Xebec Adsorption Inc.

Consolidated Financial Statements
December 31, 2011 and 2010
(expressed in Canadian dollars)

March 30, 2012

Independent Auditor's Report

To the Shareholders of
Xebec Adsorption Inc.

We have audited the accompanying consolidated financial statements of Xebec Adsorption Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1, 2010 and the consolidated statements of loss, comprehensive loss, changes in equity (deficiency) and cash flows for the years ended December 31, 2011 and 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., Chartered Accountants
1250 René-Lévesque Boulevard West, Suite 2800, Montréal, Quebec, Canada H3B 2G4
T: +1 514 205 5000, F: +1 514 205 5675, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Xebec Adsorption Inc. and its subsidiaries as at December 31, 2011 and 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards. .

PricewaterhouseCoopers LLP[1]

[1] Chartered accountant auditor permit No. 21277

Xebec Adsorption Inc.

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	As at December 31, 2011 $	As at December 31, 2010 $	As at January 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents	389,090	2,262,273	5,447,702
Restricted cash (note 10)	-	576,092	223,261
Trade and other receivables (note 6)	2,444,842	2,603,261	3,105,834
Inventories (note 7)	1,365,260	2,720,060	2,867,922
Income taxes recoverable	-	-	62,492
Investment tax credits receivable	75,000	103,489	80,843
Other current assets	329,292	100,846	183,564
Total current assets	4,603,484	8,366,021	11,971,618
Non-current assets			
Balance of sale (note 16b))	800,000	-	-
Loan to a joint venture (note 12)	-	117,811	113,331
Property, plant and equipment (note 8)	548,671	1,908,442	2,545,789
Intangible assets (note 9)	3,988,317	4,483,897	5,222,797
Goodwill (note 9)	342,616	342,616	342,616
Total non-current assets	5,679,604	6,852,766	8,224,533
Total assets	10,283,088	15,218,787	20,196,151
Liabilities			
Current liabilities			
Bank loan (note 11)	500,000	500,000	496,900
Trade payables and accrued liabilities (note 13)	5,743,340	7,089,760	4,586,203
Deferred revenues (note 14)	2,506,474	2,331,802	146,228
Income taxes payable	-	8,286	-
Derivative financial instruments	-	-	96,645
Current portion of long-term debt and obligation (note 16)	141,786	243,407	384,149
Current portion of Government royalty program obligation (note 16)	195,949	-	-
Provisions (note 15)	156,000	1,036,095	141,309
Total current liabilities	9,243,549	11,209,350	5,851,434
Non-current liabilities			
Loan from a related party (note 28)	23,562	-	-
Long-term debt (note 16)	236,729	1,867,870	1,919,752
Government royalty program obligation (note 16)	752,972	691,539	1,137,307
Government assistance	27,083	32,083	37,083
Deferred rent	6,596	-	-
Provisions (note 15)	299,718	304,034	694,674
Total non-current liabilities	1,346,660	2,895,526	3,788,816
Total liabilities	10,590,209	14,104,876	9,640,250
Equity (Deficiency)			
Share capital (note 18)	19,802,272	19,964,218	18,107,821
Contributed surplus	2,168,550	1,841,741	51,368
Accumulated other comprehensive income (loss)	(71,521)	72,622	-
Deficit	(22,211,793)	(20,764,670)	(7,603,288)
	(312,492)	1,113,911	10,555,901
Non-controlling interest (note 5)	5,371	-	-
Total equity	(307,121)	1,113,911	10,555,901
Total liabilities and equity	10,283,088	15,218,787	20,196,151

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

Approved by the Board of Directors

(signed) Kurt Sorchak ____________ Director

(signed) John Shakeshaft ____________ Director

Xebec Adsorption Inc.

Consolidated Statements of Loss
For the years ended December 31, 2011 and 2010
(expressed in Canadian dollars)

	2011 $	2010 $
Revenue	14,203,463	13,475,211
Cost of goods sold	9,999,460	13,388,833
Gross margin	4,204,003	86,378
Research and development expenses (note 21)	550,345	2,550,638
Selling and administrative expenses	6,846,178	10,712,925
Foreign exchange gain	(107,050)	(130,807)
Loss (gain) on disposal of property, plant and equipment (note 16)	(2,275,092)	117,036
Loss on loan to a joint venture (note 5)	138,105	-
	5,152,486	13,249,792
Operating Loss	(948,483)	(13,163,414)
Finance income (note 22)	(9,410)	(659,558)
Finance expense (note 23)	517,877	657,526
Finance costs – net	508,467	(2,032)
Net loss for the year	(1,456,950)	(13,161,382)
Earnings (loss) attributable to:		
Shareholders of the Company	(1,447,123)	(13,161,382)
Non-controlling interest	(9,827)	-
	(1,456,950)	(13,161,382)
Loss per share		
Basic and diluted (note 18)	(0.04)	(0.43)

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

Xebec Adsorption Inc.

Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2011 and 2010
(expressed in Canadian dollars)

	2011 $	2010 $
Net loss for the year	(1,456,950)	(13,161,382)
Other comprehensive income (loss)		
Cumulative translation adjustment	(162,784)	72,622
Comprehensive loss for the year	(1,619,734)	(13,088,760)
Attributable to:		
Shareholders of the Company	(1,591,266)	(13,088,760)
Non-controlling interest (note 5)	(28,468)	-
	(1,619,734)	(13,088,760)

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

Xebec Adsorption Inc.

Consolidated Statements of Changes in Equity (Deficiency)
For the years ended December 31, 2011 and 2010
(expressed in Canadian dollars)

	Number		Amount						
	Common shares	**Warrants**	**Share capital – Common shares and warrants $**	**Contributed surplus $**	**Accumulated other comprehensive income (loss) $**	**Deficit $**	**Equity attributable to the Company $**	**Non-controlling interest $**	**Total $**
Balance – January 1, 2010	29,262,445	17,167,824	18,107,821	51,368	-	(7,603,288)	10,555,901	-	10,555,901
Net loss for the year	-	-	-	-	-	(13,161,382)	(13,161,382)	-	(13,161,382)
Other comprehensive income (net of tax)	-	-	-	-	72,622	-	72,622	-	72,622
Comprehensive loss for the year	-	-	-	-	72,622	(13,161,382)	(13,088,760)	-	(13,088,760)
Issuance of shares	9,536	(9,536)	7,343	-	-	-	7,343	-	7,343
Share-based compensation	-	-	-	8,114	-	-	8,114	-	8,114
Expired warrants		(12,360,000)	(1,782,259)	1,782,259	-	-	-	-	-
Private placement (note 18)									
Shares and warrants issued to investors	9,491,886	9,491,886	3,796,754	-	-	-	3,796,754	-	3,796,754
Shares and warrants issued to agent	600,000	1,166,250	309,649	-	-	-	309,649	-	309,649
Financing costs			(475,090)	-	-	-	(475,090)	-	(475,090)
Balance – December 31, 2010	39,363,867	15,456,424	19,964,218	1,841,741	72,622	(20,764,670)	1,113,911	-	1,113,911
Balance – January 1, 2011	39,363,867	15,456,424	19,964,218	1,841,741	72,622	(20,764,670)	1,113,911	-	1,113,911
Net loss for the year	-	-	-	-	-	(1,447,123)	(1,447,123)	(9,827)	(1,456,950)
Other comprehensive loss (net of tax)	-	-	-	-	(144,143)	-	(144,143)	(18,641)	(162,784)
Comprehensive loss for the year	-	-	-	-	(144,143)	(1,447,123)	(1,591,266)	(28,468)	(1,619,734)
Expired warrants (note 18)	-	(4,798,288)	(161,946)	161,946	-	-	-	-	-
Share-based compensation	-	-	-	164,863	-	-	164,863	-	164,863
Non-controlling interest at business acquisition	-	-	-	-	-	-	-	33,839	33,839
Balance – December 31, 2011	39,363,867	10,658,136	19,802,272	2,168,550	(71,521)	(22,211,793)	(312,492)	5,371	(307,121)

Accumulated other comprehensive income relates solely to cumulative translation adjustments.

Xebec Adsorption Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Cash flows from		
Operating activities		
Net loss for the year	(1,456,950)	(13,161,382)
Items not affecting cash		
Amortization of property, plant and equipment	385,073	608,767
Amortization of intangible assets	512,597	554,475
Loss on disposal of intangible assets	-	184,000
Loss (gain) on disposal of property, plant and equipment	(2,275,092)	117,036
Gain on debt forgiveness	(101,701)	-
Loss on loan to a joint venture	138,105	-
Government assistance	(5,000)	(5,000)
Unrealized foreign exchange gain on derivative financial instruments	-	(96,645)
Unrealized foreign exchange loss (gain) on loan to a joint venture and restricted cash	(1,603)	9,994
Accretion and revaluation of government royalty program obligation	257,382	(279,934)
Stock-based compensation expense	164,863	8,114
	(2,382,326)	(12,060,575)
Changes in non-cash working capital components relating to operations		
Trade and other receivables	374,323	502,573
Inventories	1,457,662	147,862
Investment tax credits receivable	28,489	(22,646)
Other current assets	(226,618)	82,718
Trade payables and accrued liabilities	(1,406,707)	3,007,703
Deferred revenues	(144,852)	2,185,574
Income taxes payable (recoverable)	(8,286)	70,778
Other operating liabilities	(885,566)	-
	(811,555)	5,974,562
	(3,193,881)	(6,086,013)
Investing activities		
Acquisition of property, plant and equipment	(2,191)	(94,612)
Acquisition of intangible assets	(16,972)	-
Proceeds from disposal of property, plant and equipment	2,468,981	3,300
Cash acquired on acquisition of a business (note 5)	47,066	-
Decrease (increase) in restricted cash	576,092	(367,305)
	3,072,976	(458,617)
Financing activities		
Issuance of common shares	-	3,804,097
Issuance costs of shareholders' equity instruments	-	(165,441)
Increase in bank loan	-	3,100
Increase in long-term debt	9,568	181,101
Loan from a Company director	23,562	-
Repayment of long-term debt	(1,742,329)	(373,725)
Repayment of government royalty program obligation	-	(165,834)
	(1,709,199)	3,283,298
Effect of exchange rate changes on cash and cash equivalents	(43,079)	75,903
Decrease in cash during the year	(1,873,183)	(3,185,429)
Cash – Beginning of year	2,262,273	5,447,702
Cash – End of year	389,090	2,262,273
Additional information		
Income tax recovered	-	(66,624)
Interest paid	260,108	277,131

The accompanying notes are an integral part of the consolidated financial statements.

1 Nature of business

Xebec Adsorption Inc. ("Xebec" or the "Company") is a global provider of clean energy solutions to corporations and governments looking to reduce their carbon footprint. The Company was formed upon the amalgamation of Xebec and QuestAir Technologies Inc. ("QuestAir") on June 12, 2009. The Company is incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The address of its registered office is 730 Industriel Boulevard, Blainville, Quebec, Canada.

