



XEBEC ADSORPTION INC.

ANNUAL INFORMATION FORM

For the year ended December 31, 2021

Dated March 16, 2022



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General Matters

Established in 1967, Xebec has over 50 years of experience in supplying more than 20,000 systems to clients worldwide for industrial and cleantech applications. Our foundation is industrial, our focus today is cleantech and our future is a world powered by clean energy.

Xebec Adsorption Inc. is a global provider of sustainable gas solutions used in energy, mobility and industry applications. The Corporation specializes in deploying a portfolio of proprietary technologies for the distributed production of hydrogen, renewable natural gas (“RNG”), oxygen and nitrogen. By focusing on environmentally responsible gas generation, Xebec has helped thousands of customers around the world reduce their carbon footprints and operating costs. Headquartered in Québec, Canada, Xebec has a worldwide presence with nine manufacturing facilities, seventeen Cleantech Service Centers and four sales offices spanning over four continents.

This annual information form (this “AIF”) for the fiscal year ended December 31, 2021 (the “**2021 Fiscal Year**”) is dated March 16, 2022, and unless specifically stated otherwise, all information disclosed in this AIF is provided as of December 31, 2021.

In this AIF, where the context so requires, references to the “Corporation”, “Company”, “Xebec”, “we”, “us”, “our” or similar expressions refer to Xebec Adsorption Inc. together with our subsidiaries. This AIF should be read in conjunction with the Corporation’s audited consolidated financial statements and notes for the fiscal year ended on December 31, 2021, and the Management’s Discussion and Analysis for the fiscal year ended on December 31, 2021, but which, for greater certainty, are not incorporated by reference herein. Copies of the audited consolidated financial statements and notes for the fiscal year ended on December 31, 2021, and the Management’s Discussion and Analysis for the fiscal year ended on December 31, 2021, are accessible on the Corporation’s SEDAR profile at www.sedar.com.

The financial statements of the Corporation are reported in Canadian dollars.

The Corporation’s last fiscal year ended on December 31, 2021.

Unless otherwise indicated, all references to monetary amounts in this AIF are denominated in Canadian dollars. Unless otherwise indicated, all references to “\$”, “C\$” and “dollars” in this AIF refer to Canadian dollars. Certain totals, subtotals and percentages throughout this AIF may not reconcile due to rounding.

Cautionary Statement on Forward-Looking Statements

This AIF contains forward-looking statements within the meaning of applicable securities laws, including statements regarding the future success of the Corporation’s 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 Corporation’s strategic goals; (ii) the key market drivers impacting the Corporation’s success; (iii) intentions with respect to future

renewable gas work; (iv) expectations regarding business activities and orders that may be received in fiscal 2022 and beyond; (v) trends in, and the development of, the Corporation's target markets; (vi) the Corporation's market opportunities; (vii) the benefits of the Corporation's products, (viii) the intention to enter into agreements with partners; (ix) future outsourcing; (x) expectations regarding competitors; (xi) the expected impact of the described risks and uncertainties; (xii) intentions with respect to the payment of dividends; (xiii) the management of the Corporation's liquidity risks in light of the prevailing economic conditions; (xiv) the Corporation's cost reduction plan; (xv) the search for additional financing in the future; and (xvi) statements regarding the merits of the class action complaints filed against the Corporation. 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 Corporation'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 Corporation 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. They are made as of the date of this AIF. Except to the extent required by law, the Corporation undertakes no obligation to publicly update or revise any forward-looking statements contained herein.

Market and Industry Data

Market and industry data presented throughout this AIF was obtained from third-party sources, websites, and other publicly available information, as well as industry and other data prepared by us or on our behalf on the basis of our knowledge of the markets in which we operate. We believe that the market and economic data presented throughout this AIF is accurate and, with respect to data prepared by us or on our behalf, that our opinions, estimates and assumptions are currently appropriate and reasonable, but there can be no assurance as to the accuracy or completeness thereof and we do not make any representation to that effect. Actual outcomes may vary materially from those forecast in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. Although we believe it to be reliable, we have not independently verified any of the data from third-party sources referred to in this AIF, analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying market, economic and other assumptions relied upon by such sources. Market and economic data are subject to variations and

cannot be verified due to limits on the availability and reliability of data inputs, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey.

Corporate Structure

Name, Address and Incorporation

The Corporation is incorporated under the Canada Business Corporations Act (“CBCA”). Pursuant to a certificate of arrangement effective June 12, 2009, the Corporation and QuestAir Technologies Inc. amalgamated and the entity resulting from such amalgamation is Xebec Adsorption Inc. On May 13, 2010, the former By-Law No. 1 of the Corporation was repealed and replaced with the General By-Laws No. 1-2009 retroactively to June 12, 2009. On May 13, 2010, the Articles of the Corporation were amended to change the fixed number of Directors to a variable number of three Directors and a maximum of ten Directors. On June 26, 2020, the Articles of the Corporation were amended to enable the appointment by the Directors of one or more additional Directors in certain limited circumstances for a term expiring no later than the close of the next meeting of shareholders. On May 18, 2021, the Advance Notice By-Law (By-Law No.2) was adopted with an effective date on June 29, 2021.

The Common Shares are listed for trading on the TSX under the symbol “XBC” and on the OTCQX International under the symbol “XEBEF”.

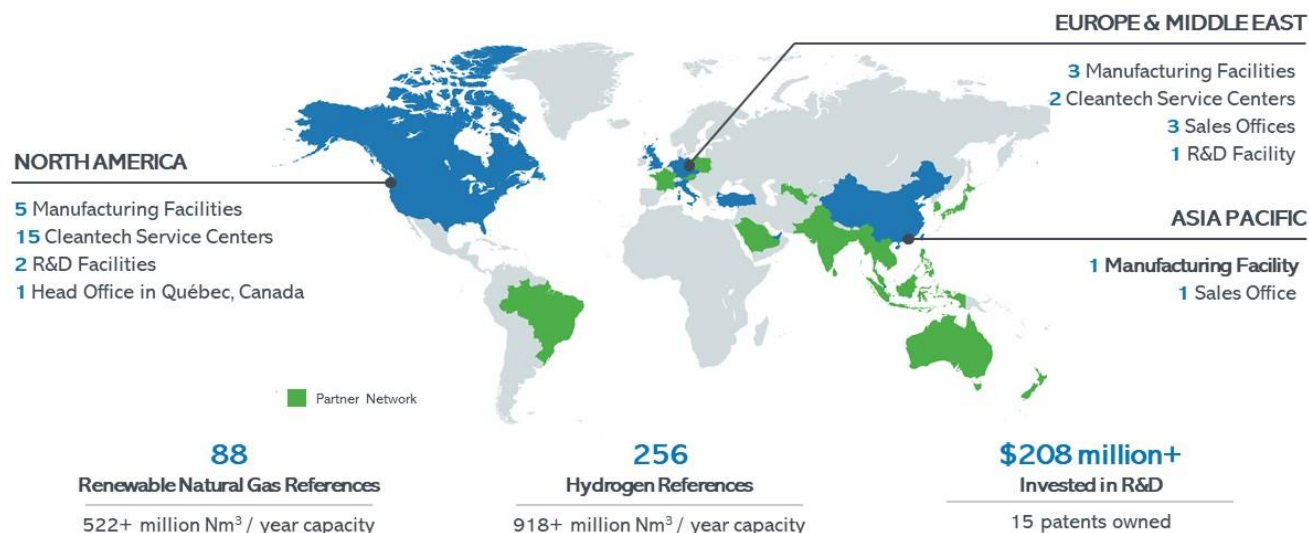
As of the date of this AIF, Xebec is a reporting issuer in each of the provinces of Canada. The head office and registered place of business of Xebec is located at 730 boulevard Industriel, Blainville, Québec, Canada, J7C 3V4. The executive office of Xebec is located at 1130 Sherbrooke W., Suite 700, Montréal, Québec, Canada, H3A 2M8.

A corporate chart of the Corporation and its material subsidiaries well as other material ownership interests of the Corporation as of March 16, 2022 is attached hereto as Schedule “A”. Unless otherwise indicated, all subsidiaries listed in **Schedule “A”** are wholly owned. The Corporation has other subsidiaries that have not been included in the table since they represented, individually, 10% or less of our consolidated assets or consolidated revenue as of December 31, 2021, and, in the aggregate, 20% or less of our consolidated assets or consolidated revenue as of December 31, 2021.

Overview of the Corporation’s Business

Xebec is a global provider of sustainable gas solutions used in energy, mobility and industry applications. The Corporation specializes in deploying a portfolio of proprietary technologies for the distributed production of hydrogen, renewable natural gas, oxygen and nitrogen. By focusing on environmentally responsible gas generation, Xebec has helped thousands of customers around the world reduce their carbon footprints and operating costs.

Global Leader in Decarbonizing Gases



North America

Canada

Business Locations	Description	Cleantech Service Centers	Manufacturing Facilities	R&D	Offices & Sales
Xebec Adsorption Inc. ("Xebec") Blainville, QC Montreal, QC	Xebec operates out of a 41,753 square foot leased manufacturing facility located in Blainville since 2009. The Blainville operation also houses, some corporate administration, sales, research and development ("R&D"), engineering, supply chain, manufacturing, service, and support.	✓	✓	✓	✓
Applied Compression Systems Ltd. ("ACS") Cranbrook, BC	Within the Group since September 2020, ACS offers a single source solution for air & gas compression requirements. ACS focuses on custom designed and fabricated compressor packages for specialized applications in the oil, gas, petrochemical, alternative fuel, waste-to-energy, research, power generation, mining, and manufacturing industries.	✓	✓		

Business Locations	Description	Cleantech Service Centers	Manufacturing Facilities	R&D	Offices & Sales
Compressed Air International Inc. ("CAI") Vaughan and Guelph, ON	CAI has two facilities in the Toronto area and is responsible for sales and servicing of compressed air products and also supports all Xebec products in Ontario.	✓			
GNR Québec Capital L.P. Montreal, QC	Limited partnership with Fonds de solidarité des travailleurs du Québec (F.T.Q.). This limited partnership has been formed for the primary purpose of investing in the development, design, construction and operation of renewal natural gas projects.				✓

United States

Business Location	Description	Cleantech Service Centers	Manufacturing Facilities	R&D	Offices & Sales
California Compression, LLC ("California Compression") Livermore, CA	Founded in 1975, California Compression is one of the largest compressed air distributors in Northern California. California Compression gives Xebec distribution and service capabilities for customers located in Northern California.	✓			
CDA Systems, LLC ("CDA") Livermore, CA	CDA is responsible for sales, rental and services of compressed air products and now supports all Xebec products in California.	✓			
Enerphase Industrial Solutions, Inc. doing business as Air Flow ("Air Flow") Greensboro, NC Rocky Mount, NC Woodleaf, NC	Air Flow is a distributor and service provider of compressed air equipment in North Carolina, focussing is on preventative maintenance solutions, air energy system audits and analysis, timely machine rentals and parts and service.	✓			
NortekBelAir Corporation ("Nortec") Maryville, TN	Nortec brought Xebec 18,500 square foot facility in Maryville, Tennessee, and provides the Corporation with key personnel to establish a "Center of Excellence" for its dehydration products comprised of compressed air dryers, renewable natural gas dryers, hydrogen dryers and support its Cleantech Service Network.		✓	✓	

Business Location	Description	Cleantech Service Centers	Manufacturing Facilities	R&D	Offices & Sales
The Titus Company ("Titus") Morgantown, PA	With the acquisition of Titus, a supplier of compressed air services, the Corporation's coverage expanded to include Eastern Pennsylvania, Delaware and New Jersey.	✓	✓		
XBC Flow Services – Wisconsin Inc. Butler, WI Green Bay, WI	XBC Flow Services – Wisconsin Inc. supplies customers with high-quality compressed air products from the industry's top manufacturers.	✓			
Xebec Systems USA LLC ("UECompression") Henderson, CO Billings, MT Casper, WY	The acquisition of UECompression in November 2021, provides Xebec with a 100,000 square feet production floor space and warehousing which provides a platform from which to expend our manufacturing capabilities for containerized BGX Biostream™ ("Biostream") and Hy.GEN hydrogen units. The Denver facility also designs and manufactures air and gas processing systems with references in landfill gas, natural gas, biogas, and hydrogen compression.	✓	✓		

Europe & Middle East

Business Location	Description	Cleantech Service Centers	Manufacturing Facilities	R&D	Offices & Sales
HyGear Technology and Services B.V. and HyGear Operations B.V. Arnhem, Netherlands	Within the Group since September 2020 the Arnhem Facility is an emerging developer, manufacturer, and supplier of technology and products for the production, recovery, purification, and mixing of industrial gases, such as hydrogen and nitrogen.	✓	✓	✓	✓
Inmatec Gase Technologie GmbH & Co. KG Herrsching and Frankfurt, Germany	Within the Group since February 2021, the Inmatec Facilities are located Herrsching am Ammersee – 30 kilometres southwest of Munich – and second production location is in Frankfurt am Main. Inmatec develops and produces systems in the production of nitrogen and oxygen generators for global use.	✓	✓		

Business Location	Description	Cleantech Service Centers	Manufacturing Facilities	R&D	Offices & Sales
Inmatec Gas Technology FZ-LLC United Arab Emirates	Sales and services activities for the Middle-East and African Market.				✓
Tiger Filtration Limited ("Tiger") Sunderland, United Kingdom	Within the Group since June 2021, the Tiger Facility provides Xebec with a recurring aftermarket manufacturing business for elements and filters.		✓		
Xebec Italy S.r.l. Milan, Italy	This office services all Xebec BGX systems sold in Europe.				✓

Asia Pacific

Business Location	Description	Cleantech Service Centers	Manufacturing Facilities	R&D	Offices & Sales
Xebec Adsorption Asia PTE Ltd. Singapore	This office services the Asian market.				✓
Xebec Adsorption (Shanghai) Co. Ltd Songjiang District, Shanghai	This joint venture operates since 2008 in a 20,451 square foot leased manufacturing facility in the Songjiang district of Shanghai, China. This joint venture is responsible for engineering, supply chain, product assembly, marketing, sales, technical service and after sales support for the Chinese, South East Asian and Middle Eastern markets. The Corporation recognizes Xebec Adsorption (Shanghai) Co. Ltd as an equity investment.		✓		

General Development of the Business

Recent Developments

On February 24, 2022, Ms. Karen Nielsen resigned from Xebec's Board of Directors after accepting a position as an energy transition executive. As a result, Ms. Nielsen decided to focus both on her new role while also avoiding any potential conflicts of interest as a member of Xebec's Board of Directors.

On February 8, 2022, Xebec announced that Kurt Sorschak will retire as Chairman, President and Chief Executive Officer effective May 12, 2022. The Corporation's concurrently announced that Jim Vounassis will be appointed President and Chief Executive Officer of Xebec and Xebec's current Vice-President Global Operations, Mike Munro, will assume the role of Chief Operating Officer.

