of $17,492 (2017 - $20,730) is included in the consolidated statement of income (loss) for the three-month period ended September 30: $13,197 (2017 - $16,302) in cost of goods sold; and $4,295 (2017 - $4,428) in selling and administrative expenses.

Property, plant and equipment are pledged as security for the credit facilities (see Notes 6 and 7)

5 Intangible assets

	Other	Internally generated		
	Software	**Development costs**	**Engineering standardisation**	**Total intangible assets**
	$	$	$	$
Cost				
Balance at December 31, 2016	327,192	298,975	-	626,167
Additions	-	2,084	306,618	308,702
Effect of movements in exchange rates	10,203	-	-	10,203
Balance at December 31, 2017	337,395	301,059	306,618	945,072
Additions	-	-	117,933	117,933
Disposals			(13,634)	(13,634)
Effect of movements in exchange rates	(4,031)	-	-	(4,031)
Balance at September 30, 2018	333,364	301,059	410,917	1,045,340
Accumulated amortization				
Balance at December 31, 2016	286,990	148,434	-	435,424
Amortization for the year	20,629	59,696	-	80,325
Effect of movements in exchange rates	10,927	33	-	10,960
Balance at December 31, 2017	318,546	208,163	-	526,709
Amortization for the year	12,217	45,159	47,867	105,243
Effect of movements in exchange rates	(3,600)	-	-	(3,600)
Balance at September 30, 2018	327,163	253,322	47,867	628,352
Carrying amount				
At December 31, 2017	18,849	92,896	306,618	418,363
At September 30, 2018	6,201	47,737	363,050	416,988

Amortization of $105,243 (2017 – $60,478) is included in the consolidated statement of income (loss) for the nine-month period ended September 30: $55,625 (2017 – $15,170) in cost of goods sold; and $49,618 (2017 – $45,308) in selling and administrative expenses.

(expressed in Canadian dollars)

Amortization of $41,746 (2017 - $20,102) is included in the consolidated statement of income (loss) for the three-month period ended September 30: $25,372 (2017 - $4,845) in cost of goods sold; and $16,374 (2017 - $15,257) in selling and administrative expenses.

6 Bank loan

The Company has access to credit facilities in the amount of $750,000 with Toronto-Dominion Bank of Canada (TD) which are guaranteed by Export Development Canada, and bear interest at the Toronto-Dominion's prime rate plus 3.0%, (6.45% in 2018) (5.7% in 2017) per annum and are limited by certain margin requirements concerning trade and other receivables. No credit facilities were used as at September 30, 2018 (2017 – $670,000).

The credit facilities are secured by a first ranking hypothec of $5,000,000 on all movable property of the Company and are renewable annually.

The company has a guarantee facility of $2,750,000 with Toronto-Dominion Bank of Canada.

The Company is currently transitioning its banking relationship from Toronto-Dominion Bank of Canada to National Bank of Canada and increasing its credit facilities to $2,000,000 which are guaranteed by Export Development Canada at 75%, and bear interest at the Canadian Prime Rate of the Bank plus 2.75%, per annum and are limited by certain margin requirements concerning trade and other receivables.

The company is also currently transferring its TD guarantee facility to a guarantee facility at National Bank of Canada and increasing it to $12,000,000.

7 Credit Facility

On December 12, 2016, the Company contracted a facility loan with Export Development Canada ("EDC") for an amount of $2,000,000. This amount is available in four advances. The facility bears an interest of prime rate plus 6.3% (9.75% in 2018). This interest is payable every month. This amount shall be repaid based on the completion of certain project milestones.

The facility loan is secured by a second ranking hypothec in all present and future movable property of the Company.

