



Xebec Adsorption Inc.
Management's Discussion and Analysis
Second Quarter ended June 30, 2022

August 10, 2022



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

The following Management's Discussion and Analysis ("MD&A") provides a review of Xebec Adsorption Inc.'s ("Xebec" or the "Company") results of operations, financial condition and cash flows for the period ended June 30, 2022. This discussion should be read in conjunction with the information contained in the Company's unaudited condensed interim consolidated financial statements and the notes related thereto for the period ended June 30, 2022 (the "Interim Financials"), as well as with the audited annual financial statements and the notes related thereto for the year ended December 31, 2021.

The Company's subsidiaries are designated as follows: "Xebec Holding USA" for Xebec Holding USA Inc.; "Xebec Italy" for Xebec Italy SRL (formerly known as Xebec Adsorption Europe SRL); Xebec Europe B.V.; "CAI" for Compressed Air International Inc.; "ACS" for Applied Compression Systems Inc.; "RNG Holding" for Xebec RNG Holding Inc.; "GNR Bromont" for GNR Bromont L.P. of which the Company owns 99% of the limited partnership interest; "GNRQC" for GNR Quebec Capital L.P. of which the Company owns 49,9995% of the limited partnership interests; and Xebec Holding UK Limited.

The Company recognizes and presents Xebec Adsorption (Shanghai) Co. Ltd. as an equity investment (the "Shanghai Joint-Venture").

Xebec Holding USA Inc. has eight wholly owned subsidiaries, designated as follows: "CDA" for CDA Systems LLC; "Xebec USA" for Xebec Adsorption USA Inc.; "Air Flow" for Enerphase Industrial Solutions Inc.; "Titus" for The Titus Company; "Nortec" for Nortekbelair Corporation; "California Compression" for California Compression, LLC; "Wisconsin" for XBC Flow Services – Wisconsin Inc and "UEC" for Xebec Systems USA LLC.

Xebec RNG Holdings Inc. has two wholly owned subsidiaries, GNR Bromont Management Inc. and GNR Quebec Capital Management Inc., both of which are wholly owned. GNR Bromont Management Inc. owns the 1% remaining of GNR Bromont L.P. and GNR Quebec Capital Management Inc. owns 0.001% of GNR Québec Capital L.P. ("GNRQC").

Xebec Europe B.V. has two wholly owned subsidiaries: Xebec Deutschland GmbH and Green Vision Holding B.V. Green Vision Holding B.V. owns HyGear Technologies and Services B.V. ("HyGear"), which has six subsidiaries: HyGear Operations B.V., HyGear B.V., Xebec Adsorption Asia PTE LTD, HyGear Fuel Cell B.V. and HyGear Hydrogen Plant B.V., which are wholly owned, and Buse HyGear LTD which is 50% owned. Buse-HyGear LTD is expected to start its activities in 2022. Xebec Deutschland GmbH has three wholly owned subsidiaries: Xebec Komplementar GmbH, Inmatec Gase Technologie GmbH & Co. KG and Inmatec Gas Technology FZC RAK (collectively, "Inmatec").

Xebec Holding UK Limited has one wholly owned subsidiary: Tiger Filtration Limited ("Tiger").

The information contained in this MD&A and certain other sections of this report includes some figures that are not performance measures consistent with International Financial Reporting Standards ("IFRS"), such as "Gross margin", "Gross margin %", "Operating profit or loss", "earnings (loss) before interest, tax, depreciation and amortization ("EBITDA")", "EBITDA margin", "Adjusted EBITDA", "Adjusted EBITDA margin", "working capital", "net debt" and "backlog".

Definitions of all Non-IFRS financial measures are provided in Section 13 of this MD&A to give the reader a better understanding of the indicators used by management. In addition, when applicable, the Company provides a quantitative reconciliation of the Non-IFRS financial measures and ratios to the most directly comparable measure calculated in accordance with IFRS.

The Company uses these measures because they enable management to assess the Company's operational performance from period to period and to prepare annual operating budgets and forecasts. While we believe these measures are widely accepted financial indicators of a Company's financial performance, investors should not regard them in isolation nor as alternatives to operating revenues or cash flows, or as measures of liquidity reported under IFRS. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures and ratios presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. These Non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use Non-IFRS measures and ratios in the evaluation of issuers.

The information contained in this Management's Report accounts for any major event occurring up to August 10, 2022, the date the board of directors of the Company (the "Board") approved the Interim Financials and MD&A. It presents the Company's status and business context as they were, to management's best knowledge, at the time this report was written.

Unless otherwise indicated, all financial information presented in this MD&A, including tabular amounts, is in Canadian dollars and is prepared in accordance with IFRS. Certain totals, subtotals and percentages may not reconcile due to rounding.

This document contains forward-looking statements, which are qualified by reference to, and should be read together with, the "Forward-looking Statements" cautionary notice Section 17 of this MD&A.

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1. OUR BUSINESS

About Us

Established in 1967, Xebec has over 50 years of experience, 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 is a global provider of sustainable gas solutions used in energy, mobility and industry applications. The Company 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. 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.

Vision. Mission. Purpose. People.

Xebec's **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 company 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.

- Over 670 employees worldwide as of June 30, 2022
- Over 20 departments in a full range of disciplines from Sales, Finance, HR, Design, Engineering, Manufacturing, Production, Quality, Logistic, Service and Others
- Six engineering specialties including Process, Mechanical, Electrical, Controls, Manufacturing and Service Engineering.
- A range of qualifications including specialized and technical degrees, masters and doctorates
- A culturally diverse workforce with more than a dozen nationalities and languages from the

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 (“SMR”) of RNG 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

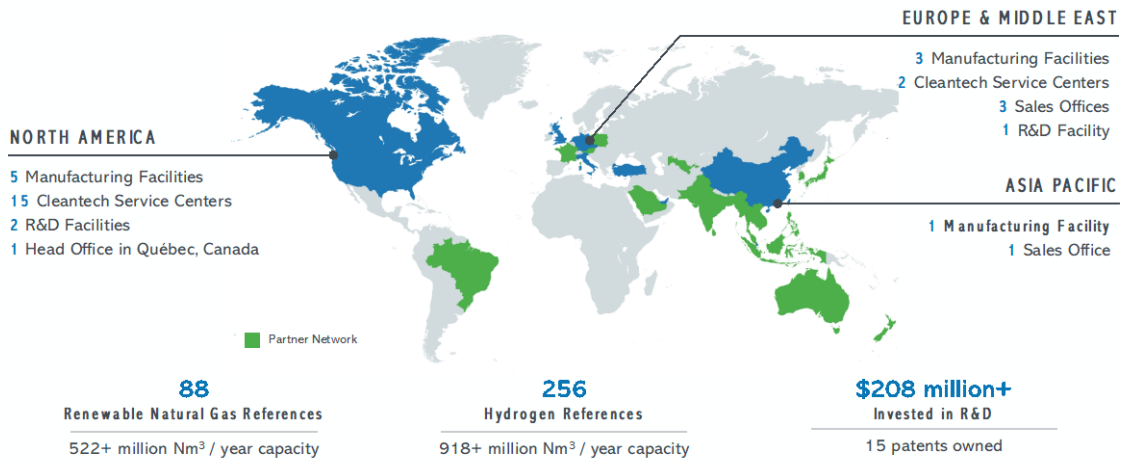
Our Customers and Suppliers

Our technologies are deployed throughout the world and cover industries as diverse as renewable energy, transportation, industrial gases, commercial and industrial manufacturing operations, health care establishments, petrochemicals and pharmaceuticals.

International Footprint and Certifications

Xebec has established a direct presence and is focused on North America, Europe, the Middle East, and Asia; however, our business is global. 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, North America, Africa, the Middle East and Asia.

Global Leader in Decarbonizing Gases



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 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 Pressure Swing Adsorption ("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.

We believe that Xebec has one of the most compact, cost-effective and reliable PSA technologies available on the market. With minimal pressure drop, high 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. Xebec's PSA technology is a versatile platform typically found as a component in many of the Company's products, including BGX Biostream™ ("Biostream"), steam methane reformers, industrial gas recycling and its industrial gas purification systems.

Xebec's Proprietary PSA Advantage

- Proprietary and proven technology
- Lower life cycle cost systems
- Reliable, quality reputation with thousands of adsorption units in the field
- In-house capabilities in relevant engineering discipline and complete production expertise
- A unique, win-win business model: sell innovative products to partners who then develop and serve local markets while Xebec drives aftermarket revenue with its proprietary technology or offers complete systems to end-users in clearly identified markets
- Commercial readiness to take advantage of opportunities driven by government incentives as well as regulations to curb CO2 emissions in transportation

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. These hydrogen generation systems are built inside shipping containers, which makes them easy to transport and small in environmental footprint. They are based on SMR technology, a process by which hydrogen is created out of water and natural gas. These 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 Company'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 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 Company's electrolyser 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, customers 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 offers a range of specialized filters, including natural gas filters for onboard natural gas-fueled vehicles.

2. OUR OVERALL BUSINESS STRATEGY

Transitioning Our World to Sustainable Gases

Xebec has a clear strategic direction, as the world mobilizes to transition to a low-carbon economy. The challenge is how to best position the Company in this rapidly evolving field, to leverage our technological know-how, size, and improving flexibility to capture opportunities arising from successively emerging technologies and equipment having a life cycle of approximately 15 to 20 years.

We believe sustainable gases are a necessary component of a sustainable future. For Xebec, this means 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 to reduce costs (estimated between 35%-75%) and emissions (partial or complete elimination). Xebec endeavors to make decisions based off this dual goal of cost and carbon reductions to help ensure the long-term viability of the Company's business model while also safeguarding the environment.

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

- Offer low, zero or negative carbon gases through significant expansion of our sustainable gas technologies. This translates into decentralized and on-site solutions in: biogas upgrading, hydrogen, carbon capture, and nitrogen and oxygen production.
- Continue to grow XBC Flow Services to support the growing number of RNG, hydrogen and carbon capture installations.
- Focus on profitable growth for a sustainable future.

Furthermore, given Xebec's diversified nature, the strategy can also be fine-tuned by market segment and geography.

Three-Year Strategic Plan Highlights

As presented at Xebec's inaugural analyst and investor day in Denver, Colorado on March 29, 2022:

- **Adding U.S. renewable natural gas manufacturing and sales base** with a focus on small-scale agricultural applications, paired with a significant ramp up in annual Biostream production run rate.
- **Going global with hydrogen business** supported by targeted industrial customers as demand from the hydrogen mobility sector ramps up.
- **Expanding our PSA and compression technologies for Carbon Capture Utilization and Storage ("CCUS")** to reduce the carbon intensity of both our Cleantech Systems and to enter new markets in CO2 source capture and transportation.
- **Introducing XBC Flow Services** as a unified brand to encompass the U.S. Cleantech Service Network, industrial product sales & distribution.
- **Building on strong partnerships** in North America and China to support OEM growth and create long-term value.
- **Invest in new clean technologies** to help drive new business models.

3. OUR BUSINESS SEGMENTS

Cleantech (Systems)

Renewable Natural Gas (RNG)

We believe RNG is a significant opportunity for Xebec in the near term. Climate change is driving the energy transition toward 100% renewables, including the displacement of fossil natural gas with RNG. As much as hydro, wind and solar have been the prevalent renewable energy over the past 20 years, we believe that we are now at the cusp of similar strong growth for RNG¹.

