Xebec Adsorption Inc.

Consolidated Financial Statements
December 31, 2020 and 2019
(expressed in Canadian dollars)

Raymond Chabot Grant Thornton

Independent Auditor's Report

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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, 2020 and 2019, and the consolidated statement of income (loss), the consolidated statements of comprehensive income (loss), the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to 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, 2020 and 2019, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Percentage of completion of contracts in progress at year-end

As described in note 3 to the consolidated financial statements, 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). We identified the determination of the percentage of completion of contracts in progress at year-end as a key audit matter.

Why the matter was determined to be key audit matter

The determination of the percentage of completion was significant to our audit because management's assessment of the percentage of completion requires significant judgements (see note 4), including milestones marked, actual work performed and estimated costs to complete. These significant judgements can have a material impact on the amounts of revenue and profit recognized.

How the matter was addressed in the audit

Our audit procedures related to management's estimate of percentage of completion of contracts at year-end included, among others:

- We reviewed, on a sample basis, contractual arrangements, including pricing and billing terms, contract changes, and terms and conditions;
- We confirmed, on a sample basis, contracts terms directly with customers;
- We tested, on a sample basis, costs incurred to date;
- We compared, on a sample basis, the estimates of costs to complete made in the prior period to actual contract costs incurred in the current period to assess management's ability to estimate the costs to complete a contract;
- We tested, on a sample basis, future costs to complete the contracts to purchase orders and quotes obtained by management;
- We tested, on a sample basis, anticipated losses on contracts recorded in the current period; and
- We conducted inquiries with management and project managers to gain an understanding of the status of contract activities.

Valuation of assets acquired and liabilities assumed in business combinations

As described in note 3 to the consolidated financial statements, the Company applies the acquisition method in accounting for business combinations. The Company completed the final purchase price allocation for the business combinations described in note 5 to the consolidated financial statements. Under the acquisition method of accounting, management determines the fair value of assets acquired and liabilities assumed (with certain exceptions). We identified the valuation of assets acquired and liabilities assumed in business combinations as a key audit matter.

Why the matter was determined to be key audit matter

The valuation of assets acquired and liabilities assumed in business combinations was significant to our audit because it involves significant judgement from management and a high degree of subjectivity and effort, including the need to involve fair value specialists. In particular, the fair value of the intangible assets and contingent consideration is dependent on the outcome of many variables, including the acquirees' future cash flows and profitability.

How the matter was addressed in the audit

Our audit procedures related to the valuation of assets acquired and liabilities assumed included, among others:

- We reviewed the share purchase agreements;
- With the assistance of our valuation specialists, we evaluated the reasonableness of management's projections of future cash flows by comparing the projections to historical results;
- With the assistance of our valuation specialists, we evaluated the reasonableness of the valuation methodologies and discount rates by:
  - Testing information used to determine the discount rates;
  - Performing sensitivity analysis by developing a range of independent estimates for the discount rates and comparing those to the discount rates applied by management.
- With the assistance of our valuation specialists, we evaluated the reasonableness of attrition rates of customer relationships; and
- We tested the fair values of the other assets and liabilities included upon the acquisition which were not subject to cash flow projection valuation methods.

Annual test for impairment

As described in Note 3 to the consolidated financial statements, the Company is required to annually test for impairment cash-generating units (CGU) to which goodwill has been allocated. We identified the Company's annual test for impairment as a key audit matter.

Why the matter was determined to be key audit matter

This annual impairment test was significant to our audit because the amount of goodwill of $162,802,163 as at December 31, 2020 is material to the consolidated financial statements. In addition, management's determination of recoverable amounts of CGUs involves significant judgement from management and a high degree of subjectivity and efforts, including the need to involve fair value specialists.

How the matter was addressed in the audit

Our audit procedures related to the Company’s evaluation of the recoverable amount included, among others:

– With the assistance of our valuation specialists, we evaluated the reasonableness of the methodologies to calculate the recoverable amount. We also evaluated the reasonableness of the significant assumptions used by the Company, in particular those relating to growth rates, profit margins and discount rates, which are key to the outcome of the impairment test. We did this by developing independent discount rates and assumptions, and performing sensitivity analysis;

– We assessed the adequacy of the Company’s disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount.

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 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 and will 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 judgement 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 independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Raymond Chabot Grant Thornton LLP[1]

Montreal
March 24, 2021

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[1] CPA auditor, CA public accountancy permit no. A125741

Xebec Adsorption Inc.

Consolidated Statements of Financial Position
As at December 31, 2020 and 2019

(expressed in Canadian dollars)

	December 31, 2020 $	December 31, 2019 $
Assets		
Current assets		
Cash	160,937,938	22,358,457
Restricted cash (Note 5)	7,641,960	324,700
Trade and other receivables (Note 6)	35,123,268	24,121,723
Inventories (Note 7)	21,145,474	6,244,400
Investment tax credits receivable	15,943	15,943
Finance leases receivable (Note 11)	129,005	-
Prepaid expenses	1,130,986	1,051,260
Total current assets	226,124,574	54,116,483
Non-current assets		
Finance leases receivable (Note 11)	3,015,753	-
Investment and advance to related companies	116,259	-
Deferred financing costs	984,507	-
Property, plant and equipment (Note 8)	36,577,749	3,026,779
Intangible assets (Note 9)	15,003,915	5,689,079
Goodwill (Note 10)	162,802,163	3,504,279
Other non-current assets	53,247	-
Total non-current assets	218,553,593	12,220,137
Total assets	444,678,167	66,336,620
Liabilities		
Current liabilities		
Bank loan (Note 14)	974,500	-
Trade, other payables and accrued liabilities (Note 12)	27,570,908	12,532,960
Contract liabilities (Note 13)	7,507,335	2,383,261
Current portion of long-term debt (Note 15a)	14,052,453	962,560
Current portion of government royalty program obligation (Note 15b)	185,341	124,880
Current portion of provisions (Note 16)	1,541,184	46,207
Current portion of obligation arising from shares issued by a subsidiary (Note 17)	2,971,944	373,000
Income taxes payable	108,543	369,923
Total current liabilities	54,912,208	16,792,791
Non-current liabilities		
Long-term debt (Note 15a)	42,625,642	5,159,690
Government royalty program obligation (Note 15b)	182,957	341,191
Obligation arising from shares issued by a subsidiary (Note 17)	-	3,807,476
Provisions (Note 16)	348,982	127,980
Deferred tax liabilities (Note 27)	2,575,577	1,150,126
Total non-current liabilities	45,733,158	10,586,463
Total liabilities	100,645,366	27,379,254
Equity		
Share capital (Note 19)	396,609,335	63,484,034
Contributed surplus	8,144,748	4,569,636
Accumulated other comprehensive loss	(914,459)	(1,247,330)
Deficit	(59,806,823)	(27,848,974)
Total equity	344,032,801	38,957,366
Total liabilities and equity	444,678,167	66,336,620

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

Approved by the Board of Directors

(signed) Kurt Sorschak Director

(signed) Peter Bowie Director

Xebec Adsorption Inc.

Consolidated Statements of Income (loss)
For the years ended December 31, 2020 and 2019
(expressed in Canadian dollars)

	2020 $	2019 $
Revenue (Note 21)	56,519,609	49,317,880
Cost of goods sold	56,253,905	33,829,894
Gross margin	265,704	15,487,986
Research and development expenses (Note 23)	1,222,754	71,503
Selling and administrative expenses	27,940,642	11,297,432
Foreign exchange loss	103,238	383,693
Loss (gain) on conversion of shares issued by a subsidiary (Note 17)	216,648	(256,516)
	29,483,282	11,496,112
Operating income (loss)	(29,217,578)	3,991,874
Other charge (income)		
Finance income	(342,903)	(32,246)
Finance expenses (Note 24)	3,092,179	1,647,141
	2,749,276	1,614,895
Income (loss) before income taxes	(31,966,854)	2,376,979
Income taxes (Note 27)	(9,005)	356,916
Net income (loss) for the year	(31,957,849)	2,020,063
Net income (loss) per share		
Basic net income (loss) per share (Note 19)	(0.33)	0.03
Diluted net income (loss) per share (Note 19)	(0.33)	0.03

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

Xebec Adsorption Inc.

Consolidated Statements of Comprehensive Income (loss)
For the years ended December 31, 2020 and 2019
(expressed in Canadian dollars)

	2020 $	2019 $
Net income (loss) for the year	(31,957,849)	2,020,063
Other comprehensive loss		
Cumulative translation adjustment	332,871	(106,988)
Comprehensive income (loss) for the year	(31,624,978)	1,913,075

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, 2020 and 2019

(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, 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 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**
Balance – January 1, 2020	84,378,678	11,975,544	63,484,034	4,569,636	(1,247,330)	(27,848,974)	-	38,957,366
Net income (loss) for the year	-	-	-	-	-	(31,957,849)	-	(31,957,849)
Other comprehensive income	-	-	-	-	332,871	-	-	332,871
Comprehensive income (loss) for the year	-	-	-	-	332,871	(31,957,849)	-	(31,624,978)
Issuance of warrants from new financing (Note 15)	-	3,000,000	-	2,953,520	-	-	-	2,953,520
Share issued from the exercise of options (Note 19)	1,903,333	-	681,841	(319,208)	-	-	-	362,633
Share issued from public offering (Note 19)	7,986,750	-	26,436,996	-	-	-	-	26,436,996
Shares to be issued from public offering (Note 19)	35,689,974	-	194,807,780	-	-	-		194,807,780
Shares issued to HyGear (Note 5)	10,014,364	-	90,129,273	-	-	-	-	90,129,273
Warrants and compensation shares issued from public offering (Note 19)	-	826,965	(630,997)	630,997	-	-	-	-
Warrants and compensation shares exercised from public offering (Note 19)	12,369,887	(12,369,887)	21,700,408	(742,100)	-	-	-	20,958,308
Warrants from public offering – Cancelled	-	(14,355)	-	-	-	-	-	-
Stock-based compensation expense (Note 20)	-	-	-	180,320	-	-	-	180,320
Deferred share unit compensation expense (Note 20)	-	-	-	202,963	-	-	-	202,963
Restricted share unit compensation expense (Note 20)	-	-	-	668,620	-	-	-	668,620
Balance – December 31, 2020	152,342,986	3,418,267	396,609,335	8,144,748	(914,459)	(59,806,823)	-	344,032,801

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, 2020 and 2019

(expressed in Canadian dollars)