On February 4, 2022, Xebec announced that it had signed an agreement for the exclusive supply of its pressure swing adsorption technology to Air Liquide Advanced Technology US.

On February 1, 2022, Xebec announced that it had signed a contract with Desmet Ballestra Group to deliver the Corporation's first Hy.GEN-e on-site electrolyser unit for a food application.

2021 Highlights

On November 3, 2021, Xebec completed the acquisition of all the outstanding shares of Colorado-based UEC, LLC, a premier designer and builder of custom air and gas compressor solutions for power generation, industrial and energy applications.

On October 21, 2021, Xebec announced that it had received a research grant to design and manufacture a new type of electrolyser system, under the ECO2 Fuel consortium. Xebec has been tasked with designing and building the industrial size 1 MW-class system that will also integrate technologies from other consortium partners which include De Nora, RWE Power, DLR, VITO and Ariema.

On September 30, 2021, Xebec announced that it had signed a contract to supply two Hy.GEN® 150 units with a Turkey-based flat steel manufacturer. The two units will have a capacity of approximately 600 kg of hydrogen per day (220 tons per year) at 99.999% purity to create a protective atmosphere within the annealing heat-treatment process.

On August 11, 2021, Mr. Brian Levitt joined Xebec's Board of Directors.

On July 6, 2021, Xebec announced that it had signed a Master Service Agreement with Brightmark RNG Holdings LLC for the purchase of BGX Biostream™ units. The order of an initial 18 Biostream units was announced on October 6, 2021.

On June 23, 2021, Xebec announced that its wholly owned subsidiary HyGear, had successfully commissioned an on-site hydrogen generation system for TAYRAŞ' used lubricant oil re-refinery in Turkey. Approximately 560 kilograms of hydrogen per day (205 tons per year) will be delivered under 125 bar by the fully automated system under a 15-year Gas-as-a-Service contract.

On June 11, 2021, Xebec announced it had closed the acquisition of all the outstanding shares of United Kingdom-based Tiger Filtration LLC recurring element and filter manufacturing platform for renewal gases. Tiger's R&D capabilities will also allow for expansion of its product portfolio to include filtration products for hydrogen and renewable natural gas (RNG).

On June 9, 2021, Xebec announced that one of its wholly owned subsidiaries had signed a 10-year hydrogen recycling Gas-as-a-Service contract. The pay-per-use contract is valued at approximately \$1.6 million in total revenues over the 10-year agreement.

On May 26, 2021, the Corporation announced that one of its wholly owned subsidiaries signed an agreement to supply hydrogen to a fueling station in the Netherlands. The agreement includes the on-site generation and delivery of 130,000 kg of hydrogen from HyGear's nearby decentralized hydrogen production hub in Arnhem, Netherlands over a 1.5-year period.

On May 31, 2021, Jim Vounassis was appointed as Chief Operating Officer and Mike Munro was appointed as Vice President Global Operations of the Corporation.

On April 30, 2021, Xebec announced it had completed the acquisition of all the outstanding shares of Tennessee based Nortekbelair Corporation, a 18,500 square foot facility in Maryville, Tennessee, with key personnel to establish a "Center of Excellence" for its dehydration products comprised of compressed air dryers, renewable natural gas dryers, hydrogen dryers and support its Cleantech Service Network.

On March 30, 2021, Xebec announced that its wholly owned subsidiary Inmatec, had received an order for 14 Point of Care medical on-site oxygen generators for hospitals in Moldova.

On March 19, 2021, a legal proceeding in the Ontario Superior Court of Justice and on March 15, a legal proceeding in the Quebec Superior Court (class action division) were issued initiating a proposed class action against the Corporation, its current directors and certain of the Corporation's current and former officers, its auditor and the underwriters of the December 2020 Offering as defendants. The claim alleges that Xebec would have made misrepresentations in certain disclosure documents that were revealed in a press release dated March 12, 2021, where the Corporation provided a downwards revision of 2020 guidance.

On March 15, 2021, a legal proceeding in the Québec Superior Court (Class Actions Division) was issued initiating a proposed class action against the Corporation, certain of its current directors, certain of the Corporation's current and former officers and the underwriters of the December Offering as defendants. See the Risk Factors section on page 34 for more details.

On March 15, 2021, a wholly owned subsidiary of Xebec, and Coregas, a Wesfarmers (ASX: WES) company, signed a Memorandum of Understanding to develop a robust ecosystem for the deployment of highly efficient hydrogen supply to the transport, industrial and commercial markets across Australia and New Zealand.

On February 24, 2021, the Corporation announced that it secured credit facilities with National Bank of Canada's Technology and Innovation Banking Group for a total value of up to \$59.25 million.

On February 22, 2021, the Corporation announced that it had closed the acquisition of all of the issued and outstanding shares and partnership units of Inmatec Gase Technologie GmbH & Co. KG and Inmatec Gas Technology FZC RAK, UAE (the "Inmatec Acquisition"), a manufacturer of on-site nitrogen and oxygen generation products located in Germany with sales offices in RAK, United Arab Emirates.

On February 16, 2021, Xebec announced the signing of a Gas-as-a-Service ("**GaaS**") contract with Saint-Gobain Glass for a 15-year term. The Corporation also announced the delivery by HyGear of an on-site hydrogen generation system to KIWA Group in Birmingham, United Kingdom for fuel cell components testing which, in addition to the start of construction of a Decentralized Hydrogen Production Hub.

On February 12, 2021, Xebec announced the departure of Dr. Prahbhu K. Rao as Chief Operating Officer of Xebec.

On February 11, 2021, Xebec received a hydrogen purification system order from FuelCell Energy, Inc.

On January 7, 2021, the Common Shares of the Corporation were delisted from the TSX Venture Exchange and commenced trading on the TSX at the market open, under the symbol “XBC”.

2020 Highlights

On December 31, 2020, Xebec closed its acquisition of Green Vision Holding B.V., the parent company of HyGear Technology and Services B.V. for aggregate consideration of €82.0 million (approximately \$127.3 million) and the assumption of €18.4 million (approximately \$28.6 million) in net debt (the “HyGear Acquisition”).

HyGear was founded in 2002 in Arnhem, The Netherlands, as a clean-tech company specializing in the on-site production and recovery of industrial gases. HyGear is an emerging developer, manufacturer, and supplier of technology and products for the production, recovery, purification, and mixing of industrial gases, such as hydrogen and nitrogen. HyGear’s technological backbone consists of 14 active patents issued both in EU countries and the United States.

HyGear develops technology to generate these gases on smaller scales and in a more efficient manner. This allows for installations to be located at customer sites, which enables their supply chains to become more efficient and ultimately results in cost savings and a reduced environmental impact. As at acquisition date, HyGear has commissioned 66 installations in 23 countries around the world. HyGear currently has its head office in Arnhem, The Netherlands, where the main operations of HyGear are conducted, including manufacturing facilities. HyGear also has local presence in Southeast Asia, with an office in Singapore where sales and service activities serve the Asian market.

The HyGear Acquisition was a significant acquisition for which disclosure is required under Part 8 of National Instrument 51-102: Continuous Disclosure Obligations, and Xebec has filed a Form 51-102F4 - Business Acquisition Report (BAR) in respect of the HyGear Acquisition, a copy of which is available on SEDAR under the Corporation’s profile at www.sedar.com.

On December 30, 2020 the Corporation announced the closing of a bought deal offering (the “December 2020 Offering”) whereby a syndicate of underwriters led by Desjardins Capital Markets and TD Securities Inc. acting as joint bookrunners, and including National Bank Financial Inc., Canaccord Genuity Group Inc., Raymond James Ltd., Beacon Securities Limited and Stifel Nicolaus Canada Inc. (the “Underwriters”) purchased, on a bought deal basis, an aggregate of 24,784,800 subscription receipts for gross proceeds of \$143,751,840, which included the full exercise of the over-allotment option by the Underwriters. The 24,784,800 subscription receipts were converted in an equal number of Common Shares on January 4, 2021.

On December 30, 2020, Xebec also announced the closing of a concurrent private placement with Caisse de dépôt et placement du Québec (“CDPQ”), whereby CDPQ purchased, on a private placement basis, 10,905,174 subscription receipts for gross proceeds of \$63,250,009, which included the full exercise of

the private placement option by CDPQ. The 10,905,175 subscription receipts were converted in an equal number of Common Shares on January 4, 2021.

On December 17, 2020, the Corporation entered into a definitive purchase agreement in connection with the Inmatec Acquisition, which acquisition closed on February 22, 2021.

On November 12, 2020, Xebec announced a strengthened partnership with Shanghai based Sherenergy Group Company Limited with respect to its existing Sino-Joint Venture partnership with Xebec Shanghai. The partnership opened large-scale opportunities to develop hydrogen infrastructure in China and across Asia.

On October 30, 2020, Xebec Holding USA Inc., a wholly owned subsidiary of Xebec, entered into a definitive purchase agreement in connection with the acquisition of The Titus Company, a Pennsylvania-based company.

On October 21, 2020, the TSX conditionally approved the listing of the Common Shares on the TSX. On January 6, 2021, the Corporation obtained the final approval from the TSX and Xebec graduated to the TSX and started trading on the exchange on January 7, 2021.

On October 13, 2020, Xebec announced the hiring of Ms. Nathalie Théberge and Mr. Russell Warner as its first Vice-President, Legal Affairs and Corporate Secretary and its first Vice-President, Industrial, respectively. Subsequently, on November 10, 2020, the Corporation announced the hiring of Mr. Stéphane Archambault as its Chief Financial Officer.

On June 26, 2020, Xebec closed an upsized bought deal offering of 7,986,750 Common Shares from treasury which included the full exercise of an over-Allotment option, at a price of \$3.60 per Common Share for aggregate gross proceeds of \$28,752,300. The June offering was conducted by a syndicate of underwriters led by Desjardins Capital Markets and which included TD Securities Inc., Canaccord Genuity Corp., Raymond James Ltd., Beacon Securities Limited, and Stifel GMP. The Common Shares were offered by way of short form prospectus in all of the provinces of Canada.

On May 6, 2020, Xebec entered into a loan agreement with the Fonds de solidarité FTQ (FTQ), for an unsecured loan facility of \$10 million (the “FTQ Loan Facility”). The 5-year loan facility is used for working capital, investments, acquisitions and general corporate purposes. The FTQ Loan facility was increased by an additional \$15M on November 9, 2021.

On February 18, 2020, Xebec and Bühler Biogas Inc. signed an agreement to develop an integrated facility to process various organic wastes for the production of RNG and biofertilizer.

On February 12, 2020, Xebec received \$27.0 million in orders from U.S. dairy farmers for a total of six turnkey biogas upgrading plants and small-scale containerized Biostream™ systems to produce RNG the first Biostream™ unit was delivered and installed in the first quarter of 2021.

2019 Highlights

On December 27, 2019, Xebec closed a bought deal public offering of units at a price of \$2.10 per unit for aggregate gross proceeds of \$23.0 million.

On December 10, 2019, Xebec finalized its acquisition of a California-based service business, CDA Systems, LLC. The acquisition was effective immediately.

On December 5, 2019, Xebec announced a letter of intent with Maas Energy for five biogas upgrading systems.

On August 28, 2019, Xebec qualified to trade on the OTCQX® Best Market.

On August 13, 2019, Xebec held its first webinar with shareholders. Close to 80 analysts, investors, media representatives and other stakeholders joined to discuss Q2 results.

In August 2019, Xebec launched the first phase of a new Enterprise Resources Planning (ERP) system.

On July 11, 2019, Xebec announced its inclusion in the U.S. Department of Energy's (DOE) US\$24 million commitment to a public-private collaboration, funding 77 energy technology projects.

On July 4, 2019, Xebec closed a bought deal financing of units at a price of \$1.40 per unit for aggregate gross proceeds of \$11,592,000. Each unit was comprised of one common share of Xebec and one half of one common share purchase warrant (each whole common share purchase warrant, a "2019 Warrant"). Each 2019 Warrant entitled the holder thereof to purchase one Common Share at a price of \$1.85 per Common Share until July 4, 2020.

On March 12, 2019, Xebec announced that it signed a \$6+ million contract for a landfill biogas upgrading plant in Italy, to be delivered in late 2019. Fully operational, it will produce around 5 million m³ of carbon neutral RNG annually, replacing the equivalent of approximately 5 million liters of diesel fuel.

On January 28, 2019, Xebec announced that its first project in Italy – a biogas upgrading plant in Modena, Italy – is operational. The AIMAG installation is successfully producing revenue-generating pure biomethane, also known as RNG, for injection into the local gas grid of AS RETIGAS. The biogas is produced from the anaerobic digestion (AD) of source-separated municipal organic waste.

On January 1, 2019, Xebec closed the acquisition of Compressed Air International (CAI) in Toronto.

Business and Industry

Mission & Overview

OUR VISION IS A WORLD POWERED BY CLEAN ENERGY

Xebec's **mission** is to transition to a low carbon future by accelerating the production of renewable and low carbon gases.

Xebec's **purpose** is profitable growth for a sustainable future as only a profitable company will have the strength and resources to support its employees, satisfy its shareholders, grow the Corporation and the economy, and contribute positively to society while preserving and safeguarding our environment.

Xebec's **people** work hard to deliver profitable growth. Our senior leaders set direction, create customer focus, define clear and visible values, and communicate high expectations and goals for the organization. Our strategies, systems, and methods for achieving performance excellence are developed to stimulate innovation, build knowledge and capabilities in an environment of respect, trust, diversity and teamwork.

Profitable growth is also the foundation for attracting and retaining talented, motivated and engaged employees. We are focused on building highly skilled and motivated teams that can meet the end-to-end needs of a rapidly developing company and support the evolving renewable gas industry.

Our Products

- Systems to convert biogas to renewable natural gas (RNG) from agricultural digesters, source separated organics facilities, landfills and wastewater treatment plants ("WWTP")
- Small-scale, on-site systems for hydrogen generation from steam methane reforming of renewable natural gas or from electrolysis using renewable electricity
- Carbon capture equipment for removal of CO₂ from assorted gas streams and compression of CO₂ for transport
- Hydrogen generation and purification systems for energy, mobility and industrial applications
- Natural Gas Dryers for Natural Gas Vehicles (NGV) refueling stations
- Energy-efficient Compressed Air Dryers & Compressed Air and Gas Filters for a broad range of industrial applications
- Industrial purification systems, compressor packages, vacuum pumps, dryers, and chillers for Air & Gas streams
- Small-scale, on-site oxygen and nitrogen generators for industrial and healthcare applications
- Air Gas Filters

New Products

Carbon Capture and Sequestration Equipment

Carbon capture and sequestration is becoming an increasingly important tool for reducing emissions and achieving a net-zero or carbon negative economy. Xebec has leveraged its existing Pressure Swing Adsorption (“PSA”) technology to create new carbon capture solutions for customers who wish to reduce their emissions further in energy, heating and industrial processes. The Corporation’s proprietary PSA technology can be leveraged to create pure streams of CO₂ from assorted gas streams, allowing for it to be captured and either utilized or sequestered.

