Xebec Adsorption Inc.

Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
(Expressed in thousands of 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, 2021 and 2020, and the consolidated statements of loss, the consolidated statements of comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to 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, 2021 and 2020, 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 1 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 1), 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 1 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 2 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 1 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 $163,464,000 as at December 31, 2021 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 16, 2022

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

Xebec Adsorption Inc.

Consolidated Statements
For the years ended December 31, 2021 and 2020
(expressed in Canadian dollars)

Consolidated Statements of Loss

	2021 $	2020 $
Revenue from contracts	122,914	56,520
Government grants	2,987	-
Revenue (Note 3)	125,901	56,520
Cost of goods sold	96,397	56,254
Gross margin	29,504	266
Research and development expenses	1,584	1,223
Selling and administrative expenses	51,813	21,568
Share of after-tax profit of equity accounted investees	(703)	213
Other (gains) and losses (Note 4)	(8,794)	6,480
	43,900	29,484
Operating loss	(14,396)	(29,218)
Other charges (income)		
Net Finance expenses (Note 5)	6,484	2,749
Loss before income taxes	(20,880)	(31,967)
Income taxes (Note 6)	2,570	(9)
Net loss for the year	(23,450)	(31,958)
Net loss per share		
Basic and diluted (Note 7)	(0.15)	(0.33)

Consolidated Statements of Comprehensive Loss	2021 $	2020 $
Net loss for the year	(23,450)	(31,958)
Other comprehensive loss		
Items that will be reclassified subsequently to profit or loss		
Cumulative translation adjustment	(14,921)	333
Comprehensive loss for the year	(38,371)	(31,625)

Xebec Adsorption Inc.

Consolidated Statements
For the years ended December 31, 2021 and 2020
(expressed in Canadian dollars)

Consolidated Statements of Financial Position

	December 31, 2021 $	December 31, 2020 $
Assets		(restated - note 2)
Current assets		
Cash	39,905	160,938
Restricted cash (Note 2)	11,214	7,642
Trade and other receivables (Note 8)	61,570	35,123
Inventories (Note 9)	52,693	20,865
Investment tax credits receivable	-	16
Finance leases receivable (Note 10)	410	129
Prepaid expenses	1,446	1,131
Total current assets	167,238	225,844
Non-current assets		
Finance leases receivable (Note 10)	9,053	3,016
Investment in associates and joint ventures (Note 26)	21,663	116
Deferred financing costs	3,616	985
Property, plant and equipment (Note 11)	42,687	36,973
Intangible assets (Note 12)	88,820	67,602
Goodwill (Note 13)	163,464	117,842
Other non-current assets	46	53
Total non-current assets	329,349	226,587
Total assets	496,587	452,431
Liabilities		
Current liabilities		
Credit facility (Note 14)	5,000	975
Trade, other payables and accrued liabilities (Note 15)	33,359	27,905
Contract liabilities (Note 16)	29,730	7,689
Current portion of long-term debt (Note 17)	13,735	14,052
Current portion of government royalty program obligation (Note 17)	207	185
Current portion of provisions (Note 18)	1,780	1,541
Current portion of obligation arising from shares issued by a subsidiary	-	2,972
Income taxes payable	1,325	109
Total current liabilities	85,136	55,428
Non-current liabilities		
Long-term debt (Note 17)	69,356	42,774
Government royalty program obligation (Note 17)	-	183
Provisions (Note 18)	3,049	348
Deferred tax liabilities (Note 6)	24,236	16,410
Total non-current liabilities	96,641	59,715
Total liabilities	181,777	115,143
Equity		
Share capital (Note 7)	398,566	389,864
Contributed surplus	15,337	8,145
Accumulated other comprehensive loss	(15,835)	(914)
Deficit	(83,258)	(59,807)
Total equity	314,810	337,288
Total liabilities and equity	496,587	452,431

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

Approved by the Board of Directors

(signed) William Beckett Director   *(signed) Peter Bowie* Director

Xebec Adsorption Inc.

Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Number						Amount
	Common shares	**Warrants and Compensation Shares**	**Share capital – Common shares**	**Contributed surplus**	**Accumulated other comprehensive income (loss)**	**Deficit**	**Total**
			$	**$**	**$**	**$**	**$**
Balance – December 31, 2019	84,378,678	11,975,544	63,484	4,570	(1,247)	(27,849)	38,958
Net loss for the year	-	-	-	-	-	(31,958)	(31,958)
Other comprehensive loss	-	-	-	-	333	-	333
Comprehensive loss for the year	-	-	-	-	333	(31,958)	(31,625)
Issuance of warrants from new financing (Note 7)	-	3,000,000	-	2,953	-	-	2,953
Shares issued from the exercise of options (Note 7)	1,903,333	-	682	(319)	-	-	363
Shares issued and to be issued from public offering (Note 7)	43,676,724	-	221,245	-	-	-	221,245
Shares issued following business acquisition (Note 2)	10,014,364	-	83,384	-	-	-	83,384
Warrants and compensation shares issued from public offering (Note 7)	-	826,965	(631)	631	-	-	-
Warrants and compensation shares exercised from public offering (Note 7)	12,369,887	(12,369,887)	21,700	(742)	-	-	20,958
Warrants from public offering – Cancelled	-	(14,355)	-	-	-	-	-
Share-based compensation expense (Note 19)	-	-	-	1,052	-	-	1,052
Balance – December 31, 2020	**152,342,986**	**3,418,267**	**389,864**	**8,145**	**(914)**	**(59,807)**	**337,288**
Net loss for the year	-	-	-	-	-	(23,450)	(23,450)
Other comprehensive loss	-	-	-	-	(14,921)	-	(14,921)
Comprehensive loss for the year	-	-	-	-	(14,921)	(23,450)	(38,371)
Issuance of warrants from financing (Note 7)	-	4,500,000	-	6,986	-	-	6,986
Shares issued from the exercise of options (Note 7)	102,831	-	244	(196)	-	-	48
Shares issued from arising from the prior departure of employees (note 4)	735,294	-	2,000	-	-	-	2,000
Warrants and compensation shares exercised (Note 7)	418,267	(418,267)	2,001	(586)	-	-	1,415
Shares issued following business acquisition (Note 2)	1,118,556	-	4,457	-	-	-	4,457
Share-based compensation expense (Note 7)	-	-	-	988	-	-	988
Balance – December 31, 2021	**154,717,934**	**7,500,000**	**398,566**	**15,337**	**(15,835)**	**(83,258)**	**314,810**

Accumulated other comprehensive 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, 2021 and 2020
(expressed in Canadian dollars)

	2021 $	2020 $
Cash flows from		
Operating activities		
Net loss for the year	(23,450)	(31,958)
Items not affecting cash		
Depreciation and amortization (Note 11 and 12)	12,166	3,785
Inventory write-down	(19)	111
Accretion finance expenses and gain on revaluation of government royalty program obligation (Note 17)	14	20
Accretion of earn-out (Note 17)	1,081	38
Accretion of the obligation arising from shares issued by a subsidiary	120	306
Exchange gain/loss on the obligation arising from shares issued by a subsidiary	(45)	217
Share-based compensation expense (Note 19)	988	1,052
Share of after-tax profit of equity accounted investees	(703)	213
Gain on deconsolidation of a subsidiary	(2,154)	-
Remeasurement of investment	(18,968)	-
Future income taxes	1,634	(430)
Other operating activities	103	503
Change in non-cash working capital balances related to operations (Note 20)	(27,468)	(619)
	(56,701)	(26,762)
Investing activities		
Business acquisitions, net of cash acquired (Note 2)	(71,483)	(70,827)
Acquisition of property, plant and equipment	(9,581)	(492)
Acquisition of intangible assets	(1,947)	(775)
Transfer to restricted cash	(3,804)	(7,537)
Other investing activities	(348)	(116)
	(87,163)	(79,747)
Financing activities		
Increase of credit facility (Note 14)	4,986	974
Accretion of debt liabilities (Note 17)	-	308
Payment of debt liabilities (Note 17)	(14,855)	(997)
Proceeds from issuance of share capital (Notes 7)	3,463	242,566
EDC repayment (Note 17)	-	(6,340)
EDC loan Holding USA (Note 17)	18,971	4,604
FTQ Investment, net of financing costs (Note 17)	9,862	4,918
CEBA loan (Note 17)	67	-
Government assistance (Note 17)	-	519
Repayment of government royalty program obligation (Note 17)	(175)	(118)
Repayment of the obligation arising from shares issued by a subsidiary	-	(1,731)
	22,319	244,703
Net (decrease) increase in cash during the year	(121,545)	138,194
Cash – Beginning of the year	160,938	22,358
Effect of exchange rate changes on cash	512	386
Cash– End of the year	39,905	160,938

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

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 16, 2022.

