Xebec Adsorption Inc.

Consolidated Financial Statements
December 31, 2019 and 2018
(expressed in Canadian dollars)

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Independent Auditor's Report

To the Shareholders of
Xebec Adsorption Inc.

Opinion

We have audited the consolidated financial statements of Xebec Adsorption Inc. (hereafter "the Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of income (loss), the consolidated statements of comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor’s responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the consolidated financial statements and the auditor’s report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor’s report thereon, included in the Management’s Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Louis Roy.

Montreal
April 14, 2020

Raymond Chabot Grant Thornton LLP[1]

[1] CPA auditor, CA public accountancy permit n° A125741

Xebec Adsorption Inc.

Consolidated Statements of Financial Position
As at December 31, 2019 and 2018

(expressed in Canadian dollars)

	December 31, 2019 $	December 31, 2018 $
Assets		
Current assets		
Cash	22,358,457	2,382,146
Restricted Cash (Note 5)	324,700	1,540,000
Trade and other receivables (Note 6)	24,121,723	6,865,331
Inventories (Note 7)	6,244,400	3,339,542
Investment tax credits receivable	15,943	15,943
Prepaid expenses	663,377	260,743
Total current assets	53,728,600	14,403,705
Non-current assets		
Property, plant and equipment (Note 8)	3,026,779	281,818
Intangible assets (Note 9)	2,710,304	405,477
Goodwill (Note 5)	5,052,922	-
Total non-current assets	10,790,005	687,295
Total assets	64,518,605	15,091,000
Liabilities		
Current liabilities		
Trade, other payables and accrued liabilities (Note 10)	12,532,960	2,682,924
Contract liabilities (Note 11)	2,383,261	4,370,643
Current portion of long-term debt (Note 14a)	962,560	1,777,915
Current portion of government royalty program obligation (Note 14b)	124,880	100,515
Current portion of provisions (Note 15)	46,207	15,275
Current portion of obligation arising from shares issued by a subsidiary (Note 16)	373,000	198,300
Income taxes payable (Note 25)	369,923	-
Total current liabilities	16,792,791	9,145,572
Non-current liabilities		
Long-term debt (Note 14a)	4,288,564	1,902,647
Government royalty program obligation (Note 14b)	341,191	436,258
Obligation arising from shares issued by a subsidiary (Note 16)	3,807,476	3,971,053
Deferred rent	-	133,531
Provisions (Note 15)	127,980	40,324
Deferred tax liabilities	203,237	81,989
Total non-current liabilities	8,768,448	6,565,802
Total liabilities	25,561,239	15,711,374
Equity		
Share capital (Note 17)	63,484,034	26,508,168
Contributed surplus	4,569,636	3,691,192
Equity component of convertible debentures	-	189,645
Accumulated other comprehensive loss	(1,247,330)	(1,140,342)
Deficit	(27,848,974)	(29,869,037)
Total equity	38,957,366	(620,374)
Total liabilities and equity	64,518,605	15,091,000

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

Approved by the Board of Directors

(signed) Kurt Sorschak Director

(signed) Guy Saint-Jacques Director

Xebec Adsorption Inc.

Consolidated Statements of Income (loss)
For the years ended December 31, 2019 and 2018
(expressed in Canadian dollars)

	2019 $	2018 $
Revenue (Note 19)	49,317,880	20,208,496
Cost of goods sold	33,829,894	14,520,154
Gross margin	15,487,986	5,688,342
Research and development expenses (Note 21)	71,503	92,069
Selling and administrative expenses	11,297,432	7,215,500
Foreign exchange (gain) loss	383,693	(152,482)
Loss (gain) on conversion of shares issued by a subsidiary (Note 16)	(256,516)	116,090
	11,496,112	7,271,177
Operating income (loss)	3,991,874	(1,582,835)
Other charge (income)		
Finance income	(32,246)	(1,611)
Finance expenses (Note 22)	1,647,141	1,323,162
	1,614,895	1,321,551
Income (loss) before income taxes	2,376,979	(2,904,386)
Income taxes (Note 25)	356,916	-
Net income (loss) for the year	2,020,063	(2,904,386)
Net income (loss) per share		
Basic net income (loss) per share (Note 17)	0.03	(0.07)
Diluted net income (loss) per share (Note 17)	0.03	(0.07)

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, 2019 and 2018
(expressed in Canadian dollars)

	2019 $	2018 $
Net income (loss) for the year	2,020,063	(2,904,386)
Other comprehensive loss		
Cumulative translation adjustment	(106,988)	(90,887)
Comprehensive income (loss) for the year	1,913,075	(2,995,273)

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

Xebec Adsorption Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

	Number		Amount					
	Common shares	**Warrants and Compensation Shares**	**Share capital – Common shares**	**Contributed surplus**	**Accumulated other comprehensive income (loss)**	**Deficit**	**Equity Component of convertible debentures**	**Total**
			$	**$**	**$**	**$**	**$**	**$**
Balance – January 1, 2018	42,504,367	-	19,703,836	3,339,740	(1,049,455)	(26,675,800)	291,389	(4,390,290)
Adjustment from the adoption of IFRS 15	-	-	-	-	-	(288,851)	-	(288,851)
Balance – January 1, 2018 Adjusted	42,504,367	-	19,703,836	3,339,740	(1,049,455)	(26,964,651)	291,389	(4,679,141)
Net loss for the year	-	-	-	-	-	(2,904,386)	-	(2,904,386)
Other comprehensive loss	-	-	-	-	(90,887)	-	-	(90,887)
Comprehensive loss for the year	-	-	-	-	(90,887)	(2,904,386)	-	(2,995,273)
Share issued from conversion of debentures	4,766,665	-	765,000	-	-	-	(101,744)	663,256
Share issued from the exercise of options	307,272	-	79,271	(26,071)	-	-	-	53,200
Stock-based compensation expense (Note 18)	-	-	-	352,897	-	-	-	352,897
Share issued from public offering	9,439,966	-	5,984,687	-	-	-	-	5,984,687
Warrants and compensation shares issued from public offering (Note 17)	-	5,286,381	(24,626)	24,626	-	-	-	-
Balance – December 31, 2018	57,018,270	5,286,381	26,508,168	3,691,192	(1,140,342)	(29,869,037)	189,645	(620,374)
Balance – January 1, 2019	57,018,270	5,286,381	26,508,168	3,691,192	(1,140,342)	(29,869,037)	189,645	(620,374)
Net income (loss) for the year	-	-	-	-	-	2,020,063	-	2,020,063
Other comprehensive loss	-	-	-	-	(106,988)	-	-	(106,988)
Comprehensive income (loss) for the year	-	-	-	-	(106,988)	2,020,063	-	1,913,075
Share issued from conversion of debentures	3,014,075	-	2,199,918	-	-	-	(189,645)	2,010,273
Share issued from the exercise of options	2,219,898	-	466,404	(166,631)	-	-	-	299,773
Stock-based compensation expense (Note 18)	-	-	-	407,846	-	-	-	407,846
Share issued from public offering	19,232,600	-	31,304,052	-	-	-	-	31,304,052
Warrants and compensation shares issued from public offering (Note 17)	-	9,582,996	-	647,172	-	-	-	647,172
Warrants and compensation shares exercised from public offering (Note 17)	2,893,835	(2,893,835)	3,005,492	(9,943)	-	-	-	2,995,549
Balance – December 31, 2019	84,378,678	11,975,544	63,484,034	4,569,636	(1,247,330)	(27,848,974)	-	38,957,366

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

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

Xebec Adsorption Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(expressed in Canadian dollars)

	2019 $	2018 $
Cash flows from		
Operating activities		
Net income (loss) for the year	2,020,063	(2,904,386)
Items not affecting cash		
Depreciation of property, plant and equipment (Note 8)	572,223	78,689
Amortization of intangible assets (Note 9)	1,265,173	139,079
Reversal of inventory write-down (Note 7)	(76,256)	(144,442)
Accretion of convertible debentures (Note 14a)	154,209	220,763
Accretion finance expenses and gain on revaluation of government royalty program obligation (Note 14b)	24,298	27,401
Accretion CAI earn-out (Note 14a)	59,128	-
Accretion of the obligation arising from shares issued by a subsidiary (Note 16)	267,639	339,249
Exchange gain/loss on the obligation arising from shares issued by a subsidiary	(256,516)	116,090
Stock-based compensation expense (Note 18)	407,846	352,897
Deferred rent	-	716
Accretion of obligation under a working capital line	34,863	-
Future income taxes	(14,517)	-
	4,458,153	(1,773,994)
Change in non-cash working capital balances related to operations (Note 23)	(9,917,254)	(1,184,241)
	(5,459,101)	(2,958,185)
Investing activities		
Acquisition of property, plant and equipment	(304,649)	(146,953)
Acquisition of intangible assets	(2,675,333)	(139,290)
Receipt of R&D tax credit (Note 9)	-	13,634
Business acquisitions, net of cash acquired (Note 5)	(7,593,887)	-
	(10,573,869)	(272,609)
Financing activities		
Increase (decrease) of credit facility (Note 12)	-	(1,437,912)
Obligation arising from preferred shares issued by a subsidiary (Note 16)	-	(198,300)
Proceeds from issuance of share capital (Notes 18 and 25)	35,246,546	6,037,887
Long-term debt	-	1,899,578
Repayment of long-term debt (Note 14a)	(338,804)	(22,236)
Repayment of government royalty program obligation (Note 14b)	(95,000)	(82,000)
	34,812,742	6,197,017
Net increase in cash and cash equivalent during the year	18,779,772	2,966,223
Cash – Beginning of the year	3,922,146	1,341,121
Effect of exchange rate changes on cash	(18,761)	(385,198)
Cash and cash restricted – End of the year	22,683,157	3,922,146
Additional information		
Interest paid	1,107,005	739,811

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

1 Nature of business

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

2 Basis of compliance and basis of preparation

These consolidated financial statements, have been prepared in accordance with International Financial Reporting Standards ("IFSR")

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 14, 2020.