2 Basis of preparation and adoption of International Financial Reporting Standards ("IFRS")

In 2010, the Canadian Institute of Chartered Accountants ("CICA") Handbook was revised to incorporate IFRS as issued by the International Accounting Standard Board ("IASB"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Previous GAAP"). Previous GAAP differs in some area from IFRS. In preparing these financial statements, management has amended certain accounting, measurement and consolidation methods previously applied in the Previous GAAP financial statements to comply with IFRS. Subject to certain transition elections and exceptions disclosed in note 32, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS consolidated statement of financial position as at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies.

The Board of Directors approved the statements for issue on March 30, 2012.

3 Significant accounting policies

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when Xebec is able to govern the financial and operating activities of those entities to generate returns for the Company. Intercompany transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated. Subsidiaries include Xebec Adsorption (Shanghai) Co. Ltd., which is wholly owned, and Xebec Adsorption South East Asia PTE. Ltd., which, since July 1, 2011, is 56.49% owned. Prior to that date, Xebec Adsorption South East Asia PTE. Ltd. was a joint venture in which the Company had a 40% interest and was accounted for

using the proportionate consolidation method. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases.

Non-controlling interest represents equity interest in a subsidiary owned by an outside party. The share of net assets of subsidiaries attributable to non-controlling interest is presented as a component of equity. Its share of net earnings and comprehensive income is recognized directly in equity. Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The Company's interests in jointly controlled entities are accounted for by proportionate consolidation. The Company combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's consolidated financial statements.

Cash

Cash includes cash on hand, deposits held at call with banks.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Inventories

Inventories are stated at the lower of cost and net realizable value for raw materials, work in progress and finished goods. Costs of raw materials are determined on an average cost basis. Work in progress and finished goods include materials, direct labour and production overhead (based on normal operating capacity). Net realizable value is the estimated selling price less applicable selling expenses. Inventories are recorded net of any obsolescence provision.

A new assessment is made in each subsequent year when inventories are adjusted to net realizable value. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the writedown is reversed (i.e., the reversal is limited to the amount of the original writedown) so that the new carrying amount is the lower of cost and the revised net realizable value.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of loss during the year in which they are incurred.

The major categories of property, plant and equipment are depreciated on a straight-line basis as follows:

Building	20 years
Machinery and equipment	3 to 10 years
Office furniture and equipment	5 years
Computers	3 years
Moulds	5 years
Vehicles	5 years
Leasehold improvements	Lesser of economic life and lease term
Asset under finance lease	Lesser of economic life and lease term

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates each such part separately. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statement of loss.

Identifiable intangible assets

The Company's intangible assets include patents, customer relations, software and engineering drawings. These assets are capitalized and amortized on a straight-line basis in the consolidated statement of loss over the period of their expected useful lives.

Patent costs are amortized over fifteen years. Customer relations are amortized over seven years. Engineering drawings, consisting of engineering costs incurred to develop product plans, and software are amortized over a period of three years.

Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Provisions

Provisions for restructuring costs, warranties and legal claims, where applicable, are recognized in accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting year, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

During the normal course of its operations, the Company assumes certain maintenance and repair costs under warranties offered on commercial equipment and biogas purification equipment. The warranties cover a period ranging from 12 to 18 months. A liability for the expected cost of the warranty-related claims is established when the product is delivered and completed. In estimating the warranty liability, historical material replacement costs and the associated labour costs are considered. Revisions are made when actual experience differs materially from historical experience.

Financial instruments

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

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

Cash	Loans and receivables
Restricted cash	Loans and receivables
Trade and other receivables	Loans and receivables
Loan to a joint venture	Loans and receivables
Bank loan	Other financial liabilities
Trade payables and accrued liabilities	Other financial liabilities
Derivative financial instruments	Fair value through profit or loss
Long-term debt	Other financial liabilities
Government royalty program obligation	Other financial liabilities
Subordinated loan	Other financial liabilities

A financial asset or financial liability is classified at fair value through profit or loss if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. Financial assets and financial liabilities classified as fair value through profit or loss are measured at fair value at each reporting year, with changes in fair value in subsequent years included in net loss. Transaction costs are expensed in the consolidated statement of loss. Financial assets and financial liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the statement of financial position date, which is classified as non-current.

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

Other financial liabilities are initially measured at fair value and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

The Company classifies derivative financial instruments and embedded derivatives as fair value through profit or loss, and values them at fair value at the end of each year, with changes recorded in other income. The Company does not designate these derivative financial instruments as hedges.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss.

The loss on financial assets carried at amortized cost is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument’s original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Embedded derivatives

Derivatives may be embedded in other financial and non-financial instruments (the "host instrument"). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in the consolidated statement of comprehensive loss.

In the course of its operations, the Company enters into certain contracts for the sale of non-financial items that are denominated in currencies other than the Canadian dollar. In cases where the foreign exchange component is not leveraged and does not contain an option feature and the contract is denominated in the functional currency of the counterparty, the embedded derivative is considered to be closely related and is not accounted for separately. If the contract is neither in Canadian dollars nor the functional currency of the counterparty, the embedded foreign currency derivative is separated unless the non-functional item delivered under the contract is routinely denominated in the currency of the contract in international commerce or the currency the contract is denominated in is commonly used in the economic environment in which the transaction takes place.

Government royalty program obligations

The Company receives from time to time, from different government agencies, funding designed to promote economic growth, create jobs and wealth, and support sustainable development. In some of these arrangements, the Company has a contractual obligation to repay the contributions to the government agency, with repayments determined as a percentage of specified revenues over a contractually defined royalty year. Such arrangements are recognized as government royalty program obligations at initial recognition when the contribution is received. These obligations are estimated based on future projections, discounted using a rate that reflects the liability-specific risks. Over time, interest expense is recognized as a result of accretion of the long-term obligations, while royalty payments are recorded against the obligations. Subsequently, the government royalty program obligations are remeasured when the future projections initially used to measure the obligations are revised using the original discount rate. Resulting changes in the carrying amount of these obligations are recognized in the consolidated statement of loss as Finance expense.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from share capital.

Revenue recognition

The Company earns revenues mainly from the sale of natural gas dryers and hydrogen purification solutions ("commercial equipment"). The Company recognizes revenue on commercial equipment sales when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sales price is fixed

or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product has been obtained. Provisions are established for estimated product returns and warranty costs at the time revenue is recognized. Cash received in advance of all of these revenue recognition criteria being met is recorded as deferred revenue.

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

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

Revenues from licensing arrangements are recognized when it is probable that the economic benefits will flow to the Company and that the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the contract is signed and title and risk have passed to the customer.

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

Government assistance

Non-refundable grants relating to property, plant and equipment are accounted for as deferred government assistance and amortized on the same basis as the related assets.

Research and experimental development tax credits are recognized using the cost reduction method when there is reasonable assurance of their recovery. Investment tax credits are subject to the customary approvals by the pertinent tax authorities. Adjustments, if required, are reflected in the year when such assessments are received.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of loss on a straight-line basis over the lease term.

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the consolidated statement of loss over the lease year so as to produce a constant yearly rate

of interest on the remaining balance of the liability for each year. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Stock-based compensation plans

The Company accounts for stock options using the fair value method. Each tranche in an award is considered a separate award with its own vesting year and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model was developed to estimate the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, this model usually requires the input of assumptions, including expected stock price volatility. For options granted to directors, officers and employees of the Company, compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually. For options granted to non-employees, the transaction is measured with reference to the fair value of the goods or services when received. Related expense is recognized over the period during which the goods or services from the non-employees are received. A corresponding increase is recorded in contributed surplus when stock options are expensed. When stock options are exercised, capital stock is credited by the sum of the consideration paid and the related amount previously recorded in contributed surplus.

Research and development expenses

Research expenses are charged to expenses as incurred. Development expenses are charged to expenses as incurred unless they meet criteria for deferral and amortization. To date, no development expenses have been deferred.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting year, and any adjustment to tax payable in respect of previous years.

In general, deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method, which assumes that if all dilutive securities had been exercised at the later of the beginning of the year and the date of issuance, as the case may be, the proceeds would be used to purchase common shares of the Company at the average market value during the year.

Foreign currency translation

a) Functional and presentation currency

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

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

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statement of income.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee.

Accounting standards issued but not yet applied

Unless otherwise noted, the following revised standards and amendments are effective for the Company for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, Financial Instruments, issued in November 2009, is mandatory for accounting periods beginning after January 1, 2015 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss are generally recorded in other comprehensive income. IFRS 9 is applicable to the Company for the year beginning on January 1, 2015, with earlier application permitted.

(ii) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12, Consolidation—Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements.

(iii) IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

(iv) IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed

among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(vi) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately.

4. Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgments

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

i) Goodwill

The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

No impairment charge was recorded during the years.

ii) Inventory obsolescence

Inventories must be valued at the lower of cost and net realizable value. A write down of the inventory will occur when its estimated market value less applicable variable selling expenses is below its carrying amount. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. This 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.

iii) Impairment of long-lived assets

Long-lived assets or CGUs are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, as measured by comparing their carrying amounts to the recoverable amount, which is the higher of fair value less cost to sell, and estimated discounted future cash flows generated by their use and eventual disposal. Impairment, if any, is measured as the excess of the carrying amount of the asset or CGU over its recoverable amount.

iv) Recognition of future income tax assets

A deferred tax asset is recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax losses can be used. Therefore, the Company has to estimate the amount of future taxable profits expected to be available. Such estimates are made by tax jurisdiction on an undiscounted basis. Management exercises judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period and the history of taxable profits.

v) Government royalty program obligations

Government royalty program obligations are recognized when the contributions, which can come from different government agencies, are received and the Company has a contractual obligation to repay the contributions (refer to note 16(c)) for a description of the programs). As repayments are determined based on a percentage of specified revenues over a contractually defined royalty year, these obligations are measured as the net present value of expected future royalties payable. The key estimates used in the initial recognition of these obligations are the projected annual revenues and the discount rate. Subsequent to initial recognition, the government royalty program obligations are remeasured when the projections of expected future royalties payable initially used to measure the obligations are revised, using the original discount rate.

5. Business acquisition

On July 1, 2011, the Company acquired an additional 16.49% of the outstanding shares of Xebec Adsorption South East Asia PTE. Ltd. Accordingly, the Company now owns 56.49% of the outstanding shares and acquired control of the joint venture. The acquisition was settled by the conversion of its loan that it had previously made to the joint venture. The acquisition was accounted for under the purchase method, and the full operating results of the subsidiary are included in the consolidated financial statements from the acquisition date.