1 Nature of business and summary of significant accounting policies

Xebec Adsorption Inc. ("Xebec" or the "Company") is a global provider of clean energy solutions and specialized 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, on-site oxygen and nitrogen generators for industrial, energy and healthcare applications and provide services for the compressed air and gas businesses. The Company is incorporated and domiciled in Canada and is listed on the 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 continued spread of COVID-19 around the globe and the responses of governmental authorities and corporate entities, including through mandated or voluntary shutdowns, have and may continue to lead to a general slow-down in the economy and to disruptions to our workforce 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 the future is very difficult to project.

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 them fund their purchases of our products. Any temporary suspension of production in Xebec facilities, or those of any of its suppliers, partners or customers, as a direct result of COVID-19 may have a material adverse effect on the Company.

Basis of compliance and basis of preparation

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 periods, unless otherwise stated.

Certain figures of the consolidated statements have been reclassified to comply with the basis of presentation adopted in the current year (Note 2).

Segment reporting

The Company operates three business segments:

- 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 and 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;
- Support (Industrial Products and Services) – foundational recurring revenue model; and
- Corporate and other – Includes corporate functions.

Infrastructure is no longer reported due to its activities being rolled into a non-controlling joint venture. The reporting structure reflects the way the Company is managed and how it classifies its operations for planning and measuring performance.

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

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

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.

Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases. All intercompany accounts and transactions have been eliminated.

Changes in the Company's ownership interests in subsidiaries 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.

Investments in associated and joint ventures

Investments in associated and joint ventures are accounted for using the equity method (Note 26).

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Company’s share of the profits or losses and movements in other comprehensive income (OCI) of the investee.

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 value 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. 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 is 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 production equipment	3 to 30 years
Office furniture and equipment	2 to 10 years
Leased equipment	15 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.

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 and 32 months.

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, customer relationships, trademarks 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.

The Company's Research & Development concentrates on the development of gas generator to improve and develop designs and processes. The time required for a developed process and/or design to be completed and available for its intended use ranges between 24 and 36 months.

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, technology and trade names are amortized over a period of eight to twenty 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 CGUs reduce the carrying amount of any goodwill allocated to that CGU. Any remaining impairment loss is charged pro rata to the other assets in the CGU.

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 leases receivables;
- Credit facility;
- Trade, other payables and accrued liabilities;
- Long-term debt; and
- Government royalty program obligation.

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); and
- 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 Net 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 7).

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.

Gas generators and installation revenue comprises the sale of assets which are manufactured based on customer specific needs and requirements. The Company considers these contracts as one performance obligation. The Company manufactures an asset which would have no alternative use in its completed state and the Company is entitled to receive consideration during the manufacturing period. Consideration received is not refundable to customers to the extent that costs have been incurred during the manufacturing process. The Company recognises revenue over the time of the manufacturing process. Revenue is measured using the input method whereby revenue is recognised based on the pro rata cost incurred in relation to the total estimated cost to manufacture. The manufacturing process for an asset is estimated to be less than 12 months based on experience. The Company therefore applies the practical expedient in IFRS 15.63 whereby an entity does not adjust the consideration to be received for the effects of a significant financing component.

Service and maintenance revenue comprises the after-sale maintenance; and servicing of the asset which was transferred to the customer on an annual subscription contract. The service and maintenance revenue is a distinct performance obligation to provide an undefined quantity of services over the duration of the contract period. A portion of the transaction price is therefore allocated to service and maintenance based on the stand-alone selling price of those services. Discounts are not considered as they are only given in rare circumstances and are never material. Revenue is recognised over the duration of the contract.

Revenues from Gas-as-a-Service (GaaS) are addressed in lease section.

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 contract costs 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.

Government grants are recognised where there is reasonable assurance that the grants will be received and all attached conditions will be met. The Company's grants are related to an expense item and recognised as income on a systematic basis over the period the related costs, for which it is intended to be compensated. Government grants are deducted from the respective expense lines unless they relate to R&D projects, in which case they are presented as governments grants under total income.

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 majority 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 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-month vesting period with a corresponding increase in equity. The Company revises the estimate of the number of RSUs expected to vest, 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. There were no development expenses capitalised during the year ended December 31, 2021 and 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. 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

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.

Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgements

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

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

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

ii. Impairment of internally generated intangible assets

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

2 Business combinations

Acquisitions of 2021

Inmatec

On February 22, 2021, the Company acquired 100% of Inmatec Gase Technologie GmbH & Co. KG, Inmatec GmbH and Inmatec Gas Technology FZC RAK (collectively "Inmatec") in the United Arab Emirates for an aggregate cash consideration of $36,704.

Founded in 1993, Inmatec is an international market leader in the production of nitrogen and oxygen generators. Designed, developed and produced in Germany, over 8,000 Inmatec systems have been deployed and sold around the world. Its 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 gives Xebec an accelerated entry into offering these products in North America.

Goodwill is not expected to be deductible for tax purposes and is included in the Systems segment.

Nortec

On April 30, 2021, the Company acquired all of the outstanding shares of Tennessee based Nortekbelair Corporation ("Nortec") for a purchase price of $8,794 through a combination of cash on hand, of which $4,461 was paid in cash on closing, and 735,838 common shares of Xebec issued to the seller at a fair value of $4.33 per share, the closing price of Xebec's shares on April 30, 2021. The purchase agreement includes an additional contingent consideration of $1,147 payable based on achievement of sales targets over the next three years.

Nortec was founded in 2008 based on three key pillars of performance: quality, perfection and innovation. Although the company was founded in 2008, Nortec's origins in the compressed air industry go back several decades. Nortec specializes in compressed air drying and industrial systems, and the company's systems are used in a broad spectrum of applications, ranging from small shops to major manufacturing plants. Nortec's principal has remained with the Company after the acquisition and continues his focus on R&D and product development within the Company.

Goodwill is expected to be deductible for tax purposes and is included in the Support segment.

Tiger

On June 11, 2021, the Company acquired all of the outstanding shares of United Kingdom based Tiger Filtration Limited ("Tiger") for a total consideration of $20,070 subject to certain holdbacks and adjustments. The purchase agreement includes an additional contingent consideration of $2,112 payable based on achievement of sales targets over the next two years.

Established in 2004, Tiger Filtration was an independently owned British based company specialising in the manufacture of high-quality alternative in-line filter elements, vacuum pump separators, compressor air & oil separators, high-pressure stainless-steel filter housings and bespoke filtration solutions. Tiger's products are supplied from a 14,000 sq. ft. facility in Sunderland, UK and sold globally to customers ranging from small businesses to international organisations who expect quality products and an exceptional level of service. Two of its principals retired and one remains with Tiger as Managing Director and continue his leadership in sales and business development. This acquisition will provide the Company with a profitable and recurring aftermarket manufacturing business for elements and filters. Goodwill is not expected to be deductible for tax purposes and is included in the Support segment.

California Compression, LLC

On August 26, 2021, the Company acquired the securities of California Compression, LLC for a total consideration of $9,220 of which $7,539 was paid in cash on closing, and 382,718 common shares of Xebec issued to the seller at a fair value of $3.32 per share, the closing price of Xebec's shares on that day.