The consolidated financial statements have been prepared on the historical cost convention, except for where IFRS requires recognition at fair value.

These consolidated financial statements are based on the accounting policies as described below.

These policies have been consistently applied to all the periods, unless otherwise stated.

3 Significant accounting policies

New standards adopted as at January 1st, 2019

IFRS 16, Leases

On January 1st, 2019 the Company adopted IFRS 16 Leases ("IFRS 16"), which replaces IAS 17, which specifies how the Company recognizes, measures, presents and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of deficit for the current period. Prior periods have not been restated.

On adoption of IFRS 16, the Company recognised the lease liabilities for leases that had previously been classified as "operating leases" in accordance with the principles of IAS 17 Leases. These

obligations have been measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1st, 2019. The weighted average incremental borrowing rate applied to lease liabilities as at January 1st, 2019 was 11 %. The related right-of-use assets were measured in the amount of the lease liabilities as at January 1st, 2019 adjusted for the amount of deferred rent recognized as at December 31st, 2018.

The impacts of this standard on the consolidated financial statements are as follow:

- As of January 1st, 2019, new right-of-use assets have been recognized for an amount of $2,139,974. Total assets amount will increase affecting ratios such as asset turnover.
- As of January 1st, 2019, new liabilities such as lease liabilities have been recognized for an amount of $2,278,065. Total liabilities amount will increase affecting its financial leverage.
- Depreciation expense on the right-of-use assets and interest expense on the lease liabilities will replace the operating lease expense.
- The depreciation expense is included in operating costs and interest expenses are included in financing costs, instead of being included as operating expenses in the period incurred. Operating profit will increase as well as EBITDA. EBITDA is a non-IFRS financial measure.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as leases under IAS 17 and IFRIC 4.

The Company has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Company has relied on its assessment of whether leases are onerous applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review. Right-of-use-assets at the date of initial application have been adjusted by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.

The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Company has used hindsight to determine the lease term of a lease with renewal options.

Basis of consolidation

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

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

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

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

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Intercompany transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated. Subsidiaries comprise Xebec Adsorption (Shanghai) Co. Ltd., which is 70% owned, Xebec Holding USA Inc., Xebec Adsorption Europe SRL and Compressed Air International which are wholly owned. Compressed Air International was acquired January 1st, 2019. Xebec Holding USA Inc. has two subsidiaries, Xebec Adsorption USA Inc. and CDA Systems LLC., which are wholly owned. CDA Systems LLC was acquired December 10th, 2019 (Note 5). Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases. The Company has the obligation to repurchase the Minority Shareholders' interest owned in Xebec Adsorption (Shanghai) Co. Ltd. under certain circumstances (see Note 16). Therefore, the accounts of Xebec Adsorption (Shanghai) Co. Ltd. are consolidated at 100% and the Minority Shareholders' interest is presented as a financial liability in these consolidated financial statements.

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

Business acquisitions

The Company applies the acquisition method in accounting for business acquisitions. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interest issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

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. Net realizable value is the

estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale. 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 write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) 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 income (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:

Right-of-use-assets	Lease term
Machinery and equipment	3 to 10 years
Office furniture and equipment	2 to 5 years
Computers	3 years
Moulds	5 years
Vehicles	5 years
Leasehold improvement	Lease term

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates each such component 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 income (loss).

Identifiable intangible assets

The Company's intangible assets consist of software, capitalized development costs of a new line, engineering standardisation costs when the criteria mentioned in the research and development expenses accounting policy are met. From business acquisitions intangible assets consists of backlog, customer base and a non-competition agreement. These assets are capitalized and amortized on a straight-line basis in the consolidated statement of income (loss) over the period of their expected useful lives.

Development costs are amortized over a period of five years. Engineering standardisation costs and software are amortized over a period of 3 years. Customer relationships are amortized over a period of ten years.

Impairment of non-financial assets

Cash-generating units to which goodwill has been allocated (determined by the Company's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration with the exception of goodwill.

Goodwill

Goodwill represents the future economic benefits arising from business acquisitions that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

Provisions

Provisions for 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 natural gas equipment, biogas, associated gas and hydrogen 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

The Company's financial assets and liabilities are accounted for as follows:

Cash	Amortized cost
Restricted cash	Amortized cost
Trade and other receivables	Amortized cost
Bank loan	Amortized cost
Trade, other payables and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Government royalty program obligation	Amortized cost
Obligation arising from shares issued by a subsidiary	Amortized cost

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs where applicable.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- Amortized cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)

In the periods presented, the Company does not have any financial assets categorized as FVTPL or FVOCI.

The classification is determined by both, the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in income or loss are presented within finance expenses or finance income, except for impairment of trade receivables which is presented within selling and administrative expenses.

Financial assets are measured at amortized cost if the asset meet the following conditions and are not designated as FVTPL:

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, they are measured at amortized costs using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

The Company's financial assets include cash, restricted cash, trade receivables, other current assets and other receivables. The other receivables include some assets that are not considered as a financial asset

and are therefore not subject to IFRS 9 such as taxes, suppliers non-refundable deposits and excess suppliers billing.

The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows on the instrument. This financial instrument has not deteriorated significantly in credit quality since initial recognition or has low credit risk. The Company considers that there are no expected credit losses.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“Stage 1”) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk in not low (“Stage 2”).

“Stage 3” would cover financial assets that have objective evidence of impairment at the reporting date.

“12-month expected credit losses” are recognized in the first category while ‘lifetime expected credit losses’ are recognized in the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Company’s financial liabilities include trade, other payables and accrued liabilities, long-term debt, government royalty program obligation and obligation arising from shares issued by a subsidiary.

Financial liabilities are initially measured at fair value and where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair-value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method. All interest-related charges and, if applicable, changes in an instrument’s faire value that are reported in income or loss are included within finance expense or finance income.

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 re-measured using the original discount rate when the future projections initially used to measure the obligations are revised. Resulting changes in the carrying amount of these obligations are recognized in the consolidated statement of income (loss) as finance income or finance expenses.

Share Capital

Share capital represents the amount received on the issue of shares, less issuance costs, net of any underlying income tax benefit from these issuance costs. If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus. If shares are issued within the conversion option on convertible debentures exercise, the share capital account also comprise the equity component of convertible debentures

Proceeds from unit placements are allocated between shares and warrants according to the residual value method, where the difference between the fair value and issue price of the share when the warrants are issued is allocated to the warrants.

Basic and Diluted Income (Loss) per Share

Basic income (loss) per share is calculated by dividing net income (loss) for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year (Note 17).

Diluted income (loss) per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options and similar instruments is computed 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.

Revenues from Contracts with Customers

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

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 contract liabilities.

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

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

Revenues for contracts in China are recognized upon completion and the Company can determine that control has been transferred to the customer in accordance with the agreed-upon specifications in the contract.

Revenues from services are recorded when services have been rendered. For contract services that last over a year, revenue is recognized over the duration of the contract.

Segment reporting

The Company operates three business segments:

1) Systems (Cleantech)) - Provide Renewable Natural Gas, Hydrogen and Renewable Hydrogen for a variety of applications, from fuel cells to fossil fuel replacement applications for low carbon transportation fuels.

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

3) Support (Industrial Air and Gas Products, Parts, Service and Operational Support) – foundational recurring revenue model.

For management purposes, the Company uses the same measurement policies as those in its financial statements.

In addition, corporate assets are used by each segment and are therefore not attributable to any segment specifically.

Contract balances

Contract assets are recognized when goods or services are transferred to customers before consideration is received or before the Company has an unconditional right to payment for performance completed to date. Contract assets are subsequently transferred to receivables when the right of payment becomes unconditional. Contract assets include cost incurred and recorded margins in excess of advances and progress billings on long-term contracts.

Contract liabilities are recognized when amounts are received from customers in advance of transfer of goods or services. Contract liabilities are subsequently recognized in revenue as or when the Company performs under contracts. Contract liabilities include advances and progress billing in excess on long-term contracts cost incurred and recorded margins.

A net position of contract asset or contract liability is determined for each contract. The cash flows in respect of advances and progress billings, are classified as cash flows from operating activities.

Costs to obtain or fulfill a contract

The Company can recognize as an asset the incremental costs of obtaining a contract with a customer when those costs are expected to be recovered, costs that the Company would not have incurred if the contract had not been obtained.

Costs that would have been incurred regardless of whether the contract was obtained are recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The Company recognizes the incremental costs of obtaining contracts as an expense when incurred because those costs are not expected to be recovered and are not charged to the customer.

Remaining performance obligations

The Company's contracts are for delivery of goods within the next following 12 months of contract's signature; therefore, the Company uses the practical expedient allowed in Paragraph 121(a) of IFRS 15.