Climate change is the macroeconomic driver for the adoption of renewable, zero-carbon energy, but for RNG, we are seeing an additional driver, namely gas utilities and oil & gas majors. As electricity utilities are successfully shifting to renewable solar and wind energy from more carbon intensive sources such as coal, gas utilities are concerned that natural gas may become phased out in a similar way². The result of this shift, in our view, is that gas utilities are being left 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 stranded gas assets if the business model does not shift towards a low carbon option³.

¹ <https://theconversation.com/the-global-community-is-finally-acting-on-climate-change-but-we-need-to-switch-to-renewable-energy-faster-119841>

² <https://www2.deloitte.com/us/en/insights/industry/power-and-utilities/utility-decarbonization-strategies.html>

³ https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2017/Jul/IRENA_REmap_Stranded_assets_and_renewables_2017.pdf

The good news is there appears to be 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 options such as RNG⁴. 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 announced their own plans to be 100% renewable gas by 2050⁵, and states or provinces such as California have announced 12% renewable gas target by 2030⁶, while Québec is targeting 10% by 2030⁷.

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 US\$9 to US\$150 MMBtu, or 2 to 30 times the price of fossil natural gas⁸.
- RNG or renewable gas targets by states, provinces and countries around the world.
- As the cost of biogas products continues to decrease and markets develop, food waste and livestock waste facilities represent the largest in absolute number of projects which require distributed biogas solutions in the sub 250-300 Nm³/hr flow rates.⁹
- According to the American Biogas Council, it is estimated that 8,574 dairy, poultry, and swine farms are primed for biogas and RNG production.¹⁰
- We estimate that Xebec's obtainable market is in the hundreds of RNG systems per year in the markets the Company operates in representing a total market size of over US\$12 billion. This is based on the flow rate of our Biostream product, which is ideally positioned to cater to 80% of animal manure based projects, with an average of 1-2 Biostreams required per project.

We expect that the transition toward 100% RNG will involve three phases, starting with anaerobic digestion (organic waste converted to RNG), followed by pyro-gasification (the conversion of cellulosic forestry waste to RNG) and finally followed by Power-to-Gas ("P2G") (the conversion of electricity to gas for energy storage). We believe Xebec is well positioned for each of these commercial opportunities, either through gas purification or through methanation technology which is applicable to P2G.

⁴ <https://rosagalvez.ca/en/initiatives/climate-accountability/list-of-countries-with-net-zero-commitments-and-climate-accountability-legislation/>

⁵ <https://www.snam.it/en/Media/Press-releases/2018/gas-for-climate.html>

⁶ <https://www.prnewswire.com/news-releases/socalgas-applauds-establishment-of-first-renewable-gas-standard-in-the-united-states-301490159.html>

⁷ <https://www.quebec.ca/en/government/policies-orientations/plan-green-economy>

⁸ https://www.epa.gov/sites/production/files/2018-11/documents/7_deanna_haines-508.pdf

⁹

<https://static1.squarespace.com/static/53a09c47e4b050b5ad5bf4f5/t/61ba25c889b4fb7566404e6c/1639589328432/RNG+Jobs+Study.pdf>

¹⁰ <https://americanbiogascouncil.org/biogas-market-snapshot/>

Xebec's RNG Strategy

- Focus on agricultural projects as they represent, in our view, the largest opportunity of all the subsectors (WWTP, landfill, source separate organics, agriculture) by number of units, with a 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 customer education on the lifecycle cost and reliability benefits of PSA technology versus membrane and other legacy technologies (e.g., water wash, chemical scrubbing).
- Develop smaller variants of the Company's Biostream product to accommodate even smaller flow rates as projects become more accessible due to improving economics and other feedstocks come online (e.g., swine manure).
- Leverage the Cleantech Service Network as a competitive advantage to secure customers by providing them parts, service, operations, and maintenance.

Hydrogen

As a result of the acquisition of HyGear, Xebec acquired a leading small-scale SMR and electrolysis technology with a reference base of more than 80 hydrogen generation installations worldwide to both industrial and the fast-growing hydrogen fuel market.

We believe the acquisition positioned Xebec to execute and accelerate its distributed hydrogen generation strategy, which focuses on on-site production of smaller hydrogen quantities. HyGear's SMR technology provides access to new markets and helps enable Xebec to launch a commercially viable green and cyan (carbon negative) hydrogen product offering. Moreover, HyGear's products and technologies complement Xebec's PSA platform which has been deployed in over 200 installations worldwide for hydrogen purification.

We believe 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, allows Xebec to build technology, expertise and local supply and be ready for when the mobility sector comes online.

Xebec has built decentralized production hubs ("DPHs"), with one DPH in The Netherlands and one in development in the United Kingdom, that help allow the Company to maximize asset utilization and create more local hydrogen supply for filling and refueling stations. Building additional DPHs continues to be a core component of this segment's strategy as Xebec looks to expand geographically.

We consider hydrogen purification for fuel cell applications and hydrogen as fuel for FCEVs to be another significant opportunity over the next decade and beyond. As fuel cells gain traction, we believe the market will increasingly look for specialized purification solutions in a compact design. Xebec is already working with fuel cell manufacturers in Europe, North America and China to provide such equipment.

Xebec has formed strategic partnerships in the hydrogen space to offer integrated systems, from hydrogen generation to refueling, namely with FuruHP 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

- For industrial customers who want to not only reduce costs but also carbon and air particulate emissions from their hydrogen supply, Xebec's products offers estimated cost savings between approximately 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 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 industrial facilities, averaging \$650 thousand to \$1 million, worldwide that could utilize the smaller flow rates offered by Xebec's on-site hydrogen generation technologies.
- The Biden administration launched an industrial decarbonization initiative with US\$9.5 billion for clean hydrogen¹¹.

Hydrogen Mobility Market Drivers and Size

- Organizations and countries around the world are becoming deeply invested in hydrogen such as Hyundai's US\$6.7 billion investment to boost fuel-cell output¹²; Germany's funding of €8 billion for 62 IPCEIs¹³; Japan's Ministry of Economy, Trade, and Industry's hydrogen funding of approximately US\$748 million for 2020¹⁴.
- As of 2021, countries that have adopted hydrogen strategies have committed at least US\$37 billion along with the private sector announcing an additional investment of US\$300 billion¹⁵.
- Countries are also specifically investing in fuel cells. China, for example, has broadcast plans to emerge as the fuel cell leader over the next 10 years, with ambitions deploy one 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. RH2 can be produced through electrolysis using renewable electricity, or

¹¹ <https://www.utilitydive.com/news/biden-launches-initiatives-decarbonize-industrial-sector-hydrogen/618928/>

¹² <https://www.auto123.com/en/news/hyundai-investing-billions-hydrogen-nexo-fcev/65408/>

¹³ <https://www.csis.org/analysis/germanys-hydrogen-industrial-strategy>

¹⁴ https://www.ifri.org/sites/default/files/atoms/files/nagashima_japan_hydrogen_2020.pdf

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

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

through steam methane reforming of RNG (upgraded biogas to RNG). Consequently, RH2 is one of the lowest cost sources for a carbon neutral form of hydrogen, making it an ideal low carbon transport fuel.

- 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. We believe 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.¹⁷

Xebec's Hydrogen Strategy

- Use the industrial sector, a successful hydrogen business model today, as a launchpad for hydrogen mobility in order to operate profitably while still being able to participate in high-growth mobility as demand comes online.
- Build expertise in hydrogen generation, compression, storage and delivery with these industrial customers.
- Accelerate the deployment of DPHs by partnering with infrastructure funds to leverage their lower cost of capital and to gain 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 to access new industrial customers and new locations with existing customers.
- Leverage RNG sale and business development resources to promote SMR based products to produce green hydrogen.
- 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, with 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 Company is now accelerating its efforts to gain more exposure in the carbon capture and sequestration market, including 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.

¹⁷ https://afdc.energy.gov/fuels/natural_gas_stations.html

Carbon Capture and Sequestration Market Drivers and Size

- As of May 2021, there were 64 carbon pricing policies in operation or scheduled for implementation, covering 22% of worldwide emissions¹⁸. Prices on carbon further incentivize the need for capturing carbon from existing sources.
- Carbon capture utilization and storage (“CCUS”) will be an important tool for hitting the required net zero scenarios by 2050 as outlined by IEA, which equates to 1.7 billion tonnes of CO2 capture capacity deployed by 2030¹⁹.
- The U.S., a core market for Xebec, has a tax credit for sequestering carbon, called 45Q, which is scheduled to rise to US\$50 a tonne in 2026.²⁰
- If the U.S. 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 study²¹.
- CO2 transport in pipelines needs to be compressed to a higher pressure, driving the need for Xebec’s compression platform.
- Specific markets Xebec is active in have enacted laws, such as Local Law 97 in New York City, requiring most buildings over 25,000 square feet to meet new energy efficiency and greenhouse gas emissions limits by 2024, with stricter limits coming into effect in 2030. Progressive penalties are applied to those not in compliance and exceed the annual set limits.

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 applications and projects.

On-site Oxygen and Nitrogen Generation

As a result of the acquisition of Inmatec, Xebec now offers several products for the on-site generation of nitrogen and oxygen, which we believe significantly reduces the burden on the environment and costs for customers. Inmatec’s compact generators do not require cylinders and bundles to be delivered by truck on a regular basis, resulting in environmentally friendly gas generation through reduced CO2 emissions, particulate matter, delivery bottlenecks and congestion on the road network.

On-site oxygen generators are also used directly in the production of biogas and RNG. Oxygen is used

¹⁸ <https://citizensclimatelobby.org/laser-talks/carbon-prices-around-world/>

¹⁹ <https://www.iea.org/fuels-and-technologies/carbon-capture-utilisation-and-storage>

²⁰ <https://www.whitecase.com/publications/insight/carbon-capture/us-tax-credit-encourages-investment>

²¹ <https://www.reuters.com/business/sustainable-business/n-americas-old-pipelines-look-new-life-moving-carbon-climate-push-2022-02-23/>

to desulphurize (remove H₂S) biogas plants, as a targeted and accurately dosed addition of oxygen introduced into the fermenter promotes bacteria development. The bacteria decompose the H₂S 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 generation provides a more economical option for smaller flow rates as customers look to reduce costs and emissions.
- We estimate global oxygen and nitrogen markets to be valued at approximately US\$30.0 billion and US\$26.1 billion worldwide respectively²². This market value estimate is based on the revenue run rate of the world's largest industrial gas companies. We believe that our oxygen and nitrogen products are, in many cases, displacing existing market sources typically provided by the industrial gas giants.

Xebec's Oxygen & Nitrogen Strategy

- Drive organic growth by expanding the global presence of our distributor network, while capturing more aftermarket business through them.
- Leverage existing sales offices by bringing generator manufacturing to the U.S. and selling turnkey products to new customers internationally.
- Drive synergies through existing subsidiaries and customers to cross-sell products, source parts and optimize manufacturing utilization.