The following table summarizes the activity related to the facility with EDC during the period ended:

	September 30, 2018 $	**December 31, 2017 $**
Balance – Beginning of period	1,437,912	-
Addition	-	2,000,000
Repayment	(1,437,912)	(562,088)
Balance – End of period	-	1,437,912

(expressed in Canadian dollars)

8 Long-term debt

a) Loans

	As at September 30, 2018 $	As at December 31, 2017 $
Obligation under a capital lease, repayable in monthly instalments of $1,607 including interest calculated at 13% maturing in October 2018, secured by equipment under finance lease.	1,552	18,669
Obligation under a capital lease, repayable in monthly instalments of $352 including interest calculated at 12% maturing in September 2020, secured by equipment under finance lease.	7,825	10,475
Unsecured Convertible debentures	1,725,403	2,216,570
Obligation under a working capital line, bearing an interest rate of 11% per annum, maturing in July 2021	1,909,250	-
Long-term debt	3,644,030	2,245,714
Current portion	(5,321)	(22,236)
	3,638,709	2,223,478

On November 16, 2017, the Company has completed an Unsecured Convertible Debentures (“Debentures”) financing for aggregate gross proceeds of $2,024,149. The Debentures will reach maturity on November 15, 2019 and bearing an annual interest rate of 8%, convertible into common shares of the Company at a price of $0.65 per share. The unpaid interests are convertible at the highest price of $0.65 per common share or the fair value of the common share at the request of the debenture holder.

The Company used the residual value method to allocate the principal amount of the Debenture between the liability and the equity component. Under this method, the value of the equity component of $186,177 (net of deferred tax liability of $81,989) was determined by deducting the fair value of the liability component from the principal amount of the financing. The fair value of the liability component was $1,626,594 computes as the present value of future principal and interest payments discounted at a rate of 17.50%. The effective interest method is used to measure the Debenture after the initial recognition.

On November 30, 2016, the Company has completed an Unsecured Convertible Debentures ("Debentures") financing for aggregate gross proceeds of $1,000,000. The Debentures will reach maturity on November 30, 2019 and bearing an annual interest rate of 9%, convertible into common shares of the Company at a price of $0.15 per share. The unpaid interests are convertible at the highest price of $0.15 per common share or the fair value of the common share at the request of the debenture holder.

The Company used the residual value method to allocate the principal amount of the Debenture between the liability and the equity component. Under this method, the value of the equity component of $150,304 (net of deferred tax liability of $59,316) was determined by deducting the fair value of the liability component from the principal amount of the financing. The fair value of the liability component was $790,380 computes as the present value of future principal and interest payments discounted at a rate of 19.50%. The effective interest method is used to measure the Debenture after the initial recognition.

During the quarter, 1,212,821 common shares were issued as a result of the exercise of the conversion option by some of the debenture holders. From this amount, 1,166,667 common shares belong to the Debentures completed on November 30, 2016 and at September 30, 2018 all of it's options have been exercised. The balance of 46,154 common shares comes from the Debentures completed on November 16, 2017. The common shares issued included the carrying value of the liability component to the date of conversion. The conversion is a non-cash transaction and thus is excluded from the consolidated statement of cash flows.

On July 23, 2018, the Company obtained $23 million of additional financial support from Export Development Canada (EDC), Canada's export credit agency. The financial support consists of a $12 million bonding facility with EDC, which will be used to support the issuance of multiple bank guarantees. The bonding facility bears an interest at the rate of at the Canadian Prime Rate of the Bank plus 2.50% per annum, payable every month. Stand-by fees at an annual rate of 0.75% calculated on the unused portion of the bonding facility shall be payable monthly. Two credit facilities of $11 million, with a three year term, consisting of a $2 million working capital line and a $9 million Purchase Order (PO) facility. The credit facilities and the three year term bear an interest at the rate of 11% per annum, payable every month.