The fair value of the net assets acquired is attributed as follows and is subject to certain subsequent adjustments and completion of a final evaluation of intangible assets:

Assets acquired:	$
Cash	78,443
Accounts receivable	320,174
Inventories	26,971
Prepaid expenses	3,046
Property, plant and equipment	15,411
	444,045
Liabilities assumed:	
Accounts payable and accrued liabilities	178,179
Deferred revenues	229,086
Provision	1,925
	409,190
Net assets acquired at fair value	34,855
Net assets attributable to non-controlling interest	15,166
Net assets attributable to initial investment held before acquisition	13,942
Consideration paid in form of conversion of loan	5,747
Total consideration deemed paid	34,855

From the date of its acquisition to December 31, 2011, the acquired business contributed revenues of $291,879 to the Company’s results. If the acquisition had occurred on January 1, 2011, the Company’s revenues for the current year would have increased by $244,948.

6 Trade and other receivables

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade receivables	2,009,939	2,730,627	2,893,307
Other receivables	629,176	213,920	604,569
Less: Allowance for doubtful accounts	194,273	341,286	392,042
Trade receivables - net	2,444,842	2,603,261	3,105,834

Trades receivables include holdbacks amounting to $202,995 for the year ended December 31, 2011 (2010- $169,139 and 2009-nil).

Trade receivables are pledged as security for the credit facilities (see note 11, Bank loan).

7 Inventories

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Raw materials	1,006,247	1,755,325	1,970,017
Work in progress	330,355	942,767	868,663
Finished goods	28,658	21,968	29,242
Inventories	1,365,260	2,720,060	2,867,922

Cost of goods sold includes of cost of inventories amounting to $5,289,956 in 2011 (2010- $7,552,000). Cost of goods sold includes an amount $11,698 (2010 – nil) and $366,314 in selling and administrative expenses (2010 – $283,848) for the write-down of inventories to the lower of cost and net realizable value. Inventories in the amount of nil (December 31, 2010 – $42,319 – January 1, 2010 – nil) are recorded at their net realizable value.

Work in progress inventories are pledged as security for the credit facilities (see note 11, Bank loan).

8 Property, plant and equipment

	Land and building	Machinery and equipment	Office furniture and equipment	Computers	Moulds	Vehicles	Leasehold improvements	Total
Cost								
Balance at January 1, 2010	1,154,533	796,252	106,417	309,667	192,745	-	648,731	3,208,345
Additions	-	-	464	11,058	11,121	71,968	-	94,611
Disposals	-	(3,000)	-	-	-	-	-	(3,000)
Writeoffs	-	-	-	-	(140,408)	-	-	(140,408)
Effect of movements in exchange rates	-	(1,435)	(283)	(1,097)	(931)	-	(3,401)	(7,147)
Balance at December 31, 2010	1,154,533	791,817	106,598	319,628	62,527	71,968	645,330	3,152,401
Additions	-	-	-	1,499	692	-	-	2,191
Business combination	-	2,470	8,485	10,835	-	-	5,522	27,312
Disposals	(1,154,533)	(58,159)	(12,185)	-	-	-	(3,655)	(1,228,532)
Effect of movements in exchange rates	-	6,693	4,332	6,195	4,429	-	15,826	37,475
Balance at December 31, 2011	-	742,821	107,230	338,157	67,648	71,968	663,023	1,990,847
Accumulated amortization								
Balance at January 1, 2010	126,436	139,344	23,097	146,829	33,879	-	192,971	662,556
Amortization	49,067	186,175	25,384	115,301	12,833	7,197	212,810	608,767
Disposal	-	(450)	-	-	-	-	-	(450)
Writeoffs	-	-	-	-	(22,622)	-	-	(22,622)
Effect of movements in exchange rates	-	(400)	(163)	(636)	(306)	-	(2,787)	(4,292)
Balance at December 31, 2010	175,503	324,669	48,318	261,494	23,784	7,197	402,994	1,243,959
Amortization	24,534	142,798	21,237	48,863	12,721	14,393	120,527	385,073
Business combination	-	1,066	4,101	8,444	-	-	4,454	18,065
Disposal	(200,037)	(25,671)	(5,280)	-	-	-	(3,655)	(234,643)
Effect of movements in exchange rates	-	2,999	2,700	5,838	2,392	-	15,793	29,722
Balance at December 31, 2010	-	445,861	71,076	324,639	38,897	21,590	540,113	1,442,176
Carrying Amount								
At January 1, 2010	1,028,097	656,908	83,320	162,838	158,866	-	455,760	2,545,789
At December 31, 2010	979,030	467,148	58,280	58,134	38,743	64,771	242,336	1,908,442
At December 31, 2011	-	296,960	36,154	13,518	28,751	50,378	122,910	548,671

9 Intangible assets

			Other	Internally generated		
	Patents $	**Customer relations** $	**Software** $	**Engineering drawings** $	**Total intangible assets** $	**Goodwill** $
Cost						
Balance at January 1, 2010	3,299,013	1,900,000	393,906	4,700	5,597,619	342,616
Write-offs	-	-	(184,000)	-	(184,000)	-
Effect of movements in exchange rates	-	-	(1,206)	-	(1,206)	-
Balance at December 31, 2010	3,299,013	1,900,000	208,700	4,700	5,412,413	342,616
Additions	16,972	-	-	-	16,972	-
Effect of movements in exchange rates	-	-	5,374	-	5,374	-
Balance at December 31, 2011	3,315,985	1,900,000	214,074	4,700	5,434,759	342,616
Accumulated amortization						
Balance at January 1, 2010	109,967	135,714	127,574	1,567	374,822	-
Amortization of the year	219,934	271,429	61,546	1,566	554,475	-
Effect of movements in exchange rates	-	-	(781)	-	(781)	-
Balance at December 31, 2010	329,901	407,143	188,339	3,133	928,516	-
Amortization of the year	219,934	271,429	19,667	1,567	512,597	-
Effect of movements in exchange rates	-	-	5,329	-	5,329	-
Balance at December 31, 2011	549,835	678,572	213,335	4,700	1,446,442	-
Carrying Amount						
At January 1, 2010	3,189,046	1,764,286	266,332	3,133	5,222,797	342,616
At December 31, 2010	2,969,112	1,492,857	20,361	1,567	4,483,897	342,616
At December 31, 2011	2,766,150	1,221,428	739	-	3,988,317	342,616

Amortization of $512,597 (2010 - $554,475) is included in the consolidated statement of loss: $231,334 (2010 - $252,273) in ‘cost of goods sold’ and $281,263 (2010 - $302,202) in ‘selling and administrative expenses’.

10 Restricted cash

Restricted cash consists of amounts which are restricted for specific purposes under certain contractual obligations.

11 Bank loan

As at December 31, 2011, the Company had credit facilities in the amount of $1,300,000 with Royal Bank of Canada which bore interest at the Royal Bank's prime rate plus 2.50% per annum and which were limited by certain margin requirements concerning accounts receivable. The Company had also a revolving demand facility by way of letters of credit and letters of guarantee amounting to $750,000. However, as at December 31, 2011, the Company was not allowed to draw on these facilities.

In addition, the Company had access to credit facilities in the amount of $500,000 with Royal Bank of Canada which were guaranteed by Export Development of Canada and bore interest at the Royal Bank's prime rate plus 2.5% per annum and were limited by certain requirements concerning pre-shipment costs. These credit facilities were fully used as at December 31, 2011.

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

The credit facilities with Royal Bank of Canada matured on October 31, 2010 and have been verbally extended under certain conditions on an "as needed" basis. The agreement with Export Development of Canada has been extended under the same terms and conditions until April 30, 2012.

12 Joint venture

The following is a summary of the Company's proportionate share in the assets, liabilities, revenues, expenses and cash flows of the joint venture, included in the consolidated financial statements:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Current assets	-	176,138	173,274
Total assets	-	192,286	195,999
Current liabilities	-	152,845	42,039
Total liabilities	-	174,548	62,916
Revenues	-	437,904	-
Expenses	-	556,587	-
Loss	-	(118,683)	-
Comprehensive loss	-	(123,111)	
Cash flows from:			
Operating activities	-	(21,828)	-
Financing activities	-	-	-
Investing activities	-	-	-

On July 1, 2011, the Company acquired an additional 16.49% of the outstanding shares of Xebec Adsorption South East Asia PTE. Ltd. The Company now owns 56.49% of the outstanding shares and acquired control of the joint venture (see note 5).

13 Trade and other payables

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade payables	4,210,200	5,245,325	2,579,142
Payables to related parties (note 28)	31,435	34,343	10,830
Accrued expenses	939,028	1,077,597	1,285,675
Other payable	562,677	732,495	710,556
Trade and other payables	5,743,340	7,089,760	4,586,203

14 Deferred revenues

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Deferred revenue from long-term contracts	1,816,275	932,731	48,000
Deferred revenue others	690,199	1,399,071	98,228
Deferred revenue	2,506,474	2,331,802	146,228

Revenue recognized for long-term contracts amounted to $4,369,730 for the year ended December 31, 2011 (2010 - $3,294,498). Costs incurred for long-term contracts amounted to $2,017,805, for a profit of $2,351,925 for the year ended December 31, 2011 (2010 – costs of $3,905,188 for loss of $610,690 respectively).

15 Provision

	Restructuring costs $	Anticipated loss on long-term contract $	Warranty costs $	Total provision $
At January 1, 2010	141,309	-	694,674	835,983
Additional provisions	276,577	759,518	760	1,036,855
Unused amount reversed	(64,000)	-	(162,333)	(226,333)
Used during year	(77,309)	-	(229,067)	(306,376)
At December 31, 2010	276,577	759,518	304,034	1,340,129
Additional provisions	129,615	-	189,440	319,055
Unused amount reversed	(106,552)	(375,138)	(169,621)	(651,311)
Used during year	(238,640)	(289,380)	(24,135)	(552,155)
At December 31, 2011	61,000	95,000	299,718	455,718

(a) Restructuring costs

On December 31, 2010, the Company decided to close its office in the United Kingdom. On December 31, 2011, a provision of $61,000 remains which is related to the termination benefits for one employee which are expected to be paid during 2012.

(b) Warranty costs

The Company offers warranties 18 months after shipping or 12 months after start-up to the purchasers of its gas purification and natural gas dryers.