Systems Product Line

We offer a full suite of products based on proprietary technologies in the following categories:

- Biogas to RNG systems under the Biostream brand
- Hydrogen purification systems under the H2X Solutions® brand
- Natural gas dehydration units for refueling stations under the NGX Solutions® brand
- SMR products for production of hydrogen from (renewable) natural gas under the Hy.GEN brand
- Electrolysis products for production of hydrogen from electricity under the Hy.GEN-e brand
- On-site oxygen and nitrogen generators under the Inmatec brand
- Custom and standardized compressor packages for (renewable) natural gas, hydrogen, CO₂ and specialty gases

Support – Industrial Products & Services

Service, maintenance and operational support are foundational components in the clean energy business where we believe multi-year, multi-million-dollar project commitments hinge on reputation, reliability, and resilience. This segment, branded under XBC Flow Services, is the foundation for the

²² Company estimates

Company 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 manufactures and services industrial equipment for compressed air and gas dehydration, separation, purification and filtration worldwide.

To date, Xebec has supplied more than 20,000 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 60-70% of revenues recurring from sales of parts and service.

Industrial Service and Support Market Drivers and Size

Xebec's service network is primarily North American-based and is powered by a network of over 62 technicians who service industrial compressed air equipment and our cleantech equipment in RNG, hydrogen and carbon capture. Industrial activity is a primary driver of activity and growth in the segment alongside cleantech equipment deployments which to date represent a low but growing base of revenues in the segment.

Xebec's Industrial Service and Support Strategy

- Growth in this segment for Xebec has historically been driven by acquisitions of sole proprietor led businesses across North America.
- Our goal is to support the cleantech OEM business with technicians and personnel who can oversee product installation, commissioning, multi-year service contracts, aftermarket and ancillary products.
- Helps enable Xebec to sign 5 to 10+ year service contracts on RNG, hydrogen and carbon capture equipment, which we expect to be comparable in revenues to the OEM equipment sale over the period.
- Launch independent manufacturer representative network to cross-sell industrial and cleantech products.

Support Product Line & Services

- Multi-year service agreements for cleantech systems equipment
- Compressed air and gas compression packages, dryers and filters
- On-site air dehydration
- Products for the filtration & separation of air and gases
- Industrial process chillers
- Fluid savers and pumping stations
- Spare parts and replacement filter elements
- Dew-point probes and calibration services
- Regular and 24-hour emergency compressed air service & maintenance
- All of these products and services will operate under the XBC Flow Services brand

Renewable Gas (Infrastructure)

Activity in this segment is being driven by newly established renewable gas requirements in two Canadian provinces, combined with continuing efforts by the Canadian federal government to become net-zero by 2050²³. GNRQC a limited partnership created by Xebec and the Fonds de solidarité des travailleurs du Québec (F.T.Q.), identifies locations and partners for the deployment of renewable gas assets to produce low carbon RNG that can not only fill the current provincial requirements but also the future requirements under potential federal legislation.

The fund has evaluated 31 projects to date and is actively engaged with 18 greenfield and brownfield projects in agriculture, municipal, landfill, mixed use, and industrial waste applications. The fund has now successfully executed several letters of intent (LOI) for projects in Québec, Canada.

4. Key Events

Key and Subsequent Events in Q2 2022

- July 13, 2022, Xebec announced a 51-person workforce reduction in North America as it continued to execute on its previously announced Centers of Excellence Framework (see Section 5 of this MD&A);
- June 22, 2022, Xebec signed a Supply Agreement for eight PSA units for delivery in 2023 with Haffner Energy for cost-effective green hydrogen production; and
- April 12, 2022, Xebec announced a US\$113.5 million binding order with Summit Carbon Solutions for 51 carbon dioxide (CO₂) reciprocating compression packages.

²³ <https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/net-zero-emissions-2050.html>

5. Q2 2022 Results Highlights

Capturing Remaining Legacy RNG Contracts Costs within Centers of Excellence Framework

On May 11, 2022, in line with its previously announced three-year plan to optimize operations, the Company formalized a comprehensive “Centers of Excellence Framework” to assess all activities in order to help the Company improve margins and increase cash generation from operations. This review is focused on three main elements: (1) assessing core vs. non-core activities, (2) product rationalization, and (3) workforce and supply chain synergies.

As indicated during our first quarter of fiscal 2022, this framework included capturing the remaining expected completion costs of legacy RNG contracts and the costs associated with discontinuing the product line. A special charge resulting in a net loss impact of \$11.9 million and a gross margin (Non-IFRS) impact of \$8.3 million to encompass remaining costs on projects, potential penalties, an inventory obsolescence provision, potential warranty claims, and legal settlement and related costs.

The legacy RNG contracts did not qualify as “abandoned activities” under IFRS 5, but Xebec believes that isolating its impact provides a useful representation in understanding the performance of the Company. In addition to the usual operation results presented, the tables below isolate the impact of these contracts from other operations that have not been discontinued.

Income Statement

(In millions of \$, except per share amounts)	For the three-month period ended June 30, 2022			For the three-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Revenue	44.5	(0.3)	44.8	32.7	0.8	31.9
Gross margin ²⁴	1.8	(8.3)	10.1	5.0	(4.2)	9.2
Gross margin % ²⁴	4%	-	23%	15%	-	29%
Net income (loss)	(23.4)	(12.0)	(11.4)	10.2	(4.3)	14.5
EPS	(0.15)	(0.08)	(0.07)	0.07	(0.03)	0.10
EBITDA ²⁴	(17.6)	(11.9)	(5.7)	14.8	(4.3)	19.1
Adjusted EBITDA ²⁴	(12.0)	(8.6)	(3.4)	(5.2)	(4.3)	(0.9)

²⁴ These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

(In millions of \$, except per share amounts)	For the six-month period ended June 30, 2022			For the six-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Revenue	85.7	2.4	83.3	53.3	2.5	50.8
Gross margin ²⁵	6.3	(10.8)	17.1	9.2	(7.2)	16.4
Gross margin % ²⁵	7%	-	21%	17%	-	32%
Net loss	(42.0)	(16.3)	(25.7)	0.1	(7.5)	7.6
EPS	(0.27)	(0.11)	(0.16)	-	(0.05)	0.05
EBITDA ²⁵	(30.4)	(16.3)	(25.7)	8.2	(7.5)	15.7
Adjusted EBITDA ²⁵	(21.1)	(11.3)	(9.8)	(10.1)	(7.5)	(2.6)

Financial Position

(In millions of \$)	June 30, 2022 \$	December 31, 2021 \$	Variance %
Cash and restricted cash	50.3	51.1	(2%)
Working capital ²⁵	35.9	81.0	(56%)
Net debt ²⁵	37.8	43.4	(13%)

Backlog

(In millions of \$)	August 10, 2022 \$	May 11, 2022 \$	Variance %	August 11, 2021 \$	Variance %
Backlog ²⁵	270.2	260.5	4%	75.9	256%

²⁵ These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

6. OPERATING RESULTS

(In millions of \$, except per share amounts and margin percentages)	For the three-month period ended June 30, 2022			For the three-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Revenue	44.5	(0.3)	44.8	32.7	0.8	31.9
Cost of goods sold	42.7	8.0	34.7	27.7	5.0	22.7
Gross margin ²⁶	1.8	(8.3)	10.1	5.0	(4.2)	9.2
Gross margin % ²⁶	4%	-	23%	15%	-	29%
Research and development expenses	1.0	-	1.0	0.9	-	0.9
Selling and administrative expenses	17.2	0.3	16.9	12.2	0.1	12.1
Share of after-tax profit of equity accounted investees	(0.7)	-	(0.7)	0.1	-	0.1
Other (gains) and losses	5.6	3.3	2.3	(20.0)	-	(20.0)
Operating profit (loss) ²⁶	(21.3)	(11.9)	(9.4)	11.8	(4.3)	16.1
Net finance expenses	2.3	(0.1)	2.2	1.3	-	1.3
(Loss)/gain before income taxes	(23.6)	(12.0)	(11.6)	10.5	(4.3)	14.8
Income taxes (recovery)/expense	(0.2)	-	(0.2)	0.3	-	0.3
Net (loss)/profit for the period	(23.4)	(12.0)	(11.4)	10.2	(4.3)	14.5
EPS basic and diluted	(0.15)	(0.08)	(0.07)	0.07	(0.03)	0.10
EBITDA ²⁶	(17.6)	(11.9)	(5.7)	14.8	(4.3)	19.1
Adjusted EBITDA ²⁶	(12.0)	(8.6)	(3.4)	(5.2)	(4.3)	(0.9)

Highlights for the three-month period ended June 30, 2022:

- **Revenues** increased by \$11.8 million to \$44.5 million for the three-month period ended June 30, 2022 compared to \$32.7 million for the same period the prior year. The increase is mainly explained by the integration of newly acquired companies, completion of second-generation Biostreams and organic growth initiatives in North America. The increase is partly offset by a lower level of sales in Europe, primarily attributable to supply chain constraints and reduced sales of oxygen and hydrogen generators, and a reduction of revenues from the deconsolidation of our Shanghai Joint-Venture last year.
- **Revenues excluding legacy RNG contracts** increased by \$12.9 million to \$44.8 million for the three-month period ended June 30, 2022 compared to \$31.9 million for the same period the prior year.

²⁶ These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

- **Gross margin** (Non-IFRS) decreased from \$5.0 million to \$1.8 million for the three-month period ended June 30, 2022 compared to the same period the prior year. The gross margin % (Non-IFRS) decrease from 15% to 4% is due to a provision intended to capture all the estimated losses on legacy RNG contracts, lower margin hydrogen contracts and higher material and supply chain costs.
- **Gross margin excluding legacy RNG contracts** (Non-IFRS) increased from \$9.2 million to \$10.1 million for the three-month period ended June 30, 2022 compared to the same period the prior year. The gross margin % (Non-IFRS) decreased from 29% to 23% due to lower margin hydrogen contracts and higher material and supply chain costs.
- **Selling and administrative expenses (“SG&A”)** of \$17.2 million, increased by \$5.0 million for the three-month period ended June 30, 2022 compared to \$12.2 million for the same period the prior year. The increase was mainly associated with SG&A expenses from newly acquired companies.
- **Selling and administrative expenses (“SG&A”) excluding legacy RNG contracts** of \$16.9 million increased \$4.8 million for the three-month period ended June 30, 2022 compared to \$12.1 million for the same period the prior year.
- **Research and development expenses** of \$1.0 million for the three-month period ended June 30, 2022 related to the continued development of the Company’s second generation Biostream product and our biogas upgrading and hydrogen technologies.
- **Other (gains) and losses** of \$5.6 million for the three-month period ended June 30, 2022 compared to a gain of \$20.0 million for the same period the prior year. The decrease is mainly due to the gain on deconsolidation of investment in our Shanghai Joint-Venture (\$21.1 million) recorded last year combined with a provision for potential penalties recorded on legacy RNG contracts (\$2.6 million), a net loss on foreign currency fluctuations (net loss of \$1.0 million vs. a net gain of \$0.2 million in the prior period) and a legal settlement and related costs (\$1.2 million, including \$0.7 million related to legacy RNG contracts). This was partly offset by lower integration and acquisition costs.
- **Other (gains) and losses excluding legacy RNG contracts** of \$2.3 million for the three-month period ended June 30, 2022 compared to a gain of \$20.0 million for the same period the prior year.
- **Operating loss** (Non-IFRS) of \$21.3 million for the three-month period ended June 30, 2022 compared to an operating profit (Non-IFRS) of \$11.8 million for the same period the prior year.

The decrease is mainly explained by the above-noted items.