Founded in 1975, California Compression, LLC is one of the largest compressed air distributors in Northern California. California Compression, LLC gives Xebec distribution facilities for customers located in the Northern California of the United States.

Goodwill is expected to be deductible for tax purposes and is included in the Support segment.

Wisconsin Compressed Air

On September 1, 2021, the Company acquired the assets of Wisconsin Compressed Air for an aggregate cash consideration of $2,303 including a balance of acquisition payable of $448.

Founded in 1976, Wisconsin Compressed Air has been supplying customers with high-quality compressed air products from the industry's top manufacturers. Wisconsin Compressed Air services gives Xebec maintenance services capacities to customers located in the North Central region of the United States.

Goodwill is expected to be deductible for tax purposes and is included in the Support segment.

(expressed in Canadian dollars)

UEC, LLC

On November 3, 2021, the Company acquired Colorado-based UECompression ("UEC") for a total consideration of $10,321 subject to certain holdbacks and adjustments.

Founded in 1983, UEC is a premier designer and builder of custom air and gas compressor solutions for power generation, industrial and energy applications. The acquisition of UEC provides the Company with a cost-effective and timely pathway towards expanding production capacity for standardized renewable gas systems.

Goodwill is expected to be deductible for tax purposes and is included in the Support segment.

The determination of the fair value of the assets acquired and liabilities assumed arising from the acquisitions are as follows:

	Inmatec	Nortec	Tiger	California Compression	Wisconsin Compressed Air	UEC	Prior Year earnout payments	Total
Recognized amounts of identifiable net assets								
Trade and other receivables	3,108	1,428	821	2,143	421	8,832	-	16,753
Inventories	4,454	610	307	859	565	1,711	-	8,506
Other current assets	64	-	-	35	6	174	-	279
Total current assets	**7,626**	**2,038**	**1,128**	**3,037**	**992**	**10,717**	**-**	**25,538**
Property, plant and equipment	1,415	29	285	1,379	566	5,540	-	9,214
Intangibles	30,354	1,966	-	-	-	65	-	32,385
Total non-current assets	**31,769**	**1,995**	**285**	**1,379**	**566**	**5,605**	**-**	**41,599**
Trade, other payables and accrued liabilities	(3,342)	(228)	(1,096)	(2,403)	(126)	(7,801)	-	(14,996)
Contract liabilities	(1,242)	-	-	(215)	(42)	(3,716)	-	(5,215)
Warranty provision	(1,426)	-	-	-	-	(1,305)		(2,731)
Total current liabilities	**(6,010)**	**(228)**	**(1,096)**	**(2,618)**	**(168)**	**(12,822)**	**-**	**(22,942)**
Future income taxes	(7,303)							(7,303)
Long-term debt	(3,443)	-	(284)	(963)	(669)	(3,565)	-	(8,924)
Total non-current liabilities	**(10,746)**	**-**	**(284)**	**(963)**	**(669)**	**(3,565)**	**-**	**(16,227)**
Identifiable net assets	22,639	3,805	33	835	721	(65)	-	27,968
Goodwill on acquisition	11,356	4,862	19,516	7,130	1,582	9,691	-	54,137
Total assets acquired	**33,995**	**8,667**	**19,549**	**7,965**	**2,303**	**9,626**	**-**	**82,105**
Cash and Cash equivalent at acquisition	2,709	127	521	1,255	-	695		5,307
Total purchase consideration	**36,704**	**8,794**	**20,070**	**9,220**	**2,303**	**10,321**	**-**	**87,412**
Fair value of shares issued	-	3,186	-	1,271	-	-	-	4,457
Fair value of contingent consideration	-	1,147	2,112	-	-	-	-	3,259
Restricted cash and balance of acquisition payable	-	-	-	410	448	6,169	-	7,027
Earnout payments to prior year acquisitions	-	-	-	-	-	-	(4,121)	(4,121)
Total cash consideration paid at aquisition date	**36,704**	**4,461**	**17,958**	**7,539**	**1,855**	**4,152**	**4,121**	**76,790**

The fair value of trade and other receivables acquired as part of the business acquisitions amounted to $17,016 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 $263.

The earnout payments relate to contractual acquisition price adjustments base on determined specific factors for previous years acquisitions.

Total acquisition costs incurred during fiscal 2021 and 2020 relating to these acquisitions are included in other gains and losses in the consolidated statement of loss (Note 4).

As at December 31, 2021, the purchase price allocation of Nortec is final and those of Inmatec, Tiger, California Compression, XBC Flow Services and UEC are preliminary.

Acquisitions of 2020

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, consisting of a cash payment of $66,391 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 $143,752 were raised. Both the bought deal public offering and the private placement closed on December 30, 2020.

(expressed in Canadian dollars)

The financial position as at December 31, 2020 as been restated according to the final purchase price allocation at the acquisition date and is as follows:

	As disclosed in FY2020	**Adjustment**	**Restated presentation**
Recognized amounts of identifiable net assets			
Trade and other receivables	5,905	-	5,905
Inventories	2,059	(280)	1,779
Other current assets	129	-	129
Total current assets	**8,093**	**(280)**	**7,813**
Property, plant and equipment	27,884	(215)	27,669
Right of use assets	3,104	610	3,714
Intangibles	4,252	52,599	56,851
Other non-current assets	3,016	-	3,016
Total non-current assets	**38,256**	**52,994**	**91,250**
Trade, other payables and accrued liabilities	(4,353)	(334)	(4,687)
Contract liabilities	(2,941)	-	(2,941)
Current portion of long-term debt	(4,281)	(148)	(4,429)
Total current liabilities	**(11,575)**	**(482)**	**(12,057)**
Deferred income tax liability	(350)	(13,834)	(14,184)
Long-term debt	(31,801)	(182)	(31,983)
Total non-current liabilities	**(32,151)**	**(14,016)**	**(46,167)**
Identifiable net assets	2,623	38,216	40,839
Goodwill on acquisition	151,759	(44,961)	106,798
Total assets acquired	**154,382**	**(6,745)**	**147,637**
Cash and cash equivalents acquired	2,138	-	2,138
Total purchase consideration	**156,520**	(6,745)	149,775
Fair value of shares issued	90,129	(6,745)	83,384
Restricted cash and balance of acquisition payable	6,555	-	6,555
Total cash consideration paid at acquisition date	**59,836**	**-**	**59,836**

Enerphase Industrial Solutions Inc. (Air Flow)

On July 31, 2020, the Company acquired all of the outstanding securities of Enerphase Industrial Solutions Inc. (doing business as “Air Flow”) for a purchase price of $5,781. The purchase agreement includes an additional contingent consideration over the three years following acquisition.

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.

Applied Compression Systems Ltd.

On August 31, 2020, the Company acquired all outstanding shares of Applied Compression Systems Ltd. (“ACS”) for a purchase price of $4,828 which includes an amount of $778 that was paid on January 19, 2021. Deferred compensation will be payable for a period of three years as agreed by both parties following acquisition.

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.

The Titus Company

On October 30, 2020, the Company acquired all the outstanding shares of “The Titus Company” (“Titus”) for a purchase price of $8,236. The purchase agreement includes an amount of $840,000 USD (par value $1,000,000 USD) which will be payable over a three years period following acquisition.

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 expanded to include Eastern Pennsylvania, Delaware and New Jersey.

Goodwill is not expected to be deductible for tax purposes and is included in the Systems segment.

3 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 Corporate.

The profitability measure employed by the Company for making decision about allocating resources to segments and assessing segment performance is adjusted segment income. Adjusted segment income is a non IFRS measure calculated by taking operating income and excluding depreciation, amortization, integration and acquisition costs and other gains and losses arising from significant transactions or material events, which gives an indication of the profitability of each segment excluding the impact of items not specifically related to the segment’s ongoing performance.