16 Long-term debt

a) Loans

	2011 $	2010 $
Term loan, bears annual interest at the bank's floating base rate plus 0.75%, repaid in full during the year ended December 31, 2011 (see note 16b))	-	1,343,900
Revolving loan, bears annual interest at the bank's base rate plus 3.55%, repaid in full during the year ended December 31, 2011	-	26,113
Term loan, bears annual interest at the bank's floating base rate plus 0.75%, repaid in full during the year ended December 31, 2011	-	207,700
Term loan, bears annual interest at the bank's floating base rate plus 0.75%, repaid in full during the year ended December 31, 2011	-	80,000
Loan from Canada Economic Development for a maximum of $133,318, matures December 2015, bears no interest and is repayable in monthly instalments of $2,777 with the first instalment due 24 months after the project completion date	133,318	123,750
Loan from Canada Economic Development for a maximum of $100,000, matures January 2015, bears no interest and is repayable in eight semi-annual instalments of $12,500	87,500	100,000
Term finance contracts, mature May 2015 and June 2015, bear annual interest of 5.99% and are secured by a lien on a vehicle (net book value of $50,377). Each is repayable in monthly instalments of $785 including capital and interest	58,729	73,558
Loan from Investissement Québec, bears annual interest at the lender's floating rate plus 2%, matures on June 2013 and is repayable in monthly instalments of $5,208 (note 17)	98,968	156,256
	378,515	2,111,277
Less: Current portion	141,786	243,407
	236,729	1,867,870

b) Disposition of building and land:

On September 30th, 2011, the Company sold and leased-back its building. With the proceeds, the Company repaid its mortgages and used the remainder to fund its working capital. There is also a balance of sale of $800,000 that will become available to the Company consisting of an amount of $200,000 on the second anniversary date of the sale and $600,000 on the fourth anniversary date of the sale. The balance of sale bears interest at four percent and the interest is receivable on each anniversary date of the sale.

c) Government royalty program obligations:

a)- Technologies Partnership Canada (“TPC”) Program

Fast Cycle Pressure Swing Adsorption and Gas Management systems

Upon reverse takeover of QuestAir, the Company assumed the June 6, 2003 agreement with Industry Canada under the TPC Program to receive financial contributions regarding the development and commercial exploitation of its Fast Cycle Pressure Swing Adsorption (“FCPSA”) and Gas Management systems (“GMS”). The agreement had been amended in 2008.

Pursuant to the agreement, total project costs for the period from October 1, 2002 to September 30, 2008 were to be shared, subject to certain contribution limits, such that the Ministry’s contribution would not exceed the lesser of 30% of eligible project costs and $8,139,937.

The agreement further provides that the Ministry shall provide the Company with financial contributions based on the aforementioned limitations in exchange for:

i) the issuance of 19,230 transferable warrants convertible into common shares at a strike price of $38.80, exercisable for a term of five years (which warrants expired unexercised), and

ii) repayable contributions to the Ministry during the royalty period which ends on September 20, 2022, based on 1.165% (0.471% from October 1, 2009 thereafter) of gross business revenues.

Cumulative repayments of $963,802 have been made to December 31, 2011 (2010 - $963,802).

Pulsar Pressure Swing Adsorption project

The Company assumed the March 31, 1999 agreement with Industry Canada under the TPC Program to receive financial contributions regarding the development and commercial exploitation of QuestAir’s Pulsar Pressure Swing Adsorption project.

Pursuant to the agreement, total project costs for the period from October 1, 1998 to March 31, 2002 were to be shared, subject to annual contribution limits, such that the Ministry’s contribution would not exceed the lesser of 35% of eligible project costs and $4,947,330.

QuestAir had received contributions aggregating $4,762,503. The agreement further provides that the contributions are repayable solely based on a royalty of 1.8% of gross project revenues and revenues from

fuel cell related products to a maximum cumulative repayment of $8,750,000. Cumulative repayments of $74,442 have been made to December 31, 2011 (2010 – $74,442). The agreement terminates on the later of the date of payment of all amounts due to the Ministry and 2015.

Total government royalty program obligations can be broken down as follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Fast Cycle Pressure Swing Adsorption and Gas Management systems	727,978	579,278	1,055,116
Pulsar Pressure Swing adsorption project	220,943	112,261	82,191
	948,921	691,539	1,137,307

The Company failed to pay its royalties has they become due during the year. Consequently, the Company was in default of its undertakings pursuant to the TPC agreements. The Company and the Minister of Industry negotiated during the year and reached a settlement agreement. (see note 33 a)).

17 Subordinated loan

This loan from Investissement Québec matures on June 2013, bears annual interest commencing on June 2009 at the lender's floating rate plus 2%, and is secured by a movable and immovable hypothec on all present and future property of the Company ranking after those mentioned in note 11. The loan is repayable in capital monthly instalments of $5,208. As at December 31, 2011, the Company is not in compliance with these covenants.

18 Share capital

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

b) Share purchase warrants

Information that summarizes the activity related to the Company's share purchase warrants for the year ended December 31, 2011:

	Number of warrants	Weighted average exercise price $
Balance – Beginning of year	15,456,424	0.64
Granted	-	-
Exercised	-	-
Expired	(4,798,288)	1.07
Balance – End of year	10,658,136	0.45

The following table summarizes the share purchase warrants outstanding as at December 31, 2011, all of which are exercisable:

	Warrants outstanding		
Exercise price $	Number of warrants outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price $
0.45	10,091,886	3.84	0.45
0.40	566,250	0.34	0.40
	10,658,136	3.65	0.45

c) As a result of the business combination in 2009, the Company issued 5,834,249 common shares which were held in escrow as at December 31, 2010. These shares could have been released to former Xebec shareholders on the achievement of specified financial targets. These targets were measured as at December 31, 2010 and 2009. Consequently, these shares were considered restricted share awards that are issued but not outstanding. As those performance targets were not achieved, no expense was recorded and these shares were cancelled.

d) Loss per share

i) Basic

Basic loss per share is calculated by dividing the net income attributable to owners of the parent by the weighted average number of common shares in issue during the year.

	For the year ended December 31, 2011 $	**For the year ended December 31, 2010 $**
Net loss attributable to owners of the parent	(1,447,123)	(13,161,382)
Weighted average number of common shares in issue	39,363,867	30,803,752
	($0.04)	($0.43)

ii) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: warrants and stock options. For both, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the period), based on the monetary value of the subscription rights attached to the warrants and stock options. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercise of the warrants and stock options. Outstanding share options and warrants to purchase common shares were not included in the computation of diluted loss per share as they do not have any dilutive impact.

e) On November 2, 2010, the Company concluded a share offering for 9,491,886 units ("Units") at a price of $0.40 per Unit, for gross proceeds of $3,796,754. Each Unit consists of one common share and one common share purchase warrant ("Warrant"). The net proceeds from the issuance after underwriting fees and offering expenses amounted to $3,757,061. The Warrants entitle the holder to acquire one common share at a price of $0.45 until November 1, 2015, subject to adjustment under the indenture governing the Warrants. The Warrants are subject to an accelerated expiry if, at any time after December 31, 2010, the published closing trade price of the common shares on the TSX is equal or superior to $0.75 per share for any 20 consecutive trading days, in which event the Company may give the holder written notice that the Warrants will expire at the close of business day on the thirtieth day from the receipt of such notice. The estimated fair value of the Warrants issued is $413,767. The assumptions used are as follows: exercise prices as noted above, risk-free interest rate of 2.04%, expected volatility of 70% and expected life of 5 years. The agents received a commission relating to the offering in the form of an aggregate of 600,000 Units and, as additional consideration, were granted non-transferable warrants to purchase 566,250 common shares at an exercise price of $0.40 per share, subject to adjustment, until May 2, 2012. Using the Black-Scholes option pricing model, the estimated fair value of the warrants issued is $69,649. The

assumptions used are as follows: exercise price as noted above, risk-free interest rate of 1.41%, expected volatility of 82% and expected life of 18 months. This amount is included in share issue expenses.

19 Stock options

The stock option plan (the "Plan") allows for the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based awards. Under the Plan, common shares approved for issuance under all stock-based compensation arrangements are limited to the greater of 591,560 and 10% of the common shares issued and outstanding. As at December 31, 2011, the maximum number of common shares available for issuance under all stock-based compensation arrangements is 3,936,387.

Under the terms of the Plan, stock options are granted with an exercise price not less than the volume-weighted average trading price of the common shares for the five trading days prior to the date of grant. The terms and conditions for acquiring and exercising options are set by the Board of Directors. Stock options for employees vest no less than monthly and no more than quarterly. The vesting right acquisitions are gradual and equal over two years for the 2011 grants (except for 2,215,544 stock options which vested at the grant date) and over four years for previous grants and are exercisable for seven years from the date of grant. Stock options for directors vest at the grant date and are exercisable for seven years from the grant date.

Stock option activity for the years ended December 31 is presented below:

		2011		**2010**
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding – Beginning of year	107,361	5.99	139,052	5.49
Granted	3,465,544	0.15	-	-
Forfeited	(146,782)	1.78	-	-
Expired	-	-	(31,691)	3.78
Outstanding – End of year	3,426,123	0.26	107,361	5.99
Exercisable – End of year	2,454,789	0.27	88,738	5.20

As at December 31, 2011, options outstanding in the Plan and options exercisable are as follows:

					2011
	Options outstanding			Options exercisable	
Exercise price range $	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number of options	Weighted average exercise price $
0.10	2,160,000	6.98	0.10	2,160,000	0.10
0.22-0.27	1,208,461	6.58	0.23	237,627	0.23
0.44-1.50	30,900	1.64	1.34	30,400	1.35
4.60-6.90	300	2.96	4.60	300	4.60
9.00-13.90	17,871	4.55	11.65	17,871	11.65
16.20-17.50	8,591	2.98	17.43	8,591	17.43
	3,426,123	3.00	0.26	2,454,789	0.27

The fair value of the options granted has been estimated according to the Black-Scholes option pricing model and based on the weighted average of the following assumptions for options granted during the year:

		2011	**2010**
	Non-employees	**Employees**	**Employees**
Dividend yield	0%	0%	-
Exercise price	0.14	0.15	-
Risk-free interest rate	0.91%	0.98%	-
Estimated Life	2.00	2.00	-
Expected volatility	81%	81%	-

The weighted average fair value of the options granted to employees during the year is $0.14 (2010 - nil) and $0.13 (2010 - nil) for the options granted to non-employees. The weighted average exercise price of the options granted to employees during the year is $0.15 (2010 - nil) and $0.14 (2010 - nil) for the options granted to non-employees.

Compensation expenses with respect to these options amounted to $127,741 for employees and $37,122 for non-employees for the year ended December 31, 2011 (2010 – $8,114 and none respectively).