Following Paragraph 121(a), the Company does not disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period.

Government grants

Non-refundable grants relating to property, plant and equipment are accounted for as deferred government grants 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

Policy applicable as of January 1st, 2019:

The Company recognised a right-of-use asset and a lease liability with respect to a lease on the date the underlying asset is available for use by the Company (hereafter, the 'commencement date'). Right-of-use assets are initially measured at cost, including the amount of the initial measurement of the lease liability, adjusted for leases payments on or above the commencement date, plus initial direct costs incurred and estimate of all of the costs for dismantling and removing the underlying asset, less any lease incentives received, including deferred rent. The right-of-use asset is subsequently measured at cost less accumulated depreciation and accumulated impairment losses. The depreciation is recognised in a manner consistent with existing standards for property, plant and equipment over the lease term adjusted for lease payments on or above the commencement date, plus an estimate or all the costs for dismantling and removing the underlying asset.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at January 1st, 2019 over the lease payments to be made over the lease term. The lease payments are

discounted using the Company's incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made.

The interest expense relating to lease liabilities is recognised in profit or loss using the effective interest method.

New right-of-use assets and lease liabilities are non-cash transactions and thus excluded from the consolidated statement of cash flows.

Policy applicable before January 1st, 2019:

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

Leases where the Company had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were 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 was allocated between the liability and finance charges. The interest element of the finance cost was 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 were 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, share capital 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. During the year ended December 31,

2019 and 2018, development expenses related to development costs for a new line of products and engineering standardisation costs were deferred and accounted for an identified intangible asset.

Income taxes

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

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.

Foreign currency translation

Functional and presentation currency:

Items included in the financial statements of each entity consolidated in the Company group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The 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 (loss) 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 (loss) 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 (loss) related to the subsidiary is reallocated between controlling and non-controlling interests.

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 (loss).

4 Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgements

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

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

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

ii. Impairment of internally generated intangible assets

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

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

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

iv. Allowance for expected credit loss

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

v. Acquisition valuation method

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

vi. Leases

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

vii. Impairment of non-financial assets and goodwill

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

5 Business combinations

a) Compressed Air International Inc.

On January 1st, 2019, the Company acquired all outstanding shares of Compressed Air International Inc. (CAI) for a purchase price of $2,200,000. $1,540,000 has been paid in cash while $660,000 will be earned-out over the next three years (see Note 14a). The contingent consideration will be payable only if the annual EBITDA for a period of three years exceed a target level agreed by both parties.

CAI is a distributor and full-service supplier of industrial compressed air and gas products with locations in Woodbridge and Guelph, Ontario. In business for 20 years, CAI offers an extensive range of compressors, genuine and OEM-equivalent compressor parts, compressed adsorption and refrigerant air dryers, filtration products, emergency and preventative maintenance service as well as complete installation and service packages.

CAI's principals will remain with CAI after the acquisition to optimize CAI's integration in Xebec's industrial compressed air treatment business.

The fair value of the trade and other receivables acquired as part of the business acquisition amounted to $743,798 with a gross contractual amount of $743,798. As at the acquisition date, the Company's best estimate of the contractual cash flows not expected to be collected amounted to $NIL.

Goodwill is related to growth expectations, expected future profitability, the substantial skill and expertise of CAI's force workforce and expected cost synergies. Goodwill is not expected to be deductible for tax purposes.

Acquisition-related costs amounting to $93,500 ($39,143 in 2018 and $54,357 in 2019) are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of selling and administrative expenses.

The details of the final business combination are as follows:

	$
Fair value of consideration transferred	
Amount settled in cash	1,540,000
Fair value of contingent consideration	537,520
Total	**2,077,520**
Recognized amounts of identifiable net assets	
Inventories	443,452
Trade and other receivables	743,798
Prepaid expenses	52,292
Cash and cash equivalents	76,648
Total current assets	**1,316,190**
Property, plant and equipment	19,562
Total non-current assets	**19,562**
Trade, other payables and accrued liabilities	(677,629)
Total current liabilities	**(677,629)**
Long-term debt	(5,203)
Deferred tax liability	(217,754)
Total non-current liabilities	**(222,957)**
Identifiable net assets	**435,166**
Intangible assets and goodwill on acquisition	
Customer relationships	821,713
Goodwill on acquisition	820,641
Total Intangible assets and Goodwill on acquisition	**1,642,354**
Consideration transferred settled in cash	1,540,000
Cash and cash equivalents acquired	(76,648)
Net cash outflows on acquisition	**1,463,352**

CAI generated revenues of $5,456,901 and a profit of $399,905 for the year ended December 31, 2019.

b) CDA Systems LLC

On December 10th, 2019, Xebec Holding USA Inc, a wholly owned subsidiary of the Company, acquired all outstanding shares of CDA Systems LLC. (CDA) for a preliminary purchase price of $6,782,433 ($5,123,070 USD). The purchase agreement includes an additional consideration payable by future EBITDA and other financial targets to be achieved over the next two years, the faire value of the contingent consideration will be calculated when the purchase price allocation has been completed. The Company does not have access to all information be to able to complete the price allocation. A balance of $324,700 ($250,000 USD) from the preliminary purchase price could be payable depending on the achievement of a target working capital (see Note 14a). The purchase price is partially allocated to goodwill.

CDA Systems is a leading distributor and service provider of Oil-Free Air Compressors, Air Dryers, and Filtration Systems in California's San Francisco Bay Area. CDA designs, sells, rents, and maintains Clean Dry Air systems and, with decades of industry experience under their belt, have supported major manufacturers with numerous equipment installations. These have included value engineered solutions supporting compression, dehydration, CNG, and other specialty gases, with a goal of achieving energy cost savings and utility rebates.

CDA's principals will remain with CDA after the acquisition to optimize CDA's integration in Xebec's industrial compressed air treatment business.

The fair value of the trade and other receivables acquired as part of the business acquisition amounted to $2,279,263 with a gross contractual amount of $2,279,263. As at the acquisition date, the Company's best estimate of the contractual cash flow not expected to be collected amounted to $NIL.

Goodwill is not expected to be deductible for tax purposes.

Acquisition-related costs amounting to $275,584 are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of selling and administrative expenses.

The purchase price allocation will be completed within 12 months of the acquisition date. The preliminary details of the business combination are as follows:

	$
Fair value of consideration transferred	
Amount settled in cash	6,451,458
Restricted cash	330,975
Total	**6,782,433**
Recognized amounts of identifiable net assets	
Trade and other receivables	2,279,263
Inventories	348,237
Cash and cash equivalents	320,923
Prepaid expenses	75,761
Total current assets	**3,024,184**
Property, plant and equipment	778,637
Intangible assets	81,941
Total non-current assets	**860,578**
Trade, other payables and accrued liabilities	(943,038)
Current portion of long-term debt	(125,994)
Contract liabilities	(67,965)
Income taxes payable	(34,963)
Total current liabilities	**(1,171,960)**
Long-term debt	(244,442)
Total non-current liabilities	**(244,442)**
Identifiable net assets	**2,468,360**
Goodwill on acquisition	**4,314,073**
Consideration transferred settled in cash	6,451,458
Cash and cash equivalents acquired	(320,923)
Net cash outflows on acquisition	**6,130,535**

CDA generated revenues of $288,800 and a profit of $64,089 for the period from December 10 to December 31, 2019.

If CDA had been acquired on January 1st, 2019, revenue of the Company for 2019 would have been $55,994,713 and the income before taxes for the year would have increased to $2,362,738.

The goodwill has experienced a negative variance due to exchange rate fluctuations of $81,792.

The restricted cash has experienced a negative variance due to exchange rate fluctuations of $6,275.

6 Trade and other receivables

	2019 $	2018 $
Trade receivables	13,274,136	4,282,399
Contract assets (Note 11)	6,788,722	1,917,919
Other receivables	1,802,482	667,380
Supplier deposits	2,790,454	429,307
Less: Allowance for expected credit loss	(534,071)	(431,674)
Trade and other receivables - net	24,121,723	6,865,331

Trade and other receivables are pledged as security for credit facilities (see Notes 12 and 13)

Note 29 includes disclosures relating to the credit risk exposure and analysis relating to the allowance for expected credit losses.

7 Inventories

	2019 $	2018 $
Raw materials	4,499,161	2,298,807
Work in progress	1,745,239	1,040,735
Inventories	6,244,400	3,339,542

Cost of goods sold includes cost of inventories amounting to $18,626,719 in 2019 ($7,209,080 in 2018). During the current year, a reversal of a previous inventory write-down amounting to $76,256 ($144,442 in 2018) was recognized in inventory as the Company deems these parts recoverable for future orders. Inventories are pledged as security for credit facilities (see Notes 12 and 13).