(expressed in Canadian dollars)

Income (loss) summarized by business segments are as follows:

	Systems		Support		Corporate		Total	
	2021 $	2020 $	**2021 $**	2020 $	**2021 $**	2020 $	**2021 $**	2020 $
Revenues	**67,827**	28,100	**58,074**	28,420	**-**	-	**125,901**	56,520
Gross Margin	**9,262**	(7,347)	**20,242**	7,613	**-**	-	**29,504**	266
Gross Margin %	**14%**	(26%)	**35%**	27%	**-**	-	**23%**	0.5%
Depreciation and amortization	**9,852**	2,595	**2,314**	1,190	**-**	-	**12,166**	3,785
Segment income	**(2,878)**	(10,367)	**8,238**	2,399	**(28,810)**	(23,999)	**(23,450)**	(31,967)
Adjusted Segment income	**6,950**	(7,661)	**10,551**	3,627	**(26,319)**	(17,962)	**(8,818)**	(21,996)

Reconciliation of adjusted segment income is as follows:

	Systems		Support		Corporate		Total	
	2021 $	2020 $	**2021 $**	2020 $	**2021 $**	2020 $	**2021 $**	2020 $
Segment income	**(2,878)**	(10,367)	**8,238**	2,399	**(28,810)**	(23,999)	**(23,450)**	(31,967)
Depreciation and amortization	**9,852**	2,595	**2,314**	1,190	**-**	-	**12,166**	3,785
Net finance expense	**-**	-	**-**	-	**6,484**	2,749	**6,484**	2,749
Income taxes	**-**	-	**-**	-	**2,570**	(9)	**2,570**	(9)
Other (gains) and losses	**(24)**	111	**(1)**	38	**(6,563)**	3,297	**(6,588)**	3,446
Adjusted Segment income	**6,950**	(7,661)	**10,551**	3,627	**(26,319)**	(17,962)	**(8,818)**	(21,996)

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

	2021 $	2020 $
United States	**59,056**	26,647
Germany	**25,395**	-
Canada	**21,251**	14,572
China	**4,668**	13,510
Other	**15,531**	1,791
Total Revenues	**125,901**	56,520

(expressed in Canadian dollars)

No single customer contributed more than 10% to the Company's revenue in 2021 (none in 2020).

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

	2021 $	2020 $
Canada	**178,333**	174,329
Europe	**120,357**	34,202
United States	**30,659**	17,827
Asia	**-**	229
Total Non-Current assets	**329,349**	226,587

4 Other (gains) and losses

	2021 $	2020 $
Foreign exchange loss (gain)	(296)	103
Loss (gain) on disposal of assets	6	-
Loss (gain) on conversion of shares issued by a subsidiary	(45)	217
Remeasurement of investment (note 25)	(21,122)	-
Integration and acquisition costs	5,206	6,160
Impairment charge of intangible assets	8	-
One-time payment arising from the prior departure of employees	6,058	-
Miscellaneous other (gains) and losses	1,391	-
Other (gains) and losses	**(8,794)**	6,480

For the year ended December 31, 2021, costs related to acquisitions amounted to $3,159 (2020 – $5,728).

(expressed in Canadian dollars)

5 Net finance expenses

	2021 **$**	2020 $
Accretion of the obligation arising from shares issued by a subsidiary	**120**	306
Financing fees	**746**	492
Interest and bank charges	**914**	460
Guarantee letter fees	**82**	243
Interest on debt	**4,971**	1,570
Accretion and revaluation of government royalty program obligation (Note 17)	**14**	20
Penalties	**676**	-
Finance income	**(1,039)**	(343)
	6,484	2,749

6 Income taxes

The reconciliation of income taxes, computed at the Canadian statutory rates to income tax recovery is as follows:

	2021 **$**	2020 $
Loss before income taxes	**(20,880)**	(31,967)
Canadian statutory tax rate	**26.5%**	26.5%
Expected income tax recovery	**(5,533)**	(8,471)
Increase (decrease) in income taxes resulting from:		
Temporary difference unrecognized (recognized)	**9,649**	6,962
Difference in foreign tax rate	**179**	184
Stock base compensation	**792**	279
Deconsolidation of corporation in China	**(5,027)**	-
Foreign exchange on consolidation	**-**	-
Non-deductible acquisition costs	**(889)**	985
Tax assets recognized	**-**	-
True up and other	**3,399**	52
	2,570	(9)

(expressed in Canadian dollars)

Composition of current income taxes in the income statement is as follows:

	2021	2020
	$	$
Inception and reversal of temporary differences	**936**	421
	936	421

Composition of deferred income taxes in the Consolidated Statement of Loss is as follows:

	2021	2020
	$	$
Inception and reversal of temporary differences	(8,090)	(7,392)
Temporary difference not recorded	9,649	6,962
Change in deferred tax rate	-	-
	1,559	(430)

(expressed in Canadian dollars)

Movement of deferred income tax in 2021 is as follows:

	Property, plant and equipment $	Intangible assets $	Debentures $	Government royalty program $	Non-capital losses $	Others $	Deferred tax liability $
Balance as at December 31, 2019	**-**	**(203)**	**-**	**(10)**	**44**	**(34)**	**(203)**
P&L	52	164	-	(9)	-	223	430
Business acquisition	(39)	(16,041)	-	-	-	(629)	(16,709)
Equity Component	-	60	-	-	-	12	72
Balance as at December 31, 2020	13	(16,020)	**-**	(19)	44	(428)	(16,410)
P&L	264	(1,174)	-	14	1,670	(2,331)	(1,557)
Business acquisition	-	(6,268)	-	-	-	-	(6,268)
Capital	-	-	-	-	-	-	-
Equity Component	-	-	-	-	-	-	-
Balance as at December 31, 2021	277	(23,462)	**-**	(5)	1,714	(2,759)	(24,235)

As at December 31, 2021, deductible timing differences for which the company has not recognized deferred tax assets are as follows:

	Federal $	Provincial $	China $	USA $	Italy $	Netherlands $
Property and equipment	1,890	1,878	-	-	-	-
Scientific research and development expenses	25,433	25,480	-	-	-	-
Capital losses carried forward	219	219	-	-	-	-
Operating losses carried forward	107,348	109,209	4,467	-	5,179	5,880
Other	15,083	15,083	1,221	-	-	-
	149,973	**151,869**	**5,688**	**-**	**5,179**	**5,880**

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

	Federal $	Provincial $	China $	USA $	Italy $	Netherlands $
Property and equipment	1,453	1,440	-	-	-	-
Scientific research and development expenses	25,433	25,480	-	-	-	-
Capital losses carried forward	219	219	-	-	-	-
Operating losses carried forward	80,591	82,485	260	1,675	4,109	5,880
Other	13,777	13,777	1,221	-	-	-
	121,473	**123,401**	**1,481**	**1,675**	**4,109**	**5,880**

(expressed in Canadian dollars)

The ability to realize 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 $43,525 (2020 – $35,587).

As at December 31, 2021, the Company has non-capital tax losses, which are available to reduce income taxes in future years and expire as follows:

	Federal $	Provincial $	China $	USA $	Italy $	Netherlands $
2022-2026	14,128	13,438	4,467	-	-	-
2027-2041	93,230	95,781	-	96	-	-
Indefinite	-	-	-	4,247	5,179	-
	107,358	**109,219**	**260**	**4,343**	**4,109**	**-**

The Company has scientific research and experimental development expenses of $25,433 (2020 - $28,433) 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 financial statements.

7 Share Capital

Authorized and issued shares

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.

Issuance of common shares

On June 26, 2020, the Company 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.

On December 30, 2020, the Company closed an upsized bought deal public offering of 24,784,800 subscription receipts at a price of $5.80 per Subscription Receipt for gross proceeds of $143,752. Following the acquisition of HyGear, the subscription receipts were converted into common shares on December 31, 2020 and issued on January 4, 2021.

On December 30, 2020, the Company closed an upsized concurrent private placement of 10,905,174 subscription receipts for gross proceeds of $63,250. Following the acquisition of HyGear, the subscription receipts were converted into common shares on December 31, 2020 and issued on January 4, 2021. The total issuance costs amounted to $12,194.