- **Operating loss excluding legacy RNG contracts** (Non-IFRS) of \$9.4 million for the three-month period ended June 30, 2022 compared to an operating profit (Non-IFRS) of \$16.1 million for the same period last year.
- **Net loss** of \$23.4 million or \$0.15 per share in the three-month period ended June 30, 2022 compared to a net gain of \$10.2 million or \$0.07 per share for the same period the prior year.
- **Net loss excluding legacy RNG contracts** of \$11.4 million or \$0.07 per share in the three-month period ended June 30, 2022 compared to a net gain of \$14.5 million or \$0.10 per share for the same period the prior year.
- **EBITDA** (Non-IFRS) decreased to (\$17.6) million for the three-month period ended June 30, 2022 from \$14.8 million for the same period last year.
- **EBITDA excluding legacy RNG contracts** (Non-IFRS) decreased to (\$5.7) million for the three-month period ended June 30, 2022 from \$14.5 million for the same period last year.
- **Adjusted EBITDA** (Non-IFRS) loss increased to \$12.0 million for the three-month period ended June 30, 2022 from \$5.2 million for the same period last year.
- **Adjusted EBITDA excluding legacy RNG contracts** (Non-IFRS) increased to a loss of \$3.4 million for the three-month period ended June 30, 2022 from a loss of \$0.9 million for the same period last year.

(In millions of \$, except per share amounts and margin percentages)	For the six-month period ended June 30, 2022			For the six-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Revenue	85.7	2.4	83.3	53.3	2.5	50.8
Cost of goods sold	79.4	13.2	66.2	44.1	9.7	34.4
Gross margin ²⁷	6.3	(10.8)	17.1	9.2	(7.2)	16.4
Gross margin % ²⁷	7%	-	21%	17%	-	32%
Research and development expenses	1.7	-	1.7	1.4	-	1.4
Selling and administrative expenses	33.6	0.5	33.1	22.9	0.3	22.6
Share of after-tax profit of equity accounted investees	(0.1)	-	(0.1)	0.2	-	0.2
Other (gains) and losses	9.3	5.0	4.3	(18.3)	-	(18.3)
Operating profit (loss) ²⁷	(38.2)	(16.3)	(21.9)	3.0	(7.5)	10.5
Net finance expenses	4.1	-	4.1	2.5	-	2.5
(Loss)/gain before income taxes	(42.3)	(16.3)	(26.0)	0.5	(7.5)	8.0
Income taxes (recovery)/expense	(0.3)	-	(0.3)	0.4	-	0.4
Net (loss)/profit for the period	(42.0)	(16.3)	(25.7)	0.1	(7.5)	7.6
EPS basic and diluted	(0.27)	(0.11)	(0.16)	-	(0.05)	0.05
EBITDA ²⁷	(30.4)	(16.3)	(14.1)	8.2	(7.5)	15.7
Adjusted EBITDA ²⁷	(21.1)	(11.3)	(9.8)	(10.1)	(7.5)	(2.6)

Highlights for the six-month period ended June 30, 2022:

- **Revenues** increased by \$32.4 million to \$85.7 million for the six-month period ended June 30, 2022 compared to \$53.3 million for the same period the prior year. The increase is mainly explained by the integration of newly acquired companies, completion of second-generation Biostreams and organic growth initiatives in North America. The increase is partly offset by a lower level of sales in Europe, primarily attributable to supply chain constraints and reduced sales of oxygen and hydrogen generators, and a reduction of revenues from the deconsolidation of our Shanghai Joint-Venture last year.
- **Revenues excluding legacy RNG contracts** increased by \$32.5 million to \$83.3 million for the six-month period ended June 30, 2022 compared to \$50.8 million for the same period the prior year.

²⁷ These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

- **Gross margin** (Non-IFRS) decreased from \$9.2 million to \$6.3 million for the six-month period ended June 30, 2022 compared to the same period the prior year. The gross margin % (Non-IFRS) decrease from 17% to 7% is due to a provision intended to capture all the estimated losses on legacy RNG contracts, lower margin hydrogen contracts and higher material and supply chain costs.
- **Gross margin excluding legacy RNG contracts** (Non-IFRS) increased from \$16.4 million to \$17.1 million for the six-month period ended June 30, 2022 compared to the same period the prior year. The gross margin % (Non-IFRS) decrease from 32% to 21% is due to lower margin hydrogen contracts and higher material and supply chain costs.
- **Selling and administrative expenses (“SG&A”)** for the six-month period ended June 30, 2022 were \$33.6 million, an increase of \$10.7 million, compared to \$22.9 million for the same six months of 2021. The increase was associated to SG&A expenses associated with newly acquired companies.
- **Selling and administrative expenses (“SG&A”) excluding legacy RNG contracts** for the six-month period ended June 30, 2022 were \$33.1 million, an increase of \$10.5 million for the same six months of 2021.
- **Research and development expenses** of \$1.7 million for the six-month period ended June 30, 2022 related to the continued development of the Company’s second generation Biostream product and our biogas upgrading and hydrogen technologies.
- **Other (gains) and losses** of \$9.3 million for the six-month period ended June 30, 2022 compared to (\$18.3) million for the same period the prior year. The decrease is mainly due to the gain on deconsolidation of investment in our Shanghai Joint-Venture (\$21.1 million) recorded last year combined with a provision for potential penalties recorded on legacy RNG contracts (\$2.6 million), a net loss on foreign currency fluctuations (net loss of \$2.1 million vs. \$0.5 million in the prior period) and a legal settlement and related costs (\$2.9 million, including \$2.4 million related to legacy RNG contracts). This was partly offset by lower integration and acquisition costs.
- **Other (gains) and losses excluding legacy RNG contracts** of \$4.3 million for the six-month period ended June 30, 2022 compared to (\$18.3) million for the same period the prior year.
- **Operating loss** (Non-IFRS) of \$38.2 million for the six-month period of 2022 compared to an operating profit (Non-IFRS) of \$3.0 million for the same period the prior year. The decrease is mainly explained by the above-noted items.

- **Operating loss excluding legacy RNG contracts** (Non-IFRS) of \$21.9 million for the six-month period of 2022 compared to an operating profit (Non-IFRS) of \$10.5 million for the same period the prior year.
- **Net loss** of \$42.2 million or \$0.27 per share in the six-month period ended June 30, 2022 compared to a net gain of \$0.1 million for the same period the prior year.
- **Net loss excluding legacy RNG contracts** of \$25.7 million or \$0.16 per share in the six-month period ended June 30, 2022 compared to a net gain of \$7.6 million or \$0.05 per share for the same period the prior year.
- **EBITDA** (Non-IFRS) decreased to (\$30.4) million for the six-month period ended June 30, 2022 from \$8.2 million for the same period last year.
- **EBITDA excluding legacy RNG contracts** (Non-IFRS) decreased to (\$25.7) million for the six-month period ended June 30, 2022 from \$15.7 million for the same period last year.
- **Adjusted EBITDA** (Non-IFRS) loss increased to \$21.1 million for the six-month period ended June 30, 2022 from \$10.1 million for the same period last year.
- **Adjusted EBITDA excluding legacy RNG contracts** (Non-IFRS) increased to \$9.8 million for the six-month period ended June 30, 2022 from \$2.6 million for the same period last year.

Current Backlog as of August 10, 2022

The order backlog²⁸ (Non-IFRS) is calculated based on contracts received and considered as firm orders.

(In millions of \$)	August 10, 2022 \$	May 11, 2022 \$	March 16, 2022 \$	November 10, 2021 \$	August 11, 2021 \$
Support	25.3	32.4	27.6	23.2	19.7
System	244.9	228.1	92.2	76.9	56.2
Consolidated Backlog	270.2	260.5	123.8	100.1	75.9

²⁸ These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

Business Segment Review

We report our results in two business segments – Systems and Support. Our reporting structure reflects the way we manage our business and how we classify our operations for planning and measuring performance. The corporate office and administrative support are reported under Corporate and Other.

Systems – Cleantech

(In millions of \$, except per share amounts and margins %)	For the three-month period ended June 30, 2022			For the three-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Revenue	28.5	(0.3)	28.8	21.5	0.8	20.7
Cost of goods sold	31.3	8.0	23.3	20.1	5.0	15.1
Gross margin ²⁹	(2.8)	(8.3)	5.5	1.4	(4.2)	5.6
Gross margin % ²⁹	(10%)	-	19%	6%	-	27%
Research and development expenses	1.0	-	1.0	0.9	-	0.9
Selling and administrative expenses	3.1	0.3	2.8	3.2	0.1	3.1
Operating gain (loss) ²⁹	(6.9)	(8.6)	1.7	(2.7)	(4.3)	1.6
EBITDA ²⁹	(3.9)	(8.6)	4.7	(0.2)	(4.3)	4.1
Adjusted EBITDA ²⁹	(3.9)	(8.6)	4.7	(0.2)	(4.3)	4.1

For the three-month period ended June 30, 2022:

Revenues increased by \$7.0 million to \$28.5 million for the three-month period ended June 30, 2022 compared to the same period of 2021. The increase is mainly explained by the integration of UEC and completion of second-generation Biostreams. The increase is partly offset by the lower sales level in Europe, which is partly attributable to supply chain constraints.

Revenues excluding legacy RNG contracts increased by \$8.1 million to \$28.8 million for the three-month period ended June 30, 2022 compared to the same period of 2021.

Gross Margin (Non-IFRS) decreased by \$4.2 million to (\$2.8) million for the three-month period ended June 30, 2022 compared to \$1.4 million in the same period of 2021. Gross margin % (Non-IFRS) decreased to (10%) for the three-month period ended June 30, 2022 compared to 6% in the same period of 2021. The decrease in Q2 2022 gross margin % (Non-IFRS) is due to a provision intended to capture all the estimated losses on legacy RNG contracts, lower margin hydrogen contracts and higher material and supply chain costs.

²⁹ These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

Gross Margin excluding legacy RNG contracts (Non-IFRS) decreased by \$0.1 million to \$5.5 million for the three-month period ended June 30, 2022 compared to \$5.6 million in the same period of 2021.

SG&A Expenses for the three-month period ended June 30, 2022 decreased by \$0.1 million to \$3.1 million in the Systems segment compared to \$3.2 million for the same period the prior year. The decrease is mainly due the impact of foreign exchange conversion offset by the acquisition of UEC.

SG&A Expenses excluding legacy RNG contracts for the three-month period ended June 30, 2022 decreased by \$0.3 million to \$2.8 million compared to \$3.1 million for the same period the prior year.

Research and development expenses of \$1.0 million for the three-month period ended June 30, 2022 related to the continued development of the Company's second generation Biostream product and our biogas upgrading and hydrogen technologies.

(In millions of \$, except per share amounts and margins %)	For the six-month period ended June 30, 2022			For the six-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Revenue	55.3	2.4	52.9	31.5	2.5	29.0
Cost of goods sold	57.6	13.2	44.4	29.7	9.7	20.0
Gross margin ³⁰	(2.3)	(10.8)	8.5	1.8	(7.2)	9.0
Gross margin % ³⁰	(4%)	-	16%	6%	-	31%
Research and development expenses	1.7	-	1.7	1.4	-	1.4
Selling and administrative expenses	6.6	0.5	6.1	6.9	0.3	6.6
Operating gain (loss) ³⁰	(10.6)	(11.3)	0.7	(6.5)	(7.5)	1.0
EBITDA ³⁰	(4.4)	(11.3)	6.9	(2.2)	(7.5)	5.3
Adjusted EBITDA ³⁰	(4.4)	(11.3)	6.9	(2.2)	(7.5)	5.3

For the six-month period ended June 30, 2022:

Revenues increased by \$23.8 million to \$55.3 million for the six-month period ended June 30, 2022 compared to the same period of 2021. The increase is mainly explained by the integration of Inmatec and UEC and the completion of second-generation Biostreams. The increase is partly offset by the lower sales level in Europe, which is partly attributable to supply chain constraints.