Furthermore, through the acquisitions of Applied Compression Systems and UECompression, Xebec has gained renewable and low carbon gas compression expertise to help customers compress their gases for efficient transportation in physical or virtual pipelines. Transporting carbon dioxide in pipelines is expected to become a more widespread solution for moving the gas across long distances cost effectively. In 2019, there was 5,000 miles of CO₂ pipelines in the U.S and which would require at least an order of magnitude increase in the next decade to transport the hundreds of thousands of tonnes of captured CO₂ for wide-scale CCUS deployment¹.

Industrial Hydrogen Recycling Systems

After successfully validating the quality of gas over several tests at two flat-glass manufacturing facilities in Germany Xebec signed multiple Gas-as-a-Service contracts with two of the largest flat glass manufacturers in the world. Xebec’s gas recovery systems were developed to recover used gases, clean them to a production-grade standard and feed them back into the manufacturing process. This approach reduces costs and improves the product quality due to the increased atmosphere refreshment rate. In addition, it reduces the environmental impact of the process by preventing the venting of particulate matter back into the atmosphere and the carbon emissions associated with generating new gases.

Standardized Renewable Natural Gas Systems

Xebec is accelerating its shift towards standardized biogas upgrading products for the renewable natural gas market. The Corporation launched and delivered its first fully containerized and standardized BGX Biostream™ (“Biostream”) unit for small-scale biogas upgrading applications in 2020. Xebec expects that the product will lead to predictable cost management and improved gross margins. In addition, Biostream™ will allow Xebec to more quickly scale its operations to fill the growing demand for RNG systems. The product’s value proposition offers customers significantly shorter lead times, one week installation and start-up periods, a modular and scalable design, and the ability to handle smaller, fluctuating biogas flow rates.

¹ <https://www.eeia.org/aboutus/about-one.cfm?Getone=yes&category=Current&ID=559>

Technology

Adsorption

Almost all industrial gases, whether they are inert, flammable, acid, reactive, or oxidizing, can be purified or 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 production, carbon capture and sequestration, and recovery, air separation, and oxygen enrichment for medical applications as well as drying applications for air, natural gas, carbon monoxide, carbon dioxide, sulfur dioxide, acetylene, propylene, propane, and syngas.

Pressure Swing Adsorption (PSA)

Xebec's proprietary technology replaces the complex and bulky network of piping and valves used in conventional PSA systems with two compact, integrated valves. Especially for biogas to RNG, Xebec's advanced biogas upgrading systems improve methane recovery rates, reduce operating costs and, consequently, improve the profitability of the project for the owner. Xebec's rotary valve technology is also integrated into some of its advanced hydrogen and gas 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 the equipment and the amount of energy required to purify a given volume of feed gas.

Xebec has one of the most compact, cost-effective, reliable PSA technologies available on the market. With minimal pressure drop, remarkable uptime performance, and occupying a fraction of the footprint of conventional systems, Xebec PSA systems have earned a reputation for easy, flexible installation and problem-free, economic performance.

The PSA technology is a versatile platform which is typically found as a component in many of Xebec's products which include Biostream™, steam methane reformers, industrial gas recycling and its industrial gas purification systems.

Steam Methane Reforming

Hydrogen today is predominantly generated in two different ways. Xebec, through the HyGear Acquisition in December 2020, miniaturized the most common technology to generate hydrogen on-site and in a decentralized manner. The SMR systems are built inside shipping containers, which makes them easy to transport and small in environmental footprint. These systems are based on the SMR technology, a process by which hydrogen is created out of water and natural gas. These hydrogen generation systems operate autonomously; once the system is installed at a customer's site and connected to the grid, the system has no need for an operator. It automatically follows the demand levels and increases or decreases its production based on the requirements of the customer.

Electrolysis

Xebec's second hydrogen generation technology is based on electrolysis, a process by which hydrogen is generated from water and electricity. The Corporation's systems are based on alkaline stacks, as this is a reliable and cost-effective solution for electrolysis. These systems are slightly larger compared to the SMR systems and for that reason only the 50 cubic meters per hour ("m³/h") and 100 m³/h systems are built inside shipping containers. The larger systems, 150 m³/h and 250 m³/h, are both skid-mounted. Like the SMR based systems, the electrolyser-based systems are automated, do not require an operator, and can be load-following to ensure the customer always receives the correct volume of hydrogen.

On-site Oxygen and Nitrogen Generation

Using a form of adsorption and membrane-based technology, Xebec leverages these two proprietary technologies for generation of oxygen and nitrogen on-site. With nitrogen and oxygen production directly on site, companies avoid delivery bottlenecks and support the protection of the climate and the environment with the help of environmentally friendly gas generation.

Filtration

Air and gas filters are used to separate liquid droplets, particles or solid contaminants, and oil vapor out of air and gas flows. Xebec manufactures and offers a range of specialized filters, including natural gas filters for onboard natural gas-fueled vehicles.

Intellectual Property

Xebec indirectly holds license, patents, know-how, related to rotary valves, structured bed adsorbents and related gas purification inventions and processes that is provided by patents sold to Air Products in 2012. Xebec entered into a Patent Purchase and Sale Agreement with Air Products and Chemicals, Inc. in March 2012, for the sale of Xebec rotary valve and structured adsorption bed technologies patents to Air Products, pursuant to which, Xebec retained a paid-up, royalty-free, non-exclusive, license to manufacture, have manufactured, import, use, reproduce, modify and sell licensee products and to sell related spare parts and know-how. The Patent Purchase and Sale Agreement afforded Xebec the right to freely continue to develop and sell its systems using this technology.

Furthermore, since that time Xebec has grown its patent portfolio, either by acquisition, research and development and subsequent patent applications or applying for new patents in connection with previously acquired technologies or inventions. Xebec or Xebec's subsidiaries own patents, and patent applications, in steam methane reforming, gas purification technology, and Biogas upgrading plant and biogas processes.

Xebec and Xebec subsidiaries also work to ensure protection of other intangible intellectual property assets by actively working to identify and protect trade secrets and know-how. These trade secrets include business process information and enabling knowhow.

Xebec, with its subsidiaries and other partners, is active, vigilant and works to protect its technology and markets to protect inventions and proprietary technologies that meet or exceed the requirements of regulation and industry codes and standard in gas processing and future net-zero markets and alternative fuels markets, delivering low- or zero- emissions fuel solutions that will meet the demand for high - efficiency, high-performance, and low-carbon emission, fossil fuel offsetting needs. Xebec's intellectual property strategy is to grow Xebec Patent portfolio to give a balanced and strong combination of offensive and defensive patents in its key markets and global regions.

Sales and Marketing

Xebec sells its products and services globally through several channels including direct sales, channel partners, project developers, and e-commerce.

Research and Development

Xebec's research and development activities are conducted in Blainville, Québec and at our hydrogen R&D facility in Arnhem, The Netherlands. Xebec utilizes 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 also partner with research departments of many universities.

For the twelve-month period ended December 31, 2021, research and development expenses were mainly related to the development of the Corporation's second generation of the Biostream™ product and the continued development of biogas upgrading and hydrogen projects.

Xebec's development activities are presently focused on the development and optimizations of high-performance biogas upgrading systems, standardization and containerization of biogas upgrading systems, generation and purification of hydrogen systems for industrial and fuel cell vehicles, and the development of methanation technology related to energy storage solutions in the field of power-to-gas applications.

International Footprint and Certifications

Xebec has established a direct presence and is focused on North America, Europe, Middle East and Singapore; however, our business is global with deliveries to countries all over the world. Xebec works with several partner firms to establish a presence in new markets of interest. Xebec has obtained a variety of product and process certifications for the delivery of its products and systems in several different jurisdictions, including Europe, Canada, the U.S, Africa, Middle East and Asia.

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 also 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 many of its manufacturing facilities globally, carefully managing the purchase of its raw materials and outsourced components to help to minimize inventories stored at its facilities. In the past several months, care has been taken to increase inventory of some critical materials and components to avoid supply chain shortages. Xebec sources materials and components from multiple suppliers and is therefore less dependent on single suppliers for any key components of its products.

Xebec's facility located in Blainville, Quebec, is a dedicated pressure vessel welding and assembly facility.

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 National Quality Institute of Canada. Many of Xebec's products have Canadian Registration Numbers and its facilities in Blainville are ISO 9001 certified.

With the HyGear Acquisition in December 2020, the Corporation's manufacturing extended to The Netherlands, where HyGear's main operations, including manufacturing facilities and head office are located.

In addition, with the Inmatec Acquisition in February 2021, the Corporation extends its operations with assembly and manufacturing facilities in Germany.

The strategic acquisition of the UECompression business and facility in Henderson, Colorado, late 2021, has provided a large footprint of well-run, high-quality assembly and production floor, with large bay access, under continuous crane coverage, with a solid supply chain and quality management base. Like its sister site in Blainville, the UECompression is also ASME certified for its welding practices, and also follows AWS (American Welding Standards) processes. This manufacturing capacity is a step change in Xebec's ability to provide its flagship products at higher volume, with lower cost, to a growing North American market, from a U.S. manufacturing base, thereby satisfying any current or future "made in the USA" requirements.

Intangible Assets

The intangible assets of the Corporation consist mainly of software capitalized development costs, engineering standardisation costs and expenditures on design and production of new substantially improved products and processes when the criteria mentioned in the research and developments accounting policy are met. From business acquisitions, intangible assets consist of trade names, technology, and customer relationships. The Corporation reported \$88.8 million in intangible assets as of December 31, 2021.

Human Resources

As of December 31, 2021, Xebec proudly counts approximately 600 employees globally within 19 departments in a full range of disciplines from Assembly through Engineering to Welding. Our engineering specialties include Electrical, Mechanical, Chemical, Industrial Design, and Manufacturing Engineering. With a wealth of skills including specialized degrees, technical degrees, masters and doctorates, our workforce is also culturally diverse with more than a dozen languages spoken from the global community.

Xebec is committed to a workplace free of discrimination and harassment. Our expectations for individual integrity and ethical, moral, and legal conduct are outlined in our code of conduct (the “Code of Conduct”) which applies to all Xebec personnel, including directors, officers, employees, agents, and consultants who act on behalf of Xebec. The Code of Conduct was restated in November 2021 and training sessions with restated Code of Conduct are expected to be completed by June 2022. The Corporation intends to review the Code of Conduct on an annual basis. The Corporation has also implemented a whistleblower secured online portal to provide an avenue for employees to raise concerns about corporate conduct. The Corporation’s whistleblower policy includes the reassurance that individuals will be protected from reprisals or victimization for “whistleblowing” in good faith.

Environmental Protection

Xebec is committed to the protection of the environment and to the prevention of pollution in all the markets it serves:

- Ensuring workplace safety and ensuring our operations comply with all applicable health, safety, and environmental legislation, industry codes, and standards.
- Collaborating with partners and industry stakeholders in the protection of the environment, the efficient use of resources, and the implementation of pollution mitigating practices.
- Developing products and technologies that are safe for their intended use, efficient in their use of energy, preserving environmental health, and safeguarding employees, customers, and the general public from injuries or health hazards.
- Mitigating the environmental impacts of our operations, assessing our environmental impact and setting internal targets for improvement.
- Being an environmentally responsible neighbour in the communities where we operate.
- Evaluating our environmental performance through regular auditing and assessment of our environmental, social, and governance (“ESG”) policy. We will communicate the appropriate information to our stakeholders including our Board, employees, shareholders, governmental agencies, and the general public.

Sustainability Approach

Xebec abides by the Brundtland Commission’s definition of sustainability, that is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” This definition guides us in reconciling our business interests with our economic, social, and

environmental responsibilities. Therefore, we seek to operate in ways that secure our long-term economic performance while avoiding short-term behavior that is socially detrimental or environmentally wasteful.

Furthermore, we strive to create, along with many of our industry partners and competitors, leading-edge technologies that meet or exceed the requirements of regulation and industry codes and standards to shift the industrial, energy and mobility sectors to alternative fuels, delivering low-emission fuel solutions that will meet the demand for high-efficiency, high-performance, and low-carbon transportation needs.

Finally, we are committed to a continuous improvement process of managing, measuring, and reporting on those ESG issues that are intrinsic to our business activities. To this end, in 2020 we have chosen to base our reporting on our material ESG issues on standards of the Sustainability Accounting Standard Board (SASB) for the Industrial Machinery & Goods industry of the Resource Transformation sector. We have also used the framework provided by the Task force on Climate-related Financial Disclosures (TCFD). The Corporation published its first ESG report in August 2020 and published a second report in 2021.

The Board of Directors oversees the Corporation’s approach to health, safety, and environmental policies matter as well as diversity inclusion and corporation social responsibilities practices and reporting.

Industry Overview, Trends & Strategy

Global Greenhouse Gas Reduction Goals

Concerns regarding greenhouse gas (“**GHG**”) emissions and their impact on global warming has prompted the introduction of government regulations and worldwide inter-government coordination (such as COP26) trying to reduce these harmful emissions. The challenges with emission reductions are the costs associated with any such scheme. Many jurisdictions have adopted some sort of carbon pricing and/or carbon credits that put a price on carbon. Since 2016, governments in the U.S., France, Italy, Canada, China, Netherlands, etc. are starting to take a hard look at RNG as a fuel suitable in reducing emissions associated with transportation. In the U.S., the transportation sector accounts for 29% of all GHG emissions, and consequently many countries and states have begun the introduction of low carbon fuel standard standards (“**LCFS**”)² and carbon pricing³. The near-term intensifying impact of Climate Change on weather patterns and our environment will accelerate the transition to a low carbon future⁴.

Organic 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 RNG. Local governments around the world are trying to divert organic waste

² Source: <https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions>

³ Source: <https://www.fraserinstitute.org/sites/default/files/carbon-pricing-in-high-income-oecd-countries.pdf>

⁴ Source: <https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions>

from landfills to organic waste treatment facilities, resulting in corresponding legislation and requiring infrastructure investments into waste treatment facilities worldwide⁵.

Competitiveness of Alternative and Clean Fuels

As prices of conventional fossil fuels such as diesel and petroleum increase, the competitiveness of alternative fuels increases. Natural gas has become a popular alternative fuel because it is one of the lowest cost, saving customers up to 45% on fueling costs, and 30% less CO₂ emissions than diesel⁶. The technology for the use of natural gas in heavy-duty transportation is mature and reliable. The combination or displacement of natural gas with RNG can lead to ultra-low, or near zero emission heavy-duty vehicles (class 7 and 8), making it an ideal solution for displacement for diesel fuels, and helping us move toward a lower emission transportation future.