The financial support is secured by a first ranking hypothec in all present and after acquired inventory and accounts receivables related to contracts.

b) Government royalty program obligation

In 2012, the Company signed a settlement agreement with Technology Partnership Canada (TPC) with regard to the Company's Fast Cycle Pressure Swing Adsorption and Gas Management systems and Pulsar Pressure Swing Adsorption project. The Company had to pay $250,000 at the execution of the agreement and $1,000,000 spread over four equal annual non-interest bearing payments, starting on January 31, 2013. Furthermore, the Company was liable to pay up to $750,000 in contingent payments based on proceeds from the sale by the Company of its intellectual property. Upon closing of the transaction, the Company paid $540,000 out of the $750,000 total contingent-based payments. On October 23, 2012, the Company accrued another

(expressed in Canadian dollars)

$150,000 out of the $750,000 total contingent based payments, following additional proceeds received, leaving a potential maximum amount to be paid of $60,000 as at December 31, 2012.

In 2013, the Company realized the last milestone pursuant to the transaction and paid the remaining $60,000. The Company renegotiated its payments terms with TPC, changing from an annual payment of $250,000 to monthly payments of $24,500 but adding an extra year to term.
In February 2017, a new amendment to this agreement was reached changing the preceding payments terms from monthly payments of $24,500 to monthly payments of:

- $29,505 upon execution including interest
- $5,000 starting from March 1, 2017 to January 1, 2018
- $7,000 starting from February 1, 2018 to January 1, 2019
- $8,000 starting from February 1, 2019 to January 1, 2020
- $10,000 starting from February 1, 2020 to January 1, 2021
- $15,000 starting from February 1, 2021 to October 1, 2022
- $20,000 on November 1, 2022 and December 1, 2022
- And the balance of $22,540 on January 1, 2023.

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

	September 30, 2018 $	**December 31, 2017 $**
Balance – Beginning of period	591,372	757,540
Gain on revaluation of government royalty program	-	(117,095)
Accretion finance expenses	20,755	25,927
Repayment	(61,000)	(75,000)
Balance – End of period	551,127	591,372
Current portion	(97,531)	(86,826)
	453,596	504,546

The carrying amount of the government royalty program obligation has been calculated by discounting the future cash flows at a 5% interest rate.

9 Obligation arising from shares issued by subsidiary

In September 2015, as a result of a Sino-foreign equity joint venture agreement, Xebec Adsorption (Shanghai) Co. Ltd., a subsidiary of Xebec Adsorption Inc. (“Xebec”), issued 1,714,285 common shares, representing a 30% participation, to Shanghai Chengyi New Energy Venture Capital Co. Ltd. (28.26%), an investment subsidiary of Shanghai based Shenergy Group, Shanghai Zhiyi Enterprise Management Consulting Co. Ltd. (0.1%) and Shanghai Liuhuan Investment Co. Ltd. (1.64%), a company held by a group of employees of Xebec Adsorption (Shanghai) Co. Ltd., (collectively the "Minority Shareholders") for a net cash consideration of $3,423,075 (RMB 16,370,515).

(expressed in Canadian dollars)

Pursuant to this agreement, Xebec has the obligation to repurchase the Minority Shareholders' interest in Xebec Adsorption (Shanghai) Co. Ltd., for a consideration of no less than the initial investment and annualized return of 10% if a) the achievement of specific financial targets were not achieved in any given year prior to December 31, 2020, or b) should the Minority Shareholders not divest by December 31, 2020 and should the Minority Shareholders exercise their put option with respect to a) or b) as mentioned above.

On July 24, 2018, the Minority Shareholders of Xebec Adsorption (Shanghai) Co. Ltd. and Xebec Adsorption Inc. agreed that Xebec Adsorption Inc. will pay the Minority Shareholders RMB 1 million per year including 2018 until the EDC loan expiry or latest up to December 31, 2020 (whichever is earlier). Xebec Adsorption Inc. will also fulfill its repurchase obligation according to the original agreement, by paying the full repurchase price in one lump sum either at EDC loan expiry or latest by December 31, 2020. The 2018 annual fee will be paid in the fourth quarter of 2018. The annual fees will be considered a deduction to the repurchase price at the time of repurchase.