(expressed in Canadian dollars)

On December 31, 2020, the Company issued 10,014,364 common shares at fair value of $9.00 per share, the closing price of Xebec's shares on December 31, 2020, to acquire 100% of Green Vision Holding B.V., the parent company of HyGear Technology and Services B.V. for aggregate consideration of $90,129.

On April 30, 2021, the Company issued 735,838 common shares at a fair value of $4.33 per share, the closing price of Xebec's shares on April 30, 2021, for aggregate gross consideration of $3,186 to acquire all of the outstanding shares of Tennessee based Nortekbelair Corporation.

On August 26, 2021, the Company issued 382,718 common shares at a fair value of $3.32 per share for aggregate consideration of $1,271 to acquire the securities of California Compression, LLC.

On October 5, 2021, the Company issued 735,294 common shares at a fair value of $2.72 per share for aggregate consideration of $2,000 for payment arising from the prior departure of employees.

Warrants and compensation shares

On June 26, 2020, the Company closed a bought deal public offering from which a total of 479,205 compensation options (more fully described below) were issued. The issuance costs, excluding the non-transferable options to the agents, were $2,315. The fair value of the 479,205 compensation options was $631, which was estimated using the Black Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	0.28%
Annualized volatility [1]	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 entitled 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.

[1] The expected volatility used was based in the historic volatility of the Company's share price

(expressed in Canadian dollars)

On May 5, 2020, the Company entered into a loan agreement for an unsecured loan facility of $10 million and providing 3,000,000 warrants at an exercise price of $4.58 for a two-year term. The fair value of the warrants was $2,954, which was estimated using the Black Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.11%
Annualized volatility [1]	70.33%
Share price	$3.35
Expected life of compensation options	2 years

On November 9, 2021, the Company entered into an amended and restated Loan Agreement, increasing the credit facility provided by $15.0 million and providing for the issuance of 4,500,000 warrants at an exercise price of $4.44 per warrant for a three-year term. The fair value of the warrants was $6,986, which was estimated using the Black Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	0.89%
Annualized volatility [1]	70.1%
Share price	$3.73
Expected life of compensation options	3 years

As at December 31, 2021, compensation options, compensation warrants and warrants are as follows:

Description	**Expiry date**	**Exercise Price**	**Beginning balance**	**Issued**	**Cancelled**	**Exercised**	**Balance end of year**
Compensation Options	June-21	$3.60	418,267	-	-	(418,267)	-
Warrants	May-22	$4.58	3,000,000	-	-	-	3,000,000
Warrants	Nov-24	$4.44	-	4,500,000	-	-	4,500,000
		$4.50	**3,418,267**	**4,500,000**	**-**	**(418,267)**	**7,500,000**

The average share price for the exercised options was $5.05.

[1] The expected volatility used was based in the historic volatility of the Company’s share price

(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**

Income (loss) per share

The denominators for the basic and diluted earnings per share computation are as follows:

	2021	2020
Weighted average number of common shares outstanding	**153,471,109**	96,492,683
Dilutive effect on number of shares	**-**	-
Weighted average number of common shares outstanding for diluted earning per share calculation	**153,471,109**	96,492,683

For the year ended December 31, 2021, warrants, compensation options, compensation warrants, outstanding stock options and outstanding DSUs and RSUs to acquire 8,788,115 shares (2020 – 4,507,349) have been excluded from the above calculation since their inclusion would have had an anti-dilutive effect.

(expressed in Canadian dollars)

8 Trade and other receivables

	2021 **$**	2020 $
Current trade receivables	**21,153**	5,702
Past due trade receivables		
1-30 days	**6,921**	2,932
31-60 days	**2,145**	3,242
61-90 days	**2,987**	2,675
Greater than 90 days	**5,271**	4,004
Total trade receivables	**38,477**	18,555
Contract assets (Note 16)	**10,623**	7,767
Related party receivables (Note 27)	**1,141**	-
Other receivables	**656**	724
Taxes receivable	**5,105**	2,696
Supplier deposits	**7,104**	6,792
Less: Allowance for expected credit loss	**(1,536)**	(1,411)
Trade and other receivables - net	**61,570**	35,123

Changes in allowance for expected credit loss are as follows:

	2021 **$**	2020 $
Allowance for expected credit loss, beginning of year	**(1,411)**	(534)
Additions	**(372)**	(877)
Additions – Business acquisition UEC	**(263)**	
Unused amounts reversed	**369**	-
Foreign currency exchange differences	**141**	-
Allowance for expected credit loss, end of year	**(1,536)**	(1,411)

9 Inventories

	2021 **$**	2020 $
Raw materials	**41,123**	11,955
Work in progress	**10,500**	8,229
Sub-assembly parts	**1,070**	961
Inventories	**52,693**	21,145

Cost of goods sold includes inventories of $64,570 in 2021 ($35,334 in 2020).

(expressed in Canadian dollars)

10 Finance lease receivables

The Company has entered into finance leases on Gas-as-a-Service (GaaS) contracts through its subsidiary Green Vision B.V. consisting of gas generating systems. The lease terms are 15 years, which represents substantially all of the economic life of the systems.

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

	2021 **$**	2020 $
Less than one year	725	271
Between 1-2 years	725	271
Between 2-3 years	725	271
Between 3-4 years	725	271
Between 4-5 years	725	271
More than five years	6,318	2,403
	9,943	**3,758**
Unguaranteed residual value (discounted)	2,037	731
Unearned finance income	(2,441)	(1,303)
Allowance for expected credit losses of finance lease receivables	(76)	(41)
Total finance lease receivables	**9,463**	**3,145**
Current portion of finance lease receivables	410	129
Non-current portion of finance lease receivables	9,053	3,016

(expressed in Canadian dollars)

11 Property, plant and equipment

	Right-of-use-assets	Machinery and Production Equipment	Office furniture and Equipment	Leasehold Improvement	Assets under construction	Leased Equipment	Total
	$	$	$	$	$	$	$
Net book value							
As at December 31, 2019	2,168	491	214	154	-	-	3,027
Additions	628	234	212	54	-	-	1,128
Additions through business acquisition	5,255	7,025	1,970	98	10,849	8,429	33,626
Disposals	-	(6)	(3)	-	-	-	(9)
Depreciation	(762)	(170)	(168)	(33)	-	-	(1,133)
Effect of movements in exchange rates	(51)	2	(9)	(3)	-	-	(61)
As at December 31, 2020	7,238	7,576	2,216	270	10,849	8,429	36,578
Additions	4,146	2,515	1,224	550	4,781	212	13,428
Additions through business acquisition	5,705	1,998	1,100	411	-	-	9,214
Disposals	(961)	(46)	(27)	(4)	(7,360)	86	(8,312)
Depreciation	(2,966)	(1,039)	(747)	(144)	-	(920)	(5,819)
Transfers and others	128	(5,486)	(40)	-	3,872	2,655	1,129
Effect of movements in exchange rates	(405)	(480)	(134)	(8)	(1,836)	(668)	(3,531)
As at December 31, 2021	**12,885**	**5,039**	**3,591**	**1,074**	**10,305**	**9,793**	**42,687**

	Right-of-use-assets	Machinery and Production Equipment	Office furniture and Equipment	Leasehold Improvement	Assets under construction	Leased Equipment	Total
	$	$	$	$	$	$	$
Cost	8,426	8,429	2,847	321	10,849	8,429	39,301
Accumulated depreciation	(1,188)	(853)	(631)	(51)	-	-	(2,723)
Net book value as at December 31, 2020	7,238	7,576	2,216	270	10,849	8,429	36,578
Cost	17,040	6,931	4,969	1,269	10,305	10,713	51,227
Accumulated depreciation	(4,155)	(1,892)	(1,378)	(195)	-	(920)	(8,540)
Net book value as at December 31, 2021	**12,885**	**5,039**	**3,591**	**1,074**	**10,305**	**9,793**	**42,687**

Lease equipment

The Company has entered into operating leases on 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:

	2021	2020
	$	$
Within one year	**332**	415
Between 1-2 years	**332**	346
Between 2-3 years	**232**	187
Between 3-4 years	**27**	187
Between 4-5 years	**-**	187
More than five years	**-**	-
Total undiscounted lease payments receivable	**923**	**1,322**

(expressed in Canadian dollars)

Depreciation of $5,819 (2020 – $1,133) is included in the consolidated statement of loss for the year ended December 31, 2021: $2,240 (2020 – $344) in cost of goods sold; $3,579 (2020 – $789) in selling and administrative expenses; and $NIL (2020 – $834) in R&D expenses.