In addition, clean fuels, which are fuels that produce much lower greenhouse gas emissions than traditional fuels on a life-cycle basis, can further be leveraged as drop-in replacements. The clean fuels that Xebec is focused on is hydrogen and renewable natural gas which offer one of the lowest lifecycle emissions available today when produced from feedstocks such as dairy manure RNG. As clean fuel technologies mature, the price of carbon is factored in and fossil energy prices increase, the competitiveness of alternative and clean fuels increases.

Our Strategy

Transitioning Our World to Sustainable Gases

Xebec has a clear strategic direction over a multi-decade horizon, as the world mobilizes to transition to a low-carbon economy. The challenge becomes how to best position the Corporation in this rapidly evolving field, leverage our technological know-how, size, and improve flexibility to capture opportunities arising from successively emerging technologies and equipment that have a life cycle of approximately 15 to 20 years.

We believe sustainable gases are required in a sustainable future. To Xebec, sustainable gases mean decentralized and on-site production of renewable and low carbon gases used in energy, mobility and industry. Decentralized production enables local ecosystems to become more efficient, allowing customers reduce both the costs (35 to 75%) and emissions (partial or complete elimination) of their gases. As a result, the Corporation makes decisions based off this goal of both cost and carbon reductions to ensure the long-term viability of Xebec's business model as it aims to safeguard the environment.

To translate this long-term clarity into a series of short-term strategic priorities, we have implemented a rolling three-year plan approach. Our current three-year strategic plan is articulated around three axes:

⁵ Source : <https://www.biocycle.net/organic-waste-bans-recycling-laws-tackle-food-waste/>

⁶ Source : <https://www.fortisbc.com/est/truck-fleets/fuel-cost-savings-for-commercial-fleets>

- Offer low, zero or negative carbon gasses through significant expansion of our sustainable gas technologies which translates to decentralized solutions in: biogas upgrading, hydrogen, carbon capture, and nitrogen and oxygen production.
- Continue to build a Cleantech Service Network to support the growing number of renewable natural gas, hydrogen and carbon capture installations.
- Focus on profitable growth for a sustainable future.

Furthermore, given the diversified nature of Xebec's business, the strategy is further expanded and varies by the different market segments the Corporation is active in which include renewable natural gas, hydrogen, carbon capture, industrial gases and the Cleantech Service Network.

Business Segments Overview and Strategy

Cleantech (Systems)

Renewable Natural Gas

RNG is a significant opportunity for Xebec in the immediate term. Climate change is driving the energy transition toward 100% renewables, including the displacement of fossil natural gas with RNG. As much as wind and solar have been the prevalent renewable energy over the past 20 years, we are now at the cusp of similar explosive growth for RNG⁷.

Climate change is the macroeconomic driver for the adoption of renewable, zero-carbon energy, but for RNG we are seeing an additional driver for its adoption, namely gas utilities and oil majors. As electricity utilities are successfully shifting to renewable solar and wind energy, gas utilities are 20 to 25 years behind in their adoption of renewable energy. It is leaving them in a precarious position as they face declining demand for their products and services, driven by an acceleration toward electrification of their customer base, especially in home-heating, water heaters, and gas stoves. Investors in traditional energy companies are starting to see the prospect of significant losses and hundreds of billions of dollars of stranded gas assets if the business model does not shift towards a low carbon option.

The good news is the increasing alignment between policymakers and gas utilities to support this shift toward RNG with appropriate legislation and regulation. In Europe, several countries have announced targets to be completely fossil fuel-free by 2050, implying a complete shift to decarbonization viable options such as NG. Accordingly, gas utilities and governments around the world are assessing their transition timelines and major energy players such as Engie in France (former Gaz de France), have

⁷ <https://theconversation.com/the-global-community-is-finally-acting-on-climate-change-but-we-need-to-switch-to-renewable-energy-faster-119841>

announced their own plans to be 100% renewable gas by 2050⁸, and states or provinces such as California announcing 12% renewable gas target by 2030⁹, and Québec, Canada targeting 10% by 2030¹⁰.

RNG Market Drivers and Size

- The urgency, driven by these new environmental targets and governmental policy and regulations incentivizing utilities and businesses to use renewable gases, has resulted RNG being priced within the range of \$9 to \$150 MMBtu, or 2 to 30 times the price of fossil natural gas¹¹.
- Renewable natural gas or renewable gas targets by states, provinces and countries around the world.
- As the cost of biogas products continues to decrease and markets develop, there will be a growing global market share of small-scale biogas solutions in the sub 250-300 Nm³/hr flow rates.
- According to the American Biogas Council, it is estimated that 8,574 dairy, poultry, and swine farms are primed for biogas and renewable natural gas production.
- Xebec estimates its total addressable market is in the hundreds of RNG systems per year in the markets we operate in, namely North America and represents a total market size of over \$12B USD.

Furthermore, transition toward 100% RNG is expected to involve three phases. It starts with anaerobic digestion (organic waste converted to RNG), followed by pyro-gasification (the conversion of cellulosic forestry waste to RNG) and then followed by Power-to-Gas (“P2G”) (the conversion of electricity to gas for energy storage). Xebec has a position in each of these commercial opportunities, either through gas purification or through methanation technology which is applicable to P2G.

Xebec’s RNG Strategy

- Focus on agricultural projects as they represent the largest opportunity of all the subsectors (WWTP, landfill, source separate organics, agriculture) by number of units – goal to capture 25%+ North American anaerobic digester applications.
- Execute on the successful transition to standardized, containerized systems from large-scale, custom systems – a key differentiator from competitors.
- Accelerate education on the lifecycle cost and reliability benefits of PSA technology versus membrane and other legacy technologies (water wash, chemical scrubbing).
- Develop smaller variants of the Biostream product to accommodate even smaller flow rates as projects become more accessible due to improving economics and other feedstocks come online (swine manure).

⁸ <https://www.snam.it/en/Media/Press-releases/2018/gas-for-climate.html>

⁹ <https://www.prnewswire.com/news-releases/socalgas-applauds-establishment-of-first-renewable-gas-standard-in-the-united-states-301490159.html>

¹⁰ <https://www.quebec.ca/en/government/policies-orientations/plan-green-economy>

¹¹ https://www.epa.gov/sites/production/files/2018-11/documents/7._deanna_haines-508.pdf

- Leverage the Cleantech Service Network as a competitive advantage to secure customers by offering them peace of mind by providing parts, service, operations, and maintenance.

Hydrogen

Following the HyGear Acquisition, Xebec acquired a leading small-scale steam methane reforming and electrolysis technology with a reference base of more than 80 hydrogen generation installations worldwide to in both industrial and the fast-growing hydrogen fuel market.

The HyGear Acquisition positioned Xebec to execute and accelerate its distributed hydrogen generation strategy, which focuses on on-site production of smaller quantities. The steam methane reforming technology provides access to new markets and enables Xebec to launch a commercially viable green and cyan (carbon negative) hydrogen product offering. The products and technologies that HyGear brings complements our PSA platform which has been deployed in over 200 installations worldwide for hydrogen purification.

The Corporation believes it is critical to focus first on the displacement of existing use cases for hydrogen which predominantly revolves around industrial applications. This approach of using the industrial sector as a launchpad for hydrogen mobility, will allow Xebec to build technology, expertise and local supply and be ready for when the mobility sector comes online.

Furthermore, Xebec has built Decentralized Production Hubs (one in The Netherlands and one in the United Kingdom) which allow the Corporation to optimize its on-site assets by maximizing the utilization and create more local hydrogen supply for filling and refueling stations. Building additional hubs continues to be a core component of this segment as Xebec looks to expand geographically.

Xebec considers hydrogen purification for fuel cell applications and hydrogen as fuel for FCEV to be another significant major opportunity over the next decade and beyond. As fuel cells gain traction, the market will look for specialized purification solutions in a compact design. Xebec is already working with several fuel cell manufacturers in Europe, North America and China to provide such equipment to their refueling and/or hydrogen production equipment.

Furthermore, the Corporation has formed strategic partnerships in the hydrogen space to offer integrated systems, from hydrogen generation to refueling, namely with FuruiHP in China, JNK Heaters in South Korea, and Coregas, a Wesfarmers company, in Australia and New Zealand. In addition, Xebec's Joint Venture partner, Shanghai-based Shenergy Group, has been nominated to build-out the Shanghai hydrogen refueling infrastructure.

Industrial Hydrogen Market Drivers and Size

- Shift by industrial customers who want to not only reduce costs but also carbon and air particulate emissions from their hydrogen supply. Xebec offers customers savings on costs between 35% to 75% and significant carbon emission reductions depending on the feedstock used.
- Centralized facilities for hydrogen production are a legacy business model which opens room for disrupting local hydrogen supply in markets where production facilities are far from the delivery

destination. On-site hydrogen production cuts out the costs of transportation which is the largest cost component in delivered hydrogen.

- Xebec's focus is on smaller quantities of hydrogen which are used in processes within flat glass manufacturing, food manufacturing, metal treatment, semiconductors, lubricant recycling, research, and refueling stations.
- Xebec estimates there are over 1,850 facilities worldwide in target industries that could utilize the smaller flow rates offered by Xebec's on-site hydrogen generation technologies.
- Industry is becoming a focus as evidenced by the Biden administration launching an industrial decarbonization initiative with \$9.5B USD for clean hydrogen¹².

Hydrogen Mobility Market Drivers and Size

- Organizations and countries around the world are becoming deeply invested in hydrogen such as Hyundai's \$6.7 billion investment to boost fuel-cell output¹³, Germany's funding of €8 billion for 62 IPCEIs¹⁴, Japan's Ministry of Economy, Trade, and Industry's hydrogen funding of approximately \$560 million for 2019.
- As of 2021, countries that have adopted hydrogen strategies have committed at least \$37 billion USD along with the private sector announcing an additional investment of \$300 billion USD¹⁵.
- Countries are also specifically investing into fuel cells with countries such as China broadcasting plans to emerge as the fuel cell leader over the next 10 years, with ambitions deploy 1 million FCEVs by 2030 and with a refueling infrastructure target of over 1,000 hydrogen refueling stations¹⁶.
- As the on-road FCEV market evolves globally, the need for renewable hydrogen (RH2) is expected to grow. The renewable hydrogen can be produced through electrolysis using renewable electricity, or through steam methane reforming of RNG (upgraded biogas to RNG). Consequently, this source of hydrogen is one of the lowest cost sources for a carbon neutral form of hydrogen, making it ideal as a low carbon transport fuel.
- One of the pathways to make green hydrogen is the reforming of RNG in a steam methane reformer ("SMR"). As announced by industry participants like Nikola, Budweiser, Cummins and Hanwha, there is an urgent need to deploy a distributed hydrogen fueling infrastructure to support the launch of the heavy-duty trucking fleets with fuel cells. The potential for on-site hydrogen generators at truck stops is significant, and according to available data could initially be 600 to 1,000 on-site containerized SMR units.

¹² <https://www.utilitydive.com/news/biden-launches-initiatives-decarbonize-industrial-sector-hydrogen/618928/>

¹³ <https://www.auto123.com/en/news/hyundai-investing-billions-hydrogen-nexo-fcev/65408/>

¹⁴ <https://www.csis.org/analysis/germanys-hydrogen-industrial-strategy>

¹⁵ <https://iea.blob.core.windows.net/assets/e57fd1ee-aac7-494d-a351-f2a4024909b4/GlobalHydrogenReview2021.pdf>

¹⁶ <https://www.electrivedrive.com/2019/09/04/china-wants-1-million-fcevs-on-their-roads-by-2030/>

Xebec's Hydrogen Strategy

- Use the industrial sector, which is a successful hydrogen business model today, as a launchpad for hydrogen mobility in order to ensure longevity in the Corporation's financials while still being able to participate in high-growth mobility as demand comes online.
- Build expertise in hydrogen generation, compression, storage and delivery while launching with these industrial customers.
- Accelerate the Decentralized Hydrogen Production Hubs by partnering with infrastructure funds to leverage their lower cost of capital and get more scale.
- Transition from one-time equipment sales to recurring Gas-as-a-Service contracts to support more profitable and predictable revenue streams.
- Expand into North America by bringing technology from Europe in order to access new industrial customers and new locations of existing customers.
- Leverage RNG sale and business development resources to promote SMR based products in order to produce green hydrogen.
- Continue R&D excellence with continue to execute a pipeline of new products and services for the hydrogen market.

Carbon Capture and Sequestration

Carbon capture and sequestration is an emerging segment for Xebec as it receives demand from customers to assist them in further reducing the carbon emissions from its equipment and to build new cleantech solutions. Xebec initially started by utilizing its PSA platform for new applications in separating associated gas streams. This was showcased with a partnership that Xebec announced in 2020 with Washington-based CarbonQuest.

The Corporation is now accelerating its efforts to gain more exposure into the carbon capture and sequestration market which includes developing carbon capture modules for its RNG and hydrogen systems, compressor packages for CO₂ transport and continuing to leverage its PSA platform for CO₂ separation applications.

Carbon Capture and Sequestration Market Drivers and Size

- As of May 2021, there were 64 carbon pricing policies in operation or scheduled for implementation that covers 22% of worldwide emissions¹⁷. Prices on carbon will further incentivize the need for capturing carbon from existing sources.
- CCUS (carbon capture utilization and storage) will be an important tool for hitting the required Net Zero scenarios by 2050 as outlined by IEA, which is 1.7 billion tonnes of CO₂ capture capacity deployed by 2030¹⁸.

¹⁷ <https://citizensclimatelobby.org/laser-talks/carbon-prices-around-world/>

¹⁸ <https://www.iea.org/fuels-and-technologies/carbon-capture-utilisation-and-storage>

- The U.S., a core market for Xebec, has a tax credit for sequestering carbon, called 45Q, which is scheduled to rise to \$50 a tonne in 2026. Congressional bills have proposed raising the credit to \$85 per tonne.
- If the United States is to deliver on net-zero ambitions to bury or utilize 1 billion tonnes of carbon per year by 2050, it will need 19,000 kilometres (11,806 miles) of carbon pipelines, moving at least 65 million tonnes per year by 2030, according to a 2021 Princeton University study¹⁹.
- CO2 transport in pipelines needs to be compressed to a higher pressure, driving the need for Xebec's compression platform.

Xebec's Carbon Capture Strategy

- Respond to existing customer needs for continued carbon emission reductions of products as new regulations and incentives come online.
- Invest in emerging carbon capture technologies which allow the Corporation to continue its competitive edge and goal of reducing the emissions and costs of gases.
- Partner with key market participants to leverage our technologies within their own applications and projects.