20 Expenses by nature

	2011 $	2010 $
Employee benefits	6,631,496	8,446,343
Stock-based compensation	164,863	8,114
Material	5,350,771	7,801,433
Subcontracting costs	479,178	1,689,003
Professional fees	1,096,386	2,453,781
Travel expenses	537,744	797,069
Rent and repairs and maintenance	811,444	853,919
Office expense	549,180	773,856
Amortization	897,671	831,983
Other	326,905	446,257
	16,845,638	24,101,758

21 Research and development expenses

	2011 $	2010 $
Research and development expenses	627,672	2,668,094
Government grants	(5,000)	(54,984)
Research and development tax credits	(72,327)	(62,472)
	550,345	2,550,638

22 Finance income

	2011 $	2010 $
Interest on loan to a joint venture	6,340	11,635
Interest income	3,070	6,194
Other finance income – TPC (note 32f) ii))	-	641,729
	9,410	659,558

23 Finance expenses

	2011 $	2010 $
Interest and bank charges	64,651	65,548
Interest on bank loan	34,744	25,614
Interest on long-term debt and subordinated loan	109,789	111,300
Interest charges	51,311	93,269
Other finance charges – TPC (note 16)	257,382	361,795
	517,877	657,526

24 Compensation of key management

Compensation awarded to key management included:

	2011 $	2010 $
Salaries and short-term employee benefits	1,005,980	1,424,283
Stock-based compensation	96,721	166
	1,102,701	1,424,449

Key management included the Company’s senior management and members of the Board of Directors.

25 Income taxes

a) Income tax expense

Income taxes included in the consolidated statements of loss are as follows:

	2011 $	2010 $
Current	-	-
Deferred	-	-
	-	-

b) Effective tax rate

The Company’s effective income tax rate differs from the statutory federal and provincial income tax rate in Canada. This difference arises from the following:

	2011 %	2010 %
Combined statutory rate applied to pre-tax loss	27.90	29.30
Non-deductible items	(14.73)	(0.28)
Non-taxable portion of gain on disposal of property, plant and equipment	42.29	-
Unrecognized deferred income tax assets	(38.71)	(33.93)
Impact of reduction in income tax rates on deferred income taxes	(18.56)	5.99
Other	(1.81)	(1.08)
Effective income tax rate	-	-

The applicable statutory tax rates are 27.90% in 2011 and 29.30% in 2010. The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Company operates. The decrease is mainly due to the reduction of the Federal income tax rate in 2011 from 18% to 16.5%.

c) Deferred income tax assets and liabilities

	2011 $	2010 $
Deferred income tax assets		
Property, plant and equipment	452,785	387,035
Net operating losses carried forward	15,173,061	15,848,649
Financing costs	146,356	74,862
Intangible assets	147,595	165,291
Scientific research and development expenses	6,329,223	6,153,407
Tax credits	5,917,676	6,035,647
Other	111,206	638,302
	28,277,902	29,303,193
Unrecognized deferred income tax assets	(28,277,902)	(29,303,193)
Net future income tax assets (liabilities)	-	-

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. As management believes there is sufficient uncertainty regarding the realization of deferred income tax assets, these deferred income tax assets have not been recognized.

Most of these unrecognized deferred income tax assets relate to QuestAir's deferred income tax asset balance at the acquisition date. When a deferred income tax asset acquired in a business combination is not recognized at the date of acquisition, any subsequent recognition of the tax benefit will then reduce any unamortized intangible assets related to the acquisition to zero and finally, reduce income tax expense, resulting in an increase in net earnings.

d) Other

The Company has non-capital losses carried forward in Canada of approximately $57,400,000 (2010 - 60,200,000) which are available to reduce taxable income in future years, the benefit of which has not been recorded in the accounts, and which expire as follows:

	$
2014	5,900,000
2025	6,900,000
2026	7,200,000
2027	6,800,000
2028	10,800,000
2029	7,200,000
2030	12,400,000
2031	200,000
	57,400,000

The Company also has non-capital losses carried forward in Singapore of approximately $790,000 which are available to reduce taxable income in future years for an unlimited future period.

The Company has scientific research and experimental development expenses of approximately $24,000,000 which are available to be carried forward indefinitely and deducted against future taxable income otherwise calculated.

As at December 31, 2011, the Company also has investment tax credits of approximately $7,332,000 available to offset future Canadian federal and provincial income taxes payable. The potential benefit of the investment tax credits has not been recognized in the accounts and expires as follows:

	$
2012	510,000
2013	270,000
2014	410,000
2015	360,000
2016	260,000
2017	160,000
2018	100,000
2019	470,000
2020	910,000
2021	240,000
2022	920,000
2023	480,000
2024	740,000
2025	650,000
2026	410,000
2027	240,000
2029	32,000
2031	170,000
	7,332,000

26 Commitments

i) Following is a summary of Xebec's contractual obligations and commitments:

As at December 31, 2011	**Payment Due by Period**			
	1 year	2 - 5 years	Beyond 5 years	Total
	$	$	$	$
Debt repayments [(1)]	173,050	205,465	-	378,515
Government royalty program obligation [(2)]	313,852	739,130	10,323,719	11,376,701
Operating leases	675,655	1,376,719	3,163,416	5,215,790
Total contractual obligations	1,162,557	2,321,314	13,487,135	16,971,006

As at December 31, 2010	Payment Due by Period			
	1 year	2 - 5 years	Beyond 5 years	Total
	$	$	$	$
Debt repayments [(1)]	149,647	1,062,714	898,900	2,111,261
Government royalty program obligation [(2)]	105,042	795,789	11,734,719	12,635,550
Operating leases	514,081	570,916	-	1,084,997
Total contractual obligations	768,770	2,429,419	12,633,619	15,831,808

(1) Long-term and short-term debt.
(2) Royalties projected payments under TPC program.

(3) Operating leases include two buildings in Vancouver and one in Blainville (2010 – three buildings in Vancouver) and various equipment leases.

ii) Natural Resources Canada agreement

In January 2005, QuestAir received a grant of $225,000 from the Government of Canada under the Department of Natural Resources Efficiency and Alternative Energy Program to support the development of structured adsorbent that will possess enhanced properties to assist in high purity hydrogen separation. The agreement provides that such contributions are repayable solely based on 0.12% of gross project revenues through March 31, 2015 to a maximum cumulative repayment of $225,000, whichever occurs first. Cumulative repayments of $5,592 have been made to December 31, 2011 (2010 – $5,592).The Company is not pursuing commercialization of this technology.

In January 2004, QuestAir received a grant of $193,944 from the Government of Canada under the Department of Natural Resources Efficiency and Alternative Energy Program to support the development of a device that increases the efficiency of a high temperature fuel cell system and permits the co-production of hydrogen. The agreement provides that such contributions are repayable solely based on 0.12% of gross project revenues through March 31, 2014, to a maximum cumulative repayment of $193,944, whichever occurs first. Any amounts ultimately determined to be repayable are accrued as a liability when the project revenues are known and reasonably estimable, and are recorded as royalty expense. The Company is not pursuing commercialization this technology.

27 Contingent liabilities

The Company is party to various ongoing and pending litigation along with other contingencies arising out of normal course of business. Management believes that these claims, when resolved, will not have any material adverse effect on the consolidated financial position or results of operations of the Company.

28 Related party transactions

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

	2011 $	2010 $
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	46,355	85,085
Sales to joint venture before the acquisition (note 5)	74,372	81,307
Loan from a Company director	23,562	-
Accrued interest on a loan from a Company director	315	-
	144,604	166,392

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

29 Capital management

The Company's objective when managing capital is to use short-term funding sources to manage its working capital requirements and fund capital expenditures required to execute its operating and strategic plans.

The Company's capital structure is composed of the following:

	2011 $	2010 $
Cash	309,090	2,262,273
Bank loan	(500,000)	(500,000)
Long-term debt	(378,515)	(2,111,277)
Subordinated loan	(98,968)	(156,256)
	(668,393)	(505,260)
Equity (Deficiency)	(307,121)	1,113,911
	(975,514)	608,651

The Company is not subject to any capital requirements imposed by regulators; however, the Company must adhere to certain financial covenants related to the terms of its subordinated loan.

30 Segmented information

The Company has only one segment and specializes in the design and manufacture of filtration, purification, separation and dehydration equipment for gases and compressed air. The Company has four product lines and provides related engineering services.

Revenue summarized by country, as determined by location of the customers, is as follows:

	2011 $	2010 $
Revenue		
United States	8,355,044	5,497,131
Canada	1,819,934	1,963,303
Republic of China	1,246,519	1,346,693
Indonesia	828,273	118,463
Singapore	622,612	520,254
South Korea	251,742	1,522,076
Austria	216,033	1,520,141
Other	863,306	987,150
	14,203,463	13,475,211

Revenue summarized by product line is as follows:

	2011 $	2010 $
Product line		
Natural gas dryers	4,459,762	5,529,018
Gas purification	4,876,066	4,366,857
Compressed gas filtration	1,558,387	3,115,935
Engineering services	1,665,589	105,250
Licensing	1,464,887	-
Air dryers	178,772	358,151
	14,203,463	13,475,211

Major customers representing 10% or more of total sales include:

	2011 $	2010 $
Customer A	1,946,067	134,737
Customer B	1,759,271	-
Customer C	1,671,481	1,863,821
Customer D	-	1,326,037
Customer E	211,511	1,127,630
Customer F	9,363	1,101,921
	5,597,693	5,554,146

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

	2011 $	2010 $
Non-current assets		
Canada	5,563,424	6,656,792
Asia	116,180	195,974
	5,679,604	6,852,766

31 Financial instruments

(a) Measurement categories and fair values, including valuation methods and assumptions

As explained in Note 3, financial assets and financial liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statement of income or comprehensive income. Those categories are: fair value through profit or loss; loans and receivables; and, for liabilities, amortized cost. The following table shows the carrying values and the fair values of assets and liabilities for each of these categories as at December 31, 2011 and 2010 and January 1, 2010:

December 31, 2011	Loans and receivables		Other financial liabilities		Fair value through profit or loss	
	Carrying amount $	Fair value $	Carrying amount $	Fair Value $	Carrying amount $	Fair Value $
Cash	389,090	389,090	-	-	-	-
Trade and other receivables	2,444,842	2,444,842	-	-	-	-
Bank loan	-	-	500,000	500,000	-	-
Trade payables and accrued liabilities	-	-	5,743,340	5,743,340	-	-
Long-term debt	-	-	279,547	279,547	-	-
Government royalty program obligation	-	-	948,921	948,921	-	-
Subordinated loan	-	-	98,968	90,134	-	-
Loan from a related party	-	-	23,562	22,526	-	-

December 31, 2010	Loans and receivables		Other financial liabilities		Fair value through profit or loss	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Cash	2,262,273	2,262,273	-	-	-	-
Trade and other receivables	2,603,261	2,603,261	-	-	-	-
Restricted cash	576,092	576,092	-	-	-	-
Loan to a joint venture	117,811	116,184	-	-	-	-
Bank loan	-	-	500,000	500,000		
Trade payables and accrued liabilities	-	-	7,089,760	7,089,760	-	-
Long-term debt	-	-	1,955,021	1,518,754	-	-
Government royalty program obligation	-	-	691,539	691,539	-	-
Subordinated loan			156,256	146,583	-	-

January 1, 2010	Loans and receivables		Other financial liabilities		Fair value through profit or loss	
	Carrying amount $	Fair Value $	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Cash	5,447,702	5,447,702	-	-	-	-
Trade and other receivables	3,105,834	3,105,834	-	-	-	-
Restricted cash	223,261	223,261	-	-	-	-
Loan to a joint venture	113,331	113,331	-	-	-	-
Bank loan	-	-	496,900	496,900	-	-
Trade payables and accrued liabilities	-	-	4,586,203	4,586,203	-	-
Derivative financial instruments	-	-	-	-	96,645	96,645
Long-term debt	-	-	2,085,149	1,678,959	-	-
Government royalty program obligation	-	-	1,137,307	1,137,307	-	-
Subordinated loan	-	-	218,752	202,912	-	-

The carrying values of cash and cash equivalents, trade and other receivables, restricted cash, trade payables and accrued liabilities and bank overdraft approximate their fair value due to their short-term maturities. Interest income on loans and receivables measured at amortized cost was $6,340 (2010 - $19,391). The methods and assumptions used in estimating the fair values of other financial assets and financial liabilities are as follows:

- Loan to a joint venture: Fair value of the loan has been calculated by discounting the loan on a one-year period to the interest rate of a similar investment.