On July 25, 2018, the Minority Shareholders of Xebec Adsorption (Shanghai) Co. Ltd, agreed that, for a period beginning on the date hereof up to the date that Export Development Canada has been repaid in full (including capital, interests and fees) under the EDC Financing Arrangement, it shall not exercise any of its divestment, refund, compensation and other equity repurchase rights.

Xebec recorded the proceeds from this transaction, as a financial liability in these consolidated financial statements. The obligation to repurchase and the related annualized return is presented under "Obligation arising from shares issued by a subsidiary". The conversion of the financial liability denominated in the functional currency of our subsidiary Xebec Adsorption (Shanghai) Co. Ltd. (RMB) will be converted at the exchange rate at the end of each reporting period with gain and losses presented in the statement of income (loss) under "Gain/Loss on conversion of shares issued by a subsidiary".

	September 30, 2018 **$**	**December 31, 2017** **$**
Balance – Beginning of period	3,912,314	3,582,135
Accretion interest	250,515	332,537
Effect of exchange rate change on obligation	(101,222)	(2,358)
Balance – End of period	4,061,607	3,912,314

(expressed in Canadian dollars)

10 Share Capital

a) The Company is incorporated under the Canada Business Corporations Act, and its authorized share capital consists of an unlimited number of common shares, without par value.

b) Share purchase warrants

There were no warrants issued in 2018 and 2017.

c) Income (loss) per share

i) Basic

Basic income (loss) per share is calculated using net income (loss) as the numerator and the weighted average number of shares as denominator. No adjustments to net income were necessary in 2018 and 2017.

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	2017	2018	2017
	$	$	$	$
Net income (loss) attributable to shareholders of the Company	643,107	93,192	(413,210)	1,024,420
Weighted average number of shares used in basic income per share	43,978,219	40,613,063	43,978,219	39,907,510
Basic income (loss) per share	0.01	0.002	(0.01)	0.02

ii) Diluted

For the periods ended September 30, 2018 and 2017, convertible debentures and outstanding stocks options would have been anti-dilutive.

11 Stock options

The stock option plan allowed for the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based awards. Under the Plan, a fixed number of 8,500,873 common shares are available for grant. As at September 30, 2018, the maximum number of common shares available for issuance under all stock-based compensation arrangements is 2,934,115

Under the terms of the Xebec Adsorption Stock Option 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 terms and conditions for acquiring and exercising options are set by the Board of Directors. Stock options for employees vest no less than at grant date and no more than quarterly.

(expressed in Canadian dollars)

Stock option activity for the period ended September 30, is presented below:

	2018		2017	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding – January 1,	7,829,030	0.19	5,855,337	0.11
Granted	100,000	0.60	2,608,193	0.23
Exercised	(307,272)	0.17	(1,140,500)	0.05
Cancelled	(2,055,000)	0.12	(5,000)	0.22
Expired	-	. -	-	-
Outstanding – September 30,	5,566,758	0.22	7,318,030	0.16
Exercisable – September 30,	4,340,897	0.15	7,318,030	0.16

As at September 30, 2018, options outstanding and exercisable are as follows:

Expiry date	Weighted-Average Exercise Price	Number of Options Outstanding	Weighted-Average Remaining life	Number of Options exercisable
December 22, 2018	$0.10	1,399,500	0.23	1,399,500
June 12, 2020	$0.16	258,065	1.70	258,065
April 25, 2021	$0.15	100,000	2.57	100,000
May 29, 2021	$0.14	200,000	2.66	200,000
December 19, 2022	$0.55	400,000	4.22	-
January 7, 2023	$0.05	400,000	4.27	400,000
March 5, 2024	$0.18	2,098,193	5.43	1,883,332
August 29, 2024	$0.49	500,000	5.91	100,000
December 19, 2024	$0.55	111,000	6.21	-
May 14, 2025	$0.60	100,000	6,62	-
	$0.22	**5,566,758**	**3.71**	**4,340,897**