Oxygen & Nitrogen

As a result of the Inmatec Acquisition, several products are offered for the on-site generation of nitrogen and oxygen, which significantly reduces the burden on the environment and costs for customers. The compact generators have no need for cylinders and bundles to be delivered by truck on a regular basis. Moreover, rides from tank trucks for filling tanks are omitted. This results in environmentally friendly gas generation through reduced CO2 emissions, particulate matter, delivery bottlenecks and congestion on the road network.

Furthermore, on-site oxygen generators are used directly in the production of biogas and renewable natural gas. Oxygen is used to desulphurize (remove H2S) biogas plants where a targeted and accurately dosed addition of oxygen is introduced into the fermenter to promote bacteria development. The bacteria gained in this way decompose the hydrogen sulphide microbially and, in doing so, help prevent damage to biogas production plants.

Oxygen & Nitrogen Market Drivers and Size

- Like hydrogen, on-site oxygen and nitrogen provides a more economical option for smaller flow rates as customers look to reduce costs and emissions.
- Global oxygen and nitrogen markets are valued approximately \$30.0 billion and \$26.1 billion worldwide respectively²⁰. Our oxygen and nitrogen products are displacing the existing market

¹⁹ <https://www.reuters.com/business/sustainable-business/n-americas-old-pipelines-look-new-life-moving-carbon-climate-push-2022-02-23/>

²⁰ Corporation estimates

sources which are typically provided by the industrial gas giants (Air Liquide, Air Products, Linde, Praxair, etc.).

Xebec's Oxygen & Nitrogen Strategy

- Drive organic growth by expanding distributor network to a global presence along with capturing more aftermarket through them.
- Bring manufacturing of generator to the U.S. and turnkey products to other corners of the globe through existing sales offices.
- Expand on synergies through existing subsidiaries and customers to cross-sell products, source parts and grow manufacturing.

Industrial Service and (Support)

Service, maintenance and operational support are foundational components in the clean energy business where multi-year, multi-million-dollar project commitments hinge on reputation, reliability, and resilience. This segment is the foundation for the Corporation's Cleantech Service Network which is a long-term initiative to build a service footprint to support customers, create a competitive advantage and capture aftermarket value.

With over 50 years of experience in adsorption technology, Xebec has been manufacturing and servicing industrial equipment for compressed air and gas dehydration, separation, purification and filtration worldwide. Industrial is ultimately our foundation and cleantech is now our focus.

To date, Xebec has supplied more than 10,000 adsorption systems to more than 1,500 customers for a wide variety of industrial applications such as manufacturing, food processing, medical & pharma, and petrochemical industries. This historically high margin business creates a significant recurring revenue base with 60% to 70% of revenues recurring from sales of parts and service.

Industrial Service and Support Market Drivers and Size

- Xebec estimates that the U.S. market is approximately \$700 to \$800 million USD for Xebec-related products so the Canadian market for similar products could be approximately \$60 to \$70 million, of which Xebec currently has a 10%+ market share, with a target of 30%+ by 2025. Currently ranked in 3rd place in North America by number of technicians and service revenues.

Xebec's Industrial Service and Support Strategy

- Growth in this segment for Xebec has historically been driven inorganically through acquisition of sole proprietor led businesses across North America.
- Goal is to support the cleantech OEM business with technicians and personnel who can product installation, commissioning, multi-year service contracts, aftermarket and ancillary products.
- Enables Xebec to sign 5-10+ year service contracts on RNG, hydrogen carbon capture equipment which is comparable in revenues to the OEM equipment sale over the period.

- Target to have approximately 30 service locations by 2025, resulting in a yearly revenue run rate in the segment of approximately \$250 million by year-end 2025.
- Share customers and launch an independent manufacturer representatives network to cross-sell industrial and cleantech products.

Revenues per Reportable Segments

The table below shows, for each of the two most recently completed financial years, as dollar amounts, the revenues for each reportable segment that accounted for more than 15% of total consolidated revenue for the applicable financial year derived from.

Revenues for the twelve-month period ended December 31, 2021		
Segments	2021	2020
Cleantech (Systems)	\$67.8M	\$28.1M
Industrial Products and Services (Support)	\$58.1M	\$28.4M
Total	\$125.9M	\$56.5M

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. An investment in our business involves risk, and readers should carefully consider the risks described below and in our annual and quarterly management's discussion and analysis that are publicly available on SEDAR at www.sedar.com.

Liquidity

The consolidated financial statements have been prepared on the basis of the going concern assumption, meaning that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of operations. The Corporation has realized an operating loss of \$14.4 million, had cash outflows from operating activities of \$56.7 million for the year ended December 31, 2021, and finished the year with cash and cash restricted amounting to \$52.8 million, positive working capital of \$82.1 million and had access to credit facilities totaling \$103.5 million of which \$45.9 million 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 Corporation has prepared a budget for 2022 for which management believes the assumptions are reasonable. Achieving budgeted results is dependent on improving the volume of revenues in Canada, U.S., Europe, and China, delivering on sales and contract schedules, meeting expected overall operating margin levels and controlling general and administrative costs.

The Corporation 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, COVID-19 negative impact, fluctuations in foreign currency rates and achieving the Corporation'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 if events or conditions develop that are not consistent with management's expectations, key budget assumptions for 2022 or planned courses of action. Therefore, the Corporation 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 Corporation 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 Corporation have insufficient liquidity. Such adjustments could be material.

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;
- changes in capital spending;
- unforeseeable or unavoidable delays in larger-scale customer projects;
- higher interest 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 to decline or adversely affect our business, financial condition, and results of operations.

We may be unable to raise additional capital

Execution of our business plan and our commercial viability could be jeopardized if we are unable to raise additional funds for our commercialization plans, to fund working capital, R&D projects, sales, marketing and product development activities, and other business opportunities. We attempt to mitigate this risk by generating funds from a variety of sources including: through the sale of our commercial products, through the sale of non-core assets including long-term investments, through funding from government

agencies, industry and business partners, and through the issuance of shares or debt in the public equity markets or through strategic investors. In addition, we try to maintain reserves of cash and short-term investments and seek to obtain funding commitments before we take on any significant incremental initiatives. There can be no assurance that we will be able to secure additional funding, or funding on terms acceptable to us, to pursue our commercialization plans.

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 business expands, the Corporation expects that revenue distribution will be over a larger number of different customers. For the year ended December 31, 2021, sales to five principal customers accounted for approximately 15% of Xebec's total revenue. For the year ended December 31, 2020, sales to five principal customers accounted for approximately 43% of Xebec's total revenue. The loss of, or a reduction in, purchase orders or anticipated purchase orders from these five principal customers could have a material adverse effect on the Corporation's business, financial condition, and results of operations. Additionally, if one of the Corporation's customers is unable to meet its commitments to Xebec, the Corporation'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. 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.

We may have difficulty managing faster than anticipated product expansions

As products are launched, sales may be more than we expect. During periods of quicker than anticipated expansion, we may have difficulty expanding the scope of our operations to match the increased demand. In addition, we may be required to place more reliance on our strategic partners and suppliers, some of whom may not be capable of meeting our production demands in terms of timing, quantity, quality or cost. Difficulties in effectively managing the budgeting, forecasting and other process control issues presented by any rapid expansion could harm our business, prospects, results of operations or financial condition.

New products and technological change

The markets for the Corporation'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.

We could be adversely affected by the operations of our joint ventures and joint venture partners

We conduct certain of our operations through joint ventures under contractual arrangements under which we share some or all management responsibilities with one or more partners. Joint venture operations carry a range of risks, including those relating to: (1) failure of our joint venture partner(s) to satisfy contractual obligations; (2) strategic objectives of joint venture partner(s) that may differ from our own; (3) potential conflicts between us and our joint venture partner(s) that lead to delays in decision-making; and (4) additional complexity and limitations to implement some or all of our operational policies, Code of Conduct and controls, or control legal and regulatory compliance, within the joint venture(s). Employees or agents of our joint venture or joint venture partners may undertake actions that would result in a violation of law, including but not limited to, tax laws, customs laws, environmental laws, labor laws, permitting laws and regulations, industry laws or international anti-corruption and anti-bribery laws, including Canadian anti-corruption laws and the U.S. *Foreign Corrupt Practices Act*. The likelihood of such occurrences and their potential effect on us vary depending on the joint venture arrangement, however, the occurrence of any such risks could have an adverse effect on our operations, profitability and reputation.

We may not realize the anticipated benefits from joint ventures, investments or acquisitions

Our joint ventures, and any future joint venture, investment or acquisition, could expose us to certain liabilities, including those that we fail or are unable to identify during the investment or acquisition process. In addition, joint ventures and acquisitions often result in difficulties in integration, and, if such difficulties were to occur, they could adversely affect our results. We have historically and may, in the future, seek to expand our business through acquisitions, investments and/or joint ventures. Any such transactions will be in part dependent on management's ability to identify, acquire and develop suitable acquisition targets in both new and existing markets. In certain circumstances, acceptable acquisition targets might not be available. Acquisitions, specifically, involve a number of risks including: (i) the possibility that we, as a successor owner, may be legally and financially responsible for liabilities of prior owners; (ii) the possibility that we may pay more than the acquired company or assets are worth; (iii) the additional expenses associated with completing an acquisition and amortizing any acquired intangible assets; (iv) the difficulty of integrating the operations and employees of an acquired business; (v) the challenge of implementing uniform standards, controls, procedures and policies throughout an acquired business; (vi) the inability to integrate, train, retain and motivate key employees of an acquired business; and (vii) the potential disruption of our ongoing business and the distraction of management from our day-to-day operations. These risks and difficulties, if they materialize, could disrupt our ongoing business, distract management, result in the loss of key human capital, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial performance.

Potential Undisclosed Costs or Liabilities Associated with Acquisitions

Xebec has acquired and may acquire entities that may be subject to existing liabilities and contingencies, some of which may be unknown at the time of the acquisition or which the Corporation may fail to uncover in its due diligence. Although the Corporation systematically conducts what it believes to be a prudent level of investigation in connection with its acquisitions, there may be liabilities and contingencies that the Corporation fails to discover or is unable to quantify in its due diligence which could have a material adverse effect on the Corporation's business and financial condition. Only certain of these events may entitle Xebec to claim indemnification from a seller under a purchase agreement and even if indemnification is available, it may not offset such liabilities and contingencies.

While in some instances, the Corporation may indirectly have the right to seek reimbursement against an insurer or another third party for certain of these liabilities, it may not have recourse to the vendor of the acquired entities for any of these liabilities.

More specifically, in connection with the HyGear Acquisition, the Corporation has subscribed to the W&I Insurance Policy, with coverage of up to EUR 20,000,000 (\$31,060,000). Although the Corporation subscribed to such policy, the representation and warranty insurance policy is subject to certain exclusions and limitations. In addition, there may be circumstances for which the insurer may elect to limit such coverage or refuse to indemnify the Corporation or situations for which the coverage provided under the representation and warranty insurance policy may not be sufficient or applicable. The existence of any undisclosed liabilities and the Corporation's inability to claim indemnification from the seller or the provider of the representation and warranty insurance policy could have a material adverse effect on the Corporation.

The discovery of any material liabilities, or the inability to obtain full indemnification for such liabilities, could have a material adverse effect on the Corporation's business, financial condition, prospects and/or results of operations.

Possible failure to achieve the full amount of anticipated cost synergies in connection with acquisitions

Although management usually anticipates some cost synergies to be achieved over a period of time following acquisitions, there can be no certainty the Corporation will achieve these cost synergies over time, or at all. In addition, expenses required to realize the synergies and the sources of the synergies could differ materially from management expectations and Xebec cannot assure investors that the Corporation will achieve any level of cost synergies.

Warranty claims could diminish our margins

There is a risk that the warranty accrual included in our cost of product revenue is not sufficient, and we may recognize additional expenses, including those related to litigation, as a result of warranty claims in excess of our current expectations. Such warranty claims may necessitate a re-design, re-specification, a change in manufacturing processes, and/or recall of our products, which may have an adverse impact on our finances and on existing or future sales. Although we attempt to mitigate against these risks through our sales and marketing initiatives and our product development, quality assurance, support and service programs, there can be no assurance that such initiatives and programs are adequate or that sales of our

commercial products will continue to grow and contribute financially. Even in the absence of any warranty claims, a product deficiency such as a manufacturing defect or a safety issue could be identified, necessitating a product recall, which could itself have an adverse impact on our finances and on existing or future sales.

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, Chinese Yuan, and Euros, while a significant portion of the operating expenses are in Canadian dollars, Chinese Yuan and Euros. Foreign exchange gains and losses are included in results from operations. A large decline in the U.S. dollar, Chinese Yuan or Euros 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 Corporation. Key employees have specific knowledge and experience that are important to ensure the continuity of Xebec. The loss of key employees and specific knowledge carriers 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 systems competing with, and/or alternative to, Xebec's systems

Xebec faces competition from a number of companies that manufacture systems and equipment to convert biogas to renewable natural gas, hydrogen generation, CO₂ removal, oxygen and nitrogen generation ("Systems"), gas purification equipment and other competing technologies, as well as competition for its carbon dioxide removal systems from natural gas systems from developers and manufacturers of traditional technologies and other alternative technologies. The market for industrial gases and hydrogen application is also extensive and has a number of other large players – both national and international – who can be seen as direct competitors to Xebec and its subsidiaries. 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 competitors include numerous companies located throughout the world, some of which may have advantages over Xebec in terms of government incentives, labor, 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 Systems. As the markets for gas purification, hydrogen generation, carbon dioxide removal, nitrogen and oxygen generation, systems develop, other industrial companies may enter these fields and compete with Xebec. These industrial companies may have research and development, manufacturing, marketing and sales resources necessary to deliver 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.

Risks Associated to 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.

Risks Associated to 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 is dependent upon third party suppliers for materials and components for its products

Xebec enters into agreements with third party suppliers that provide materials and components for its products. A supplier's failure to meet its obligations under such agreements, 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 and may result in possible loss of revenue, delay in manufacturing and increase in manufacturing costs for Xebec. 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. In addition, Xebec regularly outsources limited aspects of the manufacturing of its products to contract manufacturers. A significant increase in the price of the services provided by these manufacturers, delays in their deliveries, or failure from service providers to honor their contractual obligations towards Xebec for various reasons, including bankruptcy or insolvency, could adversely affect Xebec's business, financial condition and results of operations. In addition, certain delays in meeting obligations to provide materials or components to Xebec in a timely manner may be outside of a supplier's control and may be affected by, among other things, the ongoing effects of COVID-19 as further described in the risk factor entitled "Sustained negative economic factors and COVID-19 could negatively impact our business".