- Derivative financial instrument: The fair value of derivative financial instruments approximates the amounts for which the financial instruments could be exchanged between willing parties, based on current market data for similar instruments. As estimates must be used to determine fair value, the latter must not be interpreted as being realizable in the event of an immediate settlement of the instruments. The Company uses the Level 2 input to measure the fair value of its derivative financial instrument.

- **Long-term debt and subordinated loan: The Company's long-term debt and subordinated loan carry fixed interest rates. The fair value of the Company's debt obligations and subordinated loan** has been calculated by discounting the future cash flows of the respective long-term debt and subordinated loan at the interest rate of similar debt instruments.

- Government royalty program obligation: Fair value of government royalty' program obligation has been calculated by discounting the future royalties based on forecast revenue at the interest rate for a similar loan in the market.

(b) Fair value hierarchy

Amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosures", establish a fair value hierarchy which requires the Company to maximize the use of observable inputs when measuring fair value. The Company primarily applies the market approach for recurring fair value measurements. The Section describes three input levels that may be used to measure fair value:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(c) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party fails to meet its contractual obligations. The Company's primary credit risk is its cash and outstanding trade accounts receivable. The carrying amount of its outstanding trade accounts receivable represents the Company's estimate of its maximum credit exposure. The Company regularly monitors its credit risk exposure and takes steps such as employing credit approval procedures, establishing credit limits, using credit assessments and monitoring practices to mitigate the likelihood of these exposures from resulting in an actual loss. An allowance for doubtful accounts amounting to $194,273 (2010 – $341,286) was established based on prior experience and an assessment of current financial conditions of customers as well as the general economic environment. In the case where an allowance for doubtful accounts provision is recorded and a receivable balance is considered uncollectible, it is written off against the allowances for doubtful accounts. Bad debt expense amounted to $138,348 in 2011 (2010 – $8,501). As at December 31, 2010, the Company's three largest trade debtors accounted for 28% (11%, 9% and 8%) of the total accounts receivable balance (2010 – 24% (9%, 9% and 6%)).

Details of accounts receivable were as follows:

	December 31, 2011 $	**December 31, 2010** $	**January 1, 2010** $
Current trade receivables	247,964	869,264	997,964
Trade receivables past due by:			
1–30 days	304,949	465,490	315,532
31–60 days	111,037	92,808	182,429
61–90 days	122,177	127,748	164,200
Over 90 days	1,223,812	1,175,317	1,233,182
Total trade receivables	2,009,939	2,730,627	2,893,307
Allowances for doubtful accounts	(194,273)	(341,286)	(392,042)
Other receivables	629,176	213,920	604,569
Total accounts receivable	2,444,842	2,603,261	3,105,834

The following table summarizes the changes in the allowance for doubtful accounts for trade receivables:

At January 1, 2010	(392,042)
Provision for impairment	-
Receivables written off during the year as uncollectible	-
Unused amounts reversed	50,756
At December 31, 2010	(341,286)
Provision for impairment	(194,273)
Receivables written off during the year as uncollectible	341,286
Unused amounts reversed	-
At December 31, 2011	(147,013)

A provision for impairment is generally recorded for trade receivable balances outstanding for more than 120 days. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The Company’s cash is maintained at financial institutions with high credit ratings; therefore, the Company considers the risk of non-performance on these instruments to be remote. To date, the Company has not incurred any losses related to these instruments.

(d) Market risk

(i) Currency risk

Certain financial assets and financial liabilities are exposed to foreign exchange fluctuations. Taking into account the amounts denominated in the currencies indicate below and assuming that all of the other variables remain unchanged, a fluctuation in exchanges rates would have an impact on the Company's net loss. Management believes that a 10% change in exchange rates would be reasonably possible and that the impact on the net loss of such a change would be approximately $(9,160) for 2011 (2010 - $(44,633) and 2009 - $89 959). As at December 31, 2011, the following amounts are shown in US dollars, Euros, and British pounds sterling and converted into Canadian dollars. The Company does not use financial instruments to reduce this risk.

			2011
	US dollar	**Euro**	**British pound sterling**
Cash	50,828	1,630	-
Accounts receivable	1,734,397	2,991	-
Accounts payable and accrued liabilities	(961,399)	(66,486)	(6,142)
	823,826	(61,865)	(6,142)
Equivalent in Canadian dollars	837,831	(81,617)	(9,704)

			2010
	US dollar	**Euro**	**British pound sterling**
Cash	722,636	519	698
Accounts receivable	919,988	229,979	2,000
Restricted cash	-	134,088	-
Accounts payable and accrued liabilities	(1,715,224)	(199,529)	(34,814)
	(72,600)	165,057	(32,116)
Equivalent in Canadian dollars	(72,207)	219,839	(49,822)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as market interest rates change.

The Company is exposed to interest rate risk on its bank loan and long-term debt, for which the interest rates charged fluctuate based on the bank prime rate. As at December 31, 2011, the bank loan and the loan from Investissement Québec amount to $598,968 (2010 – $656,256). If the interest rate on the bank debt had been 50 basis points higher (lower), related to the bank loan as at December 31, 2011, net loss would have been $2,995 (2010 – $3,280) higher (lower).

(e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due.

The following are the contractual maturities of financial liabilities as at December 31:

					2011
	Carrying amount $	**Contractual cash flow $**	**0 to 12 months $**	**13 to 24 months $**	**Thereafter $**
Financial liabilities					
Bank loan	500,000	500,000	500,000	-	-
Accounts payable and accrued liabilities	5,743,340	5,743,340	5,743,340	-	-
Loan from a related party	23,562	23,562	23,562		
Government royalty program obligation	948,921	11,376,701	313,852	134,331	10,928,518
Long-term debt and subordinated loan	378,515	379,721	139,667	108,419	131,635
	7,594,338	18,023,324	6,720,421	242,750	11,060,153

					2010
	Carrying amount $	**Contractual cash flow $**	**0 to 12 months $**	**13 to 24 months $**	**Thereafter $**
Financial liabilities					
Bank loan	500,000	500,000	500,000	-	-
Accounts payable and accrued liabilities	7,089,760	7,089,760	7,089,760	-	-
Government royalty program obligation	691,539	4,044,328	105,042	136,475	3,802,811
Long-term debt and subordinated loan	2,111,277	2,788,631	251,443	441,877	2,095,311
	10,392,576	14,422,719	7,946,245	578,352	5,898,122

Contractual interest amounts that are on floating interest rates are established based on the spot rates as at the respective balance sheet dates.

The Company's development is financed through a combination of borrowing under the existing credit facilities, the issuance of debt and the issuance of equity.

It is the Company's intention to meet its obligations through the collection of accounts receivable and the receipt of future progress payments on amounts not yet invoiced, as well as from current cash. The recent sale and lease back transaction of the Company's intellectual property portfolio together with the proceeds received from that transaction, provides the Company with the sufficient funding to support its operations for at least the next fiscal year (note 33(b)).

32 Transition to IFRS

The Company's consolidated financial statements for the year ended December 31, 2011 are the first annual financial statements that comply with IFRS, and are prepared as described in note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in these financial statements of compliance with IFRS.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "transition date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company is December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adopters.

The effect of the Company's transition to IFRS is summarized in this note as follows:

i) Transition elections

ii) Reconciliation of financial position, shareholders' equity and comprehensive loss as previously reported under previous GAAP to IFRS

iii) Adjustments to the statement of cash flows

i) Transition elections

The Company has applied the following transition exemptions to full retrospective application of IFRS:

	As described in note 32(ii)
Borrowing costs	(a)
Cumulative translation adjustment	(b)
Business combinations	(c)
Leases	(d)
Compound financial instruments	(e)

ii) Reconciliation of statement of financial position as at December 31, 2010 and January 1, 2010

		December 31, 2010			January 1, 2010		
	Note 30(ii)	Canadian GAAP $	Adjustment (m),(n) $	IFRS $	Canadian GAAP $	Adjustment (l) $	IFRS $
Assets							
Current assets							
Cash and cash equivalents		2,262,273	-	2,262,273	5,447,702	-	5,447,702
Trade and other receivables		2,603,261	-	2,603,261	3,105,834	-	3,105,834
Inventories		2,720,060	-	2,720,060	2,867,922	-	2,867,922
Income taxes recoverable		-	-	-	62,492	-	62,492
Investment tax credits receivable		103,489	-	103,489	80,843	-	80,843
Restricted cash		576,092	-	576,092	223,261	-	223,261
Other current assets		100,846	-	100,846	183,564	-	183,564
Total current assets		8,366,021	-	8,366,021	11,971,618	-	11,971,618
Non-current assets							
Loan to a joint venture		117,811	-	117,811	113,331	-	113,331
Property, plant and equipment	(g)	1,939,097	(30,655)	1,908,442	2,604,931	(59,142)	2,545,789
Intangible assets	(f)(i), (f)(iii), (g),	4,022,822	461,075	4,483,897	279,046	4,943,751	5,222,797
Goodwill	(f)(i), (f)(ii)	1,438,324	(1,095,708)	342,616	5,942,152	(5,599,536)	342,616
Total non-current assets		7,518,054	(665,288)	6,852,766	8,939,460	(714,927)	8,224,533
Total assets		15,884,075	(665,288)	15,218,787	20,911,078	(714,927)	20,196,151
Liabilities							
Current liabilities							
Bank loan		500,000	-	500,000	496,900	-	496,900
Trade payables and accrued liabilities	(f)(i), (f)(iii), (h)	8,594,752	(1,504,992)	7,089,760	5,578,505	(992,302)	4,586,203
Deferred revenues		2,331,802	-	2,331,802	146,228	-	146,228
Income taxes payable		8,286	-	8,286	-	-	-
Derivative financial instruments		-	-	-	96,645	-	96,645
Current portion of long-term debt	(k)	87,151	156,256	243,407	321,653	62,496	384,149
Current portion of subordinated loan	(k)	156,256	(156,256)	-	62,496	(62,496)	-
Provisions	(h)	-	1,036,095	1,036,095	-	141,309	141,309
Total current liabilities		11,678,247	(468,897)	11,209,350	6,702,427	(850,993)	5,851,434
Non-current liabilities							
Long-term debt	(k)	1,867,870	-	1,867,870	1,763,496	156,256	1,919,752
Government royalty program obligation	(f)(iii), (f)(iv), (k)	-	691,539	691,539	-	1,137,307	1,137,307
Government assistance		32,083	-	32,083	37,083	-	37,083
Provisions	(h)	-	304,034	304,034	-	694,674	694,674
Subordinated loan	(k)	-	-	-	156,256	(156,256)	-
Total non-current liabilities		1,899,953	995,573	2,895,526	1,956,835	1,831,981	3,788,816
Total liabilities		13,578,200	526,676	14,104,876	8,659,262	980,988	9,640,250
Equity							
Share capital		19,964,218	-	19,964,218	18,107,821	-	18,107,821
Contributed surplus		1,841,741	-	1,841,741	51,368	-	51,368
Accumulated other comprehensive income	(b), (g)	-	72,622	72,622	-	-	-
Deficit	(b), (f)(i), (f)(ii), (f)(iii), (f)(iv), (g)	(19,500,084)	(1,264,586)	(20,764,670)	(5,907,373)	(1,695,915)	(7,603,288)
Total equity		2,305,875	(1,191,964)	1,113,911	12,251,816	(1,695,915)	10,555,901
Total liabilities and equity		15,884,075	(665,288)	15,218,787	20,911,078	(714,927)	20,196,151