8 Property, plant and equipment

	Right-of-use-assets	Machinery and Equipment $	Office furniture and equipment $	Computers $	Moulds $	Vehicles $	Leasehold Improvement $	Total $
Cost								
Balance at December 31, 2017	-	580,131	152,902	285,123	166,474	35,984	-	1,220,614
Additions	-	7,708	-	118,795	-	-	20,450	146,953
Disposals	-	-	-	(58,195)	-	-	-	(58,195)
Effect of movements in exchange rates	-	8,422	3,003	4,530	2,837	-	-	18,792
Balance at December 31, 2018	-	596,261	155,905	350,253	169,311	35,984	20,450	1,328,164
Additions	2,245,806	108,611	12,828	30,977	12,564	-	150,996	2,561,782
Additions through business acquisition	370,437	29,143	10,432	13,683	279,897	93,160	1,447	798,199
Disposals	-	-	-	(5,249)	-	-	-	(5,249)
IFRS 16 reclass	11,327	-	-	(11,327)	-	-	-	-
Effect of movements in exchange rates	(30,052)	(13,273)	(5,647)	(6,869)	(11,618)	(1,766)	(28)	(69,253)
Balance at December 31, 2019	2,597,518	720,742	173,518	371,468	450,154	127,378	172,865	4,613,643
Accumulated depreciation								
Balance at December 31, 2017	-	427,874	137,673	265,184	145,267	35,984	-	1,011,982
Depreciation	-	38,974	9,065	14,927	13,386	-	2,337	78,689
Depreciation of assets disposed	-	-	-	(58,195)	-	-	-	(58,195)
Effect of movements in exchange rates	-	4,160	2,871	4,002	2,837	-	-	13,870
Balance at December 31, 2018	-	471,008	149,609	225,918	161,490	35,984	2,337	1,046,346
Depreciation	426,593	45,792	10,817	49,405	15,827	7,756	16,033	572,223
Depreciation IFRS 16 reclass	3,777	-	-	(3,777)	-	-	-	-
Depreciation of assets disposed	-	-	-	(5,249)	-	-	-	(5,249)
Effect of movements in exchange rates	(153)	(8,878)	(5,496)	(5,567)	(6,214)	(148)	-	(26,456)
Balance at December 31, 2019	430,217	507,922	154,930	260,730	171,103	43,592	18,370	1,586,864
Carrying Amount								
At December 31, 2018	-	125,253	6,296	124,335	7,821	-	18,113	281,818
At December 31, 2019	2,167,301	212,820	18,588	110,738	279,051	83,786	154,495	3,026,779

Depreciation of $572,223 (2018 – $78,689) is included in the consolidated statement of income (loss) for the year ended December 31, 2019: $281,102 (2018 – $55,161) in cost of goods sold; and $291,121 (2018 – $23,528) in selling and administrative expenses.

Property, plant and equipment are pledged as security for credit facilities (see Notes 12 and 13)

9 Intangible assets

	Other		Internally generated		
	Software	Customer Relationships	Development costs	Engineering standardisation	Total intangible assets
	$		$	$	$
Cost					
Balance at December 31, 2017	337,395	-	301,059	306,618	945,072
Additions	-	-	-	139,290	139,290
Receipt of R&D tax credit	-	-	-	(13,634)	(13,634)
Effect of movements in exchange rates	5,039	-	-	-	5,039
Balance at December 31, 2018	342,434	-	301,059	432,274	1,075,767
Additions	52,177	-	-	2,623,156	2,675,333
Additions through business acquisitions	65,025	838,629	-	-	903,654
Disposals	-	-	-	-	-
Effect of movements in exchange rates	(12,044)	(321)	-	(9,155)	(21,520)
Balance at December 31, 2019	447,592	838,308	301,059	3,046,275	4,633,234
Accumulated amortization					
Balance at December 31, 2017	318,546	-	208,163	-	526,709
Amortization for the year	15,313	-	60,212	63,554	139,079
Effect of movements in exchange rates	4,502	-	-	-	4,502
Balance at December 31, 2018	338,361	-	268,375	63,554	670,290
Amortization for the year	3,832	54,966	32,684	1,173,691	1,265,173
Effect of movements in exchange rates	(10,566)	(6)	-	(1,961)	(12,533)
Balance at December 31, 2019	331,627	54,960	301,059	1,235,284	1,922,930
Carrying amount					
At December 31, 2018	4,073	-	32,684	368,720	405,477
At December 31, 2019	115,965	783,348	-	1,810,991	2,710,304

Amortization of $1,265,173 (2018 – $139,079) is included in the consolidated statement of income (loss) for the year ended December 31, 2019: $1,175,562 (2018 – $72,609) in cost of goods sold; and $89,611 (2018 – $66,470) in selling and administrative expenses.

10 Trade, other payables and accrued liabilities

	2019 $	2018 $
Trade payables	9,254,405	1,726,384
Accrued liabilities	3,060,902	868,297
Payables to related parties	2,731	-
Other payables	214,922	88,243
Other payables and accrued liabilities	12,532,960	2,682,924

11 Contract balances

Contract assets

	2019 $	2018 $
Cost incurred and recorded margins	28,167,087	8,416,984
Less: advances and progress billing	(21,378,365)	(6,499,065)
	6,788,722	1,917,919

Contract assets are included in trade and other receivables in the consolidated statements of financial position (Note 6).

Contract liabilities

	2019 $	2018 $
Advances and progress billings	5,684,496	8,613,690
Less: cost incurred and recorded margin	(3,301,235)	(4,243,047)
	2,383,261	4,370,643

12 Credit Facility

On December 12, 2016, the Company contracted a loan facility with Export Development Canada (“EDC”) for an amount of $2,000,000. This amount was available in four advances. The facility bears an interest of prime rate plus 6.3% (9.75%) (9.5% in 2017). This interest is payable every month. This amount shall be repaid based on the completion of certain project milestones.

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

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

	2019 $	2018 $
Balance – Beginning of year,	-	1,437,912
Addition	-	-
Repayment	-	(1,437,912)
Balance – End of year,	-	-

13 Bank loan

The Company has access to credit facilities in the amount of $2,500,000 with National Bank of Canada which are guaranteed by Export Development Canada at 75%, and bear interest at the Canadian Prime Rate plus 2.75%, per annum and are limited by certain margin requirements concerning trade and other receivables and inventories. The Company also has access to credit facilities through Compressed Air International with Toronto Dominion Bank (TD) in the amount of $150,000 and bear interest at the TD prime rate plus 3.50% per annum. No credit facilities were used as at December 31, 2019 (2018 – $ NIL).

The credit facilities are secured by a first ranking hypothec of $3,000,000 on all movable property of the Company.

As of December 31, 2019, the company has a guarantee facility of $12,000,000 with National Bank of Canada sponsored at 100% by Export Development Canada. Stand by fees at an annual rate of 0.75% is calculated on the unused portion of this operating credit. As at December 31, 2019, three guarantee facilities are used for a total of $6,647,417 ($1,784,216 at December 31, 2018).

During the year ended December 31, 2019 all ratios and conditions have been respected by the Company.

14 Long-term debt and government royalty program obligation

a) Long-term debt

		2019 $	2018 $
i.	Unsecured Convertible debentures	-	1,774,076
ii.	Obligation under a working capital line, bearing an interest rate of 11% per annum, maturing in July 2021 [1]	1,934,440	1,899,578
iii.	Lease liabilities	2,395,336	-
iv.	Contingent consideration CAI (Note 5)	596,648	-
v.	Balance from business acquisition payable (Note 5)	324,700	-
vi.	Obligation under a capital lease, repayable in monthly instalments of $352 including interest calculated at 12% maturing in September 2020, secured by equipment under finance lease.	-	6,908
	Long-term debt	5,251,124	3,680,562
	Current portion	(962,560)	(1,777,915)
		4,288,564	1,902,647

[1] The Obligation under a working capital line, has been recorded at its fair value less transactions costs directly attributable to its acquisition. Transaction costs are being amortized over the duration of the obligation with a face value of $2,000,000 at maturity.

i. Unsecured convertible debentures

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

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

During the year, 3,014,075 common shares were issued as a result of the exercise of the conversion option by all debenture holders. The common shares issued included the carrying value of the liability component and the deferred tax liability to the date of conversion for an amount of $81,989. The conversion is a non-cash transaction and thus is excluded from the consolidated statement of cash flows.

ii. Obligation under a working capital line

The Company has a $2 million, three-year term, working capital line bearing interest at the rate of 11% per annum, payable every month.

iii. Lease liabilities

On January 1st, 2019 new lease liabilities have been recognized. The Company leases office space, some office equipment and vehicles. The Company measured the lease liabilities at the present value of the lease payments that are not paid at that date. The present value recognized for the lease liabilities was $2,278,065. The present value is increased to reflect the interest on the lease liabilities and reduced to reflect the lease payments made.

	2019 $	2018 $
Present value at first application	2,278,065	-
Additions	483,820	-
Accretion interest	225,060	-
Lease payments	(563,864)	-
Effect of exchange rate change on obligation	(27,745)	-
Balance – End of year	2,395,336	-
Current Portion	(459,410)	-
	1,935,926	-

- Following is a summary of the Company's obligations regarding lease payments:

As at December 31, 2019	**Payment Due by Period**			
	1 year	2 - 5 years	Beyond 5 years	Total
	$	**$**	**$**	**$**
Lease payments	688,627	1,860,264	591,507	3,140,398

Some leases require repayment of a portion of the lessor's payments for property taxes, these amounts vary based on the use and wear and tear of the office space. Variable payments for property taxes for 2019 were $190,693.

iv. Contingent consideration CAI

CAI's Contingent consideration was measured at the present value of future principal payment discounted at a rate of 11%, for a carrying amount of $537,520 The earn-out is subsequently adjusted to reflect the change in fair value. The face value of the obligation is $660,000. The $537,520 contingent consideration liability, initially recognized, represents the present value of the Company's probability weighted estimate of the cash outflow. It reflects management's estimate of a 100% probability that the targets will be achieved.

v. Balance of business acquisition payable

Payable depending on the achievement of a target working capital.

vi. Obligation under a capital lease

The obligation under a capital lease in accordance to IFRS 16, has been reclassed as of January 1st, 2019 to be presented within lease liabilities.

vii. Additional financial support

The Company has an unused $23 million additional financial support obtained on July 23, 2018 from Export Development Canada (EDC), Canada's export credit agency. The financial support consists of a $12 million bonding facility, which will be used to support the issuance of multiple bank guarantees. The bonding facility bears an interest at the rate of at the Canadian Prime Rate of the Bank plus 2.50% per annum, payable every month. Stand-by fees at an annual rate of 0.75% calculated on the unused portion of the bonding facility shall be payable monthly.