Equipment Supply

Xebec's manufacturing, production, and delivery of Systems is dependent on the supply of equipment from third parties. Equipment pricing may rapidly increase depending, among other things, on equipment availability, raw material prices and on the market for such products. Any significant increase in the price of supply of equipment could negatively affect the future profitability of Xebec's facilities and its ability to develop other projects. There is no guarantee that manufacturers will meet all their contractual obligations. Failure of any supplier of the Corporation to meet its commitments would adversely affect Xebec's ability to complete projects on schedule and to honour its obligations under various contracts.

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, U.S., Europe, 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. Moreover, Xebec's operations in the U.S. can be affected by the implementation and enforcement of certain administrative practices aimed at reducing and monitoring imports of foreign products, such as, but not limited to, the *Buy American Act* and *Buy America Requirements*.

Changes in environmental and regulatory policies could hurt the market for our products

We currently benefit from, and hope to continue to benefit from, certain government environmental policies, mandates and regulations around the world, most significantly in the U.S. and in Europe. Examples of such regulations include those that provide economic incentives, subsidies, tax credits and other benefits to purchasers of low emission fuels and/or renewable fuels. There can be no assurance that these policies, mandates and regulations will be continued. Incumbent industry participants with a vested interest in gasoline and diesel, many of which have substantially greater resources than we do, may invest significant time and money in an effort to influence environmental regulations in ways that delay or repeal requirements for low emissions fuel standards. If these are discontinued or if current requirements are relaxed, this may have a material impact on our competitive position. If we are no longer able to successfully acquire subsidies, this may have a negative impact on cash flows and operating results given that research costs (especially personnel costs) cannot be reduced quickly in the short term.

Natural gas, hydrogen and products that use these gases entail inherent safety and environmental risks that may result in substantial liability to us

Natural gas and hydrogen are flammable gases and are potentially hazardous products. Our operations, including our R&D and manufacturing processes, are subject to all of the risks and hazards inherent to natural gas and hydrogen and products that use these gases, including equipment defects, malfunctions and failures and natural disasters, which could result in uncontrollable flows of natural gas, hydrogen, fires, explosions and other damages. Although we believe that our procedures for using, handling, storing and disposing of natural gas, hydrogen and other hazardous materials comply with legally prescribed standards, we cannot completely eliminate the risk of contamination or injury resulting from natural gas, hydrogen and other hazardous materials and we may incur liability as a result of such contamination or injury. In the event of an accident, we could be held liable for damages or penalized with fines, and the liability could exceed our insurance and other resources, in which event Xebec could incur significant costs that could have a material adverse effect upon its financial condition.

Insurance risk

Xebec's operations are subject to risks inherent in the compressed air, gas purification, RNG hydrogen, nitrogen and oxygen generation and carbon dioxide removal 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.

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.

Our limited production trials, commercial launch activities and field tests could encounter problems

We conduct limited production trials and field tests on a number of our products as part of our product development cycle, and we are working on scaling up our production capabilities. These trials, production readiness activities and field tests may encounter problems and delays for a number of reasons, including the failure of our technology, the failure of the technology of others, the failure to combine these technologies properly, and the failure to maintain and service the test prototypes properly. Some of these potential problems and delays are beyond our control. Any problem or perceived problem with our limited production trials and field tests could hurt our reputation and the reputation of our products and delay their commercial launch.

Xebec's markets are exposed to recessionary risk

A 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 markets and different geographies in which Xebec operates may be impacted to different extents, making it difficult to forecast the likely impact.

Sustained negative economic factors could negatively impact our business

Global economic factors beyond our control such as sustained and far reaching negative economic factors, more restrictive access to credit markets, current and varying state of the energy markets and low fuel price differential, pandemics or other outbreaks of illness, disease or virus, such as the strain of coronavirus known as COVID-19, or other broad economic issues may negatively affect the capital markets or market for our products, and reduce demand for our products as partners and potential customers defer their projects. An occurrence of a natural disaster, widespread health epidemic, pandemic or other outbreaks, or other events, such as wars, could have a material adverse effect on our business, financial condition and results of operations. Our business could be materially and adversely affected by natural disasters, such as fires or floods, the outbreak of a widespread health epidemic, pandemic, such as COVID 19, or other events, such as wars, including the military conflict between Russia and Ukraine, acts of terrorism, power shortages or communication interruptions. In addition to previously identified risks associated with the current COVID-19 pandemic, the occurrence of a disaster or similar event could materially disrupt our business and operations. These events could also cause us to close our operating facilities temporarily, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations. In addition, our net sales could be materially reduced to the extent that a natural disaster, health epidemic, such as COVID-19, or other major event harms the economies of the countries in which we operate. As such, the outbreak of hostilities between Russia and Ukraine could result in more widespread conflict and could have a severe adverse effect on the surrounding regions and the related markets, and on our business, financial condition and results of operations. The duration of the conflict and related events and whether it will escalate further cannot be predicted. Our operations could also be severely disrupted if our customers, partners and other third-party providers or other participants were affected by natural disasters, health epidemics, such as COVID-19, or other major events, such as wars and military conflicts. As Russia is a major exporter of oil and natural gas, the disruption of supplies of oil and natural gas from Russia could cause a significant worldwide supply shortage of oil and natural gas and significantly impact pricing of oil and gas worldwide. A lack of supply and high prices of oil and natural gas could have a significant adverse impact on the world economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

Volatility of raw materials prices is beyond our control and may have a material adverse effect on our business, operating results, financial condition and profitability

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, hydrogen and RNG. Oil, 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, including the effects of COVID-19, as well as conditions in other oil producing regions, which are beyond Xebec's control. Any material decline in oil, natural gas prices could have a material adverse effect on Xebec's existing and target customers' ability to purchase Xebec's products, operations, financial condition, and the amount they spend on new capital equipment and the development of new technology. In addition, Xebec's prospects would be adversely affected should the cost of natural gas fall to levels where the production

of natural gas becomes uneconomic. Furthermore, if Xebec is unable to lower the cost of its RNG products and hydrogen purification systems and demonstrate their reliability, consumers may be unlikely to purchase such products and therefore Xebec may not be able to generate enough revenues to achieve and sustain profitability.

The fluctuations and volatility of the prices of other raw materials such as stainless steel, precious metals and activated carbon also affect Xebec's and its subsidiaries' sales and profitability. Additionally, as a result of operating manufacturing facilities, the fuels necessary to power Xebec's facilities and operations, such as electricity and natural gas, constitute a significant portion of its cost of sales. Inflationary and other increases in the costs of raw materials and energy prices have occurred in the past and are expected to recur, and Xebec's performance depends in part on its ability to reflect changes in costs in selling prices for its products.

Foreign operations (risks with conducting business in international markets)

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 a 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 and results of operations.

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, and results of operations.

Regions which may subject it to higher risks associated with complying with laws in respect of economic sanctions

The U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, administers a series of laws that impose economic sanctions against hostile targets to further U.S. foreign policy and national security objectives. These laws restrict U.S. persons and, in some instances, non-U.S. persons from conducting activities, transacting business with or making investments in certain countries, governments, entities, and individuals subject to U.S. economic sanctions. The Middle East is a key area of risk where persons and entities operating seemingly reputable businesses may be on a sanctions list. Accordingly, the activities of Xebec and its affiliates may subject them to elevated levels of scrutiny under applicable sanctions laws. If such activities or transactions, whether or not material, are found to violate applicable sanctions or other trade controls, Xebec may be subject to potential fines or other sanctions and reputational risk, any of which could have a material adverse effect.

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.

We are at risk of cyber based attacks

Xebec information technology systems serve an important role in the operation of its business. We rely on various technologies to operate our production facilities, interact with customers, vendors and employees and to report on business. Interruption, failure or unsuccessful implementation and integration of Xebec information technology systems could result in material and adverse impacts on the Corporation's financial condition, operations, sales, and reputation and could also result in damage to Corporation operations. Xebec information technology systems and networks could be interrupted or fail

due to a variety of causes, such as natural disaster, fire, power outages, vandalism, or cyber-based attacks. Any such interruption or failure could result in operational disruptions or the misappropriation of sensitive or proprietary data that could subject Xebec to civil and criminal penalties, litigation or have a negative impact on the Corporation's reputation. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not negatively impact the Corporation's cash flows and have a material adverse effect on its business, operations, financial condition and operational results. Although to date Xebec has not experienced any material losses relating to cyber risks, there can be no assurance that we will not incur such losses in the future. Xebec risk and exposure cannot be fully mitigated due to the nature of these threats. Xebec Information Technology leadership continues to develop and enhance internal controls, policies and procedures designed to protect systems, servers, computers, software, data and networks from attack, damage or unauthorized use. As cyber threats continue to evolve, the Corporation may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Environmental risks

All phases of the oil, natural gas and hydrogen 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, natural gas and hydrogen 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.

Risk of interruption in the operations of Xebec's manufacturing facilities

Operational risks include, among other things, fire and explosions, severe weather and natural disasters (such as flood and hurricanes), lack of water supply, equipment failure (including any failure of its information technology, air conditioning, cooling and compressor systems), failure to comply with

applicable regulations and standards, raw material supply disruptions and labor force shortages or work stoppages.

Any disruption of Xebec's manufacturing processes could result in delivery delays, scheduling problems, increased costs, interruption of the production or even lead to a full cessation of production, which in turn may result in customers deciding to purchase products from other suppliers.

A lack of internal manufacturing capacity could also result in monetary penalties from customers and/or in loss of key contracts or new business opportunities. The resulting loss of revenue and impact on Xebec's margin, goodwill and customer relationships could be significant.

COVID-19 may further disrupt the business of the Corporation

Since December 2019, governments worldwide have been enacting emergency measures to combat the spread of disease caused by the novel coronavirus known as COVID-19. In response to the outbreak, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit the COVID-19 pandemic, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, all of which have caused material disruption to business globally and resulted in an economic slowdown. Although management believes that, at this time, these disruptions will not have a long-term adverse impact on the Corporation's results from operations, Xebec cannot estimate the duration and severity of this outbreak and its financial impact. However, the Corporation is able to function with reduced staffing and work remotely. The ultimate extent of the impact of the COVID-19 pandemic on the Corporation's business, financial condition, results of operations, cash flows and prospects will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the COVID-19 pandemic and actions taken to contain or prevent its further spread, among others. Any of the foregoing events could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

In addition, the continued impact of COVID-19 may have adverse impacts on the Corporation, including, among others:

- continued disruptions and volatility in the global capital markets, which may increase cost of capital and adversely impact access to capital;
- continued impacts on workforces throughout the regions in which COVID-19 is present, which may result in our workforce being unable to work effectively;
- supply chain disruptions; and
- impacts that are currently unpredictable.

We continue to work with our stakeholders to responsibly address the global pandemic. We continue to monitor the situation, to assess further possible implications to our business, customers and clients and to take actions in an effort to mitigate adverse consequences.

The market price of our Common Shares may be volatile and your investment could suffer or decline in value

The market price of our Common Shares could be subject to significant fluctuations, and it may decline. Some of the factors that may cause the market price of our Common Shares to fluctuate include: volatility in the market price and trading volume of comparable companies; actual or anticipated changes or fluctuations in our operating results or in the expectations of market analysts; adverse market reaction to any indebtedness we may incur or securities we may issue in the future; short sales, hedging and other derivative transactions in our Common Shares; technical factors in the public trading market for our Common Shares that may produce price movements that may or may not comport with macro, industry or company-specific fundamentals, including, without limitation, the sentiment of retail investors (including as may be expressed on financial trading and other social media sites), the amount and status of short interest in our Common Shares, access to margin debt, trading in options and other derivatives on our Common Shares and other technical trading factors; litigation or regulatory action against us; investors' general perception of us and the public's reaction to our press releases, our other public announcements and our filings with Canadian securities regulators, including our financial statements; publication of research reports or news stories about us, our competitors or our industry; positive or negative recommendations or withdrawal of research coverage by securities analysts; changes in general political, economic, industry and market conditions and trends; sales of our Common Shares by existing shareholders; recruitment or departure of key personnel; significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; and the other risk factors described in this section of the AIF.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to satisfy such criteria may result in limited or no investment in our Common Shares by those institutions, which could materially adversely affect the trading price of our Common Shares. There can be no assurance that fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, our operations and the trading price of our Common Shares may be materially adversely affected.

In addition, broad market and industry factors may harm the market price of our Common Shares. Therefore, the price of our Common Shares could fluctuate based upon factors that have little or nothing to do with us, and these fluctuations could materially reduce the price of our Common Shares regardless of our operating performance. There can be instances of securities class action litigation being instituted following a significant decline in the market price of a company's securities.

Litigation, including litigation due to Common Share price volatility or other factors, could cause us to incur substantial costs and divert our Management's time and attention

From time to time, we may become involved in, or become liable for legal, contractual and other claims by various parties, including customers, suppliers, former employees, class action plaintiffs, regulators, tax authorities and others, including litigation related to the volatility of our Common Shares and

investigations or reviews by regulatory bodies, the potential outcome of such legal proceedings or other claims is uncertain. Such matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses. On an ongoing basis, we attempt to assess the likelihood of any adverse judgments or outcomes to these proceedings or claims, although it is difficult to predict final outcomes with any degree of certainty. Except as disclosed from time to time in our financial statements, we do not believe that any of the proceedings or claims to which we are party will have a material adverse effect on our financial position; however, we cannot provide any assurance to this effect. Given their nature and their inherent uncertainty, litigation proceedings may cause us to incur substantial costs, divert our management's attention and our resources, and could harm our business, financial condition, results of operations, cash flows and property.

A legal proceeding in the Ontario Superior Court of Justice was issued on March 19, 2021 initiating a proposed class action against Xebec, its current directors and certain of Xebec's current and former officers, its auditor and the underwriters of its December 2020 bought deal public offering of subscription receipts as defendants. The claim alleges that Xebec would have made misrepresentations in certain disclosure documents that were revealed in a press release dated March 12, 2021 entitled "*Xebec Provides Updated 2020 Guidance*" where the Corporation provided a revision downwards of 2020 guidance.

A legal proceeding in the Québec Superior Court (Class Actions Division) was also issued on March 15, 2021 initiating a proposed class action against Xebec, certain of its current directors, certain of Xebec's current and former officers and the underwriters the December 2020 Offering as defendants. The claim alleges that Xebec would have made misrepresentations in its disclosure documents for the third quarter of fiscal year 2020 as well as its December 2020 prospectus with respect to revenue accounting practices and Xebec's internal controls over financial reporting. As of the date of this AIF, the amounts claimed for damages in each of these actions had not been quantified. These actions are in a preliminary stage and have not yet been certified as class actions.