	2020 $	2019 $
Cash flows from		
Operating activities		
Net income (loss) for the year	(31,957,849)	2,020,063
Items not affecting cash		
Depreciation of property, plant and equipment (Note 8)	1,132,617	572,223
Amortization of intangible assets (Note 9)	2,652,479	1,265,173
Reversal of inventory write-down (Note 7)	110,881	(76,256)
Accretion of convertible debentures	-	154,209
Accretion finance expenses and gain on revaluation of government royalty program obligation (Note 15b)	20,228	24,298
Accretion of earn-out (Note 15a)	38,121	59,128
Accretion of the obligation arising from shares issued by a subsidiary (Note 17)	306,187	267,639
Exchange gain/loss on the obligation arising from shares issued by a subsidiary	216,648	(256,516)
Deferred share units compensation expense (Note 20)	202,963	-
Restricted stock units compensation expense (Note 20)	668,620	-
Stock-based compensation expense (Note 20)	180,320	407,846
Accretion of financing costs (Note 15a)	492,253	-
Accretion on government assistance (Note 15a)	11,960	-
Interest on debt (Note 15a)	(12,218)	
Accretion of long-term debt (Note 15a)	76,410	34,863
Accretion FTQ debt (Note 15a)	147,826	-
Future income taxes	(430,423)	(14,517)
	(26,142,977)	4,458,153
Change in non-cash working capital balances related to operations (Note 25)	(618,710)	(9,917,254)
	(26,761,687)	(5,459,101)
Investing activities		
Acquisition of property, plant and equipment	(491,516)	(304,649)
Acquisition of intangible assets	(775,385)	(2,675,333)
Investment in related companies	(116,259)	-
Business acquisitions, net of cash acquired (Note 5)	(70,826,778)	(7,593,887)
	(72,209,938)	(10,573,869)
Financing activities		
Increase of credit facility (Note 14)	974,500	-
Accretion of debt liabilities (Note 15a)	308,036	-
Payment of debt liabilities (Note 15a)	(997,391)	-
Proceeds from issuance of share capital (Notes 19)	242,565,717	35,246,546
EDC repayment (Note 15a)	(6,340,328)	-
Earn-out repayment (Note 15a)	(220,000)	-
EDC loan Holding USA (Note 15a)	4,604,490	-
FTQ Investment (Note 15a)	4,917,725	-
Government assistance (Note 15a)	519,443	-
Repayment of long-term debt (Note 15a)	-	(338,804)
Repayment of government royalty program obligation (Note 15b)	(118,000)	(95,000)
Repayment of the obligation arising from shares issued by a subsidiary (Note 17)	(1,731,367)	-
	244,482,825	34,812,742
Net increase in cash and cash equivalent during the year	145,511,199	18,779,772
Cash – Beginning of the year	22,683,157	3,922,146
Effect of exchange rate changes on cash	385,541	(18,761)
Cash and cash restricted – End of the year	168,579,898	22,683,157
Additional information		
Income tax paid	953,470	14,316
Interest paid	2,030,622	1,107,005

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 that 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 (TSX) Exchange under the symbol XBC since January 7, 2021. It was previously 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.

The continued spread of COVID-19 around the globe and the responses of governmental authorities and corporate entities, including through mandated or voluntary shutdowns, may lead to a general slow-down in the economy and have led to disruptions to our work force and facilities, our customers, our sales and operations and our supply chain.

The full extent and impact of the COVID-19 pandemic is unknown and at this stage it is very difficult to project what will occur.

The company’s bad debt expense may increase, revenues and cash resources may be negatively affected, and the Company may need to assist potential customers with obtaining financing or government incentives to help customers fund their purchases of our products. Any temporary suspension of production in Xebec facilities as a direct result of COVID-19 or any required suspensions of any of Xebec’s suppliers, partners or customers may have a material adverse effect on Xebec.

2 Basis of compliance and basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and were approved and authorized for issue by the Board of Directors of the Company on March 24, 2021.

The consolidated financial statements have been prepared on the historical cost convention, except 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.

Certain figures of the consolidated statements have been reclassified in order to comply with the basis of presentation adopted in the current year.

3 Significant accounting policies

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, Xebec Europe B.V., Compressed Air International Inc., Applied Compression Systems Ltd. (ACS), Xebec RNG Holdings Inc., all of which are wholly owned; GNR Bromont L.P, which is 99% percent owned.

Xebec Adsorption Inc. owns 100% of GNR Québec Capital Management Inc. and 49.9995% of GNR Québec Capital S.E.C. The remaining 50.0% of GNR Québec Capital S.E.C. is 49.9995% owned by Fonds de solidarité FTQ (“FTQ”) and 0.001% owned by GNR Québec Capital Management Inc. The Company does not have full control over GNR Québec Capital Management Inc. and GNR Québec Capital S.E.C. Consequently, these investments are accounted for using the equity method.

Xebec Holding USA Inc. has four wholly owned subsidiaries: Xebec Adsorption USA Inc., CDA Systems LLC., Enerphase Industrial Solutions Inc. (Airflow) and The Titus Company (Titus).

Xebec RNG Holdings Inc. has one wholly owned subsidiary: GNR Bromont Management Inc. GNR Bromont Management Inc. owns the 1% remaining of GNR Bromont L.P.

Xebec Europe B.V. has two wholly owned subsidiaries: Xebec Deustchland GmbH and Green Vision Holding B.V. Green Vision Holding B.V fully owns HyGear Technologies and Services B.V. which has six wholly owned subsidiaries: HyGear Operations B.V., HyGear B.V., HyGear Asia PTE LTD, HyGear Fuel Cell B.V. and HyGear Hydrogen Plant B.V. and Buse – HyGear LTD which is 50% owned. HyGear LTD is expected to start its activities in the first quarter of 2022.

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 17). 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, sub-assembly parts, work in progress and finished goods. Costs of raw materials are determined on an average cost basis or by using the first-in first-out method (Green Vision Holding B.V). Work in progress, sub-assembly parts 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 costs 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 and 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 or the manufacturing of the asset including borrowing costs capitalized. Manufacturing price is comprised of the cost of raw materials and consumables, plus expenditures directly attributable to an asset's manufacturing and installation, including labour costs. Subsequent costs, such as replacement of parts or major inspections, 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 15 years
Office furniture and equipment	2 to 7 years
Computers	2 to 5 years
Moulds	5 years
Leased equipment	15 years
Vehicles	3 to 10 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, engineering standardisation costs and expenditures on design and production of new or substantially improved products and processes when the criteria mentioned in the research and development expenses accounting policy are met. From business acquisitions, intangible assets consist of trade names and customer relationships. 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 three to five years. Customer relationships and trade names are amortized over a period of eight to ten years.

Impairment of non-financial assets

Cash-generating units ("CGUs") to which goodwill has been allocated 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 (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 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 and 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 at amortized cost.

Cash
Restricted cash
Trade and other receivables
Finance lease receivables

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

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 impairments of trade receivables which are presented within selling and administrative expenses.

Financial assets are measured at amortized cost if the assets 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 cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the future cash flows on the instrument. If the 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 for the first category while "lifetime expected credit losses" are recognized for 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.

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 fair 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 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 expense.

Share Capital

Share capital represents the amount received from 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 the exercise of convertible debentures, the share capital account also includes the equity component of such 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 shares 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 for options and similar instruments is computed assuming that if all dilutive securities had been exercised at the later of the beginning of the year and the date of issuance, the proceeds would be used to purchase common shares 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 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 contract assets. 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.

Revenues are 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) – Includes 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 costs 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 billings in excess of 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 recognizes as an asset the incremental costs of obtaining a contract with a customer when those costs are expected to be recovered.

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 12 months following a 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 at 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

The Company as a lessee:

The Company recognises 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 lease payments on or after the commencement date, plus initial direct costs incurred and an 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.

Lease liabilities are initially measured at the present value of the lease payments 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.

The Company as a lessor:

As part of its normal business activity, the Company enters into lease contracts whereby gas generation technologies are manufactured and placed at customer premises in order for the customer to have on-demand gas supply (Gas-as-a-Service). Depending on the lease contracts, the Company either classifies the leases as operating or finance leases.

To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, the lease is classified as finance lease, if not, the lease is classified as an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease term is for the major part of the economic life of the assets.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the lease arrangement.

Income from operating lease contracts is recognised on a straight-line basis over the term of the lease and is presented in the consolidated statement of profit or loss under revenue.

Amounts due from lessees under finance leases are recognised at the amount of the Company's net investment in the leases (finance leases receivables). Finance lease income, presented within finance income, is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Subsequent to initial recognition, the Company reviews the estimated unguaranteed residual value and applies the expected credit loss model to recognise a provision on its finance lease receivables.

Long-term incentive plan

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.

The cost of the restricted share units (RSUs) is measured at the fair value of the common shares of the Company at the grant date and the number of RSUs expected to vest. The cost is recognized as compensation expense in the statement of income (loss) from the date of grant on a straight-line basis over the 36 months vesting period with a corresponding increase in equity. The Company revises the estimate of the number of RSUs expected to vest when necessary, if subsequent information indicates that the number of RSUs expected to vest differs from previous estimates.

The cost of deferred share units (DSUs) is measured at the fair value of the common shares of the Company at the grant date and the number of DSUs expected to vest. The cost is gradually recognized as compensation expense in the statement of income (loss) from the date of grant over a progressive vesting period based on the remaining vesting period with a corresponding increase in equity. The Company revises the estimate of the number of DSUs expected to vest when necessary, if subsequent information indicates that the number of DSUs expected to vest differs from previous estimates.

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, 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. There were no development expenses capitalised during the year ended December 31, 2020.

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).

Recently issued accounting standards

Definition of a business

In October 2018, the IASB issued amendments to the guidance in IFRS 3 Business combinations, which revise the definition of a business. These amendments introduce an optional concentration test that, if met, leads to the conclusion that the group of assets acquired is not a business and that no further assessment is needed. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. The Company applied these amendments on January 1, 2020. The application of these amendments did not have a significant impact on the consolidated financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these consolidated financial statements, several new, but not yet effective, standards and amendments to existing standards, and interpretations have been published by the IASB. None of these standards or amendments to existing standards have been adopted early by the Company. Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

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 an impairment test for internally generated intangible assets impairment when there is any indication that internally generated intangible assets have suffered any impairment in accordance with the accounting policy stated in the summary of significant accounting policies of these consolidated financial statements. The recoverable amounts of internally generated intangible assets have been determined based on value-in-use calculations. The value-in-use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including the 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 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 values of the intangible assets, goodwill and contingent consideration are 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.