Reconciliation of statement of loss and comprehensive loss as at December 31, 2010

	Note 4 (ii)	December 31, 2010		
		Previous GAAP $	Adjustment $	IFRS $
Revenue		13,475,211	-	13,475,211
Cost of goods sold	(f)(i), (f)(iii), (g), (j), (k)	13,226,426	162,407	13,388,833
Gross margin		248,785	(162,407)	86,378
Research and development expenses		2,550,638	-	2,550,638
Selling and administrative expenses	(f)(i), (j)	10,132,192	580,733	10,712,925
Financial	(i)	443,042	(443,042)	-
Foreign exchange loss (gain)	(g)	(206,710)	75,903	(130,807)
Loss on disposal of property, plant & equipment	(k)	-	117,036	117,036
Amortization	(j)	922,334	(922,334)	-
		13,841,496	(591,704)	13,249,792
Finance income	(f)(iii), (f)(iv), (i)	-	(659,558)	(659,558)
Finance expenses	(f)(iii), (i)	-	657,526	657,526
Finance costs – net		-	(2,032)	(2,032)
Loss before income taxes		(13,592,711)	431,329	(13,161,382)
Income taxes		-	-	-
Net loss for the year		(13,592,711)	431,329	(13,161,382)
Other comprehensive income (net of tax)				
Cumulative translation adjustment	(b), (g)	-	72,622	72,622
Other comprehensive income for the year		-	72,622	72,622
Comprehensive loss for the year		(13,592,711)	503,951	(13,088,760)

Explanatory notes

a) In accordance with IFRS transitional provisions, the Company elected to apply IFRS relating to borrowing costs prospectively from January 1, 2010. As such, previous GAAP balances relating to borrowing costs entered into before that date have been carried forward without adjustment.

b) In accordance with IFRS transitional provisions, the Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the date of transition to IFRS. Refer to note g) below for details.

c) In accordance with IFRS transitional provisions, the Company has elected to apply IFRS 3, Business Combinations, prospectively from June 12, 2009. As such, Previous GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward without adjustment, and the reverse takeover transaction with QuestAir, which occurred on June 12, 2009, was adjusted to meet IFRS requirements. Refer to note f) below.

d) In accordance with IFRS transitional provisions, the Company has elected to apply IFRIC 4, Determining Whether an Arrangement Contains a Lease, based on the circumstances existing at the date of transition to IFRS, to all arrangements other than those entered into or modified since January 1, 2005, as such arrangements have already been assessed under requirements similar to those of IFRIC 4. No impact resulted from the review of arrangements.

e) In accordance with IFRS transitional provisions, the Company has elected not to apply retrospectively the requirement to separate liability and equity components of compound financial instruments to instruments for which the liability component was no longer outstanding on the transition date.

f) As at December 31, 2009, formal valuation of the tangible and intangible assets acquired and liabilities assumed through the QuestAir acquisition was not completed. Accordingly, the excess of the purchase price over the net book value of identifiable assets acquired was, at that time, preliminarily allocated to goodwill in the previous GAAP consolidated balance sheet. During the second quarter of 2010, the Company finalized the purchase price allocation pertaining to this acquisition.

IFRS 3 requirements were applied to the QuestAir acquisition. As a result, the final fair values established in 2010 were used in accounting for that transaction when establishing the IFRS opening statement of financial position as at January 1, 2010 as, per IFRS 3, adjustments to preliminary or provisional estimates are required to be treated retrospectively as if the adjustment had been determined at the acquisition date.

i) As at June 12, 2009, the acquisition date, the IFRS consolidated statement of financial position was adjusted to reflect the final allocation, resulting in increases in accounts receivable of $466,699, in contract asset of $330,886, in customer relations of $1,900,000, in patents of $2,310,000, and in accounts payable and accrued liabilities of $9,238, and decreases in inventories and deferred revenue of $1,724,201 and $1,229,682 respectively. Consistent with these changes, goodwill has decreased by $4,503,828.

ii) As per IFRS 3, transaction costs are required to be expensed as incurred. Consequently, goodwill further decreased by $1,095,708, with a corresponding entry in retained earnings.

iii) Prior to the acquisition date, QuestAir received, from a number of government agencies such as Technology Partnerships Canada (“TPC”), funding designed to promote economic growth, create jobs and wealth, and support sustainable development. Funding was in the form of contributions determined as (a) a percentage of defined eligible costs; or (b) a maximum amount as specified in the government support agreement. In some of these arrangements, the Company has a contractual obligation to repay the contributions to the government agency, with repayments determined as a percentage of specified revenues over a contractually defined royalty year (refer to note 32(iv)) below for a description of the programs).

Under Previous GAAP, the Company recorded government contributions as a reduction of the related R&D program costs or as a reduction in the program’s capitalized expenditures. A liability to repay the government contribution is recognized when conditions arise and the repayment thereof is reflected in the consolidated statement of comprehensive income when royalties become due. Under IFRS, such arrangements do not qualify as government grants and should therefore be recognized as liabilities at initial recognition as they fall under the scope of IAS 39. Consequently, repayable

government assistance arrangements are recognized as government royalty program obligations when the contribution is received and is estimated based on future projections. Therefore, as at June 12, 2009, the acquisition date, the IFRS consolidated statement of financial position was adjusted to reflect the recognition of government royalty program obligations amounting to $989,013, with a corresponding entry to intangible assets. The obligations were measured based on projected revenues and corresponding royalty payments expected at the transaction date, using a discount rate of 30%. Following this change in accounting treatment, interest expense is recognized as a result of accretion of the long-term obligations, while royalty payments are recorded against the obligations instead of as an expense as under previous GAAP.

iv) In accordance with IAS 39, the government royalty program obligations are remeasured when the future projections used to measure the obligations are revised. Resulting changes in the carrying amount of these obligations are recognized in the consolidated statement of comprehensive income. Accordingly, as at December 31, 2010, the IFRS consolidated statement of financial position was adjusted to reflect the change in carrying value of government royalty program obligations amounting to $641,729 with a corresponding entry to finance income. The obligations were measured based on projected revenues and corresponding royalty payments expected at that date, using the original discount rate of 30%.

Total government royalty program obligations can be broken down as follows:

	December 31, 2010 **$**	**January 1, 2010** **$**
Fast Cycle Pressure Swing Adsorption and Gas Management systems	579,278	1,055,110
Pulsar Pressure Swing adsorption project	112,261	82,197
	691,539	1,137,307

Refer to the tables below for the details of the impacts, resulting from the above described changes, on the IFRS opening consolidated statement of financial position and subsequent year presented.

g) Items included in the financial statements of the Company's subsidiaries and joint ventures must be measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Under IFRS, indicators to consider for determining the functional currency of an entity are broken down into primary and secondary indicators. Under Previous GAAP, there is no such hierarchy when assessing the factors for determining the measurement currency.

Following the assessment of these indicators using the IFRS hierarchy, management concluded that the Company's subsidiary (Xebec Adsorption (Shanghai) Co. Ltd.) and joint venture (Xebec Adsorption South East Asia PTE. Ltd.) should use the Chinese renminbi (Yuan) and the Singapore dollar respectively as their functional currency to meet IFRS requirements as opposed to the previous dollar measurement currency used under Previous GAAP. Accordingly, the Company has prepared an opening statement of

financial position for these entities as at January 1, 2010 using their respective functional currencies as if they had always been used.

As the functional currency of the subsidiary and joint venture differs from that of the Company, the financial statements of these entities were translated, for consolidation purposes, into Canadian dollars as follows: assets and liabilities at the closing rate at the date of the statement of financial position, and income and expenses at the average rate of the year. All resulting changes were recognized in other comprehensive income as cumulative translation adjustment. However, as the Company elected, in accordance with IFRS transitional provisions, to reset the cumulative translation adjustment account to zero at the date of transition to IFRS (refer to note b) above), amounts that would have been recognized in the cumulative translation adjustment account prior to January 1, 2010 have been transferred to deficit at that date.