Revenues excluding legacy RNG contracts increased by \$23.9 million to \$52.9 million for the six-month period ended June 30, 2022 compared to the same period of 2021.

³⁰ These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

Gross Margin (Non-IFRS) decreased by \$4.1 million to (\$2.3) million for the six-month period ended June 30, 2022 compared to \$1.8 million in the same period of 2021. Gross margin % (Non-IFRS) decreased to (4%) for the six-month period ended June 30, 2022 compared to 6% in the same period of 2021. The decrease in 2022 gross margin % (Non-IFRS) is due to a provision intended to capture all the estimated losses on legacy RNG contracts, lower margin hydrogen contracts and higher material and supply chain costs.

Gross Margin excluding legacy RNG contracts (Non-IFRS) decreased by \$0.5 million to \$8.5 million for the six-month period ended June 30, 2022 compared to \$9.0 million in the same period of 2021.

SG&A Expenses for the six-month period ended June 30, 2022 decreased by \$0.3 million to \$6.6 million compared to \$6.9 million for the same period the prior year. The decrease is mainly due the impact of foreign exchange conversion offset by the acquisitions of UEC.

SG&A Expenses excluding legacy RNG contracts for the six-month period ended June 30, 2022 decreased by \$0.5 million to \$6.1 million compared to \$6.6 million for the same period the prior year.

Research and development expenses of \$1.7 million for the six-month period ended June 30, 2022 related to the continued development of the Company's second generation Biostream product and our biogas upgrading and hydrogen technologies.

Support – Industrial Products and Service

For the three-month period ended June 30, 2022:

(In millions of \$, except per share amounts and margins %)	For the three-month period ended June 30, 2022			For the three-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Revenue	16.0	-	16.0	11.2	-	11.2
Cost of goods sold	11.4	-	11.4	7.6	-	7.6
Gross margin ³¹	4.6	-	4.6	3.6	-	3.6
Gross margin % ³¹	28%	-	28%	33%	-	33%
Selling and administrative expenses	5.0	-	5.0	2.9	-	2.9
Operating gain (loss) ³¹	(0.4)	-	(0.4)	0.7	-	0.7
EBITDA ³¹	0.3	-	0.3	1.2	-	1.2
Adjusted EBITDA ³¹	0.3	-	0.3	1.2	-	1.2

Revenues increased by \$4.8 million to \$16.0 million for the three-month period ended June 30, 2022. The increase is mainly explained by the impact of the newly acquired companies.

Gross Margin (Non-IFRS) increased by \$1.0 million to \$4.6 million for the three-month period ended June 30, 2022. Gross margin % (Non-IFRS) decreased to 28% from 33% for the three-month period ended June 30, 2021, mainly due to product mix and increased material and supply chain costs.

SG&A Expenses for the three-month period ended June 30, 2022 increased by \$2.1 million, to \$5.0 million from \$2.9 million in the same period last year. The increase is mainly due to newly acquired companies.

³¹ These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

For the six-month period ended June 30, 2022:

(In millions of \$, except per share amounts and margins %)	For the six-month period ended June 30, 2022			For the six-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Revenue	30.4	-	30.4	21.8	-	21.8
Cost of goods sold	21.8	-	21.8	14.5	-	14.5
Gross margin ³²	8.6	-	8.6	7.4	-	7.4
Gross margin % ³²	28%	-	28%	34%	-	34%
Selling and administrative expenses	7.9	-	7.9	5.1	-	5.1
Operating gain (loss) ³²	0.7	-	0.7	2.3	-	2.3
EBITDA ³²	2.3	-	2.3	3.2	-	3.2
Adjusted EBITDA ³²	2.3	-	2.3	3.2	-	3.2

Revenues increased by \$8.6 million to \$30.4 million for the six-month period ended June 30, 2022. The increase is mainly explained by the impact of the newly acquired companies.

Gross Margin (Non-IFRS) increased by \$1.2 million to \$8.6 million for the six-month period ended June 30, 2022. Gross margin % (Non-IFRS) decreased to 28% from 34% for the six-month period ended June 30, 2021, mainly due to product mix and increased material and supply chain costs.

SG&A Expenses for the six-month period ended June 30, 2022 increased by \$2.8 million, to \$7.9 million from \$5.1 million in the same period last year. The increase is mainly due to newly acquired companies.

³² These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

Corporate and Other

For the three-month period ended June 30, 2022:

(In millions of \$, except per share amounts and margins %)	For the three-month period ended June 30, 2022			For the three-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Selling and administrative expenses	9.1	-	9.1	6.1	-	6.1
Share of after-tax profit of equity accounted investees	(0.7)	-	(0.7)	0.1	-	0.1
Other (gains) and losses	5.6	3.3	2.3	(20.0)	-	(20.0)
Operating (gain) loss ³³	14.0	3.3	10.7	(13.8)	-	(13.8)
Net finance expenses	2.3	-	2.3	1.3	-	1.3
Loss/(gain) before income taxes	16.3	3.3	13.0	(12.5)	-	(12.5)
Income taxes (recovery)/expense	(0.2)	-	(0.2)	0.3	-	0.3
Net loss for the period	16.1	3.3	12.8	(12.2)	-	(12.2)
EBITDA ³³	(14.0)	(3.3)	(10.7)	13.8	-	13.8
Adjusted EBITDA ³³	(8.4)	-	(8.4)	(6.2)	-	(6.2)

SG&A Expenses for the three-month period ended June 30, 2022 increased by \$3.0 million, to \$9.1 million from \$6.1 million for the same three months of 2021. The increase is caused by the 2021 organizational scale up of employees and associated costs required to support the increased level of sales and global expansion of the business.

Other (gains) and losses of \$5.6 million for the three-month period ended June 30, 2022 compared to a gain of \$20.0 million for the same three months of 2021. The decrease is mainly due to the gain on deconsolidation of investment in our Shanghai Joint-Venture (\$21.1 million) recorded last year combined with a provision for potential penalties recorded on legacy RNG contracts (\$2.6 million), a net loss on foreign currency fluctuations (net loss of \$1.0 million vs. a net gain of \$0.2 million in the prior period) and a legal settlement and related costs (\$1.2 million, including \$0.7 million related to legacy RNG contracts). This was partly offset by lower integration and acquisition costs.

Other (gains) and losses excluding legacy RNG contracts of \$2.3 million for the three-month period ended June 30, 2022 compared to a gain of \$20.0 million for the same three months of 2021. The decrease is mainly due to the gain on deconsolidation of investment in our Shanghai Joint-Venture (\$21.1 million) recorded last year combined with a net loss on foreign currency fluctuations (net loss

³³ These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

of \$1.0 million vs. a net gain of \$0.2 million in the prior period) and a legal settlement and related costs (\$0.5 million). This was partly offset by lower integration and acquisition costs.

For the six-month period ended June 30, 2022:

(In millions of \$, except per share amounts and margins %)	For the six-month period ended June 30, 2022			For the six-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Selling and administrative expenses	19.1	-	19.1	10.9	-	10.9
Share of after-tax profit of equity accounted investees	(0.1)	-	(0.1)	0.2	-	0.2
Other (gains) and losses	9.3	5.0	4.3	(18.3)	-	(18.3)
Operating loss ³⁴	28.3	5.0	23.3	(7.2)	-	(7.2)
Net finance expenses	4.1	-	4.1	2.5	-	2.5
(Loss)/gain before income taxes	32.4	5.0	27.4	(4.7)	-	(4.7)
Income taxes (recovery)/expense	(0.3)	-	(0.3)	0.4	-	0.4
Net loss for the period	32.1	5.0	27.1	(4.3)	-	(4.3)
EBITDA ³⁴	(28.3)	(5.0)	(23.3)	7.2	-	7.2
Adjusted EBITDA ³⁴	(19.0)	-	(19.0)	(11.1)	-	(11.1)

SG&A Expenses for the six-month period ended June 30, 2022 increased by \$8.2 million, to \$19.1 million from \$10.9 million. The increase is caused by the 2021 organizational scale up of employees and associated costs required to support the increased level of sales and global expansion of the business.

Other (gains) and losses of \$9.3 million for the six-month period ended June 30, 2022 compared to a gain of \$18.3 million for the same three months of 2021. The decrease is mainly due to the gain on deconsolidation of investment in our Shanghai Joint-Venture (\$21.1 million) recorded last year combined with a provision for potential penalties recorded on legacy RNG contracts (\$2.6 million), a net loss on foreign currency fluctuations (net loss of \$2.1 million vs. \$0.5 million in the prior period) and a legal settlement and related costs (\$2.9 million, including \$2.4 million related to legacy RNG contracts). This was partly offset by lower integration and acquisition costs.

Other (gains) and losses excluding legacy RNG contracts of \$4.3 million for the six-month period ended June 30, 2022 compared to a gain of \$18.3 million for the same three months of 2021. The decrease is mainly due to the gain on deconsolidation of investment in our Shanghai Joint-Venture (\$21.1 million)

³⁴ These are Non-IFRS measures. For a reconciliation of these Non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS, see section 13 of this MD&A.

recorded last year combined with a net loss on foreign currency fluctuations (net loss of \$2.1 million vs. \$0.5 million in the prior period) and a legal settlement and related costs (\$0.5 million). This was partly offset by lower integration and acquisition costs.

7. FINANCIAL CONDITION

Summary Balance Sheet

(In millions of \$)	June 30, 2022 \$	December 31 2021 \$
Current assets	190.4	166.8
Non-current assets	313.0	331.2
	503.4	498.0
Current liabilities	154.5	85.8
Non-current liabilities	88.6	97.6
Shareholders' equity	260.3	314.6
	503.4	498.0

The Company's total assets increased by \$5.4 million between December 31, 2021 and June 30, 2022 to \$503.4 million mainly due to advances received from customers, prepayments made to suppliers to secure supply chain requirements and higher inventory levels. This was partly offset by the use of cash to fund operating losses, a reduction of contract assets due to the completion of second-generation Biostreams, and foreign currency exchange fluctuations.

Liabilities increased by \$59.7 million between December 31, 2021 and June 30, 2022 to \$243.1 million, mainly due to customer deposits resulting in increased contract liabilities, higher accounts payable and credit facility balance, partly offset by the repayment of loans, deliveries impacting contract liabilities and the impact of foreign currency exchange.

Working capital (Non-IFRS) amounted to \$35.9 million as at June 30, 2022, compared with working capital (Non-IFRS) of \$81.0 million as at December 31, 2021.

Shareholders' equity totaled \$260.3 million as at June 30, 2022, a decrease of \$54.3 million from December 31, 2021. The change is mainly explained by the current period loss and the other comprehensive loss resulting from currency fluctuations.

Total Indebtedness

(In millions of \$)	June 30, 2022 \$	December 31 2021 \$
Bank loans	7.0	5.0
Short-term debt	15.5	14.0
Long-term debt	62.0	69.3
Rent obligation	(13.8)	(13.4)
Balance of purchase price payable	(11.0)	(12.9)
Total Indebtedness	59.7	62.0

Total Indebtedness amounted to \$59.7 million as at June 30, 2022, a decrease of \$2.3 million when compared to December 31, 2021. The decrease is mainly explained by repayment of loans combined with the impact of foreign currency exchange differences.