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

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

1) During the years ended on December 31, 2020 and 2019, Xebec Adsorption Inc. acquired the following companies, all located in North America:

a) Compressed Air International Inc.

On January 1, 2019, the Company acquired all outstanding shares of Compressed Air International Inc. (CAI) for a purchase price of $2,200,000. $1,540,000 was paid in cash while $660,000 will be earned-out over the three years following the acquisition date (see Note 15a). The contingent consideration is payable only if the annual EBITDA for a period of three years exceeds a target level agreed by both parties. A first payment of $220,000 was disbursed on April 28, 2020, leaving a remaining balance of $440,000 to be earned-out over the next two years.

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.

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

b) CDA Systems LLC

On December 10, 2019, Xebec Holding USA Inc, a wholly owned subsidiary of the Company, acquired all outstanding shares of CDA Systems LLC. (CDA) for a purchase price of $7,430,503 ($5,614,162 USD). The purchase agreement includes an additional contingent consideration payable based on future EBITDA and other financial targets to be achieved over the next two years (Note 15a).

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, having 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.

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

If CDA had been acquired on January 1, 2019, revenues 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.

c) Enerphase Industrial Solutions Inc. (Air Flow)

On July 31, 2020, Xebec Holding USA Inc., a wholly owned subsidiary of Xebec Adsorption Inc., acquired all of the outstanding securities of Enerphase Industrial Solutions Inc. (doing business as "Air Flow") for a purchase price of $5,781,329 ($4,313,137 USD). The purchase agreement includes an additional contingent consideration payable from future EBITDA to be achieved over the next three years (Note 15a).

Air Flow is a leading distributor and service provider of compressed air equipment in North Carolina. Incorporated in 1981, the company brings decades of industry experience, has built longstanding relationships with major manufacturers, and has developed a significant service footprint through numerous equipment installations. Air Flow's focus is on preventative maintenance solutions, air energy system audits and analysis, timely machine rentals, and parts and service.

Airflow generated revenues of $5,156,718 and a profit of $190,239 from August 1, 2020 to December 31, 2020.

If Airflow had been acquired on January 1, 2020, revenue of the Company for the twelve-month period ended December 31, 2020 would have been $63,263,104 and the net loss for the period would have been ($31,548,255).

d) Applied Compression Systems Ltd.

On August 31, 2020, Xebec Adsorption Inc. acquired all outstanding shares of Applied Compression Systems Ltd. ("ACS") for a purchase price of $4,828,123 which includes an amount of $778,123 that was paid on January 19, 2021 (Note 15a). Deferred compensation based on the annual EBITDA and subject to a key employment agreement will be payable for a period of three years as agreed by both parties.

Applied Compression Systems Ltd., located in British Colombia, offers a single source solution for air & gas compression requirements. The company has a strong focus on custom designed and fabricated compressor packages for specialized applications in the oil, gas, petrochemical, alternative fuel, waste-to-energy, research, power generation, mining and manufacturing industries. ACS can supply either standard units or design and fabricate equipment that is custom-built to specific requirements from concept to completion.

ACS generated revenues of $949,316 and a net loss of $99,187 after the intercompany eliminations for the period from September 1, 2020 to December 31, 2020.

If ACS had been acquired on January 1, 2020, revenue of the Company for the twelve-month period ended December 31, 2020 would have been $60,735,982 and the net loss for the period would have been ($29,622,261).

e) The Titus Company

On October 30, 2020, Xebec Holding USA Inc., a wholly owned subsidiary of Xebec Adsorption Inc., acquired all of the outstanding shares of “The Titus Company” (Titus) for a purchase price of $8,235,627 ($6,183,832 USD). The purchase agreement includes an amount of $840,000 USD (par value $1,000,000 USD) which will be payable over the next three years (Note 15a).

Founded in 1986 in Pennsylvania, Titus has been in partnership with large and small companies throughout the Eastern Pennsylvania, Delaware and New Jersey regions and provides superior expertise and the capability to serve a wide range of needs. The Titus Company is also the largest supplier of air dryers to the United States Navy. With this acquisition, Xebec’s Cleantech Service Network (CSN) coverage expands to include Eastern Pennsylvania, Delaware and New Jersey.

Titus generated revenues of $1,478,456 and a net profit of $284,781 for the period from November 1, 2020 to December 31, 2020.

If Titus had been acquired on January 1, 2020, revenue of the Company for the twelve-month period ended December 31, 2020 would have been $67,287,186 and the net loss for the period would have been ($30,650,677).

(expressed in Canadian dollars)

As at December 31, the final purchase price allocation for these five companies is as follow:

	2020	2019
Fair value of consideration transferred		
Amount settled in cash	15,027,333	7,991,458
Purchase price acquisition balance payable (receivable)	1,446,835	(220,971)
Fair value of continent consideration	1,138,000	1,408,646
Restricted cash and balance of acquisition payable	1,232,911	330,975
Total	**18,845,079**	**9,510,108**
Recognized amounts of identifiable net assets		
Trade and other receivables	4,496,767	3,000,269
Inventories	3,650,485	1,476,830
Cash and cash equivalents	1,999,848	397,571
Prepaid expenses	134,914	150,845
Total current assets	**10,282,014**	**5,025,515**
Property, plant and equipment	486,689	427,762
Assets acquired under right-of-use	2,154,713	370,436
Intangibles assets	-	65,025
Total non-current assets	**2,641,402**	**863,223**
Trade, other payables	(2,107,928)	(1,354,193)
Accrued liabilities	(367,155)	(266,474)
Contract liabilities	(2,115,109)	(569,277)
Income tax payable	(247,106)	(34,963)
Current portion of long-term debt	-	(125,994)
Total current liabilities	**(4,837,298)**	**(2,350,901)**
Deferred tax liability	(1,577,580)	(1,164,643)
Long-term debt	(2,761,000)	(249,645)
Total non-current liabilities	**(4,338,580)**	**(1,414,288)**
Identifiable net assets	**3,747,538**	**2,123,549**
Trademarks	**684,440**	**198,585**
Client relationships	**6,601,420**	**3,601,903**
Goodwill on acquisition	**7,811,681**	**3,586,071**
	15,097,541	**7,386,559**
	18,845,079	**9,510,108**
Consideration transferred settled in cash	15,027,333	7,991,458
Cash and cash equivalent acquired	1,999,849	397,571
Net cash outflows on acquisition	**13,027,484**	**7,593,887**

The fair value of the trade and other receivables acquired as part of the business acquisitions amounted to $4,496,767 ($3,000,269 in 2019) with the same gross contractual amount. As at the acquisition dates, the Company's best estimate of the contractual cash flows not expected to be collected amounted to $NIL.

Goodwill is not expected to be deductible for tax purposes except for Air Flow's goodwill for an amount of $1,571,941 ($1,172,740 USD).

Acquisition-related costs amounting to $1,173,017 ($803,933 in 2020 and $369,084 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 in the corresponding year.

For the twelve-month period ended December 31, 2020, goodwill experienced a negative variation of $272,748 due to fluctuation of the exchange rate.

2) HyGear Technology and Services B.V.

On December 31, 2020, the Company acquired 100% of Green Vision Holding B.V., the parent company of HyGear Technology and Services B.V. ("HyGear") for aggregate consideration of $156,520,186, consisting of a cash payment of $66,390,912 and 10,014,364 shares issued at a fair value of $9.00 per share, the closing price of Xebec's shares on December 31, 2020. HyGear is an emerging developer, manufacturer, and supplier of technology and products for the production, recovery, purification, and mixing of industrial gases, such as hydrogen and nitrogen. HyGear's technological backbone consists of a number of active patents issued both in EU countries and the United States.

The cash consideration for the acquisition was financed using the proceeds from the Corporation's bought deal public offering of subscription receipts completed through a syndicate of underwriters, and from a concurrent private placement of subscription receipts, through which combined gross proceeds of $143,751,840 were raised. Both the bought deal public offering and the private placement closed on December 30, 2020.

(expressed in Canadian dollars)

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

	2020 $
Fair value of consideration transferred	
Amount settled in cash	59,835,550
Fair value of shares issued	90,129,276
Restricted cash and balance of acquisition payable	6,555,360
Total	**156,520,186**
Recognized amounts of identifiable net assets	
Trade and other receivables	5,904,645
Inventories	2,059,167
Cash and cash equivalents	2,137,901
Current portion of finance lease receivables	129,005
Total current assets	**10,230,718**
Property, plant and equipment	27,883,752
Assets acquired under right-of-use	3,104,077
Intangibles assets	4,252,440
Non-current portion of finance lease receivable	3,015,753
Total non-current assets	**38,256,022**
Trade and other payables	(4,352,882)
Contract liability	(2,940,590)
Current portion of long-term debt	(4,280,687)
Total current liabilities	**(11,574,159)**
Deferred income tax liability	(350,125)
Long-term debt	(31,801,222)
Total non-current liabilities	**(32,151,347)**
Identifiable net assets	**4,761,234**
Goodwill on acquisition	**151,758,952**
Consideration transferred settled in cash	59,835,550
Cash and cash equivalent acquired	2,137,901
Net cash outflows on acquisition	**57,697,649**

The application of IFRS requires management to determine the fair value of the net assets acquired and liabilities assumed (with certain exceptions). As the acquisition closed on December 31, 2020, management has not completed its assessment of the fair value of assets acquired and liabilities assumed. The values included in the table above are based on the book value of the assets acquired and liabilities assumed. As management completes its assessment of the fair value of net assets acquired and liabilities assumed, there could be material adjustments to the assets and liabilities outlined above.

The fair values outlined above are provisional and subject to revision as a result of information discovered after the acquisition date that relates to events and conditions at the acquisition date. The period when such revisions may be made is not more than 12 months from the date of the acquisition. Any such revisions made could be material. In particular, the valuation of intangible assets, property, plant and equipment, inventory and debt are provisional and subject to the finalization of independent valuations.

Included in the net assets acquired is a HyGear's sponsored defined benefit plan, which includes certain HyGear employees in the Netherlands. The plan's obligation is HyGear's, but has been reinsured by an external third party for the full amount of the obligation. The value of the obligation is in the range of $900,000 but is offset by an asset of the same amount representing the amount recoverable from reinsurance. Therefore, the net of the asset and obligation is nil. HyGear also offered a defined contribution retirement benefit plans to its employees.

The goodwill is attributable to the fact that the acquisition is expected to allow Xebec to enter new markets, launch new product offerings and execute and accelerate its distributed renewable gas strategy.