The Company has an unused $9 million PO facility that have been granted on July 23, 2018 in order to assist in financing working capital needs directly associated with specific export contracts. It is available in multiple advances in Canadian dollars up to 70% of the supported export contract, excluding all applicable taxes, minus all customer advanced payments. The Company will repay to EDC the outstanding advances in principal bi-monthly in an amount equivalent to cash receipt from Customers for the supported export contracts. Interest are calculated and payable in arrears at a rate of 11% per annum the 18th day of every month.

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

b) Government royalty program obligation

In 2012, the Company signed a settlement agreement with Technology Partnership Canada (TPC) with regard to the Company's Fast Cycle Pressure Swing Adsorption and Gas Management systems and Pulsar Pressure Swing Adsorption project. The Company had to pay $250,000 at the execution of the agreement and $1,000,000 spread over four equal annual non-interest-bearing payments, starting on January 31, 2013. Furthermore, the Company was liable to pay up to $750,000 in contingent payments based on proceeds from the sale by the Company of its intellectual property. Upon closing of the transaction, the Company paid $540,000 out of the $750,000 total contingent-based payments. On October 23, 2012, the Company accrued another $150,000 out of the $750,000 total contingent based payments, following additional proceeds received, leaving a potential maximum amount to be paid of $60,000 as at December 31, 2012.

In 2013, the Company realized the last milestone pursuant to the transaction and paid the remaining $60,000. The Company renegotiated its payments terms with TPC, changing from an annual payment of $250,000 to monthly payments of $24,500 but adding an extra year to term.

In February 2017, a new amendment to this agreement was reached changing the preceding payments terms from monthly payments of $24,500 to monthly payments of:

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

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

	2019	**2018**
	$	**$**
Balance – Beginning of year,	536,773	591,372
Accretion finance expenses	24,298	27,401
Repayment	(95,000)	(82,000)
Balance – End of year,	466,071	536,773
Current portion	(124,880)	(100,515)
	341,191	436,258

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

15 Warranty provisions

	2019 $	2018 $
Balance – Beginning of the year	55,599	22,290
Provision for the year	118,588	33,309
Balance – End of year,	174,187	55,599
Current portion of provision	(46,207)	(15,275)
Non- Current provision	127,980	40,324

Warranty cost

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 Obligation arising from shares issued by subsidiary

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

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

On July 24, 2018, the Minority Shareholders of Xebec Adsorption (Shanghai) Co. Ltd. and Xebec Adsorption Inc. agreed that Xebec Adsorption Inc. will pay the Minority Shareholders $186,500 (RMB 1 million) per year including 2018 until the EDC loan expiry or latest up to December 31, 2020 (whichever is earlier). Xebec Adsorption Inc. will also fulfill its repurchase obligation according to the original agreement, by paying the full repurchase price in one lump sum either at EDC loan expiry or latest by December 31, 2020. The 2018 annual fee was paid in the fourth quarter of 2018. The annual fees will be considered a deduction to the repurchase price at the time of repurchase. In 2019 no payment of the annual fee was processed given the fact that the obligation is under a renegotiation process between Xebec and the Minority Shareholders

On July 25, 2018, the Minority Shareholders of Xebec Adsorption (Shanghai) Co. Ltd, agreed that, for a period beginning on the date hereof up to the date that Export Development Canada has been repaid in full (including capital, interests and fees) under the EDC Financing Arrangement, it shall not exercise any of its divestment, refund, compensation and other equity repurchase rights.
Xebec recorded the proceeds from this transaction, as a financial liability in these consolidated financial statements. The obligation to repurchase and the related annualized return is presented under "Obligation arising from shares issued by a subsidiary". The conversion of the financial liability denominated in the functional currency of our subsidiary Xebec Adsorption (Shanghai) Co. Ltd. (RMB) will be converted at the exchange rate at the end of each reporting period with gain and losses presented in the statement of income (loss) under "Gain/Loss on conversion of shares issued by a subsidiary".

	2019 $	2018 $
Balance – Beginning of year	4,169,353	3,912,314
Accretion interest	267,639	339,249
Effect of exchange rate change on obligation	(256,516)	116,090
Annual reimbursement	-	(198,300)
Balance – End of year	4,180,476	4,169,353
Current Portion	(373,000)	(198,300)
	3,807,476	3,971,053

17 Share Capital

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

b) On November 7, 2018 the Company closed a short form prospectus offering through a syndicate of agents. In connection with the closing of the Offering, the Company issued a total of 8,208,666 Units, at a price of $0.75 per Unit, for aggregate gross proceeds of $6,156,500.

On November 30, 2018 the Company closed the Over-Allotment of an additional 1,231,300 units for additional gross proceeds of $923,475.

Each Unit is comprised of one common share of the Company and one half of one common share purchase warrant. Each Warrant entitles the holder thereof to purchase one Common Share, at a price of $1.05 per Common Share, for a period of 18 months from the closing date of the Offering.

In connection with the Offering, the Company paid to the Agents a cash commission equal to 6% of the gross proceeds of the Offering, including the proceeds raised pursuant to the exercise of the Over-Allotment Option. The Company also granted the Agents non-transferable options entitling the Agents to purchase 566,398 Common Shares. (Equal to 6% of the aggregate number of Units issued by the Company under the Offering). Each such Compensation Option entitling the holder thereof to acquire one Common Share at an exercise price of $0.75 for a period of 18

months from the closing date of the Offering. The fair value of the 566,398 warrants was $166,472.

A total of 9,439,966 units were issued under the offering at a price of $0.75 per unit for aggregate gross proceeds of $7,079,975 for a total of 9,439,966 shares and 4,719,983 warrants. The issuance costs, excluding the non-transferable options to the agents were $1,112,971. The amount attributed to the warrants was $24,626. For 4,104,333 warrants, no value was attributed because the share price was higher than $0.75. For 615,650 warrants, an amount of $0.02 per share was allocated to warrants.

Warrants activity for the year ended December 31, is presented below:

	2019	2018
Investor warrants – Beginning of year	4,719,983	-
Issued	-	4,719,983
Exercised	(2,176,052)	-
Balance – End of year	2,543,931	4,719,983

During the year, 2,176,052 common shares were issued as a result of the exercise of these warrants for gross proceeds of $2,284,855. An extra amount of $11,353 was included in share capital following the issuance of these common shares.

Compensation Options activity for the year ended December 31, is presented below:

	2019	2018
Compensation Options – Beginning of year	566,398	-
Issued	-	566,398
Exercised	(561,598)	-
Balance – End of year	4,800	566,398

During the year, 561,598 common shares were issued as a result of the exercise of Compensation Options by the Agents for gross proceeds of $421,199.

c) On July 4, 2019, Xebec Adsorption Inc. closed a bought deal public offering of units and listing warrants conducted by a syndicate of underwriters led by Desjardins Capital Markets and including Beacon Securities Ltd., Paradigm Capital Inc., Canaccord Genuity Corp. and M Partners Inc. In connection with the closing of the Offering, the Company issued a total of 8,280,000 Units, at a price of $1.40 per Unit, for aggregate gross proceeds of $11,592,000. Each Unit is composed of one common share of the Company and one common share purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to acquire one additional Common Share for a period of 12 months from the closing date of the offering at an exercise price of $1.85 per Warrant Share.

In connection with the Offering, the Company paid to the underwriters a cash commission equal to 6% of the gross proceeds of the Offering and Compensation Options equal to 6% of the units issued pursuant to the offering. Each Compensation Option will entitle the underwriters to

purchase a unit at a price of $1.40 for a period of 12 months from the closing date of the offering. For each Compensation Option exercised the underwrites are entitled to one warrant, each warrant is exercisable to acquire one additional Common Share for a period of 12 months from the closing date of the offering at an exercise price of $1.85 per Warrant Share.

The Company intends to use the net proceeds of the Offering to develop and invest in new Renewable Natural Gas projects, to expand the Company's monitoring and service capabilities through selective acquisitions and for general corporate purposes.

A total of 8,280,000 units were issued under the offering at a price of $1.40 per unit for aggregate gross proceeds of $11,592,000 for a total of 8,280,000 shares, 496,800 compensation options and 8,280,000 warrants. The issuance costs, excluding the non-transferable options to the agents were $1,091,105. No value was attributed to the warrants because the share price was higher than $1.40. The fair value of the 496,800 Compensation Options was $225,418which was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.57%
Annualized volatility [2]	60,35%
Share price	$1.40
Expected life of compensation options	1 year

The fair value of the compensation warrants was $143,422 which was estimated using the Black Sholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.57%
Annualized volatility [2]	60,35%
Share price	$1.85
Expected life of compensation warrants	1 year

Warrants activity for the year ended December 31, is presented below:

	2019	**2018**
Investor warrants – Beginning of year	-	-
Issued	8,280,000	-
Exercised	(7,143)	-
Balance – End of year	8,272,857	-

During the year, 7,143 common shares were issued as a result of the exercise of these warrants for gross proceeds of $13,215.