Capital Stock Information

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares. As at June 30, 2022 Xebec Adsorption Inc. had 154,723,743 common shares issued and outstanding and no preferred shares issued and outstanding.

Share Purchase Warrants Outstanding

As at June 30, 2022, the Company had 4,500,000 warrants issued and outstanding. In the three-month period ended June 30, 2022, 3,000,000 warrants were forfeited.

Stock Options Outstanding

On June 25, 2020, the shareholders of Xebec approved the adoption of the Company's long-term incentive plan (LTIP) replacing the Company's prior stock option plan. The LTIP permits the granting of options ("LTIP Options"), Restricted Stock Units ("RSUs") and Deferred Share Units ("DSUs") to eligible participants of the Company and is administered by the Board with oversight by the Human Resources Committee ("HRC").

Although the shareholders of the Company and the Toronto Stock Exchange have approved common shares reserved for issuance under the LTIP of up to 20% of the total issued and outstanding common shares, the Board has fixed the number of common shares reserved to a lower number. Therefore, consistent with the Board's decision, the total number of common shares reserved and available for grant and issuance pursuant to awards that may be granted under the LTIP (including the common shares issuable upon exercise of the outstanding options previously granted under the Company's prior stock option plan) shall not exceed 8,393,115 common shares of the Company.

As at the date of approval of the LTIP, all existing options granted under the Company's prior stock option plan remained outstanding and remain subject to the term and conditions of such prior stock option plan.

The LTIP provides that the aggregate number of common shares issued to insiders of the Company and associates of such insiders under the LTIP or any other proposed or established share compensation arrangement within any one-year period and issuable to insiders of the Company and associates of such insider at any time under the LTIP or any other proposed or established share compensation arrangement, shall not in each case exceed 10% of the issued and outstanding common shares of the Company.

The aggregate number of common shares issuable to any one consultant of the Company, within anyone-year period, under the LTIP, or when combined with all of the Company's other security-based compensation arrangements, shall not exceed 2% of the Company's total issued and outstanding common shares, calculated on the date the award is granted.

The aggregate number of common shares issuable to all participants retained to provide investor relations activities, within any one-year period, under the LTIP, or when combined with all of the Company's other security-based compensation arrangements, shall not exceed 2% of the Company's total issued and outstanding common shares, calculated on the date the award is granted to the participant, and options granted to such participants retained to provide investor relations activities must vest in stages over a period of not less than one year with no more than $\frac{1}{4}$ of the options vesting in any three month period.

The purchase price per share purchasable under an option shall be determined by the Board, upon recommendation of the HRC, and shall not be less than 100% of the Fair Market Value (as such term is defined in the LTIP) of a common share on the date of grant of such option; provided, however, that the Board, upon recommendation of the HRC may designate a purchase price below Fair Market Value on the date of grant if the option is granted in substitution for a stock option previously granted by an entity that is acquired by or merged with the Company or an affiliate. The term of each option shall be fixed by the Board, upon recommendation of the HRC at the date of grant but shall not be longer than 10 years from the date of grant.

The above is only a summary of the applicable terms included in the LTIP and is qualified in its entirety by the terms and conditions included in the LTIP.

8. SUMMARY OF QUARTERLY RESULTS

(In millions of \$, except per share amount)	Q1	Q2	Q3	Q4	Year to date
Fiscal 2022					
Revenues	41.2	44.5	-	-	85.7
Net loss	(18.6)	(23.4)	-	-	(42.0)
Net loss excluding legacy RNG contracts	(14.2)	(11.4)	-	-	(25.6)
Earnings (loss) per share (basic and diluted)	(0.12)	(0.15)	-	-	(0.27)
Fiscal 2021					
Revenues	20.6	32.7	26.7	45.9	125.9
Net loss	(10.1)	10.2	(10.6)	(13.3)	(23.8)
Net loss excluding legacy RNG contracts	(6.9)	14.5	(9.6)	(12.7)	(14.7)
Earnings (loss) per share (basic and diluted)	(0.07)	0.07	(0.07)	(0.09)	(0.15)

9. LIQUIDITY AND CAPITAL RESOURCES

(In millions of \$)	For the three-month period ended June 30,			For the six-month period ended June 30,		
	2022	2021	Variance	2022	2021	Variance
	\$	\$	\$	\$	\$	\$
Cash flow from (used in)						
Operating activities	19.0	(3.1)	713%	7.7	(23.3)	133%
Investing activities	(1.4)	(25.6)	94%	(2.3)	(61.8)	96%
Financing activities	(0.4)	(0.3)	(33%)	(4.8)	(3.8)	(26%)

Analysis of principal cash flows for the three-month period ended June 30, 2022

Operating activities in the three-month period ended June 30, 2022 added \$19.0 million of cash compared to \$3.1 million of cash used for the same period in 2021. The cash increase from operations for the three-month period is mainly explained by deposits from customers, partly offset by the net loss of \$23.4 million and prepayments made to suppliers to secure the required supply chain.

Investing activities had a cash outflow of \$1.4 million for the three-month period ended June 30, 2022. These cash outflows relate mainly to the acquisition of property, plant and equipment.

Financing activities for the three-month period ended June 30, 2022 resulted in a cash outflow of \$0.4 million. The cash outflow is mainly explained by the payment of debt liabilities and earn-out payments, partly offset by a drawdown on the Credit Facility (as defined below).

Analysis of principal cash flows for the six-month period ended June 30, 2022

Operating activities in the three-month period ended June 30, 2022 added \$7.7 million of cash, compared to \$23.3 million of cash used for the same period in 2021. The increase in cash from

operations is explained by deposits from customers partly offset by the net loss of \$42.0 million and prepayments made to suppliers to secure the required supply chain.

Investing activities had a cash outflow of \$2.3 million for the six-month period ended June 30, 2022. These cash outflows relate mainly to the acquisitions of property, plant and equipment.

Financing activities for the six-month period ended June 30, 2022 resulted in a cash outflow of \$4.8 million. The cash outflow is mainly explained by the payment of debt liabilities and earn-out payments, partly offset by a drawdown on the Credit Facility (as defined below).

Credit Facilities

In July 2022, the Company and National Bank of Canada's Technology and Innovation Banking Group executed a Forbearance Agreement to amend the Company's existing credit facility previously executed in February 2021, as amended on January 26, 2022 and June 30, 2022 (the "Credit Facility"). The entering into the Forbearance Agreement occurred mainly due to a default by the Company in complying with the Maximum Total Liabilities to Tangible Net Worth Ratio under the Credit Facility. The Credit Facility is now available until the earlier of September 30, 2022, or the occurrence of a termination event as defined in the Forbearance Agreement. The outstanding amount of the Credit Facility is to \$25.3 million (compared to \$59.3 million as at December 31, 2021).

The amount due under the Credit Facility is secured by a first ranking hypothec of \$75.0 million on all movable property of the Company.

As at June 30, 2022, an amount of \$7.0 million was outstanding under the Operating and Acquisition Credit Facility with EDC (\$5.0 million as at December 31, 2021) and an amount of \$7.0 million was outstanding under the Letters of Guarantee Credit Facility (\$6.9 million as at December 31, 2021). In addition, only the Credit Card Facility was used at the end of the second quarter.

As at June 30, 2022 Standby Fees of 0.70% are applicable on the unused portion of the Operating and Acquisition Credit Facility and the Pre-Shipment Credit Facility. Following the Forbearance agreement, the Standby fees on unused portion of the Operating Credit Facility was adjusted to 0.85%. With respect to the Credit Facility, the Canadian rate is plus 2.75% (2.25% under previous agreement), the US base rate is plus 2.75% (2.25% under previous agreement) and the acceptance fee is plus 4.25% (3.50% under the previous agreement).

In February 2022, the Company renewed its Account Performance Security Guarantee (Account PSG) Facility with Export Development Canada (EDC) until December 31, 2022, for an amount not to exceed \$16.5 million (\$10.0 million as at December 31, 2021). As at June 30, 2022 an amount of \$6.5 million was outstanding under this facility (\$5.8 million as at December 31, 2021).

10. OUTSTANDING SHARE DATA

Outstanding common shares and stock options:

	Number of shares	Exercise Price	Expiring Date
Issued and outstanding Common Shares as of June 30, 2022	154,723,743		
Stock Options	200,000	\$0.55	December 19, 2022
	200,000	\$0.05	January 7, 2023
	350,000	\$0.49	August 29, 2024
	37,000	\$0.55	December 19, 2024
	787,000	\$0.40	
Warrants	4,500,000	\$4.44	November 9, 2024
LTIP Options	50,000	\$5.01	May 21, 2025
RSUs	325,501		
DSUs	216,679		
Fully diluted as at June 30, 2022	160,602,923		

11. CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that affect the Company's consolidated financial statements.

Inventories must be valued at the lower of cost and net realizable value

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

Impairment of internally generated intangible assets

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

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

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

Allowance for expected credit loss

The Company recognizes the impairment of financial assets in the number of expected credit losses by means of the simplified approach, measuring impairment losses as lifetime expected credit losses and the trade receivables that have been assessed on a collective basis as they possess shared credit risk characteristics and have been grouped based on the days past due.

Acquisition valuation method

The Company uses valuation techniques when determining the fair value of certain assets and liabilities acquired in a business combination. In particular, the fair value of the intangible assets, goodwill and contingent consideration is dependent on the outcome of many variables including the acquirees' future profitability.

Leases

Recognizing leases requires judgment and use of estimates and assumptions. Judgement is used to determine whether there is reasonable certainty that a lease extension or cancellation option will be exercised. Furthermore, management estimates are used to determine the lease terms and the appropriate interest rate to establish the lease liability.

Classification of finance and operating leases requires management to make assumptions related to the economic life and the fair value of the leased asset. In addition, at the commencement date of finance leases, the measurement of selling profit requires assumptions such as the determination of the unguaranteed residual value, the fair value of the leased asset and the rate implicit in the lease. Those assumptions are based on management's best estimate by considering all information available at the reporting date, including profit margins by reference to transactions involving assets of a similar nature, market funding rates, the economic life of assets of a similar nature and the expected value of the asset at the end of the lease.

Impairment of non-financial assets and goodwill

In assessing impairment, management estimates the recoverable amounts of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

12. OUTLOOK AND MANAGEMENT GUIDANCE

Current Market Outlook

Xebec continues to execute on its commercial pipeline as evidenced by its backlog (Non-IFRS) which has increased both year-over-year and quarter-over-quarter. However, current market conditions have created an environment where profitable growth is essential, and Xebec is addressing this with its previously announced Centers of Excellence Framework. While Xebec's objective is to continue its growth trajectory, the Company is simultaneously taking actions to deliver better efficiencies and operating leverage in line with its previously announced three-year strategic plan. In addition to its cost saving initiatives, including its Centers of Excellence Framework, and financing efforts, the Company may consider other cash generating alternatives such as potential asset divestitures or joint ventures.

The second quarter of fiscal 2022 saw the Company discontinue certain business activities, mainly within its RNG segment, to ensure it is focusing on products and services that management believes can achieve desired operating margins long-term. A provision intended to capture all the remaining estimated losses of these legacy RNG contracts was recorded in the quarter and had a gross margin (Non-IFRS) impact of \$8.3 million and a net loss impact of \$11.9 million.