Goodwill is not expected to be deductible for tax purposes.

Acquisition-related costs amounting to $2,376,766 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.

As the acquisition of HyGear closed on December 31, 2020, the acquisition did not have an impact on revenues and net income for the year ended December 31, 2020. Had the acquisition taken place on January 1, 2020, the pro forma revenues and net income (loss) of the Company would have been $61,384,457 and ($36,995,485), respectively.

(expressed in Canadian dollars)

6) Trade and other receivables

	2020 $	2019 $
Trade receivables	18,555,130	13,274,136
Contract assets (Note 13)	7,766,763	6,788,722
Other receivables	724,639	479,252
Taxes receivable	2,695,767	1,323,230
Supplier deposits	6,791,899	2,790,454
Less: Allowance for expected credit loss	(1,410,930)	(534,071)
Trade and other receivables - net	35,123,268	24,121,723

Trade and other receivables are pledged as security for credit facilities (see Notes 14 and 15).

Note 31 includes disclosures relating to the credit risk exposure and analysis relating to the allowance for expected credit losses.

7) Inventories

	2020 $	2019 $
Raw materials	11,955,276	4,499,161
Work in progress	8,228,884	1,745,239
Sub-assembly parts	961,314	-
Inventories	21,145,474	6,244,400

Cost of goods sold includes inventories of $35,334,274 in 2020 ($18,626,719 in 2019). During the year ended December 31, 2019, a reversal of a previous inventory write-down of $76,256 was recognized in inventory. Inventories are pledged as security for credit facilities (see Notes 14 and 15).

(expressed in Canadian dollars)

8) Property, plant and equipment

	Right-of-use-assets	Machinery and Production Equipment	Office furniture and Equipment	Computers	Moulds	Vehicles	Leasehold Improvement	Assets under construction	Leased Equipment	Total
	$	$	$	$	$	$	$	$	$	$
Cost										
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 reclassification	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
Additions	627,509	233,726	107,196	73,778	-	31,500	53,818	-	-	1,127,527
Additions through business acquisition	5,255,563	7,024,731	898,246	4,850	-	1,067,057	97,698	10,849,173	8,428,686	33,626,004
Disposals	-	(5,952)	-	(2,551)	-	-	-	-	-	(8,503)
Effect of movements in exchange rates	(55,015)	6,241	3,924	6,012	(524)	(15,768)	(2,873)	-	-	(58,003)
Balance at December 31, 2020	8,425,575	7,979,488	1,182,884	453,557	449,630	1,210,167	321,508	10,849,173	8,428,686	39,300,668
Accumulated depreciation										
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
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
Depreciation	761,724	57,004	18,432	62,127	112,825	87,258	33,247	-	-	1,132,617
Effect of movements in exchange rates	(3,820)	5,127	3,486	3,974	(1,532)	(3,662)	(135)	-	-	3,438
Balance at December 31, 2020	1,188,121	570,053	176,848	326,831	282,396	127,188	51,482	-	-	2,722,919
Carrying Amount										
At December 31, 2019	2,167,301	212,820	18,588	110,738	279,051	83,786	154,495	-	-	3,026,779
At December 31, 2020	7,237,454	7,409,435	1,006,036	126,726	167,234	1,082,979	270,026	10,849,173	8,428,686	36,577,749

(expressed in Canadian dollars)

Assets under construction

Assets under construction are related to expenditures for production equipment and lease equipment in the course of construction. Depending on the complexity of the asset, the time required to complete the construction ranges between 12-32 months. The construction of the hydrogen solutions is financed from a pool of general third-party borrowings. The amount of borrowing costs capitalized as of December 31, 2020 was $468,196.

Lease equipment

The Company has entered into operating leases on Gas-as-a-service (GaaS) contracts through its subsidiary Green Vision B.V. consisting of gas generating systems. These leases have terms of between five and ten years.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	December 31, 2020 $	**December 31, 2019 $**
Within one year	414,859	-
Between 1-2 years	346,023	-
Between 2-3 years	186,903	-
Between 3-4 years	186,903	-
Between 4-5 years	186,903	-
More than five years	-	-
Total undiscounted lease payments receivable	**1,321,590**	-

Depreciation of $1,132,616 (2019 – $572,223) is included in the consolidated statement of income (loss) for the year ended December 31, 2020: $344,071 (2019 – $281,102) in cost of goods sold; and $788,546 (2019 – $291,121) in selling and administrative expenses.

Property, plant and equipment are pledged as security for credit facilities (see Notes 14 and 15).

(expressed in Canadian dollars)

9) Intangible assets

	Software	Customer Relationships	Development costs	Engineering standardisation	Trademarks	Total intangible assets
	$	$	$	$	$	$
Cost						
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	3,601,903	-	-	198,585	3,865,513
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	(12,044)	16,595	-	(9,155)	-	(4,604)
Balance at December 31, 2019	447,592	3,618,498	301,059	3,046,275	198,585	7,612,009
Additions	690,399	-	-	361,581	-	1,051,980
Additions through business acquisitions	71,129	6,601,420	4,181,311	-	684,440	11,538,300
Reclassification	-	(16,916)	-	(276,595)	-	(293,511)
Effect of movements in exchange rates	6,501	(336,303)	-	114,113	(32,765)	(248,454)
Balance at December 31, 2020	1,215,621	9,866,699	4,482,370	3,245,374	850,260	19,660,324
Accumulated amortization						
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
Amortization for the year	73,996	605,078	-	1,922,130	51,275	2,652,479
Effect of movements in exchange rates	5,002	(10,451)	-	87,960	(1,511)	81,000
Balance at December 31, 2020	410,625	649,587	301,059	3,245,374	49,764	4,656,409
Carrying amount						
At December 31, 2019	115,965	3,563,538	-	1,810,991	198,585	5,689,079
At December 31, 2020	804,996	9,217,112	4,181,311	-	800,496	15,003,915

The Company’s research development concentrates on the development of a gasses generator to improve and develop designs and processes for hydrogen solutions. The time required for a developed process and/or design to be completed and available for its intended use ranges between 24-36 months. The amount of borrowing costs capitalized as at December 31, 2020 was $490,947.

Amortization of $2,652,479 (2019 – $1,265,173) is included in the consolidated statement of income (loss) for the year ended December 31, 2020: $1,088,099 (2019 – $1,175,562) in cost of goods sold; and $729,799 (2019 – $89,611) in selling and administrative expenses and $834,581 in R&D expenses (NIL in 2019).

(expressed in Canadian dollars)

10) Goodwill

The movements in the net carrying amount of goodwill are as follows:

	2020 $	2019 $
Carrying amount – Beginning of year	3,504,279	-
Acquired through business combinations	159,570,633	3,586,071
Goodwill impairment	-	-
Net exchange difference	(272,749)	(81,792)
Carrying amount – End of the year	162,802,163	3,504,279

During the fourth quarter of 2020, the Company performed a test of impairment of its goodwill. For the purpose of annual impairment testing, goodwill is allocated to the following subsidiaries:

	2020 $	2019 $
CAI	820,641	820,641
CDA	2,659,525	2,683,638
ACS	2,384,673	-
Air Flow	1,524,276	-
Titus	3,654,095	-
HyGear	151,758,953	-
As at December 31,	162,802,163	3,504,279

The recoverable amount, which is the greater of its fair value less costs to sell ("FVLCTS") or value in use ("VIU"), was compared to the carrying amount of the CGU to determine whether or not an impairment loss should be recorded against the goodwill.

FVLCTS was determined using the prior transaction method (market approach). VIU was determined using the discounted future cash flow method (income approach), covering a detailed five-year forecast, using a discount rate from 15.7% to 24% and a growth rate of 3%. The growth rate reflects the minimum long-term growth rate for the acquisitions. The discount rate reflects appropriate adjustments relating to market risk and specific risk factors of the subsidiaries. Management's key assumptions include stable gross profit margins of the forecast based on past experience.

The recoverable amounts were estimated to be higher than the carrying amounts and no impairment was required.

(expressed in Canadian dollars)

11) Finance lease receivables

The Company has entered into a finance lease on a Gas-as-a-service (GaaS) contract through its subsidiary Green Vision B.V. consisting of gas generating systems. The lease term is 15 years, which represents substantially all of the economic life of the system.

Future minimum rentals receivable under this non-cancellable finance lease, including the undiscounted lease payments to be received, are as follows:

	2020 $	2019 $
Less than one year	271,092	-
Between 1-2 years	271,092	-
Between 2-3 years	271,092	-
Between 3-4 years	271,092	-
Between 4-5 years	271,092	-
More than five years	2,402,778	-
	3,758,238	-
Unguaranteed residual value (discounted)	730,454	-
Unearned finance income	(1,302,710)	-
Allowance for expected credit losses of finance lease receivables	(41,224)	-
Total finance lease receivables	**3,144,758**	-
Current portion of finance lease receivables	129,005	-
Non-current portion of finance lease receivables	3,015,753	-

12) Trade, other payables and accrued liabilities

	2020 $	2019 $
Trade payables	20,059,461	9,254,404
Accrued liabilities	7,034,425	3,060,902
Taxes payable	196,896	156,061
Payables to related parties	3,436	2,731
Other payables	276,690	58,862
Other payables and accrued liabilities	27,570,908	12,532,960

(expressed in Canadian dollars)

13) Contract balances

Contract assets:

	2020 $	2019 $
Cost incurred and recorded margins	32,575,749	28,167,087
Addition through business acquisition	2,238,463	-
Less: advances and progress billing	(27,047,449)	(21,378,365)
	7,766,763	6,788,722

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

Contract liabilities:

	2020 $	2019 $
Advances and progress billings	14,144,122	5,684,496
Addition through business acquisition	2,940,586	-
Less: cost incurred and recorded margin	(9,577,373)	(3,301,235)
	7,507,335	2,383,261

Commercial and R&D contracts include government grants of $1,915,406.

14) Credit facility

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. The Company has access to a working capital loan of 5 million RMB with Bank of Shanghai through Xebec Shanghai, bearing an interest rate of 3.65%. The working capital loan is 85% guaranteed by Shanghai Policy-based Financing Guarantee Fund Management Center for small, medium and micro-enterprises.

The bank loan used as at December 31, 2020 amounted to $974,500 (2019 – $ 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, 2020, the company has a guarantee facility of $12,000,000 with National Bank of Canada sponsored at 100% by Export Development Canada. Standby fees at an annual rate of 0.75% are calculated on the unused portion of this operating credit. As at December 31, 2020, seven guarantee facilities were used for a total of $3,952,860 ($6,647,417 at December 31, 2019).