The amount of borrowing costs capitalized as at December 31, 2021 was $446 (2020 – $468).

12 Intangible assets

	Software	Customer Relationships	Development costs	Engineering standardisation	Technology	Trademarks	Total intangible assets
	$	$	$	$	$	$	$
Net book value							
As at December 31, 2019	116	3,563	-	1,811	-	199	5,689
Additions	690	-	-	362	-	-	1,052
Additions through business acquisitions	72	29,311	44	-	25,535	9,175	64,137
Reclassification	-	(16)	-	(277)	-	-	(293)
Amortization	(74)	(605)	-	(1,922)	-	(51)	(2,652)
Effect of movements in exchange rates	1	(327)	-	26	-	(31)	(331)
Balance at December 31, 2020	805	31,926	44	-	25,535	9,292	67,602
Additions	1,214	-	-	-		-	1,214
Additions through business acquisitions	5	17,571	-	-	5,931	8,878	32,385
Reclassification	-	-	-	-		-	-
Amortization	(648)	(3,376)	(44)	-	(1,465)	(815)	(6,348)
Effect of movements in exchange rates	393	(2,970)	-	-	(1,184)	(2,272)	(6,033)
Balance at December 31, 2021	**1,769**	**43,151**	**-**	**-**	**28,817**	**15,083**	**88,820**

	Software	Customer Relationships	Development costs	Engineering standardisation	Technology	Trademarks	Total intangible assets
	$	**$**	**$**	**$**	**$**	**$**	**$**
Cost	1,216	32,576	345	3,245	25,535	9,341	72,258
Accumulated depreciation	(411)	(650)	(301)	(3,245)	-	(49)	(4,656)
Balance at December 31, 2020	805	31,926	44	-	25,535	9,292	67,602
Cost	2,435	48,859	-	-	29,105	17,561	97,960
Accumulated depreciation	(666)	(5,708)	-	-	(288)	(2,478)	(9,140)
Balance at December 31, 2021	**1,769**	**43,151**	**-**	**-**	**28,817**	**15,083**	**88,820**

The amount of borrowing costs capitalized as at December 31, 2021 was $471 (2020 – $491).

Amortization of $6,348 (2020 – $2,652) is included in the consolidated statement of loss for the year ended December 31, 2021: $44 (2019 – $1,088) in cost of goods sold; and $6,304 (2020 – $730) in selling and administrative expenses and $Nil (2020 – $834) in R&D expenses.

(expressed in Canadian dollars)

13 Goodwill

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

	2021 $	2020 $
Carrying amount – Beginning of year	**117,842**	3,504
Acquired through business combinations	**54,136**	114,611
Net exchange difference	**(8,514)**	(273)
Carrying amount – End of the year	**163,464**	117,842

During the fourth quarter of 2021, the Company performed a test of impairment of its goodwill. For the purpose of annual impairment testing, goodwill is allocated to the following CGUs:

	2021 $	2020 $
Systems	**121,554**	109,184
Support	**41,910**	8,658
Total goodwill	**163,464**	117,842

As at December 31, 2020, the impairment testing was performed at the subsidiary level. Following the current year acquisitions, the Company reorganized it's reporting structure. This reorganization did not change the CGU's, but did change the level at which the Company monitors goodwill. Goodwill is now monitored at the operating segment level, with each operating segment representing a group of CGUs. Corporate assets of the Company have been allocated to a CGU group on a reasonable and consistent basis for purposes of impairment testing.

From the 2020 presentation, HyGear and ACS are now presented in Systems. CAI, CDA, Air Flow and Titus are presented in Support.

From the 2021 acquisitions, Inmatec and UEC are now presented in Systems. Nortec, Tiger, California Compression and Wisconsin Compressed Air are presented in Support.

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 10.5% to 12.9% (2020 – 15.7% to 24%) and a growth rate of 4% (2020 – 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 for the subsidiaries. Management's key assumptions include stable gross profit margins over the forecast period based on past experience.

(expressed in Canadian dollars)

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

14 Credit facility

In February 2021, the Company secured credit facilities with National Bank of Canada's Technology and Innovation Banking Group for a total value of up to $59,250 bearing interest of CDOR plus applicable margin.

The credit facilities are secured by a first ranking hypothec of $75,000 on all movable property of the Company. In addition, a financial account was put in place by National Bank of Canada as a first ranking hypothec for Debt-related Guarantees. As at December 31, 2021 the Company had $11,400 in this account.

In March 2021, the Company renewed its Account Performance Security Guarantee ("Account PSG") Facility with EDC for an amount not to exceed $10,000. The validity period of this facility is from January 1, 2021 to December 31, 2021.

As at December 31, 2021, an amount of $5,000 was outstanding under the Operating and Acquisition Credit Facility (NIL as at December 31, 2020) and an amount of $6,876 was outstanding under the Letters of Guarantee Credit Facility ($3,953 as at December 31, 2020), of this amount, $5,763 is under the Account PSG facility. In addition, only the Credit Card Facility was used at the end of the year.

As at December 31, 2021 Standby Fees of 0.60% are applicable on the unused portion of the Operating and Acquisition Credit Facility and the Pre-Shipment Credit Facility.

The Xebec Adsorption Shanghai Co. bank loan is not consolidated in 2021 due to change in ownership (note 25) ($975 as at December 31, 2020).

During the year ended December 31, 2021, all applicable financial covenants and conditions were respected by the Company.

15 Trade, other payables and accrued liabilities

	2021 **$**	2020 $
Trade payables	**24,016**	20,060
Accrued liabilities	**8,349**	7,034
Taxes payable	**818**	197
Payables to related parties (Note 26)	**65**	3
Other payables	**111**	277
Other payables and accrued liabilities	**33,359**	27,571

(expressed in Canadian dollars)

16 Contract balances

Contract assets:

	2021 **$**	2020 $
Cost incurred and recorded margins	**57,407**	32,576
Addition through business acquisition	**-**	2,238
Less: advances and progress billing	**(46,784)**	(27,047)
	10,623	7,767

Contract assets are included in trade and other receivables in the consolidated statements of financial position (Note 8).

Contract liabilities:

	2021 **$**	2020 $
Advances and progress billings	**67,023**	14,144
Addition through business acquisition	**-**	2,940
Less: cost incurred and recorded margin	**(37,293)**	(9,577)
	29,730	7,507

Commercial and R&D contracts include government grants of $1,952 (2020 – $1,915).

(expressed in Canadian dollars)

17 Long-term debt and government royalty program obligation

Long-term debt

	Notional Amount	Repayment Period	Current	2021 Non-Current	Current	2020 Non-Current
NAPEX Bonds						
Euro, fixed rate – 7.0% to 8.0%	12,497	2025	**-**	**17,636**	-	18,889
EDC Loan						
U.S. dollar, 7.5%	14,833	2022-2028	**2,728**	**16,141**	-	-
Subordinated loans						
Euro, fixed rate – 7% to 8.0%	683	2023-2024	**-**	**983**	234	8,937
Unsecured loan facility[1]						
Canadian dollar, fixed rate –8.5% and 9.0%	15,000	2025	**-**	**10,119**	-	3,589
Lease liabilities						
Euro, variable rate			**1,150**	**2,682**	721	2,871
U.S. dollar, variable rate			**1,581**	**4,652**	345	1,458
Canadian dollar, variable rate			**848**	**2,900**	388	2,017
Other, variable rate			**94**	**219**	138	-
Innovation loan HYREC						
Euro, fixed rate – 7.0%			**-**	**-**	3,005	-
Bank loans						
Euro, fixed rate – 2.4% to 4.65%	1,644	2022-2024	**1,063**	**1,355**	341	634
Contingent consideration						
Canadian dollar			**215**	**-**	-	-
U.S. dollar			**-**	**2,734**	201	2,133
GBP			**630**	**1,633**	-	-
Business acquisition balance payable						
Euro			**4,265**	**-**	6,556	-
U.S. dollar			**794**	**7,662**	756	1,083
Canadian dollar			**180**	**-**	778	-
Government assistance (Covid-19)						
U.S. dollar			**-**	**-**	579	422
Other loans						
Canadian dollar			**12**	**2**	-	-
U.S. dollar			**88**	**83**	-	-
Euro			**87**	**555**	-	728
			13,735	**69,356**	14,052	42,774

[1]On November 9, 2021, the Company and FSTQ entered into an amended and restated Loan Agreement, increasing the credit facility provided by FSTQ by $15.0 million to a total of $25.0 million and providing for the issuance of 4,500,000 warrants to FSTQ at an exercise price of $4.44 per warrant for a three-year term.