In July 2022, Xebec announced a headcount reduction of approximately 13% in North America, resulting in approximately \$4.0 million in annual cost savings. These changes helped focused efforts, particularly in our Blainville, Québec facility. The Company continues to evaluate its business under the

Centers of Excellence Framework which revolves around three levers: 1) core vs. non-core activities, 2) product rationalization, and 3) workforce and supply chain synergies, all of which aim to pursue operational efficiencies and focus our efforts across the business.

Xebec continues to be encouraged by the push towards increased onshoring of manufacturing, energy security and lower carbon fuels with proposed bills such as The Inflation Reduction Act of 2022 and its targeted US\$369 billion in clean energy investments³⁵. We believe Xebec remains well positioned for the energy transition towards renewable and low carbon gases as markets around the world aim for lower costs, lower emissions and local supply for energy, industrial and mobility applications.

Systems - Cleantech

Renewable Natural Gas (RNG)

While 2022 started off with strong sales quoting activity, quotes have been slow to book into the backlog. Xebec believes this may be related to factors such as economic uncertainty, carbon credit pricing volatility and the early adopter nature of the second-generation Biostream product. While Xebec remains optimistic about the long-term growth prospects in RNG, the Company is cautious about the pace of order uptake in the short term.

Biostream deliveries to the Brightmark and Chevron Renewable Natural Gas Partnership remain on schedule with all 18 units expected to be manufactured and delivered by year end. Successful execution of this contract is a strategic priority for Xebec this year as it looks to further cement its leadership within the industry and create a record number of active RNG references.

The majority of legacy RNG contracts declared this quarter were in relation to the Company's RNG segment as it finalizes the last of its legacy, production-type contracts, with provisions recognized for inventory write downs, potential penalties and warranty claims. Xebec aimed to capture all the estimated losses related to the full completion of this discontinued product line for the balance of the year. Going forward, the Company does not currently expect any further financial impact relating to these legacy activities. Revenues going forward are expected to be comprised entirely of standardized equipment.

We are optimistic about our remaining RNG business. While orders slowed this quarter, the Brightmark and Chevron Renewable Natural Gas Partnership contract deliveries are on track and we see a clear path to a profitable business in this segment.

Hydrogen

Hydrogen continues to present an array of opportunities for Xebec, some of which are translating into firm orders such as the previously announced PSA supply agreement with Haffner Energy, resulting in a record number of hydrogen PSA orders in the quarter. In addition, the Company is seeing strong demand for its Gas-as-a-Service offering globally and is working to progress its strategy in the segment to support the funding of the underlying assets more effectively. Gas-as-a-Service is important to improving scale and margins at our hydrogen operation in The Netherlands.

³⁵ <https://www.politico.com/news/2022/08/07/inflation-reduction-act-climate-biden-00050230>

Gross margins (Non-IFRS) in the quarter continued to be impacted by increasing supply chain costs in Europe. Revenues also came in lower than expected due to delays with customers which have been pushed out to subsequent quarters. We believe the pipeline for potential projects continues to be strong with several key projects expected to be booked in the second half of 2022.

The hydrogen business continues to develop, but the pace of adoption by customers, supply chain issues and the capital required to support the Decentralized Production Hub strategy have pushed out the horizon for a cash positive business.

Carbon Capture and Sequestration

Xebec is making progress on its US\$113.0 million contract with Summit Carbon Solutions and has secured all the necessary long-lead supply chain items to start manufacturing the equipment in the second half of 2022. Several units from the contract are expected to be delivered by year end with most of the contract to be executed and delivered by the end of 2023. Overall, Xebec continues to progress in its carbon capture and sequestration activities by working with existing customers while also aiming to create new opportunities for its technologies.

Oxygen and Nitrogen

The second quarter of fiscal 2022 saw a slowdown in the oxygen business as the strong demand from the COVID-19 pandemic subsided. Xebec believes that the oxygen business and consequently its whole on-site oxygen and nitrogen business will normalize to levels within the long-term mean of the industry. As a result, a work share program has been implemented to temporarily reduce overhead costs to respond to the shifting demand while retaining core employees. The cost reduction impact amounts to \$0.5 million in SG&A for the second half of the 2022 and has the option to be renewed every six months.

The Company is focused on supplanting reduced oxygen demand with higher nitrogen orders. The second quarter of fiscal 2022 saw a significant order with Uponor commissioned in June 2022 where two large-scale nitrogen generators were provided to a customer who produces specialized high-tech metalized plastic hose connections. The nitrogen is used in the production process and saves over 230 liquid truck shipments per year which results in approximately 44,000KG per year of CO2 reduction.

The oxygen and nitrogen generation business are operating on a cash neutral basis. Its ability to produce material positive cash flow depends on the resolution of supply chain issues and increasing the nitrogen portion of the business in the face of declining oxygen demand triggered by declining intensity of the COVID-19 pandemic.

Lastly, Xebec has continued to see increased supply chain costs and consequently introduced increased pricing on generators to customers ranging between approximately 10%-20% beginning on March 1, 2022. The Company saw gross margins for this product line favourably reflect these updates.

Support – Industrial Products & Services

Now operating under the brand XBC Flow Services, our Support segment delivered operating results within expectations and continued to grow its service technician base to support the Company's backlog (Non-IFRS). The latest wave of COVID-19 continued to impede on supply chain and logistics costs and reduced productivity for technicians in the segment. Existing and newly hired technicians have been playing a key role in supporting new Biostream deliveries, which will include installation and commissioning.

Integration efforts continue for service branches with the first location now running on Xebec's global ERP system with several more to follow suit. In addition, brand transformation is underway with two Wisconsin service locations now successfully rebranded and a goal to complete two more in the third quarter of fiscal 2022. Xebec believes that these ongoing integration efforts will result in a realigned organization structure which reallocates saved costs for customer acquisition and retention.

The Support segment is progressing well and generating positive cash flow.

The Company is continuing to refine its views about what constitutes core activities and to seek additional financing for its transition to a business mix which produces positive cash flow overall in the current and foreseeable business environment. In addition to its current cost saving initiatives, including its Centers of Excellence Framework, and financing efforts, the Company may consider other cash generating alternatives such as potential asset divestitures or joint ventures.

The above noted outlook and management guidance is based on a variety of assumptions from management, as well as statistical data and reports evaluated by management in making such assumptions, as discussed above and throughout this report. The outlook and management guidance is also subject to the various risk factors disclosed by Xebec and further discussed below. There can be no assurance that the Company will be able to execute on its strategic plan or realize the expected benefits from such plan. Xebec has a history of operating losses and while the above noted strategic plan strongly prioritizes profitable growth, additional capital will be required to execute this plan. There can be no assurance that such capital will be available to the Company. See "Enterprise Risk Management" below.

13. NON-IFRS MEASURES AND RECONCILIATION OF NON-IFRS MEASURES

The following section provides information regarding Non-IFRS financial measures used by the Company to analyze and evaluate its results.

The Company uses these measures because they enable management to assess the Company's operational performance from period to period and to prepare annual operating budgets and forecasts. While we believe these measures are widely accepted financial indicators of a Company's financial performance, investors should not regard them in isolation nor as alternatives to operating revenues or cash flows, or as measures of liquidity reported under IFRS. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures and ratios presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. These Non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use Non-IFRS measures and ratios in the evaluation of issuers

"Gross margin" means the operating income or loss excluding research and development, selling and administrative expenses, other gains and losses and after-tax share in profit or loss of equity accounted investees. We believe it is useful to management and investors in evaluating our ongoing operational performance. Please refer to section 6 "Operating results" of this MD&A for a reconciliation of this Non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS.

"Gross margin %" being gross margin as a percentage of revenues. We believe it is useful to management and investors in evaluating both the operating profitability and cash flows generated from the business as a % of revenues. Please refer to section 6 "Operating results" of this MD&A for a reconciliation of this Non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS.

"Operating profit or loss" means net income or loss excluding the effect of certain financing decisions, tax structures and discontinued operations. We believe it facilitated the comparison across reporting periods, and with companies and industries that do not have the same capital structure or tax laws. Please refer to section 6 "Operating results" of this MD&A for a reconciliation of this Non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS.

"EBITDA" means the earnings before interest, income taxes, depreciation, and amortization, where interest is defined as net finance costs as per the consolidated statement of comprehensive income. We believe it is useful to management and investors in evaluating our ongoing operational performance. Please see table below for a reconciliation of this Non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS.

“EBITDA margin” being EBITDA as a percentage of revenues. We believe it is useful to management and investors in evaluating both the operating profitability and cash flows generated from the business as a % of revenues. Please see table below for a reconciliation of this Non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS.

“Adjusted EBITDA” starts with EBITDA and adjusts for Stock-based compensation expenses, impairment of inventories, exchange gain/loss on the obligation arising from non-controlling interest participation in a subsidiary, foreign exchange loss (gain), accretion of debt, impairment charge of tangible assets, remeasurement of investments, M&A transaction fees, one-time payments arising from the prior departure of employees and legal costs and legal settlement. We believe it is useful to management and investors in evaluating our ongoing operational performance. Additionally, Adjusted EBITDA is the profitability measure employed by management for making decisions about allocating resources and assess performance. Please see table below for a reconciliation of this Non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS.

“Adjusted EBITDA margin” being Adjusted EBITDA as a percentage of revenues. We believe it is useful to management and investors in evaluating both the operating profitability and cash flows generated from the business as a % of revenues. Please see table below for a reconciliation of this Non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS.

“Working capital” being the net of the current assets and current liabilities. We use it to monitor how much money we have committed in the day-to-day operation of our business. Please see table below for a reconciliation of this Non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS.

“Net debt” being the total long-term debt, including the current portion of the long-term debt, and subtracting cash. We use it to monitor how much debt we have after taking into account cash. Please see table below for a reconciliation of this Non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS.

“Backlog” means contracts that have been received and are considered as firm orders. We use it to monitor our production and up-coming sales. Backlog does not have a directly comparable IFRS measure.

The table set forth below provides a quantitative reconciliation of EBITDA, EBITDA margin, Adjusted EBITDA and Adjusted EBITDA margin of Xebec, each of which are Non-IFRS financial measures, to the most comparable IFRS measure disclosed in the Interim Financials. The reconciliation of Non-IFRS measures to the most directly comparable measure calculated in accordance with IFRS is provided below where appropriate.