(expressed in Canadian dollars)

As at September 30, 2017 options outstanding and exercisable are as follows:

Expiry date	Weighted-Average Exercise Price	Number of Options Outstanding	Weighted-Average Remaining life	Number of Options exercisable
March 31, 2018	$0,16	258,065	0,8	258,065
August 11, 2018	$0.22	232,272	1.1	232,272
December 22, 2018	$0.10	1,519,500	1.5	1,519,500
April 25, 2021	$0.15	100,000	3.8	100,000
May 29, 2021	$0.14	200,000	3.9	200,000
September 22, 2021	$0.12	2,000,000	4.2	2,000,000
January 7, 2023	$0.05	400,000	5.5	400,000
March 5, 2020	$0.18	2,108,193	6.4	1,095,000
August 29, 2024	$0.49	500,000	6.9	-
	$0.16	**7,318,030**	**4.1**	**5,804,837**

On May 14, 2018, the Company granted 100,000 stock options to an employee. The options are exercisable at $0.60 per share and expire on May 14, 2025. The options are subject to vesting criteria such that 33% shall vest on the first anniversary date and 33% shall vest every twelve months thereafter. The corresponding stock-based compensation amounted to $55,701, which was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	2.30%
Annualized volatility[1]	133%
Share price	$0.60
Dividend rate	0.00%
Expected life of options	7 years

During the nine-month period ended in September 30, 2018, the Company expensed $235,588 (2017 - $292,227) and during the three-month period ended in September 30, 2018, the Company expensed $ 63,220 (2017 - $ 57,675) which totally relates to stock options granted in 2017 and 2018.

(expressed in Canadian dollars)

12 Expenses by nature

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Employee salaries and benefits	1,739,994	1,356,732	5,090,212	4,202,327
Material	3,126,058	1,737,599	6,803,490	4,135,302
Subcontract cost	1,263,326	(144,418)	2,394,700	169,900
Professional fees	437,522	192,538	1,001,249	510,308
Rent and repairs and maintenance	162,024	192,007	565,343	545,289
Travel expenses	203,939	127,183	518,833	408,130
Stock-based compensation	63,220	292,227	235,588	292,227
Office expense	91,978	65,951	299,224	181,311
Amortization and depreciation	59,238	40,832	162,633	126,694
Advertising	33,104	-	126,306	-
Other	59,781	114,890	46,820	214,968
Bad Debt	(21,237)	(58,480)	13,127	(338,989)
Reversal of trade payables	-	-	-	-
Inventory Provision	-	-	-	(128,524)
	7,218,947	3,917,061	17,257,525	10,318,943

13 Finance expenses

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Accretion of the obligation arising from shares issued by a subsidiary	83,728	81,933	250,515	243,308
Interest on convertible debentures	96,429	41,131	327,411	119,507
Interest and bank charges	146,441	20,369	276,839	71,800
Interest on short term debt	70,973	509	150,818	10,237
Accretion and revaluation of government royalty program obligation (Note 8b)	6,823	-	20,755	-
Interest on long term debt	155	58,651	514	176,945
Reversal of trade payables	-	-	-	(322,634)
	404,549	202,593	1,026,852	299,163

(expressed in Canadian dollars)

14 Supplemental Cash flow information

For the nine-month period ended September 30, net change in non-cash working capital balances related to operations consists of the following:

	For the three-month period ended September 30, 2018 $	2017 $	For the nine-month period ended September 30, 2018 $	2017 $
Decrease (increase) in assets:				
Trade and other receivables	(4,196,474)	(1,709,611)	(7,342,174)	(3,097,809)
Inventories	(448,807)	405,739	(120,956)	890,466
Investment tax credits receivable	(87)	12,044	(22,078)	32,010
Other current assets	31,622	18,154	101,143	101,453
Increase (decrease) in liabilities:				
Trade payables, other payables and accrued liabilities	1,737,742	141,343	3,421,891	(512,533)
Deferred Revenues	2,160,675	703,850	2,916,296	(95,200)
Provisions	7,977	(21,873)	8,500	(192,999)
	(707,352)	(450,354)	(1,037,378)	(2,874,612)