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 at the execution of the agreement and $1,000 spread over four equal annual non-interest-bearing payments, starting on January 31, 2013. Furthermore, the Company was liable to pay up to $750 in contingent payments based on proceeds from the sale by the Company of its intellectual property. In February 2017, a new amendment to this agreement was reached extending the payment terms to January 1, 2023.

(expressed in Canadian dollars)

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	**3,727**	**466**	**4,180**	**2,396**	**10,769**
Cash flows:					
Financing fees	(20)	-	-	-	(20)
Balance of acquisition paid	(102)	-	-	-	(102)
Payments	(6,604)	(118)	(1,731)	(954)	(9,407)
Proceeds	10,061	-	-	-	10,061
Non-cash:					
Accretion	263	20	306	308	897
Sale price adjustment	(221)	-	-	-	(221)
Equity component	(2,954)	-	-	628	(2,326)
Additions through business combination	43,749	-	-	5,612	49,361
Deferred financing fees	1,477	-	-	-	1,477
Net exchange variation	(488)	-	217	(52)	(323)
Balance as at December 31, 2020	**48,888**	**368**	**2,972**	**7,938**	**60,166**
Cash flows:					
Balance of acquisition paid	(3,526)	-	-	-	(3,526)
New financing	28,834	-	-	-	28,834
Payments	(12,434)	(175)	-	(1,927)	(14,536)
Non-cash:					
Accretion	1,074	14	120	537	1,745
Addition	67	-	-	3,531	3,598
Debt forgiveness	(1,000)	-	-	-	(1,000)
Additions through business combination	13,506	-	-	5,705	19,211
Disposal	-	-	-	(70)	(70)
Effect of deconsolidation	-	-	(3,047)	-	(3,047)
Deferred financing fees	(3,616)	-	-	-	(3,616)
Adjustment	(195)	-	-	(961)	(1,156)
Net exchange variation	(2,634)	-	(45)	(626)	(3,305)
Balance as at December 31, 2021	**68,964**	**207**	**-**	**14,127**	**83,298**

(expressed in Canadian dollars)

18 Provisions

Warranty provisions

	2021 **$**	2020 $
Balance – Beginning of year	**1,889**	174
Additions through business combination	**2,731**	
Provision for the year	**209**	1,715
Balance – End of year,	**4,829**	1,889
Current portion of provision	**(1,780)**	(1,541)
Non-current provision	**3,049**	348

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.

As at December 31, 2021, the provisions include an amount of $1,550 (2020 – $1,297) for anticipated losses on long-term production type contracts.

19 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., 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 (RMB 16,371).

Pursuant to this agreement, the Company had 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 the Company agreed that the Company would pay the Minority Shareholders $187 (RMB 1,000) per year including 2018 until the EDC loan expiry or latest up to December 31, 2020 (whichever is earlier). The annual fees was to be considered a deduction to the repurchase price at the time of repurchase. As the negotiations was ongoing with the Minority

(expressed in Canadian dollars)

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 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.

The Company 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) was to 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”.

	2021 **$**	2020 $
Balance – Beginning of year	**2,972**	4,180
Accretion interest	**120**	306
Conditional reimbursement	**-**	(1,731)
Effect of deconsolidation	**(3,047)**	-
Net exchange variation	**(45)**	217
Balance – End of Year	**-**	2,972
Current portion	**-**	2,792

20 Long term incentive plan

The Company has a long-term incentive plan (LTIP) that 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 Human Resources 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 Legacy Stock Option Plan) shall not exceed a number of common shares equal to 17,791,757.

The aggregate number of common shares issuable to all participants retained, 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 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.

(expressed in Canadian dollars)

The exercise price under an option is determined by the Human Resources 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. 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.

Share-based payments expense capitalized in contributed surplus are as follows:

	2021 **$**	2020 $
LTIP options	**(52)**	180
DSU	**294**	203
RSU	**746**	669
Total share-based payments expense capitalized in contributed surplus	**988**	1,052

Legacy Stock Options Plan

Changes in legacy stock options are as follows:

		2021		2020
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Outstanding – Beginning of year	**2,178,528**	**0.48**	4,081,860	0.35
Exercised	**(83,334)**	**0.57**	(1,903,332)	0.19
Forfeited	**(1,308,194)**	**0.53**	-	-
Expired	**-**	**-**	-	-
Outstanding – End of year	**787,000**	**0.40**	2,178,528	0.48
Exercisable – End of year	**687,000**	**0.38**	1,700,194	0.45

The average share price for the exercised options was $3.70 (2020 – $4.27).

(expressed in Canadian dollars)

As at December 31, 2021, 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	200,000	0.97	200,000
January 7, 2023	0.05	200,000	1.02	200,000
August 29, 2024	0.49	350,000	2.66	250,000
December 19, 2024	0.55	37,000	2.96	37,000
	0.40	**787,000**	**1.83**	**687,000**

Stock options (LTIP options)

Changes in LTIP options are as follows:

	2021		2020	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Outstanding – Beginning of year	**-**	**-**	-	-
Granted	**50,000**	**5.01**	-	-
Outstanding – End of year	**50,000**	**5.01**	-	-
Exercisable – End of year	**-**	**-**	-	-

The fair value of the options was $166, which was estimated using the Black Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.42%
Annualized volatility [1]	70.10%
Share price	$5.01
Expected life of compensation options	7 years

[1] The expected volatility used was based in the historic volatility of the Company's share price

(expressed in Canadian dollars)

As at December 31, 2021, 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
May 21, 2028	$5.01	50,000	6.4	-
	$5.01	**50,000**	**6.4**	**-**

DSU

Changes in DSU are as follows:

	2021	2020
	Number of DSU	Number of DSU
Outstanding – Beginning of year	**66,231**	-
Granted	**70,266**	66,231
Exercised	**(8,883)**	-
Outstanding – End of year	**127,614**	66,231

In the year ended December 31, 2021, 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 $236 (2020 – $261). The DSU granted in 2021 vested on grant date. The DSU granted in 2020 vest in stages until June 2021.

RSU

Changes in RSU are as follows:

	2021	2020
	Number of RSU	Number of RSU
Outstanding – Beginning of year	**265,300**	-
Granted	**180,501**	265,300
Cancelled	**(52,858)**	-
Exercised	**(19,442)**	-
Outstanding – End of year	**373,501**	265,300

In the year ended December 31, 2021, RSUs granted under the Corporation's Stock Incentive Compensation Plan to employees of the Company had a fair value of $934 (2020 – $2,103). The RSU will vest in stages until May 2024 (2020 – November 2023).