The Company also has access to a $5 million foreign exchange credit line with National Bank of Canada 100% guaranteed by GIC.

As at December 31, 2020 all ratios and conditions were respected by the Company.

(expressed in Canadian dollars)

15) Long-term debt and government royalty program obligation

a) Long-term debt

		2020 $	2019 $
i.	NPEX Bonds	18,889,352	-
ii.	Subordinated loans	9,171,321	-
iii.	Obligation under a working capital line[1]	-	1,934,440
iv.	Obligation under an unsecured loan facility[2]	3,588,790	-
v.	Lease liabilities	7,789,747	2,395,336
vi.	Innovation loan HYREC	3,004,885	-
vii.	Bank loans	998,420	-
viii.	Contingent consideration (Note 5)	2,333,482	1,467,774
ix.	Business price acquisition balance payable (Note 5)	9,172,696	324,700
x.	Government assistance (Covid-19 government measures)	1,001,216	-
xi.	Other loans	728,186	-
	Long-term debt	56,678,095	6,122,250
	Current portion	(14,052,453)	(962,560)
		42,625,642	5,159,690

i.NPEX Bonds

1) NPEX Bonds 2017-2023

On March 1, 2017, HyGear Technology & Services BV concluded a nominal 2,499,000 € public bond placement via NPEX. The bonds, having a nominal value of 1.00 € each, carry a 7.0% annualised interest rate and a six-year duration. Interest is payable monthly and the bonds are redeemable on February 28, 2023. Early redemption is possible after three years.

2) NPEX Bonds 2018-2024

On July 1, 2018 HyGear Technology & Services BV concluded a nominal 4,999,000 € public bond placement via NPEX. The bonds, having a nominal value of 1.00 € each, carry a 7.5%

[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.

[2] The Obligation under a financing facility loan has been recorded at its fair value less transaction costs directly attributable to its acquisition. Transaction costs are being amortized over the duration of the obligation with a face value of $5,000,000 at maturity. The interest rate is adjusted yearly depending on the debt/EBITDA ratio.

annualised interest rate and a six-year duration. Interest is payable monthly and the bonds are redeemable on June 16, 2024. Early redemption is possible after three years.

3) NPEX Bonds warrants 2019-2025

On June 24, 2019 HyGear Technology & Services BV concluded a nominal 4,999,000 € public bond placement via NPEX. The bonds, having a nominal value of 1.00 € each, carry an 8% annualised interest rate and a six-year duration. Interest is payable monthly and the bonds are redeemable on June 24, 2025. Early redemption is possible after three years.

The bonds are subordinated to the loans from the Cooperative Rabobank U.A., a loan from the Ministry of Economic Affairs, a loan from De Lage Landen Financial Services B.V., a loan from CBS bank and future loans.

The bonds are included at amortised cost, being the amount received taking account of any premium or discount, less transactions costs. Any difference between the proceeds (net of transactions costs) and the redemption value is recognised as interest in the income statement over the period of the bonds using the effective interest method.

All Green Vision Holding B.V. group companies are jointly and severally liable for interest payments and redemptions.

ii. Subordinated loans

On May 19, 2017, subordinated bridge loans were issued by DRL Resource Management B.V. and Oost NL (East Netherlands Development Agency) for an amount of 285,765 € and 250,000 €. These loans bear 7% interest on an annual basis. Interest is payable quarterly and the loans are repayable per June 2023. The loans are subordinated to the NPEX bonds 2019-2023.

On June 19, 2017, subordinated dividend loans were issued by DRL Resource Management B.V. and Oost NL for an amount of 159,940 € and 182,837 €. These loans bear 7.0% interest on an annual basis. Interest is payable quarterly and the loans are repayable six months after redemption of the 2017-2023 NPEX Bonds. The loan is subordinated to the NPEX bonds 2017-2023.

On July 1, 2018, subordinated dividend loans were issued by DRL Resource Management B.V. and Oost NL for an amount of 214,340 € and 187,332 €. The DRL loan bear 7.5% interest on an annual basis and the Oost NL loans bears 7.8% interest on an annual basis. Interest is payable quarterly and the loans are repayable in July 2024. The loan is subordinated on the NPEX 2018-2024.

Loan FHBG HPP

On August 2, 2018, a subordinated loan was issued by Fonds Herstructerering Bedrijventerreinen Gelderland (FHBG), part of Oost NL, for a total of 800,000 €. This loan is specifically provided to HyGear Hydrogen Plant B.V. The loan was issued in three tranches. The first tranche, amounting to 300,000 € was received in 2018. The second and third tranches, totaling 500,000 €, were received in 2019. This loan bears 6.32% interest on an annual basis, fixed for a period of five years. Interest is paid quarterly. The loan is repayable in 32 quarterly instalments, with the first instalment due in December 2019 and the last instalment due in September 2027.

Subordinated loan Oost NL

On October 5, 2019, a subordinated loan was issued by Oost NL for a maximum amount of 5,000,000 €. A first instalment of 2,000,000 € was received on the issue date. The loan bears 8.0% interest on an annual basis and interest is payable quarterly. A 2.0% fee is payable over the non-utilised loan amount. Early redemption is possible after three years. The loan is repayable in October 2025.

iii. Obligation under a working capital line

The Company had a $2 million, three-year term, working capital line bearing interest at the rate of 11.0% per annum, payable monthly. The aggregate amount of the principal loan was fully reimbursed in December 2020.

iv. Obligation under an unsecured loan facility

On May 5, 2020, the Company entered into a loan agreement with the Fonds de solidarité FTQ (Fonds) for an unsecured loan facility of $10 million. The loan facility has a term of five years and will be used for working capital, investments, acquisitions and general corporate purposes. It will allow the Company to continue its rapidly scale-up through organic and inorganic growth and allow investments in renewable gas infrastructure projects.

The loan is disbursable in tranches of a minimum amount of $2 million upon request of the Company and all tranches must be drawn no later than May 2022. A first tranche of $5 million was disbursed on May 5, 2020 on the closing date of the agreement. Each tranche of loan bears an interest rate of 9.0% per annum payable on a quarterly basis. The interest rate is adjusted yearly depending on the debt / EBITDA ratio. The aggregate amount of the principal loan shall be repaid in full in a single payment on the fifth anniversary of the closing date. As part of the agreement, the Fonds de solidarité FTQ has been granted 3,000,000 warrants exercisable for a period of two years from the date of closing. Each warrant will allow the Fonds to purchase one common share at an exercise price of $4.58. The fair value of the warrants was $2,953,520, which was estimated using the Black Scholes Option Pricing Model with the following assumptions:

(expressed in Canadian dollars)

Risk-free interest rate	1.11%
Annualized volatility	70.33%
Share price	$3.35
Expected life of warrants	2 years

The expected volatility used was based on the historic volatility of the Company's share price.

As the Company estimates that it is improbable that the second tranche of $5 million will be drawn before May 2022, 50% of the value attributable to the warrants was accounted for as deferred financing costs that will be amortized over 24 months using the straight-line method. The effective interest method is used to measure the loan after the initial recognition.

v. Lease liabilities

The Company leases office space, office equipment and vehicles (Note 8). The Company measures the lease liabilities at the present value of the lease payments. The present value is increased to reflect the interest on the lease liabilities and reduced to reflect the lease payments made.

	2020 **$**	**2019** **$**
Balance – Beginning of year	2,395,336	-
Present value at first application	-	2,278,065
Additions	833,127	113,384
Additions through business acquisitions	5,258,790	370,436
Accretion interest	308,036	225,060
Lease payments	(953,969)	(563,864)
Effect of exchange rate change on obligation	(51,573)	(27,745)
Balance – End of year	**7,789,747**	**2,395,336**
Current Portion	(1,591,417)	(459,410)
	6,198,330	1,935,926

(expressed in Canadian dollars)

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

As at December 31, 2020	**Payment Due by Period**			
	1 year	2 - 5 years	Beyond 5 years	Total
	$	**$**	**$**	**$**
Lease payments	1,968,439	5,077,438	1,256,347	8,302,223

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 2020 were $153,258 ($190,693 in 2019).

vi. Innovation loan HYREC

This loan was issued by RVO (Netherlands Enterprise Agency) on December 16, 2016 for a maximum of amount of 1,777,410 €. The funds can be used for the development of HY.REC (tailored systems for the recycling of industrial gases) and bears 7.0% interest rate on an annual basis. The repayment is due in the period 2020-2023. RVO issued the loan against security of all assets produced under this development project.

vii. Bank loans

The bank loan includes three loans:

Loan 1 was issued by the Rabobank (Netherland) on November 16, 2017 for an amount of 238,096 €. The loan carries a fixed 4.5% interest rate and is redeemable via monthly instalments of 4,579 €, starting in May 2018 and ending in February 2023. Early redemption is possible.

Loan 2 was issued by the Rabobank on November 16, 2017 for an amount of 666,666 €. The loan carries a fixed 2.4% interest rate and is redeemable via monthly instalments of 9,259 €, starting on May 2018 and ending in November 2024. Early redemption is possible.

Loan 3 was issued by the Rabobank on November 16, 2017 for an amount of 95,238 €. The loan carries a fixed 4.65% interest rate and is redeemable via 100% instalment of 95,238 €, in November 2024. Early redemption is possible.

Theses loans are secured by the HyGear group by as per general terms and conditions of the Rabobank Netherlands.