(In millions of \$, except per share amounts and margins %)	For the three-month period ended June 30, 2022			For the three-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Net (loss)/profit for the period	(23.4)	(12.0)	(11.4)	10.2	(4.3)	14.5
Depreciation and amortization	3.7	-	3.7	3.0	-	3.0
Income taxes	(0.2)	-	(0.2)	0.3	-	0.3
Net finance expenses	2.3	0.1	2.2	1.3	-	1.3
EBITDA	(17.6)	(11.9)	(5.7)	14.8	(4.3)	19.1
EBITDA margin	(40%)	-	(13%)	45%	-	60%
Foreign exchange loss (gain)	1.0	-	1.0	(0.2)	-	(0.2)
Legal settlement and related costs	1.2	0.7	0.5	-	-	-
Gain on deconsolidation of a subsidiary	-	-	-	(21.1)	-	(21.1)
Integration and acquisition costs	0.8	-	0.8	1.3	-	1.3
Penalties	2.6	2.6	-	-	-	-
Miscellaneous other (gains) and losses	-	-	-	-	-	-
Adjusted EBITDA	(12.0)	(8.6)	(3.4)	(5.2)	(4.3)	(0.9)
Adjusted EBITDA margin	(27%)	-	(8%)	(16%)	-	(3%)

(In millions of \$, except per share amounts and margins %)	For the six-month period ended June 30, 2022			For the six-month period ended June 30, 2021		
	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts	Per Income Statement	Legacy RNG contracts	Income statement excluding legacy RNG contracts
Net (loss)/profit for the period	(42.0)	(16.3)	(25.7)	0.1	(7.5)	7.6
Depreciation and amortization	7.8	-	7.8	5.2	-	5.2
Income taxes	(0.3)	-	(0.3)	0.4	-	0.4
Net finance expenses	4.1	-	4.1	2.5	-	2.5
EBITDA	(30.4)	(16.3)	(14.1)	8.2	(7.5)	15.7
EBITDA margin	(35%)	-	(17%)	15%	-	31%
Foreign exchange loss (gain)	2.1	-	2.1	0.5	-	0.5
Legal settlement and related costs	2.9	2.4	0.5	-	-	-
Gain on deconsolidation of a subsidiary	-	-	-	(21.1)	-	(21.1)
Integration and acquisition costs	1.6	-	1.6	2.3	-	2.3
Penalties	2.6	2.6	-	-	-	-
Miscellaneous other (gains) and losses	0.1	-	0.1	-	-	-
Adjusted EBITDA	(21.1)	(11.3)	(9.8)	(10.1)	(7.5)	(2.6)
Adjusted EBITDA margin	(25%)	-	(12%)	(19%)	-	(5%)

EBITDA (Non-IFRS) is not a performance measure defined under IFRS and is not considered an alternative to income from operations or net (loss) earnings. EBITDA (Non-IFRS) does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other companies.

The Adjusted EBITDA (Non-IFRS) for the three-month period ended June 30, 2022 was (\$12.0) million compared to (\$5.2) million in the same period of 2021, mainly due to RNG contracts estimated to result in losses, lower margins on contract and higher SG&A expenses.

The Adjusted EBITDA (Non-IFRS) for the six-month period ended June 30, 2022 was (\$21.1) million compared to (\$10.1) million in the same period of 2021, mainly due to RNG contracts estimated to result in losses, lower margins on contract and higher SG&A expenses.

The Adjusted EBITDA (Non-IFRS) excluding legacy RNG contracts for the three-month period ended June 30, 2022 was (\$3.4) million compared to (\$0.9) million in the same period of 2021.

The Adjusted EBITDA (Non-IFRS) excluding legacy RNG contracts the six-month period ended June 30, 2022 was (\$9.8) million compared to (\$2.6) million in the same period of 2021.

The table set forth below provides a quantitative reconciliation of working capital and net debt of Xebec, each of which are Non-IFRS financial measures, to the most comparable IFRS measure disclosed

in the Company's financial statements to which the measure relates for the period ended June 30, 2022 and December 31, 2021. The reconciliation of Non-IFRS measures to the most directly comparable measure calculated in accordance with IFRS is provided below where appropriate.

Working Capital:

(In millions of \$)	June 30, 2022	December 31 2021
	\$	\$
Current assets	190.4	166.8
Current liabilities	154.5	85.8
Working Capital	35.9	81.0

Net debt:

(In millions of \$)	June 30, 2022	December 31 2021
	\$	\$
Current portion of long-term debt	15.5	14.0
Long-term debt	62.0	69.3
Less: Cash	39.7	39.9
Net debt	37.8	43.4

14. SUMMARY OF FACTORS AFFECTING OUR PERFORMANCE

We believe that the growth and future success of our business depends on many factors, including those described in this MD&A. While each of these factors presents significant opportunities for our business, they also pose important challenges, some of which have been discussed in this MD&A. For a summary of the principal risks and uncertainties that could affect our future business results going forward and our associated risk mitigation activities, please refer to section 16 of the Management Discussion and Analysis of the fiscal year ended December 31, 2021 (the "2021 Annual MD&A") and the "Risk Factors" section of the Company's Annual Information Form dated March 16, 2022 (the "AIF"). Copies of the AIF and 2021 Annual MD&A and the Company's other publicly filed documents can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

15. ENTERPRISE RISK MANAGEMENT

Our Definition of Business Risk

We define business risk as the degree of exposure associated with the achievement of key strategic, financial, organizational and process objectives in relation to the effectiveness and efficiency of operations, the reliability of financial reporting, compliance with laws and regulations and the safeguarding of assets within an ethical organizational culture.

Our enterprise risks are largely derived from the Company's business environment and are fundamentally linked to our strategies and business objectives. We strive to proactively mitigate our risk exposures through rigorous performance planning and effective and efficient business operational management.

The Company maintains director and officer liability insurance for errors, misstatements, misleading statements, acts, omissions, neglects, or breaches of duty committed, attempted, or allegedly committed or attempted by its directors and officers (the "Executive Protection Policy"). Claims under the Executive Protection Policy are limited at \$10 million for each claim. The Executive Protection Policy's policy that was ending on June 1, 2022, was extended for an additional 6 month-period ending on December 1, 2022.

16. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We are committed to providing timely, accurate and balanced disclosure of all material information about the Company and to providing fair and equal access to such information. Management is responsible for establishing and maintaining our disclosure controls and procedures to ensure that information used internally and disclosed externally is complete and reliable. Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, within the Company have been detected. We continue to evolve and enhance our system of controls and procedures.

Management, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company, has evaluated the design of our disclosure controls and procedures. The evaluation was conducted in accordance with the requirements of National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") of the Canadian Securities Administrators. This evaluation confirmed, subject to the inherent limitations noted above, the appropriateness of the design of disclosure controls and procedures as at June 30, 2022. Management can therefore provide reasonable assurance that material information relating to the Company and its subsidiaries is reported to it on a timely basis so that it may provide investors with complete and reliable information.

Internal Controls over Financial Reporting

Management has designed and is responsible for maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has limited the scope of design of its disclosure controls and procedures and its ICFR to exclude the controls, policies and procedures of California Compression, LLC and Xebec Systems USA LLC (together the "Excluded Entities") which were acquired by the Company or one of its subsidiaries. California Compression, LLC in August 2021 and finally UEC in November 2021.

On a combined basis, the Excluded entities' contributions to our consolidated statements of loss and comprehensive loss for the six months ended June 30, 2022 was approximately 31% of total revenues. Additionally, as at June 30, 2022, these entities' current assets and current liabilities, on a combined basis, represented approximately 23% and 48% of our consolidated current assets and current liabilities, respectively. Combined non-current assets, which includes intangible assets and goodwill from these acquisitions, represented approximately 11% of our consolidated non-current assets. The amounts recognized for the assets acquired and liabilities assumed as at the date of these acquisition are described in Note 2 of the Consolidated Financial Statements. Management is committed to removing this limitation within the timeframe permitted by regulation.

Management has evaluated the design of its ICFR as defined in NI 52-109. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the Chief Executive Officer and the Chief Financial Officer of the Company with the assistance of other Company management and staff to the extent deemed necessary. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the ICFR were appropriately designed as at June 30, 2022.

In spite of its evaluation, management does recognize that any controls and procedures, no matter how well designed, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

On March 31, 2022, the Company had a weakness in internal control over financial reporting resulting in releasing a forward-looking statement, not based on IFRS, in the subsequent note of the financial statements. The Company adjusted its process to ensure that the financial reporting personnel had appropriate and accurate information on a timely basis to fulfill their roles and responsibilities.

No significant changes were made to our ongoing ICFR during Q2-2022 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

17. FORWARD-LOOKING STATEMENTS

This MD&A contains “forward-looking statements” and “forward-looking information” (collectively, “forward-looking statements”) within the meaning of applicable Canadian securities law. These forward-looking statements relate to future events, future performance, financial outlook and anticipated events and reflect the expectation of Management regarding the growth, results of operations, performance and business prospects and opportunities of the Company and the industry in which it operates. Forward-looking statements typically contain words such as “believes”, “expects”, “anticipates”, “continues”, “could”, “indicates”, “plans”, “will”, “intends”, “may”, “projects”, “schedules”, “would” or similar expressions, variations of such words, the negative of these terms or other similar terminology, suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: (i) actions expected to be undertaken to achieve the Company’s strategic goals, as well as the Company’s overall business strategy; (ii) the key market drivers impacting the Company’s success and the size of the addressable markets; (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, including the fulfilment of the Company’s current backlog (Non-IFRS); (v) trends in, and the development of, the Company’s target markets and the adoption of cleantech and renewable natural gas in those markets and beyond; (vi) the Company’s market opportunities; (vii) the benefits of the Company’s products and the expected benefits derived therefrom, (viii) the intention to enter into agreements with partners and to enter new markets; (ix) future outsourcing and supply chain initiatives; (x) expectations regarding competitors; (xi) the expected impact of the described risks and uncertainties; (xii) the management of the Company’s liquidity risks in light of the prevailing economic conditions; (xiii) the Company’s cost reduction plan and Centers of Excellence Framework generally; (xiv) the need for additional financing in the short term;; and (xv) the expected delivery of second generation Biostream systems in 2022 and other new products and the expected benefits to be derived therefrom.

These statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause the Company’s actual results, level of activity or performance to be materially different from any future results, levels of activity or performance expressed in or implied by these forward-looking statements. These risks include, generally, risks related to revenue growth, operating results, industry and products, technology, competition, the economy, the conflict in Ukraine and other macroeconomic events, the supply chain shortage, the ongoing impact of COVID-19 pandemic, the outcome of certain litigation, our ability to secure financing in the near term, the sufficiency of insurance and other factors which are discussed in greater details in this MD&A, in the AIF and in the 2021 Annual MD&A, as well as other filings made by the Company which are available under the Company’s profile on SEDAR at www.sedar.com.

Forward-looking statements contained herein are based on a number of opinions, estimates and assumptions believed by the Company and its Management to be reasonable as at the date of this MD&A, including, without limitations, assumptions about trends in certain market segments, the economic climate generally, the pace and outcome of technological development, the identity and expected actions of competitors and customers, assumptions relating to the merits of the class action complaints filed against the Company and their impact, the value of the Canadian dollar and of foreign

currency fluctuations, interest rates, working capital requirements, the anticipated margins under new contracts awards, the state of the Company's current backlog, the regulatory environment, the sufficiency of internal and disclosure controls, the ability of the Company to successfully integrated acquired business, and the acquisition and integration of businesses in the future. Other assumptions, if any, are set out throughout this MD&A. If these assumptions prove to be inaccurate, the Company's actual results may differ materially from those expressed or implied in the forward-looking statements. The forward-looking statements contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking statements. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. No forward-looking statement is a guarantee of future results. Accordingly, you should not place undue reliance on forward-looking statements, which speaks only as of the date made. The forward-looking statements contained in this MD&A represents our expectations as of the date hereof or as of the date it is otherwise stated to be made, as applicable, and is subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking statement whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

18. CORPORATE GOVERNANCE

The Board of Directors of Xebec Adsorption Inc. is comprised of seven directors, six of whom are independent.

Approval

The Board of Directors of Xebec Adsorption Inc. has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

Additional Information

Additional information relating to Xebec Adsorption Inc. is on SEDAR at www.sedar.com or by contacting:

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