15 Related party transactions

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

	For the three-month period ended September 30, 2018 $	2017 $	For the nine-month period ended September 30, 2018 $	2017 $
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	15,439	23,821	142,195	100,156

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

(expressed in Canadian dollars)

16 Segmented information

The Company has four business segments and specializes in the Industrial Air and Gas Products, the Clean Technology , the Renewable Gas Generation and the Oil and Gas .

For the three and nine-month period ended September 30, revenue summarized by country, as determined by location of the customers, is as follows:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Revenue				
Canada	966,008	591,301	3,482,278	2,096,976
United States	2,286,170	393,345	4,412,303	2,603,722
China	2,774,333	553,171	4,611,866	1,239,933
France	580,919	1,422,890	2,110,731	3,793,781
Italy	1,190,606	15,007	2,261,687	29,566
Other	449,606	1,153,667	1,139,032	1,722,773
	8,247,642	4,129,381	18,017,897	11,486,751

(expressed in Canadian dollars)

Incomes (losses) summarized by business segments are as follows:

For the three-month period ended September 30, 2018

	Clean Technology	Industrial Air and Gas Products	Renewable Gas Generation	Oil and Gas	Corporate	Total
	$	$	$	$	$	$
Revenues	6,986,246	1,261,396	-	-	-	8,247,642
COGS	4,671,047	785,155	-	-	-	5,456,202
Gross margin	2,315,199	476,241	-	-	-	2,791,440
Gross Margin %	33%	38%	-	-	-	34%
Research and Development expenses	35,860	-	-	-	-	35,860
Selling and administrative expenses	291,611	199,589	-	-	1,271,545	1,762,745
Foreign exchange gain	-	-	-	-	(224,030)	(224,030)
Gain on conversion of shares issued by a subsidiary	-	-	-	-	169,576	169,576
Financial income	-	-	-	-	(367)	(367)
Financial expense	-	-	-	-	404,549	404,549
Total expenses	327,471	199,589	-	-	1,621,273	2,148,333
Segment income (loss)	1,987,728	276,652	-	-	(1,621,273)	643,107

(expressed in Canadian dollars)

For the nine-month period ended September 30, 2018

	Clean Technology	**Industrial Air and Gas Products**	**Renewable Gas Generation**	**Oil and Gas**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Revenues	13,298,061	4,719,836	-	-	-	18,017,897
COGS	9,394,281	2,977,863	-	-	-	12,372,144
Gross margin	3,903,780	1,741,973	-	-	-	5,645,753
Gross Margin %	29%	37%	-	-	-	31%
		-				
Research and Development expenses	75,589	-	-	-	-	75,589
Selling and administrative expenses	802,433	640,474		-	3,442,474	4,885,381
Foreign exchange loss	-	-	-	-	(101,222)	(101,222)
Loss on conversion of shares issued by a subsidiary	-	-	-	-	173,239	173,239
Financial income	-	-	-	-	(876)	(876)
Financial expense	-	-	-	-	1,026,852	1,026,852
Total expenses	878,022	640,474	-	-	4,540,467	6,058,963
Segment income (loss)	3,025,758	1,101,499	-	-	(4,540,467)	(413,210)

(expressed in Canadian dollars)