(expressed in Canadian dollars)

viii.Contingent consideration

The following table summarizes the activity related to the contingent consideration:

	December 31, 2020 $	December 31, 2019 $
Balance – Beginning of the year	1,467,774	-
Accretion finance expenses	38,121	59,128
Additions through business combination	1,138,000	1,408,646
Repayment	(220,000)	-
Net exchange difference	(90,413)	-
Balance – End of the year	**2,333,482**	**1,467,774**
Current portion	(200,642)	(178,449)
	2,132,840	1,289,325

ix.Balance of business acquisition payable

The following table summarizes the activity related to the balance of business acquisition payable:

	December 31, 2020 $	December 31, 2019 $
Balance – Beginning the year	324,700	-
Additions through business combination	9,235,106	330,975
Repayment	(101,644)	-
Working capital adjustment	(220,971)	-
Accretion	21,825	-
Net exchange difference	(86,320)	(6,275)
Balance – End of the year	**9,172,696**	**324,700**
Current portion	(8,089,517)	(324,700)
	1,083,179	-

x.Government assistance

a) On May 3, 2020, CDA received an amount of $479,443 (347,750 USD) for the Paycheck Protection Program (SBA loan) through Wells Fargo Paycheck protection loan, a Covid-19 related measure to help businesses keep their workforce employed during the Coronavirus crisis. The principal bears an interest rate of 1.0% per annum and monthly repayments of

$14,641 USD shall be payable commencing on November 1, 2020. The loan is measured at the present value of future principal payments discounted at a rate of 11%, representing a carrying amount of $421,528 as at December 31, 2020. The Company believes that loan forgiveness will be applicable as it can provide sufficient documentation to demonstrate that all of the loan proceeds were used to support payroll costs and rent payments. As at December 31, 2020, CDA did not pay any capital reimbursements as the Company met all the criteria for loan forgiveness.

b) An account receivable of $579,688 (455,300 USD) is payable to Xebec Holding USA by the Sellers of Air Flow upon loan forgiveness for the Paycheck Protection Program as agreed by both parties. As at December 31, 2020, the loan forgiveness application was sent to the government authorities and Air Flow was still waiting for its approval.

xi. Other loans

As at December 31, 2020, other loans balance amounted to $728,186 and includes various loans for vehicle acquisitions.

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. In February 2017, new amendment to this agreement was reached extending the payment terms to January 1, 2023.

(expressed in Canadian dollars)

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

	2020 $	2019 $
Balance – Beginning of year	466,071	536,773
Accretion finance expenses	20,227	24,298
Repayment	(118,000)	(95,000)
Balance – End of year	**368,298**	**466,071**
Current portion	(185,341)	(124,880)
	182,957	341,191

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

16) Provisions

a) Warranty provisions

	2020 $	2019 $
Balance – Beginning of year	174,187	55,599
Provision for the year	419,177	118,588
Balance – End of year,	593,364	174,187
Current portion of provision	(244,382)	(46,207)
Non-current provision	348,982	127,980

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

b) As at December 31, 2020, the provisions include an amount of $1,296,802 for anticipated losses on long-term production type contracts.

17) 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). The annual fees will be considered a deduction to the repurchase price at the time of repurchase. As the negotiations are still ongoing with the Minority Shareholders, the Company did not fulfill its repurchase obligation according to the original agreement by paying the full repurchase price in one lump sum.

In 2019 and 2020 no payments of the annual fee were processed. A conditional amount of $1,731,367 was paid in December 2020 based of the achievement of some performance targets as agreed by both parties.

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".

(expressed in Canadian dollars)

	2020 $	2019 $
Balance – Beginning of year	4,180,476	4,169,353
Accretion interest	306,187	267,639
Effect of exchange rate change on obligation	216,648	(256,516)
Conditional reimbursement	(1,731,367)	-
Balance – End of year	**2,971,944**	**4,180,476**
Current Portion	(2,971,944)	(373,000)
	-	3,807,476

(expressed in Canadian dollars)

18) Reconciliation of liabilities arising from financing activities

	Long-term debt	Government royalty obligation program	Obligation arising from non-controlling interest participation in a subsidiary	Leases liabilities	Total
Balance as at December 31, 2019	**3,726,914**	**466,071**	**4,180,476**	**2,395,336**	**10,768,797**
Cash flows:					
Financing fees	(19,776)	-	-	-	(19,776)
Balance of acquisition paid	(101,644)	-	-	-	(101,644)
Payments	(6,603,750)	(118,000)	(1,731,367)	(953,969)	(9,407,086)
Proceeds	10,061,433	-	-	-	10,061,433
Non-cash:					
Accretion	262,102	20,227	306,187	308,037	896,553
Sale price adjustment	(220,971)	-	-	-	(220,971)
Equity component	(2,953,520)	-	-	627,509	(2,326,011)
Additions through business combination	43,748,378	-	-	5,464,409	49,212,787
Deferred financing fees	1,476,760	-	-	-	1,476,760
Net exchange variation	(487,579)	-	216,648	(51,574)	(322,505)
Balance as at December 31, 2020	**48,888,347**	**368,298**	**2,971,944**	**7,789,748**	**60,018,337**

	Long-term debt	Government royalty obligation program	Obligation arising from non-controlling interest participation in a subsidiary	Leases liabilities	Total
Balance as at December 31, 2018	**3,680,562**	**536,773**	**4,169,353**	**-**	**8,386,688**
Cash flows:					
Payments	-	(95,000)	-	(563,864)	(658,864)
Proceeds	-	-	-	-	-
Non-cash:					
First application of IFRS 16	-	-	-	2,761,885	2,761,885
Accretion	248,197	24,298	267,639	225,060	765,194
Additions through business combination	1,733,347	-	-	-	1,733,347
Conversion of convertible debentures	(1,928,284)				(1,928,284)
Reclassification	(6,908)	-	-	-	(6,908)
Net exchange variation	-	-	(256,516)	(27,745)	(284,261)
Balance as at December 31, 2019	**3,726,914**	**466,071**	**4,180,476**	**2,395,336**	**10,768,797**

19) 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 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 comprised of one common share of the Company and one common share purchase warrant (a "Warrant"). Each Warrant entitles 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.

In connection with the Offering, the Company paid 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 entitles 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, with 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.

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 $225,418 which was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

(expressed in Canadian dollars)

Risk-free interest rate	1.57%
Annualized volatility [3]	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 Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.57%
Annualized volatility [3]	60.35%
Share price	$1.85
Expected life of compensation warrants	1 year

c) On December 27, 2019, Xebec Adsorption Inc. closed a bought deal public offering. 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 Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.62%
Annualized volatility [3]	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.

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

(expressed in Canadian dollars)

d) On June 26, 2020, Xebec Adsorption Inc. closed a bought deal public offering from which a total of 7,986,750 common shares of Xebec were sold at a price of $3.60 per common share for aggregate gross proceeds of $28,752,300 for a total of 7,986,750 common shares and 479,205 compensation options (more fully described below). The issuance costs, excluding the non-transferable options to the agents, were $2,315,304. The fair value of the 479,205 compensation options was $630,997, which was estimated using the Black Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	0.28%
Annualized volatility [3]	74.88%
Share price	$3.60
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 entitles the Underwriters to purchase a common share at an exercise price of $3.60 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.

e) On December 30, 2020, Xebec Adsorption Inc. closed an upsized bought deal public offering of subscription receipts for gross proceeds of $143,751,840, which includes the full exercise of the over-allotment option by the Underwriters. The Public Offering was completed through a syndicate of underwriters, which purchased, on a bought deal basis, an aggregate of 24,784,800 Subscription Receipts at a price of $5.80 per Subscription Receipt.

Each Subscription Receipt entitled the holder thereof to receive, upon closing of HyGear acquisition, without payment of additional consideration or further action, and subject to the terms and conditions of the Subscription Receipt Agreement, (i) one common share of Xebec and (ii) without duplication, an amount, if any, equal to the amount per Common Share of any dividends for which record dates have occurred during the period from the date of the Offering Closing up to, but not including the Acquisition Closing Date, less any applicable withholding taxes.

The Company also closed an upsized concurrent private placement of subscription receipts with Caisse de dépôt et placement du Québec (“CDPQ”) during which, 10,905,174 subscription receipts were issued for gross proceeds of $63,250,009 which includes the full exercise of the private placement option by CDPQ.

The total issuance costs amounted to $12,194,069.

Following the December 30, 2020 public offering and private placement of subscription receipts, 35, 689,974 common shares of the Company's were to be issued as at December 31, upon the closing of HyGear acquisition. The shares were issued on January 4, 2021.

f) On December 31, 2020 the Company has acquired 100% of Green Vision Holding B.V., the parent company of HyGear Technology and Services B.V. for aggregate consideration of $156,520,186 consisting of a cash payment of $66,390,912 and 10,014,364 shares issued at a fair value of $9.00 per share, the closing price of Xebec's shares on December 31, 2020.

(expressed in Canadian dollars)

As at December 31, 2020, compensation options, compensation warrants and warrants are as follows:

Description	Expiry date	Exercise Price	Beginning balance	Issued	Cancelled	Exercised	Balance end of year
Warrants	May-20	$1.05	2,543,931	-	-	(2,543,931)	-
Compensation Options	May-20	$0.75	4,800	-	-	(4,800)	-
Warrants	Jul-20	$1.85	8,272,857	-	(14,356)	(8,258,501)	-
Compensation Options	Jul-20	$1.40	347,760	-	-	(347,760)	-
Compensation warrants	Jul-20	$1.85	149,040	347,760	-	(496,800)	-
Compensation Options	Dec-20	$2.10	657,156	-	-	(657,156)	-
Compensation Options	June-21	$3.60	-	479,207	-	(60,940)	418,267
Warrants	May-22	$4.58	-	3,000,000	-	-	3,000,000
		$4.46	11,975,544	3,826,965	(14,356)	(12,369,888)	3,418,267

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

(expressed in Canadian dollars)

g) 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 2020 and 2019.

	2020 **$**	**2019** **$**
Net income (loss) attributable to shareholders of the Company	(31,957,849)	2,020,063
Weighted average number of shares used in basic income per share	96,492,983	64,319,442
Basic income (loss) per share	(0.33)	0.03

ii) Diluted

	2020 **$**	**2019** **$**
Net income (loss) attributable to shareholders of the Company	(31,957,849)	2,020,063
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	(31,957,849)	2,020,063
Weighted average number of shares used in basic income per share	96,492,983	64,319,442
Increase of number weighted average number of shares assuming dilution	-	4,280,929
Weighted average number of shares after diluted effect	96,492,983	68,600,371
Diluted income (loss) per share	(0.33)	0.03

For the year ended December 31, 2020, warrants, compensation options, compensation warrants, outstanding stock options and outstanding DSUs and RSUs would have been anti-dilutive.

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

20) Long term incentive plan

On June 25, 2020, the Shareholders of Xebec approved the adoption by the Company of the long-term incentive plan (LTIP) replacing the prior Stock Option Plan. The LTIP permits the granting of options ("LTIP Options"), Restricted Stock Units ("RSUs") and Deferred Share Units ("DSUs"), (collectively the "Awards") to eligible participants of the Company and is administered with the oversight of the Compensation Committee.

The total number of common shares reserved and available for grant and issuance pursuant to Awards (including the common shares issuable upon exercise of the outstanding options previously granted under the prior Stock Option Plan) shall not exceed a number of common shares equal to 17,791,757.

No awards shall be granted under the Prior Stock Plan and all existing options granted under the Stock Option Plan will remain outstanding and subject to the terms of the prior Stock Plan.