Refer to the tables below for the details of the impacts, resulting from the above described changes, on the opening IFRS consolidated statement of financial position and subsequent year presented.

h) Under IFRS, warranty and other provisions, which were classified as accounts payable and accrued liabilities in Previous GAAP consolidated financial statements have been reclassified as provisions as required by IAS 1, Presentation of Financial Statements. The reclassification on January 1, 2010 and December 31, 2010 amounts to $835,983 and $1,340,129 respectively.

i) Under IFRS, finance income and finance expense are presented separately in the consolidated statement of income. Under previous GAAP, net interest expense was presented in the consolidated statement of income. Accordingly, finance income balances of $17,829 for the year ended December 31, 2010 have been reclassified to finance income.

j) Under IFRS, expenses recognized in the statement of comprehensive income must be presented using a classification based on nature or function. The Company chose to use a presentation by function. Accordingly, amortization expense for the year ended December 31, 2010 has been reclassified in cost of goods sold ($565,615) and selling and administrative expenses ($356,719).

k) Under IFRS, the Company reclassified some of its accounts. Current and long-term portion of subordinated loan have been reclassified in current and long-term portion of long-term debt. The reclassification on January 1, 2010 and December 31, 2010 amounts to $62,496 and $156,256 respectively. Loss on disposal of property, plant and equipment and the write-down of inventory obsolescence included in cost of goods sold have been reclassified in loss on disposal of property, plant and equipment and selling and administrative expenses. The reclassification on December 31, 2010 amounted to $117,036 and $88,299 respectively.

l) **Statement of financial position**

	As at January 1, 2010					
	Previous GAAP	**Note 32(ii)**				**IFRS**
		(f)(i), (f)(ii)	**(f)(iii)**	**(b), (g)**	**(h)**	
	$	**$**	**$**	**$**	**$**	**$**
Non-current assets						
Property, plant and equipment	2,604,931	-	-	(59,142)	-	2,545,789
Intangible assets	279,046	3,997,286	956,046	(9,581)	-	5,222,797
Goodwill	5,942,152	(5,599,536)	-	-	-	342,616
Current liabilities						
Trade payables and accrued liabilities	5,578,505	9,238	(165,557)	-	(835,983)	4,586,203
Provisions	-	-	-	-	141,309	141,309
Non-current liabilities						
Government royalty program obligation	-	-	1,137,307	-	-	1,137,307
Provisions	-	-	-	-	694,674	694,674
Equity						
Accumulated other comprehensive income	-	-	-	-	-	-
Deficit	(5,907,373)	(1,611,488)	(15,704)	(68,723)	-	(7,603,288)

m) **Statement of financial position**

	As at December 31, 2010					
	Previous GAAP	**Note 32(ii)**				**IFRS**
		(f)(i), (f)(ii)	**(f)(iii)**	**(b), (g)**	**(h), (i), (j)**	
	$	**$**	**$**	**$**	**$**	**$**
Non-current assets						
Property, plant and equipment	1,939,097	-	-	(30,655)	-	1,908,442
Intangible assets	4,022,822	(425,429)	890,112	(3,608)	-	4,483,897
Goodwill	1,438,324	(1,095,708)	-	-	-	342,616
Current liabilities						
Trade payables and accrued liabilities	8,594,752	-	(164,863)	-	(1,340,129)	7,089,760
Provisions	-	-	-	-	1,036,095	1,036,095
Non-current liabilities						
Government royalty program obligation	-	-	691,539	-	-	691,539
Provisions	-	-	-	-	304,034	304,034
Equity						
Accumulated other comprehensive income	-	-	-	(3,281)	75,903	72,622
Deficit – Beginning of year	(5,907,373)	(1,611,488)	(15,704)	(68,723)	-	(7,603,288)
Net loss for the year	(13,592,711)	90,351	379,140	37,741	(75,903)	(13,161,382)

n) **- Statements of loss and comprehensive loss**

	For the year ended December 31, 2010					
	Previous GAAP	**Note 32(ii)**				**IFRS**
		(f)(i), (f)(ii)	**(f)(iii)**	**(b), (g)**	**(h), (i), (j), (k)**	
	$	**$**	**$**	**$**	**$**	**$**
Cost of goods sold	13,226,426	(226,066)	65,934	(37,741)	360,280	13,388,833
Selling and administrative expenses	10,132,192	135,715	-	-	445,018	10,712,925
Financial	443,042	-	-	-	(443,042)	-
Foreign exchange gain	(206,710)	-	-	-	75,903	(130,807)
Loss on disposal of property, plant and equipment					117,036	117,036
Amortization	922,334	-	-	-	(922,334)	-
Finance income	-	-	(641,729)	-	(17,829)	(659,558)
Finance expense	-	-	196,655	-	460,871	657,526
Net loss for the year	(13,592,711)	90,351	379,140	37,741	(75,903)	(13,161,382)
Cumulative translation adjustment	-	-	-	(3,281)	75,903	72,622

iii) Adjustments to the statement of cash flows

The transition from previous GAAP to IFRS had no significant impact on cash flows generated by the Company.

33 Subsequent events

b) On March 22, 2012, the Company signed a settlement agreement with TPC with regard to its Fast Cycle Pressure Swing Adsorption and Gas Management systems and Pulsar Pressure Swing Adsorption project. The Company has to pay $250,000 at the execution of the agreement and $1,000,000 spread over four equal annual payments. Furthermore, the Company is liable to pay up to $750,000 in contingent payments based on cumulative funds generated from the license or sale by the Company of its intellectual property.

c) On March 22, 2012, the Company sold to Air Products and Chemicals Inc. ("Air Products") its intellectual property ("IP") portfolio, including the patents and patent applications relating to its gas separation technology. In this transaction, the Company has also transferred ownership of its research and development facilities in Burnaby and Surrey, as well as other equipment located in British Columbia. Pursuant to this transaction, the Company has received aggregate gross proceeds of $8,600,000, and net proceeds of approximately $8,350,000. The transaction is also subject to payments for the achievement of certain conditions to be met within the next 24 months. The Company also entered into a license agreement with Air Products allowing the Company to continue to sell its systems in the biogas, hydrogen, natural gas and associated gas purification markets.

34 Third quarter information under IFRS (unaudited)

The consolidated financial statements of the third quarter of 2011 have been restated to give effect to the following elements:

1- Reclassification of the operating lease initially accounted for as a finance lease.
2- Adjustment of gain on the disposal of property, plant and equipment initially accounted for as deferred gain on disposal of property, plant and equipment as an effect on the reclassification of the operating lease.
3- Adjustment of goodwill and gain (loss) on loan to joint venture initially recorded when the Company acquired Xebec Adsorption South East Asia PTE. Ltd.

These restatements had no effect on the operating, financing or investment activities

The effects of the restatements are as follows:

Interim Consolidated Statement of Financial Position (unaudited) — **As at September 30, 2011**

	As previously Reported $	Restatements $	Balance Restated $
Assets			
Current assets			
Restricted cash	579,671	-	579,671
Trade and other receivables	3,829,024	-	3,829,024
Inventories	2,162,417	-	2,162,417
Investment tax credits receivable	75,000	-	75,000
Other current assets	313,226	-	313,226
Total current assets	6,959,338	-	6,959,338
Non-current assets			
Balance of sale	800,000	-	800,000
Property, plant and equipment	3,894,513	(3,267,000)	627,513
Intangible assets	4,095,366	-	4,095,366
Goodwill	618,718	-	618,718
Total non-current assets	9,408,597	(3,267,000)	6,141,597
Total assets	16,367,935	(3,267,000)	13,100,935
Liabilities			
Current liabilities			
Bank overdraft	87,364	-	87,364
Bank loan	500,000	-	500,000
Trade payables and accrued liabilities	5,727,499	(69,270)	5,658,229
Deferred revenues	3,246,746	-	3,246,746
Current portion of deferred gain on sale of property	151,788	(151,788)	-
Current portion of long-term debt and obligation	303,190	(128,290)	174,900
Current portion of government royalty program obligation	189,150	69,270	258,420
Provisions	185,000	-	185,000
Total current liabilities	10,390,737	(280,078)	10,110,659
Non-current liabilities			
Long-term debt	217,812	-	217,812
Government royalty program obligation	669,464	-	669,464
Government assistance	28,333	-	28,333
Deferred gain on sale of property	2,125,037	(2,125,037)	-
Obligation under finance lease	3,138,710	(3,138,710)	-
Provisions	268,170	-	268,170
Total non-current liabilities	6,447,526	(5,263,747)	1,183,779
Total liabilities	16,838,263	(5,543,825)	11,294,438
Equity			
Share capital	19,802,272	-	19,802,272
Contributed surplus	2,066,635	-	2,066,635
Accumulated other comprehensive income (loss)	(92,571)	9,098	(83,473)
Deficit	(22,231,212)	1,977,895	(20,253,317)
	(454,876)	1,986,993	1,532,117
Non-controlling interest	(15,452)	13,730	(1,722)
Total Equity	(470,328)	2,000,723	1,530,395
Total liabilities and equity	16,367,935	(3,543,102)	12,824,833

Interim Consolidated Statement of Profit (Loss) (unaudited)

	For the three-month period ended September 30, 2011			For the nine-month period ended September 30, 2011		
	As previously reported	Restatements	Restated	As previously reported	Restatements	Restated
	$	$	$	$	$	$
Revenue	2,945,291	-	2,945,291	11,504,851	-	11,504,851
Cost of goods sold	1,690,794	18,111	1,708,905	7,346,448	54,707	7,401,155
Gross margin	1,254,497	(18,111)	1,236,386	4,158,403	(54,707)	4,103,696
Research and development expenses	100,765	-	100,765	487,105	-	487,105
Selling and administrative expenses	1,229,249	(19,844)	1,209,405	4,922,014	(56,440)	4,865,574
Foreign exchange loss (gain)	36,409	-	36,409	(91,516)	-	(91,516)
Loss (gain) on disposal of property, plan and equipment	-	(2,275,092)	(2,275,092)		(2,275,092)	(2,275,092)
Gain on revaluation of investment	(132,917)	271,022	138,105	(132,917)	271,022	138,105
	1,233,506	(2,023,914)	(790,408)	5,184,686	(2,060,510)	3,124,176
Finance income	(192)	-	(192)	(9,348)	-	(9,348)
Finance expense	229,350	-	229,350	449,607	-	449,607
Finance costs – net	229,158	-	229,158	440,259	-	440,259
Net income (loss) for the period	(208,167)	2,005,803	1,797,636	(1,466,542)	2,005,803	539,261
Income (loss) attributable to:						
Owner of the parent	(231,781)	1,998,118	1,766,337	(1,490,156)	1,998,118	507,962
Non-controlling interest	23,614	7,685	31,299	23,614	7,685	31,299
	(208,167)	2,005,803	1,797,636	(1,466,542)	2,005,803	539,261
Earnings (loss) per share						
Basic and diluted	(0.01)		0.04	(0.04)		0.01

Interim Consolidated Statement of Comprehensive Profit (Loss) (unaudited)

	For the three-month period ended September 30, 2011			For the nine-month period ended September 30, 2011		
	As previously reported $	Restatements $	Restated $	As previously reported $	Restatements $	Restated $
Net income (loss) for the period	(208,167)	2,005,803	1,797,636	(1,466,542)	2,005,803	539,261
Other comprehensive income (loss)						
Cumulative translation adjustment	(177,249)	(11,744)	(188,993)	(165,193)	(11,744)	(176,937)
Comprehensive income (loss) for the period	(385,416)	1,994,059	1,608,643	(1,631,735)	1,994,059	362,324
Attributable to:						
Owners of Xebec Adsorption Inc.	(408,581)	2,006,767	1,598,186	(1,654,900)	2,006,767	351,867
Non-controlling interest	23,165	(12,708)	10,457	23,165	(12,708)	10,457
	(385,416)	1,994,059	1,608,643	(1,631,735)	1,994,059	362,324