For the three-month period ended September 30, 2017

	Clean Technology	Industrial Air and Gas Products	Oil and Gas	Corporate	Total
	$	$	$	$	$
Revenues	2,173,637	969,066	986,678	-	4,129,381
COGS	1,768,803	659,377	299	-	2,428,479
Gross margin	404,834	309,689	986,379	-	1,700,902
Gross Margin %	19%	32%	0%	-	41%
Research and Development expenses	2,925	-	-	-	2,925
Selling and administrative expenses	208,914	149,460	72,626	1,057,582	1,488,582
Reimbursement from insurance claim	-	-	-	(132,344)	(132,344)
Foreign exchange loss	-	-	-	113,084	113,084
Gain on conversion of shares issued by a subsidiary	-	-	-	(74,122)	(74,122)
Financial income	-	-	-	6,992	6,992
Financial expense	-	-	-	202,593	202,593
Total expenses	211,839	149,460	72,626	1,173,785	1,607,710
Segment income (loss)	192,995	160,229	913,753	(1,173,785)	93,192

(expressed in Canadian dollars)

For the nine-month period ended September 30, 2017

	Clean Technology	Industrial Air and Gas Products	Oil and Gas	Corporate	Total
	$	$	$	$	$
Revenues	6,782,507	3,476,591	1,227,653	-	11,486,751
COGS	4,745,189	1,990,712	299	-	6,736,200
Gross margin	2,037,318	1,485,879	1,227,354	-	4,750,551
Gross Margin %	30%	43%	100%	-	41%
Research and Development expenses	(41,361)	-	-	-	(41,361)
Selling and administrative expenses	636,379	558,929	196,989	2,190,446	3,582,743
Reimbursement from insurance claim	-	-	-	(132,344)	(132,344)
Foreign exchange loss	-	-	-	234,721	234,721
Gain on conversion of shares issued by a subsidiary	-	-	-	(106,178)	(106,178)
Financial income	-	-	-	(110,613)	(110,613)
Financial expense	-	-	-	299,163	299,163
Total expenses	595,018	558,929	196,989	2,375,195	3,726,131
Segment income (loss)	1,442,300	926,950	1,030,365	(2,375,195)	1,024,420

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

	As at September 30, 2018	As at December 31, 2017
	$	$
Non-current assets		
Canada	520,388	520,491
Asia	41,772	66,570
United States	36,878	39,934
	599,038	626,995

(expressed in Canadian dollars)

17 Financial instruments

a. Measurement categories and fair values, including valuation methods and assumptions

The following tables show the carrying values and fair values of assets and liabilities by category as of:

September 30, 2018	**Loans and receivables**		**Other financial liabilities**	
	Carrying amount $	**Fair value $**	**Carrying amount $**	**Fair value $**
Cash	866,141	866,141	-	-
Trade and other receivables	7,077,317	7,077,317	-	-
Other current assets	13,500	13,500	-	-
Trade, other payables and accrued liabilities	-	-	6,226,115	6,226,115
Long term debt	-	-	1,909,250	1,909,250
Convertible debentures	-	-	1,725,403	1,725,403
Government royalty program obligation	-	-	551,127	551,127
Obligation arising from shares Issued by a subsidiary	-	-	4,061,607	4,061,607

(expressed in Canadian dollars)

December 31, 2017	**Loans and receivables**		**Other financial liabilities**	
	Carrying amount $	**Fair value $**	**Carrying amount $**	**Fair value $**
Cash	1,341,121	1,341,121	-	-
Trade and other receivables	3,094,761	3,094,761	-	-
Other current assets	13,500	13,500	-	-
Credit facility	-	-	1,437,912	1,437,912
Trade, other payables and accrued liabilities	-	-	3,032,213	3,032,213
Convertible debentures	-	-	2,216,570	2,216,570
Government royalty program obligation	-	-	591,372	591,372
Obligation arising from shares issued by a subsidiary	-	-	3,912,314	3,912,314

The carrying values of cash, trade and other receivables, trade and other payables, accrued liabilities, bank loan and credit facility approximate their fair value due to their short-term maturities. The methods and assumptions used in estimating the fair values of other financial assets and financial liabilities are as follows:

- Convertible debentures (classified in level 2 of the fair value hierarchy): The Company's convertible debentures carry fixed interest rates. The fair value of the Company's debt obligations has been calculated by discounting the future cash flows of the long-term debt at the interest rate of similar debt instruments.