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

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

The aggregate number of common shares issuable to all participants retained to provide investor relations activities, within any one-year period, under the LTIP, or when combined with all of the Corporation's other security-based compensation arrangements, shall not exceed 2% of the Corporation's total issued and outstanding securities, calculated on the date the Award is granted to the participant, and options granted to such participants retained to provide investor relations activities must vest in stages over a period of not less than one year with no more than ¼ of the options vesting in any three month period.

The exercise price under an option shall be determined by the Compensation Committee and shall not be less than 100% of the fair market value of a common share on the date of grant of such option; provided, however, that the Committee may designate a purchase price below fair market value on the date of grant if the option is granted in substitution for a stock option previously granted by an entity that is acquired by or merged with the Company or an affiliate.

(expressed in Canadian dollars)

The term of each option shall be fixed by the Committee at the date of grant but shall not be longer than 10 years from the date of grant.

a) Stock option activity for the year ended December 31, 2020, is presented below:

		2020		**2019**
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding – Beginning of year	4,081,860	0.35	6,301,758	0.27
Granted	-	-	-	-
Exercised	(1,903,332)	0.19	(2,219,898)	0.14
Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding – End of year	2,178,528	0.48	4,081,860	0.35
Exercisable – End of year	1,700,194	0.45	3,054,859	0.26

The average share price for the exercised options was $4.27 ($1.79 in 2019).

(expressed in Canadian dollars)

As at December 31, 2020, 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 19, 2022	$0.55	400,000	1.97	400,000
January 7, 2023	$0.05	200,000	2.02	200,000
March 5, 2024	$0.18	373,193	3.18	373,193
August 29, 2024	$0.49	350,000	3.66	150,000
December 19, 2024	$0.55	86,334	3.96	86,334
May 14, 2025	$0.60	34,001	4.37	667
November 19, 2025	$0.70	735,000	4.88	490,000
	$0.48	**2,178,528**	**3.55**	**1,700,194**

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**

During the year ended December 31, 2020, the Company expensed $180,320 (2019 - $407,846) which relates to stock options granted in 2014, 2017 and 2018.

(expressed in Canadian dollars)

b) **DSU activity for the period ended December 31, is presented below:**

	2020	2019
	Number of DSU	**Number of DSU**
Outstanding – Beginning of year	-	-
Granted	66,231	-
Exercised	-	-
Outstanding – End of year	66,231	-

As at December 31, 2020, 66,231 DSUs were granted under the Corporation's Stock Incentive Compensation Plan to directors of the board and a consultant of the Company for a fair value of $260,952. The DSUs are payable in common shares of Xebec upon the holder ceasing to be a director or consultant of the Company, as the case may be. One quarter of the DSUs vested in September 2020, upon grant, one quarter vested on December 14, 2020 and the rest will vest in stages until June 2021.

During the year ended December 31, 2020, the Company expensed $202,963 (2019 - $NIL) for share-based compensation related to the DSUs.

c) RSU activity for the period ended December 31, is presented below:

	2020	2019
	Number of RSU	**Number of RSU**
Outstanding – Beginning of year	-	-
Granted	265,300	-
Exercised	-	-
Outstanding – End of year	265,300	-

(expressed in Canadian dollars)

As at December 31, 2020, 265,300 RSUs were granted under the Corporation's Stock Incentive Compensation Plan to employees of the Company for a fair value of $2,103,449 of which 179,300 RSUs were granted under the Company's achievement of specific targets determined by the Board of Directors. RSUs are payable in common shares of Xebec upon the holder ceasing to be an employee or a consultant of the Company or upon the third anniversary date after grant date, whichever is earlier. The RSUs will vest in stages until November 2023.

During the year ended December 31, 2020, the Company expensed $668,620 (2019 - $NIL) for share-based compensation related to the RSUs.

21) Segmented information

The Company operates three business segments and specializes in Systems (Cleantech), Support (Industrial Air and Gas Products, Parts, Service and Operational Support), and Infrastructure (Renewable Gas Generation).

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

	2020 $	2019 $
Revenue		
United States	26,646,629	8,367,207
Canada	14,571,918	12,864,288
China	13,510,291	9,517,759
Other	2,279,221	5,757,643
Korea	912,849	923,103
Italy	599,999	7,512,614
France	(2,001,298)	4,375,266
	56,519,609	49,317,880

No single customer contributed more than 10% to the Company's revenue in 2020 (one in 2019 for sales of $5,461,652).

(expressed in Canadian dollars)

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

For the year ended December 31, 2020

	Systems	Support	Infrastructure	Corporate	Total
	$	$	$	$	$
Revenues	28,099,313	28,420,296	-	-	56,519,609
COGS	35,446,485	20,807,420	-	-	56,253,905
Gross margin	(7,347,172)	7,612,876	-	-	265,704
Gross Margin %	(26%)	27%	-	-	0.5%
Research and Development expenses	1,222,754	-	-	-	1,222,754
Selling and administrative expenses	1,598,414	5,213,586	199,258	20,929,384	27,940,642
Foreign exchange loss	-	-	-	103,738	103,738
Gain on disposal of assets				(500)	(500)
Gain on conversion of shares issued by a subsidiary	-	-	-	216,648	216,648
Financial income	-	-	-	(342,903)	(342,903)
Financial expense	-	-	-	3,092,179	3,092,179
Total expenses	2,821,168	5,213,586	199,258	23,998,546	32,232,558
Segment income (loss)	(10,168,340)	2,399,290	(199,258)	(23,998,546)	(31,966,854)

(expressed in Canadian dollars)

For the year ended December 31, 2019

	Systems	Support	Infrastructure	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

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

	2020	2019
	$	$
Non-current assets		
Canada	166,889,474	4,509,680
Europe	33,608,330	919,309
United States	17,826,535	6,507,805
Asia	229,254	283,343
	218,553,593	12,220,137

(expressed in Canadian dollars)

22) Expenses by nature

	2020 $	2019 $
Materials	36,937,498	18,839,298
Employee salaries and benefits	19,035,947	10,656,733
Subcontract costs	6,450,299	7,818,321
Merger and acquisition fees	6,159,419	369,084
Professional fees	3,771,184	1,582,368
Contingency provision	1,143,749	-
Amortization and depreciation	2,950,515	1,837,396
Office expense	1,397,078	709,951
Rent and repairs and maintenance	1,301,802	747,777
Warranty	1,083,796	280,299
Stock-based compensation	1,051,903	407,846
Travel expenses	930,581	1,227,923
Bad Debt	861,216	185,664
Advertising	621,816	223,755
Other	497,744	240,912
	84,194,547	45,127,327

23) Research and development expenses

	2020 $	2019 $
Amortization and depreciation	834,581	-
Employee salaries and benefits	496,343	34,408
Subcontract costs	30,000	30,000
Professional fees	6,000	6,000
Travel expenses	688	1,095
Research and development tax credits	(144,858)	-
	1,222,754	71,503

(expressed in Canadian dollars)

24) Finance expenses

	2020 $	2019 $
Accretion of the obligation arising from shares issued by a subsidiary (Note 17)	306,186	267,639
Financing fees	492,253	-
Interest on convertible debentures	-	261,252
Interest and bank charges	460,303	185,627
Guarantee letter fees	242,890	351,667
Interest on long term debt	1,267,590	538,722
Interest on short term debt	302,729	17,936
Accretion and revaluation of government royalty program obligation (Note 15b)	20,228	24,298
	3,092,179	1,647,141

25) 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:

	2020 $	2019 $
Decrease (increase) in assets:		
Trade and other receivables	3,232,846	(14,233,331)
Inventories	(9,302,303)	(2,036,914)
Other current assets	(332,696)	(274,579)
Other non-current assets	(53,247)	-
Income taxes recoverable	-	334,960
Increase (decrease) in liabilities:		
Trade payables, other payables and accrued liabilities	4,368,605	8,229,371
Contract liabilities	252,203	(2,055,348)
Income tax payable	(500,099)	-
Provisions	1,715,981	118,587
	(618,710)	(9,917,254)

(expressed in Canadian dollars)

26) Compensation of key management

	2020 $	2019 $
Salaries and short-term employee benefits	1,463,484	838,247
Stock-based compensation	153,352	295,596
	1,616,836	1,133,843

Key management includes the Company's senior management.

27) Income taxes

The income tax expense attributable to earnings differs from the amounts computed by applying the combined federal and provincial tax rate of 26.5% (26.6% on December 31, 2019) to earnings before income taxes as a result of the following:

	2020 $	2019 $
Income (loss) before income taxes	(31,966,854)	2,376,979
Expected income tax (recovery)	(8,471,216)	631,877
Increase (decrease) in income taxes resulting from:		
Temporary difference unrecognized (recognized)	6,962,044	(305,467)
Difference in foreign tax rate	184,299	(49,259)
Stock base compensation	278,754	108,487
Change of deferred tax rates	0	(88,126)
Foreign exchange on consolidation	0	(4,785)
Non-deductible acquisition costs	985,504	-
Tax assets recognized	-	(110,132)
True up and other	51,609	174,321
	(9,006)	356,916

Composition of current income taxes in the income statement

	2020 $	2019 $
Inception and reversal of temporary differences	421,418	371,433
	421,418	371,433

(expressed in Canadian dollars)

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

	2020 $	2019 $
Inception and reversal of temporary differences	(7,392,468)	379,076
Temporary difference not recorded	6,962,044	(305,467)
Change in deferred tax rate	-	(88,126)
	(430,424)	(14,517)

Movement of deferred income tax in 2020

	January 1, 2020 $	P&L $	Business acquisition $	Capital $	Equity Component $	December 31, 2020 $
Others	(34,162)	223,256	(628,451)	-	11,791	(427,566)
Property, plant and equipment	-	51,858	(39,025)	-	(347)	12,595
Intangible assets	(203,237)	164,242	(2,207,120)	-	60,278	(2,185,836)
Debentures	-	-	-	-	-	-
Government royalty program	(10,459)	(8,783)	-	-	-	(19,242)
Non-capital losses	44,621	(149)	-	-	-	44,472
	(203,237)	430,424	(2,874,596)	-	71,722	(2,575,577)

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)

As at December 31, 2020, deductible timing differences for which the company has not recognized deferred tax assets are as follows:

(expressed in Canadian dollars)

	Federal $	Quebec $	China $	USA $	Italy $	Netherlands $
Property and equipment	1,452,886	1,440,326	-	-	-	-
Scientific research and development expenses	25,432,941	25,479,654	-	-	-	-
Capital losses carried forward	219,247	219,247	-	-	-	-
Operating losses carried forward	80,590,627	82,484,711	259,879	1,674,627	4,109,456	5,880,013
Other	13,777,244	13,777,245	1,220,844	-	-	-
	121,472,945	123,401,183	1,480,723	1,674,627	4,109,456	5,880,013

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. Deferred tax assets not recognized equal an amount of $35,586,636 ($23,463,763 in 2019).