While Xebec cannot predict the outcome of the actions discussed above, it intends to assert all available defences and vigorously defend these proceedings. Defending litigation, whether or not meritorious, is time-consuming for our management and detracts from our ability to fully focus our internal resources on our business activities. In addition, legal fees and costs incurred in connection with such activities may be significant and we could, in the future, be subject to judgments or enter into settlements of claims for significant monetary damages. Further, Xebec's underwriting agreement with the underwriters in connection with the December 2020 Offering contains contractual indemnification provisions that may require Xebec to indemnify the underwriters with respect to the claims against them and their legal costs of defending the actions. A decision adverse to our interests could result in the payment of substantial damages and could have a material adverse effect on our cash flow, results of operations and financial position, and the limits of available insurance may be insufficient to cover our eventual liability.

We do not currently pay and do not anticipate paying any cash dividends on our Common Shares in the foreseeable future; therefore, our shareholders may not be able to receive a return on their Common Shares until they sell them

We have never paid or declared any cash dividends on our Common Shares. We do not anticipate paying any cash dividends on our Common Shares in the foreseeable future because, among other reasons, our

current credit facilities restrict our ability to pay dividends, and we currently intend to retain any future earnings to finance our business. The future payment of dividends will be dependent on factors such as cash on hand and achieving profitability, the financial requirements to fund growth, our general financial condition and other factors our Board may consider appropriate in the circumstances. Until we pay dividends, which we may never do, our shareholders will not be able to receive a return on their Common Shares unless they sell them.

A mass hydrogen economy market may fail to grow at anticipated rates or may not develop at all

A mass market may never develop for hydrogen fuel cells or other hydrogen-powered energy generators, or such markets may develop more slowly than anticipated. Engines which require hydrogen (i.e., the hydrogen fuel cell engine, the hydrogen-powered ICE and the hydrogen-hybrid electric system) represent an emerging market, and Xebec does not know whether end users will use such products in masses. The development of a mass market for hydrogen infrastructure products and/or hydrogen fuel may be affected by many factors, some of which are not under our control, including the following:

- The emergence of new, more competitive technologies and products in the hydrogen infrastructure industry, such as more advanced electrolysis or other technologies;
- The use of alternative low emission technologies, such as vehicles powered by batteries;
- The future cost of hydrogen fuel cells and other powertrains that use Xebec's and its subsidiaries' hydrogen infrastructure;
- If a hydrogen fuel distribution infrastructure is built, the fuel delivered through it, both due to the cost of the delivery system and the cost of the fuel itself, may have a higher price than drivers are willing to pay;
- If drivers are unable to obtain hydrogen fuel conveniently and affordably, a mass market for vehicles powered by hydrogen is unlikely to develop;
- The future cost of hydrogen applications;
- Consumer perceptions of the safety of hydrogen.

Failure to adequately protect Xebec's intellectual property could negatively affect Xebec's ability to grow and compete with other players on the market

Xebec's ability to compete effectively is largely dependent on the maintenance and protection of its intellectual property. Despite precautions, it may be possible for a third party to copy or otherwise obtain and use Xebec's proprietary technology without authorization. Policing unauthorized use of intellectual property is difficult. The steps Xebec takes may not prevent misappropriation of its intellectual property, and the agreements Xebec enters into may not be enforceable. Litigation may be necessary in the future to enforce or protect Xebec's intellectual property rights. Also, Xebec may become subject to intellectual property litigation that could, among other things, be time-consuming and costly, impede or prevent delivery of products and services, and require payment of significant royalties and damages.

Changing local (weather) conditions could negatively affect the performance of the systems and require further cost

It is now known that the operation of the on-site production systems can depend on local conditions, including natural gas quality, air pressure, temperature, air pollution and water quality. In the future, it could happen that installations (even those that work well initially) will not be able to meet their specifications and expectations under specific local (weather) conditions, or that the performance of the installations will deteriorate more quickly as a result of these local (weather) conditions. The consequences of poorer performance can lead to higher warranty and maintenance costs. In certain cases, Xebec could be held liable by its customers and depending on the outcome of one or more lawsuits, could be obliged to pay compensation for any damages in this regard.

Risk of changes in tax legislation could adversely affect HyGear's profitability

HyGear applies for the innovation box on the basis of Article 12b of the Corporate Income Tax Act 1969 of the Netherlands. On this basis, the revenues from innovative activities are ultimately taxed at an effective rate of 5% corporate tax. The statutory corporate tax rate in the Netherlands is 25%. The legislation on the innovation box could change, which could negatively affect the after-tax operating results of HyGear.

Description of Share Capital

The share capital of the Corporation consists of an unlimited number of Common Shares, without par value, and an unlimited number of preferred shares ("Preferred Shares"), without par value. As at December 31, 2021, there were 154,717,934 Common Shares and nil Preferred Shares issued and outstanding.

Common Shares

Holders of Common Shares shall be entitled to receive notice of and attend all meetings of the shareholders of the Corporation (the "Shareholders") and each holder of Common Shares shall have one vote for each Common Share held on all matters to be voted on by the 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 of the Corporation (the "Board"), in such amount and in such form as the Board may from time to time determine. On liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of assets of the Corporation among the 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 Corporation. The holders of the Common Shares have no preemptive, redemption or conversion rights. All Common Shares, when issued, are and will be issued as fully paid and non-assessable without liability for further calls or to assessment by the Corporation.

Preferred Shares

Preferred Shares are issuable at any time and from time to time in one or more series. The Board 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 a liquidation, dissolution or winding-up of the Corporation, 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, 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.

Dividends

Each holder of Common Shares and Preferred Shares is entitled to receive the dividends that the Board declares at its discretion. To date, the Corporation 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 may consider appropriate in the circumstances. As it is anticipated that all available cash will be needed to implement the Corporation's business plan and growth, there are no intentions to pay dividends in the foreseeable future.

Market Securities

Trading Price and Volume

The Common Shares are listed for trading on the TSX under the symbol "XBC".

The table below indicates the price ranges on a per share basis and the volume traded of the Common Shares on a monthly basis during the 2021 Fiscal Year on the TSX.

Month	High Price	Low Price	Close Price	Trading Volume
January 2021	11.55	9.31	9.56	18,214,327
February 2021	10.42	7.61	7.90	17,055,264
March 2021	8.24	3.76	4.31	62,346,709
April 2021	5.49	4.10	4.33	14,466,436
May 2021	5.38	3.63	4.99	16,794,917

Month	High Price	Low Price	Close Price	Trading Volume
June 2021	5.05	4.01	4.04	9,463,882
July 2021	4.68	3.76	4.04	9,664,835
August 2021	4.03	2.76	3.30	14,509,735
September 2021	3.46	2.64	2.75	12,602,690
October 2021	3.06	2.49	2.91	10,663,694
November 2021	4.01	2.52	2.60	19,910,062
December 2021	2.72	2.24	2.51	11,010,404

Prior Sales

The following table summarizes the distribution of securities other than Common Shares that were issued during the 2021 Fiscal Year, identifying the type of security, the price per security, the number of securities issued, expiry date and the date on which the securities were issued.

Issuance Date	Type of Security	Number of Securities	Price per Security	Expiry Date
May 21, 2021	Restricted Share Units	186,501	n/a	Jan.-June 2024 ⁽¹⁾
May 21, 2021	Stock Options	50,000	\$5.01	May 21, 2028
July 2021	Deferred Share Units	28,321	n/a	n/a ⁽²⁾
October 2021	Deferred Share Units	41,944	n/a	n/a ⁽²⁾
November 2021 ⁽²⁾	Warrants	4,500,000	\$4.44	November 9, 2024

(1) The expiry dates are January 15, 2024 (70,501), February 24, 2024 (24,000), April 26, 2021 (6,000), May 31, 2024 (80,000) and June 1, 2024 (6,000).

(2) DSUs expire and terminate upon the issuance or distribution and payment of such DSUs.

(3) Such warrants were issued to the Fonds de solidarité des travailleurs du Québec (F.T.Q.) pursuant to an amended and restated loan agreement entered on November 9, 2021.

Securities Subject to Contractual Restrictions or Transfer

The table below states the number of Common Shares of the Corporation held, to the Corporation's knowledge, in escrow or that are subject to a contractual restriction on transfer and the percentage that number represents of the outstanding Common Shares of the Corporation as of December 31, 2021 ("the Locked-up Shares").

Number of Common Shares held in escrow or that are subject to a contractual restriction on transfer	Percentage of the Outstanding Common Shares
4,443,735 common shares ⁽¹⁾	2.87%
3,910,510 common shares ⁽²⁾	2.53%
1,660,119 common shares ⁽³⁾	1.07%

(1) Held by SDI Technology Ventures B.V.,

(2) Held by Ontwikkelingsmaatschappij OOST-Nederland N.V.

(3) Held by Stichting Administratiekantoor HyGear

Subject to certain exceptions, the Locked-up Shares shall be released from the restrictions as follows: one-third (33 1/3%) after six months, one-third (33 1/3%) after twelve months, and one-third (33 1/3%) after fifteen months, following December 8, 2020.

Directors and Executive Officers

Directors

The directors of the Corporation (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. Currently, there are 8 directors on the Board and, except for Mr. Brian Levitt who was appointed on the Board on August 10, 2021, they were all elected at Xebec’s annual general and special meeting of shareholders held on June 29, 2021.

The following sets forth the name, province or state and country of residence of each director, his/her principal occupation, the date each such person became a director of the Corporation, their committee membership, and the Common Shares in number and percentage each director held as of the date of this AIF.

William Beckett Quebec, Canada	Director since: 2011	Share ownership: 209,837 (0.14%)
Board of Directors and Committee Membership:	Lead Director Governance Committee (Chair)	
Principal Occupation:	Corporate Director	
Principal Occupation during the 5 preceding years:	Mr. Beckett retired as President and CEO of Dart Aerospace in 2016. He is a corporate director since then.	

Peter Bowie Ontario, Canada	Director since: 2020	Share ownership: 116,950 (0.08%)
Board of Directors and Committee Membership:	Audit Committee (Chair) Governance Committee	
Principal Occupation:	Corporate Director	
Principal Occupation during the 5 preceding years:	Mr. Bowie is a board member and Member of the Audit Committee of Magna International Inc. (TSX: MG) since 2012.	
Sara Elford B.C., Canada	Director since: 2020	Share ownership: —
Board of Directors and Committee Membership:	Audit Committee HR Committee	
Principal Occupation:	Corporate Director	
Principal Occupation during the 5 preceding years:	Ms. Elford is a board member of BioSyent Inc. (TSXV: RX), BQE Water Inc. (TSX: BQE) and WeCommerce Holdings Ltd. (TSXV: WE), as well as EcoSynthetix (TSX: ECO). Ms. Elford also previously served on the boards of Carmanah Technologies (2015-2019), Hydrogenics Corporation (2015-2019), TS03 Inc. (2019), and Pure Technologies Ltd. (2015-2017).	
Brian Levitt Ontario, Canada	Director since: 2021	Share ownership: 100,000 (0.06%)
Board of Directors and Committee Membership:	HR Committee Governance Committee	
Principal Occupation:	Corporate Director	
Principal Occupation during the 5 preceding years:	Mr. Levitt is the current chairman of TD Bank Group. He served as a director of Domtar Inc. (predecessor of Domtar Corporation) from 2004 to 2021.	

Guy Saint-Jacques Quebec, Canada	Director since: 2017	Share ownership: 68,048 (0.04%)
Board of Directors and Committee Membership:	HR Committee Governance Committee	
Principal Occupation:	Corporate Director	
Principal Occupation during the 5 preceding years:	Mr. Saint-Jacques is an adviser through his company GS+J Groupe-conseil Inc., Senior Fellow at the China Institute of the University of Alberta as well as at the <i>Institut d'études internationales de Montréal</i> (IEIM).	
Ouma Sananikone New York, USA	Director since: 2021	Share ownership: 30,350 (0.02%)
Board of Directors and Committee Membership:	Audit Committee HR Committee (Chair) Governance Committee	
Principal Occupation:	Corporate Director	
Principal Occupation during the 5 preceding years:	Ms. Sananikone is board member since 2013 and chair of its Compensation Committee, member of the Audit and the Governance and Nomination committees of Macquarie Infrastructure Corporation (NYSE: MIC) and board member since 2019 and member of the Audit Committee of Innergex Renewable Energy Inc. (TSX: INE).	
Francis Seguin Ontario, Canada	Director since: 2021	Share ownership: 100,000 (0.06%)
Board of Directors and Committee Membership:	Audit Committee HR Committee	
Principal Occupation:	Corporate Director	
Principal Occupation during the 5 preceding years:	Mr. Seguin was Executive Vice-President of Corporate Projects and Strategy Development Magna International from February 2016 to December 2020.	

Kurt Sorschak Quebec, Canada	Director since: 2009	Share ownership: 7,611,860 (4.92%)
Board of Directors and Committee Membership:	Chairman of the Board	
Principal Occupation:	Corporate Director	
Principal Occupation during the 5 preceding years:	President and CEO of Xebec	

Executive Officers

The following sets forth the name, province or state and country of residence of each executive officer, their office held with Xebec, the Common Shares in number and percentage each senior officer held as of the date of this AIF.

Kurt Sorschak Quebec, Canada	Executive Officer Since: 2009	Share ownership: 7,611,860 (4.92%)
Principal Occupation:	President and Chief Executive Officer	
Principal Occupation during the 5 preceding years:	President and Chief Executive Officer of Xebec	

Jim Vounassis Quebec, Canada	Executive Officer Since: 2021	Share ownership: 11,000 (0.01%)
Principal Occupation:	Chief Operating Officer	
Principal Occupation during the 5 preceding years:	Since June 2021, Chief Operating Officer of Xebec, From July 2018 to March 2021, Chief Operating Officer of Bombardier Transportation, From January 2017 to June 2018, Chief Transformation and Procurement Office Bombardier Inc. and from June 2015 to December 2016, Vice President of Operations Strategy at Bombardier Inc.	

Stéphane Archambault Quebec, Canada	Executive Officer Since: 2020	Share ownership: 22,934 (0.01%)
Principal Occupation:	Chief Financial Officer	
Principal Occupation during the 5 preceding years:	Since November 2020, CFO of Xebec, December 2016 to November 2020, CFO of Pelican International Inc.	

Nathalie Th��berge Quebec, Canada	Executive Officer Since: 2020	Share ownership: 17,250 (0.01%)
Principal Occupation:	Chief Legal Officer and Corporate Secretary	
Principal Occupation during the 5 preceding years:	Since September 2021, Chief Legal Officer and Corporate Secretary of Xebec, November 2020 to September 2021, Vice President, Legal Affairs and Corporate Secretary of Xebec, March 2020 to November 2020, unemployed and prior to such time Vice President Corporate Legal Affairs and Secretary of Innergex Renewable Energy Inc. from November 2010 to March 2020.	