Compensation Options activity for the year ended December 31, is presented below:

[2] The expected volatility used was based on the historic volatility of the Company share price.

	2019	2018
Compensation Options – Beginning of year	-	-
Issued	496,800	-
Exercised	(149,040)	-
Balance – End of year	347,760	-

During the year, 149,040 common shares were issued as a result of the exercise of Compensation Options by the Agents for gross proceeds of $208,656. An extra amount of $66,214 was included in share capital following the issuance of these common shares.

Compensation warrants activity for the year ended December 31, is presented below:

	2019	2018
Compensation warrants – Beginning of year	-	-
Issued	149,040	-
Exercised	-	-
Balance – End of year	149,040	-

During the year, no common shares were issued as a result of the exercise of Compensation warrants by the Agents.

d) On December 27, 2019, Xebec Adsorption Inc. closed a bought deal public offering conducted by a syndicate of underwriters led by Desjardins Capital Markets and including Beacon Securities Ltd., Canaccord Genuity Corp., TD Securities Inc., Paradigm Capital Inc. and Raymond James Ltd.

A total of 10,952,600 common shares of Xebec were sold at a price of $2.10 per Common Share for aggregate gross proceeds of $23,000,460 for a total of 10,952,600 shares and 657,156 compensation options. The issuance costs, excluding the non-transferable options to the agents were $1,482,506. The fair value of the 657,156 Compensation Options was $345,957 which was estimated using the Black Sholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.62%
Annualized volatility [2]	57,44%
Share price	$2.10
Expected life of compensation options	1 year

In connection with the Offering, the Corporation paid the Underwriters a cash commission equal to 6% of the gross proceeds of the Offering, and compensation options equal to 6% of the Common Shares issued pursuant to the Offering. Each Compensation Option will entitle the Underwriters to purchase a Common Share at an exercise price of $2.10 for a period of 12 months from the closing date of the Offering.

The net proceeds of the Offering will be used to, among other things and as more fully described in the short form prospectus relating to the Offering, develop and invest in new renewable gas projects, to pursue strategic growth initiatives and for general corporate purposes.

Compensation Options activity for the year ended December 31, is presented below:

	2019	2018
Compensation Options – Beginning of year	-	-
Issued	657,156	-
Exercised	-	-
Balance – End of year	657,156	-

No compensation options have been exercised during the year.

As at December 31, 2019, compensation options, compensation warrants and warrants are as follows:

Description	Expiry date	Exercise Price	Beginning balance	Issued	Exercised	Balance end of year
Warrants	May-20	$1.05	4,719,983		(2,176,052)	2,543,931
Compensation Options	May-20	$0.75	566,398		(561,598)	4,800
Warrants	Jul-20	$1.85		8,280,000	(7,143)	8,272,857
Compensation Options	Jul-20	$1.40		496,800	(149,040)	347,760
Compensation warrants	Jul-20	$1.85		149,040		149,040
Compensation Options	Dec-20	$2.10		657,156		657,156
		$1.68	5,286,381	9,582,996	(2,893,833)	11,975,544

e) Income (loss) per share

i) Basic

Basic income (loss) per share is calculated using net income (loss) as the numerator and the weighted average number of shares as denominator. No adjustments to net income were necessary in 2019 and 2018.

	2019 $	2018 $
Net income (loss) attributable to shareholders of the Company	2,020,063	(2,904,386)
Weighted average number of shares used in basic income per share	64,319,442	42,737,000
Basic income (loss) per share	0.03	(0.07)

ii) Diluted

	2019 $	2018 $
Net income (loss) attributable to shareholders of the Company	2,020,063	(2,904,386)
Increase (decrease) of net income attributable to shareholders of the Company assuming dilution	-	-
Net income (loss) attributable to shareholder of the Company after diluted effect	2,020,063	(2,904,386)
Weighted average number of shares used in basic income per share	64,319,442	42,737,000
Increase of number weighted average number of shares assuming dilution	4,280,929	-
Weighted average number of shares after diluted effect	68,600,371	42,737,000
Diluted income (loss) per share	0.03	(0.07)

For the year ended December 31, 2019, convertible debentures and exercised warrants with an exercise price over the average market price would have been anti-dilutive.

For the year ended December 31, 2018, convertible debentures and outstanding stocks options would have been anti-dilutive.

18 Stock options

The stock option plan allowed for the issuance of stock options. Under the Plan, a fixed number of 11,505,347 common shares are available for grant. As at December 31, 2019, the maximum number of common shares available for issuance under all stock-based compensation arrangements is 7,423,487.

Under the terms of the Xebec Adsorption Stock Option Plan, stock options are granted with an exercise price not less than the volume-weighted average trading price of the common shares for the five trading days prior to the date of grant. The terms and conditions for acquiring and exercising options are set by the Board of Directors. Stock options for employees vest no less than at grant date and no more than quarterly.

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

		2019		2018
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding – Beginning of year,	6,301,758	0.27	7,829,030	0.19
Granted	-	-	835,000	0.69
Exercised	(2,219,898)	0.14	(307,272)	0.17
Cancelled	-	-	(2,020,000)	0.12
Expired	-	-	(35,000)	0.22
Outstanding – End of year,	4,081,860	0.35	6,301,758	0.27
Exercisable – End of year,	3,054,859	0.26	4,511,231	0.16

The average share price for the exercised options was $0.14 ($0.17 in 2018)

As at December 31, 2019, options outstanding and exercisable are as follows:

Expiry date	Weighted-Average Exercise Price	Number of Options Outstanding	Weighted-Average Remaining life	Number of Options exercisable
April 25, 2021	$0.15	100,000	1.32	100,000
May 29, 2021	$0.14	200,000	1.41	200,000
December 19, 2022	$0.55	400,000	2.97	266,666
January 7, 2023	$0.05	200,000	3.02	200,000
March 5, 2024	$0.18	1,873,193	4.18	1,873,193
August 29, 2024	$0.49	375,000	4.66	75,000
December 19, 2024	$0.55	98,667	4.96	61,667
May 14, 2025	$0.60	100,000	5.37	33,333
November 19, 2025	$0.70	735,000	5.89	245,000
	$0.35	**4,081,860**	**4.20**	**3,054,859**

As at December 31, 2018 options outstanding and exercisable are as follows:

Expiry date	Weighted-Average Exercise Price	Number of Options Outstanding	Weighted-Average Remaining life	Number of Options exercisable
December 22, 2018 [3]	$0.10	1,399,500	0.00	1,399,500
June 12, 2020	$0.16	258,065	1.45	258,065
April 25, 2021	$0.15	100,000	2.32	100,000
May 29, 2021	$0.14	200,000	2.41	200,000
December 19, 2022	$0.55	400,000	3.97	133,332
January 7, 2023	$0.05	400,000	4.02	400,000
March 5, 2024	$0.18	2,098,193	5.18	1,883,332
August 29, 2024	$0.49	500,000	5.66	100,000
December 19, 2024	$0.55	111,000	5.96	37,002
May 14, 2025	$0.60	100,000	6,37	-
November 19, 2025	$0.70	735,000	6.89	-
	$0.27	**6,301,758**	**3.86**	**4,511,231**

[3] Expiry date of the options fell in a black out period. Options were exercised once blackout period was lifted.

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

Risk-free interest rate	2.30%
Annualized volatility [4]	133%
Share price	$0.60
Dividend rate	0.00%
Expected life of options	7 years

On November 19, 2018, the Company granted 735,000 stock options to an officer. The options are exercisable at $0.70 per share and expire on November 19, 2025. The options are subject to vesting criteria such that 33% shall vest on the first anniversary date and 33% shall vest every twelve months thereafter. The corresponding stock-based compensation amounted to $480,521, which was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	2.47%
Annualized volatility [4]	129%
Share price	$0.70
Dividend rate	0.00%
Expected life of options	7 years

During the year, the Company expensed $407,846 (2018 - $352,897) which relates to stock options granted in 2017 and 2018.

In 2018, 100,000 options were granted to employees at weighted average fair value of $0.26 and 735,000 options were granted to officers at a weighted average fair value of $0.55.

No options have been granted during the year ended December 31, 2019.

[4] The expected volatility used was based on the historic volatility of the Company share price.

19 Segmented information

The Company operates three business segments and specializes in the Support (Industrial Air and Gas Products, Parts, Service and Operational Support), the Systems (Cleantech), the Infrastructure (Renewable Gas Generation). During 2018, the Company operated four business segments, the Oil and Gas segment has been phased out to allow the Company to develop new Infrastructure segment.

For the year ended December 31, revenue summarized by country, as determined by location of the customers, is as follows:

	2019 $	2018 $
Revenue		
Canada	12,864,288	4,800,012
China	9,517,759	1,889,742
United States	8,367,207	6,816,590
Italy	7,512,614	2,469,183
France	4,375,266	2,655,914
Other	6,680,746	1,577,055
	49,317,880	20,208,496

Sales of $5,461,652 ($6,740,569 in 2018) arose from one of the Company's largest customers (two in 2018). No other single customer contributed more than 10 % to the Company's revenue for both 2019 and 2018.