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	1,220,120	-	-
	86,215,387	88,126,410	1,297,396	282,985	-

(expressed in Canadian dollars)

As at December 31, 2020, the Company has non-capital tax losses, which are available to reduce income taxes in future years and expire as follows:

	Federal $	Quebec $	Chine $	USA $	Italie $	Netherlands $
Indefinite					4,109,456	
2040	23,934,836	23,921,357		1,548,963		
2039	129,009	67,920		96,351		
2038	1,047,960	1,127,553				
2037	1,486,941	1,480,325		29,313		
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				490,165
2026	7,229,354	7,229,354				4,135,453
2025	6,853,867	6,164,244				252,873
2024						1,001,522
2023			259,879			
2022						
	80,590,627	**82,484,711**	**259,879**	**1,674,627**	**4,109,456**	**5,880,013**

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

(expressed in Canadian dollars)

	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 $25,432,941 ($24,786,377 in 2019) which are available to be carried forward indefinitely and deducted against future tax income otherwise calculated. The potential benefit has not been recorded in the accounts.

(expressed in Canadian dollars)

28) Commitments

- Research Agreement with McGill University

In August 2018, Xebec Adsorption Inc. (“Xebec”), 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:

xii. $30,000 upon signing
xiii. $30,000 upon the first anniversary of the Effective Date
xiv. $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, 2020	**Payment Due by Period**			
	1 year	2 - 5 years	Beyond 5 years	Total
	$	$	$	$
	391,453	227,857	-	619,310

Leases include various equipment leases. The leases expenses for year ended December 31, 2020 amounted to $294,592 ($282,646 in 2019).

(expressed in Canadian dollars)

29) Related party transactions

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

	2020 $	2019 $
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	79,735	118,769
Rent paid to companies controlled by members of the immediate family of an officer	24,000	-
Salaries and short-term benefits paid to members of immediate family of an officer	164,975	140,570
Material purchased to companies controlled by members of the immediate family of an officer	33,823	43,042
	302,533	302,381

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

30) 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 management monitors the solvency ratios at the end of the year as the NPEX Bonds include a solvency ratio of at least 35%.

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

	2020 $	2019 $
Cash	160,937,938	22,358,457
Restricted cash	7,641,960	324,700
Long-term debt (Note 15a)	56,678,095	6,122,250
Government royalty program obligation (Note 15b)	368,298	466,071
Obligation arising from shares issued by a subsidiary (Note 17)	2,971,944	4,180,476
	228,598,235	33,451,954
Equity	344,032,801	38,957,366
	572,631,036	71,538,194

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

(expressed in Canadian dollars)

31) 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, 2020	**Amortized Cost**		**Amortized Cost**	
	Carrying amount $	**Fair value $**	**Carrying amount $**	**Fair value $**
Cash	160,937,938	160,937,938		
Restricted cash	7,641,960	7,641,960		
Trade and other receivables	17,917,859	17,917,859		
Other current assets	16,250	16,250		
Finance lease receivables	3,144,758	3,144,758		
Bank loan			974,500	974,500
Trade, other payables and accrued liabilities			24,575,998	24,575,998
Long-term debt			48,888,347	48,329,093
Government royalty program obligation			368,298	368,298
Obligation arising from shares issued by a subsidiary			2,971,944	2,971,944

(expressed in Canadian dollars)

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			3,726,914	3,726,194
Government royalty program obligation			466,071	466,071
Obligation arising from shares issued by a subsidiary			4,180,476	4,180,476

The carrying values of cash, restricted cash, trade and other receivables, trade and other payables, accrued liabilities and bank loan 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, finance lease receivables 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.

In addition, the Company is exposed to credit risk in relation to finance lease receivables and applies the simplified approach in IFRS 9 to measure the loss allowance at lifetime expected credit losses.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or 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.

For trade receivables, contract assets and finance lease receivables, Green Vision Holding B.V. applies the simplified approach in IFRS 9 to measure the loss allowance at lifetime expected credit losses. Green Vision Holding B.V. determines the expected credit losses on trade receivables and contract assets by using a provision matrix, estimated based on historical credit loss experience and the profile of payments within the trade receivables (based on invoice date), adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

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.

(expressed in Canadian dollars)

Bad debt expense amounted to $861,216 in 2020 ($185,664 in 2019). As at December 31, 2020, the Company's three largest trade debtors accounted for 32% (17%, 9% and 6%) of the total trade receivables balance (2019 – 32% (20%, 8% and 4%)).

Details of trade and other receivables were as follows:

	2020 $	2019 $
Current trade receivables	5,702,383	5,724,899
Trade receivables past due by:		
1–30 days	2,932,374	1,181,293
31–60 days	3,241,505	1,124,112
61–90 days	2,674,810	933,623
Over 90 days [4]	4,003,958	4,310,209
Total trade receivables	18,555,030	13,274,136
Allowance for expected credit loss	(1,410,930)	(534,071)
Other receivables	773,759	236,832
Total trade and other receivables	17,917,859	12,976,897

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

	2020 $	2019 $
Balance - Beginning of year	(534,071)	(431,674)
Change in the allowance for expected credit loss	(876,859)	(102,397)
Balance – end of year	(1,410,930)	(534,071)

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

[4] 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 $749,413 for 2020 (2019 – $371,970). As at December 31, 2020, 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.

			2020
	US dollar	**Euro**	**British Pound**
Cash	710,760	12,228	-
Trade and other receivables	4,685,393	40,000	-
Trade and other payables	203,185	26,191	1,104
	5,599,338	78,420	1,104
Equivalent in Canadian dollars	7,129,077	122,398	1,918

			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

ii. Interest rate risk

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

(expressed in Canadian dollars)

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, 2020, the Company's credit facility amounted to NIL except for a bank loan of $974,500 bearing a fixed interest rate of 3.65% available through Xebec Shanghai (2019 – $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, 2020, the impact on the net income would have been negligible.

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:

					2020
	Carrying amount $	**Contractual cash flow $**	**0 to 12 months $**	**13 to 24 months $**	**Thereafter $**
Financial liabilities					
Bank loan	974,500	974,500	974,500	-	
Trade and other payables and accrued liabilities	24,575,998	24,575,998	24,575,998	-	-
Government royalty program obligation	368,299	387,540	175,000	190,000	22,540
Loan Fonds solidarité FTQ	3,588,790	6,987,500	450,000	450,000	6,087,500
Government assistance	1,001,216	1,001,216	1,001,216	-	-
Contingent liability	2,333,482	2,358,712	580,316	999,198	779,198
Other long-term debts	32,792,162	33,605,257	3,537,237	527,547	29,540,474
Business price balance acquisition payable	9,172,696	9,376,408	8,230,528	572,940	572,940
Obligation arising from shares issued by a subsidiary	2,971,944	2,971,944	2,971,944	-	-
	77,779,087	77,239,075	42,496,739	2,739,685	37,002,652

(expressed in Canadian dollars)

					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 capital line	1,934,440	2,348,333	220,000	2,128,333	-
Contingent liability	1,467,774	1,531,126	1,091,126	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

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.

32) Subsequent events

i) On February 22, 2021, Xebec Adsorption Inc. closed the previously announced acquisition of Inmatec Gase Technologie GmbH & Co. KG, Inmatec GmbH and Inmatec Gas Technology FZC RAK (collectively "Inmatec") in the United Arab Emirates for 23 million Euros. The transaction was financed with the proceeds from the public offering that closed December 30, 2020 and the concurrent private placement with Caisse de dépôt et placement du Québec ("CDPQ").

Founded in 1993, Inmatec is an international market leader in the production of nitrogen generators and oxygen generators. Designed, developed and produced in Germany, over 8,000 Inmatec systems have been deployed and sold around the world. Their German manufacturing and engineering capabilities have resulted in a reputation for high quality and extremely reliable products. Inmatec's products and manufacturing are among the best-in-class and this acquisition will give Xebec an accelerated entry into offering these products in North America.

Inmatec positions Xebec to execute and accelerate its distributed renewable and low carbon gas strategy. The acquisition of new oxygen and nitrogen generation technologies, and the access to new markets and service capabilities, will enable Xebec to bring cost-effective gas supply to customers around the world.

The Company is currently evaluating the impacts on its consolidated financial statements.

ii) On February 24, 2021, the Company announced that it has secured credit facilities with National Bank of Canada's Technology and Innovation Banking Group for a total value of up to $59.25 million. The expanded facilities will provide Xebec with greater financial flexibility and cash management to pursue its growth trajectory and its acquisition strategy aimed at developing a North American and European Cleantech Service Network for its renewable natural gas and hydrogen installations. These credit facilities represent the broadest access to debt financing available to the company to date.

iii) On March 16, 2021, the Company became aware that a legal proceeding in the Québec Superior Court (Class Actions Division) in the District of Montréal has been issued initiating a proposed class action against the Corporation, certain of its current directors and officers, and the underwriters of Xebec's December 2020 bought deal public offering of subscription receipts by way of a short form prospectus. The claim alleges that Xebec would have made misrepresentations in its disclosure documents for Q3 2020 as well as the Prospectus with respect to revenue accounting practices and Xebec's internal controls over financial reporting in violation of, among other things, sections 218, 221 and 225.8 of the Quebec Securities Act. The Corporation believes it has conducted itself in accordance with all relevant securities laws and that the complaint against it is without merit.

iv) On March 19, 2021, a legal proceeding in the Ontario Superior Court of Justice was issued initiating a proposed class action against the Company, its current directors and certain of the Company's current and former officers, its auditor and the underwriters of Xebec's December 2020 bought deal public offering of subscription receipts as defendants. The claim alleges that Xebec would have made misrepresentations in certain disclosure documents that were revealed in a press release dated March 12, 2021 entitled "Xebec Provides Updated 2020 Guidance" where the Company provided a revision downwards of 2020 guidance, in violation of, among other things, parts XXIII and XXIII.1 and sections 130 and 138.3(6) of the Ontario Securities Act, the corresponding provisions of the other Securities Legislation, and the common law. The Company believes it has conducted itself in accordance with all relevant securities laws and that the complaint against it is without merit.