Marinus van Driel Amersfoort, The Netherlands	Executive Officer Since: 2020	Share ownership: 4,443,735 (2.87%)
Principal Occupation:	President, Xebec Europe and President, Global Hydrogen Group	
Principal Occupation during the 5 preceding years:	Since December 31, 2020, President, Xebec Europe and February 15, 2021, President, Global Hydrogen Group of the Corporation. Prior to such time he was and still is President and CEO of HyGear.	

Ownership Interest

As of December 31, 2021, our directors and executive officers, as a group, beneficially owned, or controlled or directed, directly or indirectly, an aggregate of 12,731,964 (8.23%) of our issued and outstanding common shares on a non-diluted basis.

Penalties and Sanctions

To the knowledge of the Corporation, no Director or Executive Officer of the Corporation 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 company 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 company 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 company but which resulted from an event that occurred while that person was acting in such capacity.

Individual Bankruptcies

To the knowledge of the Corporation, no Director or Executive Officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation:

- (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.
- (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.

Corporate Cease Trade Orders and Bankruptcies

To the knowledge of the Corporation, no Director or Executive Officer of the Corporation, or a shareholder holding sufficient number of securities of the Corporation to affect materially the control of the Corporation, 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;
- (ii) or 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.

Conflict of Interest

To the knowledge of the Corporation, no director or executive officer of the Corporation has an existing or potential material conflict of interest with the Corporation or any of its subsidiaries as of the date hereof.

Any decision made by directors and officers involving the Corporation must be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Corporation and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the CBCA, other applicable laws, and our Code of Conduct.

Legal Proceedings and Regulatory Actions

On March 19, 2021, a legal proceeding in the Ontario Superior Court of Justice was issued initiating a proposed class action against the Corporation, its current directors and certain of the Corporation's current and former officers, its auditor and the underwriters of the December Offering (as defined herein) as defendants. The claim alleges that Xebec would have made misrepresentations in certain disclosure documents that were revealed in a press release dated March 12, 2021, entitled "Xebec Provides Updated 2020 Guidance" where the Corporation provided a downwards revision of 2020 guidance.

On April 19, 2021, the statement of claim was filed in the Ontario Superior Court of Justice.

On March 15, 2021, a legal proceeding in the Québec Superior Court (Class Actions Division) was issued initiating a proposed class action against the Corporation, certain of its current directors, certain of the Corporation's current and former officers and the underwriters of the December Offering as defendants. The claim alleges that Xebec would have made misrepresentations in its disclosure documents for Q3 2020 as well as its December 2020 prospectus with respect to revenue accounting practices and Xebec's internal controls over financial reporting.

On October 5, 2021, the plaintiff delivered an application seeking to amend his claim to (i) extend the class period by a few days, (ii) provide details and additional allegations and (iii) add three additional applicants. As of the date hereof, the amounts claimed for damages in each of the actions have not been quantified. These actions are in a preliminary stage and have not been certified as class actions yet.

Interest of Management and Others in Material Transactions

There are no material interests, direct or indirect, of any of our directors or executive officers, any common shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of any class or series of our outstanding voting securities, or any associate or affiliate of any of the foregoing persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect us or any of our subsidiaries.

Transfer Agent and Registrar

The transfer agent and registrar for our common shares is TSX Trust Company. TSX Trust Company maintains the Corporation's registers in Montreal, Quebec.

Interest of Experts

No person or company named in this document as having prepared or certified a part of the document or a report described in this document and no responsible solicitor or any partner of a responsible solicitor's firm, holds any material beneficial interest, direct or indirect, in any securities or property of the Corporation or of an associate or affiliate of the Corporation.

Audit Committee

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 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. The Audit Committee charter of the Corporation, which sets out the Audit Committee's responsibilities and duties, is attached as **Schedule "A"** to this AIF.

Composition of the Audit Committee

As of the date of this AIF, our Audit Committee is composed of Peter Bowie (Chair), Sara Elford, Ouma Sananikone and Francis Seguin. Each member of the Audit Committee of the Corporation is financially literate; as such terms are defined in NI 52-110.

Relevant Education and Experience

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

Peter Bowie. In 2021, Mr. Bowie completed the Cambridge University Business and Climate Change program, the Climate Competent Board's Certificate Program, the AICPA Modules 1&2 of The COSO Enterprise Risk Management Certificate Program and the AICD Essential Director Update. He also attended the CPA Canada Canadian Public Company Financial Reporting Update, the AICPA Annual Accounting and Auditing Update and the CPA Canada Climate Change and Corporate Governance Briefing for Boards of Directors. Mr. Bowie is a Fellow of the Institute of Chartered Accountants of Ontario.

Sara Elford. Ms. Elford is a corporate director. She worked in capital markets for over twenty years as both an investment banking and equity research analyst where she followed an extensive range of industries and companies in the small to mid-cap range and clean tech space. Ms. Elford has served on the boards of several formerly TSX and/or Nasdaq-listed companies including Hydrogenics Corporation (hydrogen technology company) from 2016 to 2019, Carmanah Technologies (solar LED technology company) from 2015 to 2019, TSO3 Inc. (medical device sterilization technology company) in 2019, and Pure Technologies Ltd. (pipeline leak detection company) from 2015 to 2017. In addition to Xebec, she presently serves on the boards of BioSynt Inc., BQE Water Inc., EcoSynthetix and WeCommerce Holdings. Ms. Elford is a CFA Charter holder and holds a B.B.A. from Bishop's University with a Finance Major and Economics Minor. She also completed the Institute of Corporate Directors' education program in 2015.

Ouma Sananikone. Ms. Sananikone is a corporate director. She has over 30 years experience in asset management, covering all asset classes including infrastructure, at both CEO and board levels, Ms. Sananikone held positions such as Managing Director of BT Asset Management, Managing Director of Rothschild Asset Management (Australia), CEO of Aberdeen Asset Management (Australia), CEO of the

EquitiLink Asset Management Group, and Managing Director of BNP Investment Management (Australia). She also served on a number of boards, both public and private, including that of Caisse de Dépôt et Placement du Québec. Ms. Sananikone currently serves on the Board of Directors of Macquarie Infrastructure Corporation (USA, NYSE: MIC), is chair of its Compensation Committee, and a member of both the Audit, and the Governance and Nomination committees. In addition, she serves on the Board of Directors and the Audit Committee of Innergex Renewable Energy (Canada, TSX: INE), on the Board of Directors and Remuneration Committee of Hafnia Ltd (a member of the BW Group), and on the Board of Directors of Ivanhoe Cambridge (Canada), where she is chair of the Investment, and member of the Governance and Ethics, as well as of the Human Resource committees. She holds a BA (economics and political science) from the Australian National University, and a Master of Commerce (economics) from the University of New South Wales and is a recipient of the Centenary Medal for services to the Australian finance industry.

Francis Seguin. Mr. Seguin is a corporate director. He recently retired from Magna International in 2020 as Executive Vice-President of Corporate Projects and Strategy Development. As Executive Vice-President, Seguin was responsible for working directly with Magna CEO and other members of senior management to support the company's long-term strategy development. Mr. Seguin is a seasoned engineering and operations executive in the automotive industry, where he has worked throughout the past 32 years. He served as the President of Magna Closures and Mirrors from 2010 to 2016. which included the full financial and P&L responsibility for more than \$5.0 billion US in revenues across 60 manufacturing sites in 29 countries. Mr. Seguin joined Magna in 1988 at Cosma International, Magna's body and chassis operating unit. Prior to joining Magna in 1988, Seguin worked for General Motors in Oshawa, Ontario, for five years. A native of Windsor, Ontario, Seguin graduated in 1984 with a degree in Electrical Engineering from the University of Windsor.

Pre-Approval Policies and Procedures

The Corporation'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 Raymond Chabot Grant Thornton LLP, the Corporation's external auditors, are pre-approved.

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

The following table sets forth, by category, the fees paid to the Corporation's auditors, in each of the fiscal years ended December 31, 2021, and 2020.

External Auditor Services Fees

Raymond Chabot Grant Thornton LLP (**RCGT**) have served as the Corporation's auditors since financial year 2017.

Category of services	2021	2020
Audit Fees	\$731,000	\$159,750
Audit-Related Fees	\$135,592	\$75,824
Tax Fees	\$160,678	\$148,172
All Other Fees	\$106,295	\$239,095
Total	\$1,133,565	\$622,841

The nature of each category of fees is described below.

Audit Fees: Audit fees were for professional services rendered by Raymond Chabot Grant Thornton LLP in 2021 and 2020 for the audit of the annual consolidated financial statements of the Corporation.

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 Corporation’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 Corporation entered into.

All Other Fees: These fees are mainly related to the public offerings in 2021 and 2020 and acquisitions.

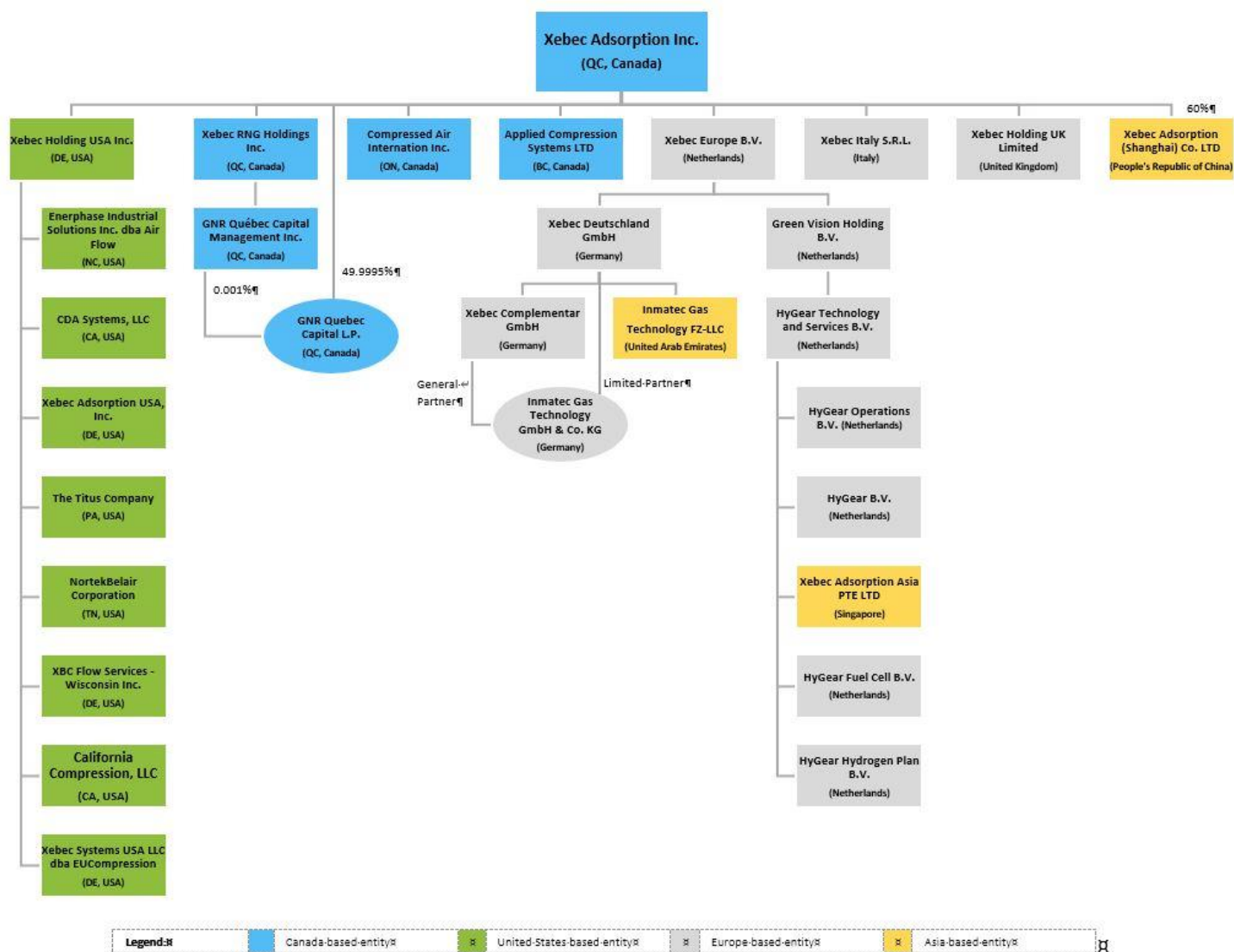
Non-Audit Services

All non-audit service engagements of external auditors, 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.

Additional Information

Additional information relating to the Corporation is available on its SEDAR profile at www.sedar.com or on the Corporation’s website at www.xebecinc.com. Additional information including directors’ and officers’ remuneration and indebtedness, principal holders of the Corporation’s securities and securities authorized for issuance under equity compensation plans, is contained in the Corporation’s Management Information Circular for its most recent annual meeting of shareholders that involved the election of directors. Additional financial information is contained in the Corporation’s consolidated financial statements and management’s discussion and analysis for the year ended December 31, 2021, available under the Corporation’s SEDAR profile at www.sedar.com and the Corporation’s website at www.xebecinc.com.

Schedule A – Corporate Chart and its Material Subsidiaries



All subsidiaries are 100% owned unless indicated otherwise.

Schedule B – Charter of the Audit Committee

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, all Committee members shall satisfy the “independence” requirement of Regulation 52-110 – Audit Committees (“**52-110**”) and who shall all satisfy the “financial literacy” requirement of 52-110.

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.

The Committee may invite to its meetings any directors, management of the Corporation and such other persons as it deems appropriate 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.

Financial Reporting Processes

Establishment and Assessment of Procedures

7. 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 IFRS

8. 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

9. 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

10. 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

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

Performance and Review

12. 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

13. 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

14. "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.
15. 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

16. 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

17. 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

18. 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.

Whistleblowing

Procedures

19. 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

20. 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

21. 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

22. 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

23. 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

24. 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

Glossary

ACS: Applied Compression Systems Ltd.

Air Flow: Enerphase Industrial Solution

CAI: Compressed Air International Inc.

California Compression: California Compression, LLC

CBCA: Canada Business Corporations Act

CDA: CDA Systems LLC

CDPQ: Caisse de dépôt et placement du Québec

ESG: environmental, social, and governance

FCEV: Fuel Cell Electric Vehicle

GaaS: Gas-as-a-Service

GHG: Greenhouse Gas

LCFS: Low carbon fuel standards

Nortec: Nortekbelair Corporation

m³/h: Cubic Meters per Hour

P2G: Power-to-Gas

PSA: Pressure Swing Adsorption

R&D: Research and development

RNG: Renewable Natural Gas

SMR: Steam Methane Reformer

Tiger: Tiger Filtration Limited

Titus: The Titus Company

TSX: Toronto Stock Exchange

UECompression: Xebec Systems USA LLC

WWTP: Wastewater Treatment Plants

Xebec: Xebec Adsorption Inc.