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

For the year ended December 31, 2019

	Systems $	Support $	Infrastructure [5] $	Corporate $	Total $
Revenues	37,813,902	11,503,978	-	-	49,317,880
COGS	25,790,549	8,039,345	-	-	33,829,894
Gross margin	12,023,353	3,464,633	-	-	15,487,986
Gross Margin %	32%	30%	-	-	31%
Research and Development expenses	71,503	-	-	-	71,503
Selling and administrative expenses	1,546,827	2,207,099	-	7,543,506	11,297,432
Foreign exchange loss	-	-	-	383,693	383,693
Gain on conversion of shares issued by a subsidiary	-	-	-	(256,516)	(256,516)
Financial income	-	-	-	(32,246)	(32,246)
Financial expense	-	-	-	1,647,141	1,647,141
Total expenses	1,618,330	2,207,099	-	9,285,578	13,111,007
Segment income (loss)	10,405,023	1,257,534	-	(9,285,578)	2,376,979

For the year ended December 31, 2018

	Systems	Support	Infrastructure [5]	Corporate	Total
	$	$	$	$	$
Revenues	14,022,914	6,185,582	-	-	20,208,496
COGS	10,462,581	4,057,573	-	-	14,520,154
Gross margin	3,560,333	2,128,009	-	-	5,688,342
Gross Margin %	25%	34%	-	-	28%
Research and		-			
Development expenses	92,069	-	-	-	92,069
Selling and administrative expenses	1,397,270	944,663		4,873,567	7,215,500
Foreign exchange loss	-	-	-	(152,482)	(152,482)
Loss on conversion of shares issued by a subsidiary	-	-	-	116,090	116,090
Financial income	-	-	-	(1,611)	(1,611)
Financial expense	-	-	-	1,323,162	1,323,162
Total expenses	1,489,339	944,663	-	6,158,726	8,592,728
Segment income (loss)	2,070,994	1,183,346	-	(6,158,726)	(2,904,386)

The location of the Company's non-current assets by geographic region as of December 31st is as follows:

	2019	2018
	$	$
Non-current assets		
United States	5,077,673	37,343
Canada	4,509,680	595,284
Italy	919,309	9,750
Asia	283,343	44,918
	10,790,005	687,295

[5] Infrastructure segment is a project in development. No costs have been associated to the segment as of December 31st, 2019 and 2018.

20 Expenses by nature

	2019 $	2018 $
Material	18,839,298	7,213,460
Employee salaries and benefits	10,656,733	7,023,186
Subcontract cost	7,818,321	2,930,882
Professional fees	1,951,452	1,390,407
Amortization and depreciation	1,837,396	217,768
Travel expenses	1,227,923	759,616
Rent and repairs and maintenance	747,777	692,548
Office expense	709,951	481,062
Stock-based compensation	407,846	352,897
Warranty	280,298	54,825
Other	240,912	54,153
Advertising	223,755	217,259
Bad Debt	185,664	347,591
	45,127,326	21,735,654

21 Research and development expenses

	2019 $	2018 $
Employee salaries and benefits	34,408	65,157
Professional fees	6,000	14,230
Subcontract cost	30,000	12,500
Travel expenses	1,095	182
	71,503	92,069

22 Finance expenses

	2019 $	2018 $
Accretion of the obligation arising from shares issued by a subsidiary (Note 16)	267,639	339,249
Interest on convertible debentures	261,252	415,590
Interest and bank charges	185,627	126,813
Guarantee letters fees	351,667	185,682
Interest on short term debt	17,936	116,770
Accretion and revaluation of government royalty program obligation (Note 14b)	24,298	27,401
Interest on long term debt	538,722	111,657
	1,647,141	1,323,162

23 Supplemental Cash flow information

For the year ended December 31, net change in non-cash working capital balances related to operations consists of the following:

	2019 $	2018 $
Decrease (increase) in assets:		
Trade and other receivables	(14,233,331)	(2,732,073)
Inventories	(2,036,914)	(1,231,708)
Other current assets	(274,579)	(587)
Income taxes recoverable	334,960	-
Increase (decrease) in liabilities:		
Trade payables, other payables and accrued liabilities	8,229,371	(902,831)
Contract liabilities	(2,055,348)	3,649,648
Provisions	118,587	33,310
	(9,917,254)	(1,184,241)

24 Compensation of key management

Compensation awarded to key management included:

	2019 $	2018 $
Salaries and short-term employee benefits	1,858,647	1,351,103
Stock-based compensation	336,409	235,374
Consulting	52,354	112,675
	2,247,410	1,699,152

Key management includes the Company's senior management and members of the Board of Directors.

25 Income taxes

Effective tax rate

The income tax expense attributable to earnings differs from the amounts computed by applying the combined federal and provincial tax rate of 26.6% (26.7% on December 31, 2018) to earnings before income taxes as a result of the following:

	2019 $	2018 $
Income (loss) before income taxes	2,376,979	(2,904,386)
Expected income tax (recovery)	631,877	(775,471)
Tax expense at combines statutory rate	-	-
Increase (decrease) in income taxes resulting from:		
Temporary difference unrecognized (recognized)	(305,467)	733,356
Difference in foreign tax rate	(49,259)	(787)
Stock base compensation	108,487	94,223
Change of deferred tax rates	(88,126)	(170,871)
Foreign exchange on consolidation	(4,785)	18,779
Tax assets recognized	(110,132)	-
Expired losses	-	141,334
True up and other	174,321	(40,563)
	356,916	-

Composition of current income taxes in the income statement

	2019 $	2018 $
Inception and reversal of temporary differences	371,433	-
	371,433	-

Composition of deferred income taxes in the Consolidated Statement of Income (Loss)

	2019 $	2018 $
Inception and reversal of temporary differences	379,076	(562,485)
Temporary difference not recorded	(305,467)	733,356
Change in deferred tax rate	(88,126)	(170,871)
	(14,517)	-

Movement of deferred income tax in 2019

	January 1, 2019 $	P&L $	Business acquisition $	Capital $	Equity Component $	December 31, 2019 $
Contingency reserve	(81,989)	(34,162)	-	81,989	-	(34,162)
Intangible assets	(50,483)	65,000	(217,754)	-	-	(203,237)
Debentures	(22,478)	22,478	-	-	-	-
Government royalty program	(16,898)	6,439	-	-	-	(10,459)
Non-capital losses	89,859	(45,238)	-	-	-	44,621
	(81,989)	14,517	(217,754)	81,989	-	(203,237)

Movement of deferred income tax in 2018

	January 1, 2018 $	P&L $	Equity Component $	December 31, 2018 $
Contingency reserve	(81,989)	-	-	(81,989)
Intangible assets	(49,974)	(509)	-	(50,483)
Debentures	(98,821)	76,343	-	(22,478)
Government royalty program	(24,160)	7,262	-	(16,898)
Non-capital losses	172,955	(83,096)	-	89,859
	(81,989)	-	-	(81,989)

As at December 31, 2019, deductible timing differences for which the company has not recognized deferred tax asset are as follows:

	Federal $	Quebec $	China $	USA $	Italy $
Property and equipment	444,827	444,827	-	-	-
Scientific research and development expenses	24,786,377	24,761,247	-	-	-
Capital losses carried forward	219,247	219,247	-	-	-
Operating losses carried forward	57,444,239	59,380,392	77,276	282,985	-
Other	3,320,697	3,320,697	1,220,844	-	-
	86,215,387	88,126,410	1,298,120	282,985	-

The ability to realize the tax benefits is dependent upon a number of factors, including the future profitability of operations. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered. Accordingly, some deferred tax assets have not been recognized, these deferred tax assets not recognized equal an amount of $ 23,463,763 ($22,975,885 in 2018).

As at December 31, 2018, deductible timing differences for which the company has not recognized deferred tax asset are as follows:

	Federal $	Quebec $	China $	USA $	Italy $
Property and equipment	1,050,119	1,050,119	-	-	-
Scientific research and development expenses	24,706,785	24,711,456	-	-	-
Operating losses carried forward	56,508,935	58,360,534	1,630,298	274,812	540,767
Other	1,313,097	1,313,097	-	-	-
	83,578,936	85,435,206	1,630,298	274,812	540,767

As at December 31, 2019, the Company has non-capital tax losses, which are available to reduce taxes in futures years and expired as follows:

	Federal $	Quebec $	China $	USA $	Italy $
2039	1,041,367	1,008,868		253,083	
2038	1,047,960	1,127,553	-	-	-
2037	1,486,941	1,480,325	-	29,902	-
2036	-		-	-	-
2035	1,328,532	1,328,532	-	-	-
2034	-	2,635,090	-	-	-
2033	326,251	326,251	-	-	-
2032	546,237	494,621	-	-	-
2031	443,287	433,086	-	-	-
2030	12,361,610	12,361,610	-	-	-
2029	7,283,831	7,295,856	-	-	-
2028	10,824,277	10,824,277	-	-	-
2027	6,794,635	6,794,635	-	-	-
2026	7,229,354	7,229,354	-	-	-
2025	6,729,957	6,040,334	-	-	-
2024	-	-	-	-	-
2023			77,276	-	
	57,444,239	59,380,392	77,276	282,985	-

The Company has scientific research and experimental development expenses of $24,786,377 (2018 – $24,706,785) which are available to be carried forward indefinitely and deducted against future taxable income otherwise calculated. The potential benefit has not been recorded in the accounts.