- Government royalty program obligation (classified in level 2 of the fair value hierarchy): Fair value of the government royalty program obligation has been calculated by discounting the future cash flows at the interest rate for a similar loan in the market.

- Obligation arising from shares issued by a subsidiary (classified in level 2 of the fair value hierarchy): Fair value of the obligation arising from shares issued by a subsidiary has been calculated by computing an annualized return of 10% on the initial consideration

- The Company's financial instruments that are measured subsequent to initial recognition at fair value and financial instruments measured at amortized cost for which the fair value is disclosed are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

  Level 1 — Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
  Level 2 — Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(expressed in Canadian dollars)

Level 3 — Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

18 Commitments

- Research Agreement with McGill University

  In August 2018, Xebec Adsorption Inc. ("Xebec"), has signed a Research Agreement to co-develop a prototype reactor to produce Renewable Natural Gas (RNG) using a Power-to-Gas (P2G) process with McGill University. This process combines electricity generated from renewable sources with carbon dioxide (CO2) generated from waste. The project is being funded by Xebec as the Industrial sponsor and by the Natural Sciences and Engineering Research Council of Canada (NSERC) through a Collaborative Research and Development grant of $360,000 over a period of three years.

  In consideration of McGill carrying out the Project, Xebec is committed to fund the Project with $90,000 over the period of three years. The funds will be paid in accordance with the following schedule:

  i. $30,000 upon signing
  ii. $30,000 upon the first anniversary of the Effective Date
  iii. $30,000 upon receiving the final report.

- Following is a summary of Xebec's contractual obligations and commitments regarding operating leases:

As at September 30, 2018	**Payment Due by Period**			
	1 year	2 - 5 years	Beyond 5 years	Total
	$	**$**	**$**	**$**
Operating leases	368,207	1,325,708	1,014,005	2,707,920

Operating leases include one building in Blainville, Quebec, and various equipment leases. The operating leases expenses for the nine month period September 30, 2018 amounted to $ 235,324 ($268,700 in 2017)

19 Event after the reporting period

On November 7, Xebec Adsorption Inc. closed a short form prospectus offering through a syndicate of agents led by Beacon Securities Limited and including Paradigm Capital Inc. (collectively, the "Agents"). In connection with the closing of the Offering, the Company issued a total of 8,208,666 Units (the "Units"), at a price of $0.75 per Unit, for aggregate gross proceeds of $6,156,499.50. Each Unit is comprised of one common share of the Company (a "Common Share") and one half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one Common Share, at a price of $1.05 per Common Share, for a period of 18 months from the closing date of the Offering.

The Agents have the option to offer for sale up to an additional 15% of the aggregate number of Units, Common Shares, Warrants, or any combination thereof (the "Over-Allotment Option") sold under, and on the same terms as, the Offering, exercisable, in whole or in part, at any time up to 30 days from the closing date of the Offering to cover over-allotments, if any, and for market stabilization purposes.

In connection with the Offering, the Company paid to the Agents a cash commission equal to 6% of the gross proceeds of the Offering, including any proceeds raised pursuant to the exercise of the Over-Allotment Option. The Company also granted the Agents non-transferable options (the "Compensation Options") entitling the Agents to purchase such number of Common Shares equal to 6% of the aggregate number of Units issued by the Company under the Offering, each such Compensation Option entitling the holder thereof to acquire one Common Share at an exercise price of $0.75 for a period of 18 months from the closing date of the Offering.

The Company intends to use the net proceeds of the Offering to fund new project development initiatives in the renewable gas generation sector, potential merger and acquisition opportunities involving potential targets in industrial business segments, research and development, capital equipment and general corporate purposes.

The Offering was made pursuant to a short form prospectus dated October 25, 2018, filed with the securities regulatory authorities in each of the provinces of Canada, pursuant to National Instrument 44-101 – Short Form Prospectus Distributions.