As at December 31, 2019, the Company also has investment tax credits of $5,603,387 (2018 – $5,591,036) available to offset future Canadian federal income taxes payable. The potential benefit of the investment tax credits has not been recognized in the accounts.

26 Commitments

- Research Agreement with McGill University

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

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

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

- Leases

  Following is a summary of Xebec’s contractual obligations and commitments regarding leases for which the underlying asset is of low value:

As at December 31, 2019	**Payment Due by Period**			
	1 year	2 - 5 years	Beyond 5 years	Total
	$	$	$	$
	186,609	135,315	-	321,924

Leases include various equipment leases. The leases expenses for year ended December 31, 2019 amounted to $282,646 ($442,784 in 2018).

27 Related party transactions

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

	2019 $	2018 $
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	118,769	183,432
Salaries and short-term benefits paid to members of immediate family of an officer	140,570	-
Material purchased to companies controlled by members of the immediate family of an officer	43,042	-
	302,381	183,432

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

28 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:

	2019 $	2018 $
Cash	22,358,457	(2,382,146)
Restricted cash	324,700	(1,540,000)
Long-term debt (Note 14a)	5,251,124	3,680,562
Government royalty program obligation (Note 14b)	466,071	536,773
Obligation arising from shares issued by a subsidiary (Note 16)	4,180,476	4,169,353
	32,580,828	4,464,542
Equity	38,957,366	(620,374)
	71,538,194	3,844,168

The Company is not subject to any capital requirements imposed by regulators.

29 Financial instruments

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

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

December 31, 2019	**Amortized Cost**		**Amortized Cost**	
	Carrying amount $	**Fair value $**	**Carrying amount $**	**Fair value $**
Cash	22,358,457	22,358,457		
Restricted cash	324,700	324,700		
Trade and other receivables	12,976,897	12,976,897		
Other current assets	7,300	7,300		
Trade, other payables and accrued liabilities			11,401,489	11,401,489
Long-term debt			2,855,788	2,855,788
Government royalty program obligation			466,071	466,071
Obligation arising from shares issued by a subsidiary			4,180,476	4,180,476

December 31, 2018	**Loans and receivables**		**Other financial liabilities**	
	Carrying amount $	**Fair value $**	**Carrying amount $**	**Fair value $**
Cash	2,382,146	2,382,146	-	-
Restricted cash	1,540,000	1,540,000	-	-
Trade and other receivables	4,532,122	4,532,122	-	-
Other current assets	13,500	13,500	-	-
Trade, other payables and accrued liabilities	-	-	2,054,443	2,054,443
Long-term debt	-	-	3,673,654	3,673,654
Government royalty program obligation	-	-	536,773	536,773
Obligation arising from shares issued by a subsidiary	-	-	4,169,353	4,169,353

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

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

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

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

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

  Level 1 — Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
  Level 2 — Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
  Level 3 — Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

b. 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, restricted cash and outstanding trade and other receivables. The carrying amount of its outstanding trade and other receivables represents the Company's estimate of its maximum credit exposure.

The Company determines whether the credit risk of a financial asset has increased significantly since initial recognition considering reasonable and supportable information that is relevant and available without undue cost or effort, this includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. (120 days past due for the Chinese subsidiary). Certain customers have specific agreements that go over 120 days.

The Company considers a financial asset to be in default when the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held) or the financial asset is more that 120 days past due.

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.

Bad debt expense amounted to $185,664 in 2019 ($347,591 in 2018). As at December 31, 2019, the Company's three largest trade debtors accounted for 32% (20%, 8% and 4%) of the total trade receivables balance (2018 – 28% (10%, 9% and 9%)).

Details of trade and other receivables were as follows:

	2019 **$**	**2018** **$**
Current trade receivables	5,724,899	1,622,324
Trade receivables past due by:		
1–30 days	1,181,293	1,010,599
31–60 days	1,124,112	428,050
61–90 days	933,623	175,950
Over 90 days [6]	4,310,209	1,045,476
Total trade receivables	13,274,136	4,282,399
Allowance for expected credit loss	(534,071)	(431,674)
Other receivables	236,832	681,397
Total trade and other receivables	12,976,897	4,532,122

The following table summarizes the changes in the allowance for trade and other receivables:

	2019 **$**	**2018** **$**
Balance - Beginning of year	(431,674)	(89,559)
Change in the allowance for expected credit loss	(102,397)	(342,115)
Balance – end of year	(534,071)	(431,674)

Trade and other receivables are reviewed on a weekly basis. All potential risks are provisioned and the amount on the consolidated financial statements reflect the analysis.

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

[6] Most of the trade receivables over 90 days belong to the Chinese subsidiary, where it is part of the normal business process to have accounts over 90 days. Certain customers have specific agreements that go over 120 days.

c. 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 indicated 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 income (loss). Management believes that a 10% change in exchange rates of all currencies indicated would be reasonably possible and that the impact on net income (loss) of such a change would be approximately $371,970 for 2019 (2018 – $238,723). As at December 31, 2019, the following accounts are shown in their original currencies and converted into Canadian dollars. The Company does not use financial instruments to reduce this risk.

			2019
	US dollar	**Euro**	**British Pound**
Cash	537,212	65,588	-
Trade and other receivables	1,716,275	185,852	-
Trade and other payables	177,611	55,625	7,491
	2,431,098	307,065	7,491
Equivalent in Canadian dollars	3,157,511	447,792	12,866

		2018
	US dollar	**Euro**
Cash	685,763	341
Trade and other receivables	488,211	66,970
Trade and other payables	477,234	18,931
	1,651,207	86,242
Equivalent in Canadian dollars	2,252,577	134,649

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 credit facility, for which the interest rates charged fluctuate based on the bank's prime rate. As at December 31, 2019, credit facility amounted to $ NIL (2018 – $NIL). If the interest rate on the credit facility had been 50 basis points higher (lower),

related to the credit facility as at December 31, 2019, net income would have been $NIL (2018 – $10,070) lower (higher).

d. 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 and other liabilities as at December 31:

					2019
	Carrying amount $	**Contractual cash flow $**	**0 to 12 months $**	**13 to 24 months $**	**Thereafter $**
Financial liabilities					
Trade and other payables and accrued liabilities	11,401,489	11,401,489	11,401,489	-	-
Government royalty program obligation	466,071	505,540	118,000	175,000	212,540
Obligation under a working capital line	1,934,440	2,348,333	220,000	2,128,333	-
Contingent liability - CAI	596,648	660,000	220,000	440,000	-
Balance from business acquisition payable	324,700	324,700	324,700	-	-
Obligation arising from shares issued by a subsidiary	4,180,476	4,180,476	373,000	3,807,476	-
	18,903,824	19,420,539	12,657,189	6,550,809	212,540

					2018
	Carrying amount $	**Contractual cash flow $**	**0 to 12 months $**	**13 to 24 months $**	**Thereafter $**
Financial liabilities					
Trade and other payables and accrued liabilities	2,054,443	2,054,443	2,054,443	-	-
Government royalty program obligation	536,773	600,540	95,000	118,000	387,540
Obligation under capital lease	6,908	7,859	4,600	3,259	-
Obligation under a working capital line	1,899,578	2,564,164	219,397	220,000	2,124,767
Convertible debentures	1,774,076	2,109,440	2,109,440	-	-
Obligation arising from shares issued by a subsidiary	4,169,353	4,169,353	198,300	3,971,053	-
	10,441,131	11,505,799	4,681,180	4,312,312	2,512,307

Contractual interest amounts on floating interest rates are established based on the spot rates as at the statement of financial position dates.

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

30 Subsequent events

On February 14, 2019 the Company has signed an agreement to develop an integrated facility to process various organic wastes for the production of renewable natural gas (RNG) and biofertilizer.

Located in Québec, Canada, this facility will process over 45,000 metric tons of organic waste per year through an anaerobic digestion process. This process will produce biogas that is upgraded into renewable natural gas (RNG) by a turnkey biogas upgrading equipment package supplied by Xebec. The facility will contribute to the circular economy in Québec, producing over 150,000 GJ of RNG and 7,500 metric tons of biofertilizer annually. The plant is expected to be commissioned in early 2021.

The project will sell its RNG under a 20-year off-take agreement at a fixed rate per gigajoule (GJ), and the biofertilizer produced will be sold and distributed to farmers through a major bio-solid management partner.

The project's capital expenditures of approximately $28.0 million will be financed through a combination of equity from its development partners, non-recourse debt and a potential grant from Québec's PTMOBC program (Programme de Traitement des Matières Organiques par Biométhanisation et Compostage), for which an application has been filed with the Québec Government.

The Company signed a loan agreement with Export Development Canada for USD $3,300,000 to support the acquisition of CDA Systems LLC. Principal repayments in 84 monthly installments commencing on the 18th day of the month of May 2020. Interest is calculated and payable in arrears at US Prime Rate plus 4.50% per annum on the 18th day of every calendar month starting May 2020. The agreement is secured by a second rank conventional hypothec over all of the Company's present and future movable property.