(expressed in Canadian dollars)

21 Supplemental Cash flow information

Changes in non-cash working capital balances are as follows:

	2021 **$**	2020 $
Cash (used in) provided by non-cash working capital:		
Trade and other receivables	**(16,430)**	3,233
Inventories	**(25,630)**	(9,302)
Other current assets	**(100)**	(333)
Other non-current assets	**23**	(53)
Trade payables accrued liabilities	**(4,641)**	4,368
Contract liabilities	**19,289**	252
Income tax payable	**(263)**	(500)
Provisions	**284**	1,716
	(27,468)	(619)
Income tax paid	**1,695**	2,031
Interest paid	**6,491**	3,233

22 Employee compensation

	2021 **$**	2020 $
Salaries and short-term employee benefits	**38,314**	19,036
Share-based compensation	**988**	1,052
	39,302	20,088

Total compensation for key management, which includes the Company's senior management, for the year ended December 31, 2021 was $1,452 (2020 – $1,617); Salaries were $1,214 (2020 – $1,464) and share-based compensation were $238 (2020 – $153).

23 Contingencies and commitments

Contingencies

In the normal course of operations, the Company is party to a number of lawsuits, claims and contingencies. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the

(expressed in Canadian dollars)

Company does not believe that the ultimate outcome of these matters will have a material impact on its consolidated position.

Commitments

Contractual obligations and commitments that are not recognized as liabilities are as follows:

	2021 $	2020 $
Less than 1 year	**3,678**	391
Between 1 and 5 years	**794**	228
Total commitments	**4,472**	619

Leases include various equipment leases. Lease expense for year ended December 31, 2021 amounted to $3,377 (2020 – $295).

24 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. Management monitors the solvency ratios at the end of the year as some debts include a solvency ratios.

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

	2021 $	2020 $
Cash	(39,905)	(160,938)
Restricted cash	(11,214)	(7,642)
Long-term debt (Note 17)	83,091	56,826
Government royalty program obligation (Note 17)	207	368
Obligation arising from shares issued by a subsidiary	-	2,972
Net debt	32,179	(108,414)
Equity	314,810	344,033
	346,989	**235,619**

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

25 Financial instruments

Measurement categories and fair values, including valuation methods and assumptions

The carrying values of cash, restricted cash, trade and other receivables, trade and other payables, accrued liabilities and credit facility 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).

(expressed in Canadian dollars)

The following table shows the carrying values and fair values of assets and liabilities by category as of:

	2021		2020	
	Carrying amount $	**Fair Value $**	Carrying amount $	Fair Value $
Cash	**39,905**	**39,905**	160,938	160,938
Restricted cash	**12,940**	**12,940**	7,642	7,642
Trade and other receivables	**40,274**	**40,274**	17,868	17,868
Other current assets	**-**	**-**	16	16
Finance lease receivables	**9,463**	**9,463**	3,145	3,145
Credit facility	**(5,000)**	**(5,000)**	(975)	(975)
Trade, other payables and accrued liabilities	**(28,404)**	**(28,404)**	(24,576)	(24,576)
Long-term debt	**(68,964)**	**(74,749)**	(48,888)	(48,329)
Government royalty program obligation	**(207)**	**(207)**	(368)	(368)
Obligation arising from shares issued by a subsidiary	**-**	**-**	(2,972)	(2,972)

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 leases 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 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).

For trade receivables, contract assets and finance leases 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 the invoice date), adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

(expressed in Canadian dollars)

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 resulting in an actual loss.

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

As at December 31, 2021, the Company's three largest trade debtors accounted for 16% (10%, 3% and 3%) of the total trade receivables balance (2020 – 32% (17%, 9% and 6%)).

Details of trade and other receivables were as follows:

	2021 **$**	2020 $
Total trade receivables	**38,477**	18,555
Related party receivables (Note 27)	**1,141**	-
Other receivables	**656**	724
Less: Allowance for expected credit loss	**(1,536)**	(1,411)
Total trade and other receivables	**38,738**	17,868

The Company's cash and restricted cash are 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.

Market risk

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 $3,764 for 2021 (2020 – $749). As at December 31, 2021, 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.

	2021			2020		
	US dollar	**Euro**	**British Pound**	US dollar	Euro	British Pound
Cash	**7,453**	**2,247**	**-**	711	12	-
Trade and other receivables	**22,921**	**6,426**	**371**	4,685	40	-
Trade and other payables	**(7,493)**	**(2,923)**	**(163)**	(203)	(26)	(1)
	22,881	**5,750**	**208**	5,193	26	(1)
Equivalent in Canadian dollars	**31,909**	**9,103**	**391**	6,612	41	(2)

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.

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. If the interest rate on the credit facility had been 50 basis points higher (lower), related to the credit facility as at December 31, 2021, the impact on the net income and equity would have been negligible.

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:

					2021
	Carrying amount $	Contractual cash flow $	0 to 12 months $	13 to 24 months $	Thereafter $
Credit facility	5,000	5,000	5,000	-	-
Trade and other payables and accrued liabilities	28,404	28,404	28,404	-	-
Government royalty program obligation	207	207	207	-	-
Loan Fonds solidarité FTQ	10,119	15,000	-	-	15,000
Contingent liability	5,212	5,564	1,701	2,058	1,805
Other long-term debts	40,732	41,029	4,914	3,813	32,302
Business price balance acquisition payable	12,901	13,156	5,334	5,257	2,565
	102,575	**108,360**	**45,560**	**11,128**	**51,672**

(expressed in Canadian dollars)

					2020
	Carrying amount $	Contractual cash flow $	0 to 12 months $	13 to 24 months $	Thereafter $
Credit facility	975	975	975	-	-
Trade and other payables and accrued liabilities	24,576	24,576	24,576		
Government royalty program obligation	368	388	175	190	23
Loan Fonds Solidarité FTQ	3,589	6,987	450	450	6,087
Government assistance	1,001	1,001	1,001	-	-
Contingent liability	2,333	2,359	581	999	779
Other long-term debts	32,792	33,605	3,537	528	29,540
Business price balance acquisition payable	9,173	9,376	8,230	573	573
Obligation arising from shares issued by a subsidiary	2,972	2,972	2,972	-	-
	77,779	**82,239**	**42,497**	**2,740**	**37,002**

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.

(expressed in Canadian dollars)

26 Related party relationship

Investment in subsidiaries consolidated in the Company's financial statements:

	Country of incorporation	**% equity interest 2021**	% equity interest 2020
Applied Compression Systems LTD	Canada	100	100
California Compression, LLC	USA	100	-
CDA Systems, LLC	USA	100	100
Compressed Air International Inc.	Canada	100	100
Enerphase Industrial Solutions Inc. (Air Flow)	USA	100	100
GNR Québec Capital Management Inc	Canada	100	100
Green Vision Holding B.V.	Netherlands	100	100
HyGear B.V.	Netherlands	100	100
HyGear Fuel Cell B.V.	Netherlands	100	100
HyGear Hydrogen Plant B.V.	Netherlands	100	100
HyGear Operations B.V.	Netherlands	100	100
HyGear Technology and Services B.V.	Netherlands	100	100
Inmatec Gas Technology FZ-LLC	UAE	100	-
Inmatec Gase Technologie GmbH & Co.KG	Germany	100	-
Nortekbelair Corporation	USA	100	-
The Titus Company	USA	100	100
Tiger Filtration Limited	UK	100	-
UEC, LLC	USA	100	-
XBC Flow Services - Wisconsin Inc	USA	100	-
Xebec Adsoprtion USA Inc.	USA	100	100
Xebec Adsorption Asia PTE LTD	Singapore	100	100
Xebec Adsorption Europe SRL	Italy	100	100
Xebec Complimentar GmbH	Germany	100	-
Xebec Deutchland GMBH	Germany	100	-
Xebec Europe B.V.	Netherlands	100	100
Xebec Holding UK Limited	UK	100	-
Xebec Holding USA Inc.	USA	100	100
Xebec RNG Holdings Inc	Canada	100	100

(expressed in Canadian dollars)

Investment in associates and joint ventures accounted for under the equity method:

	Country of incorporation	**% equity interest 2021**	% equity interest 2020
Buse - HyGear LTD	UK	50	50
GNR Québec Capital S.E.C.	Canada	50	50
Xebec Adsorption (Shanghai) Co. LTD [1]	China	60	70

[1] On June 25, 2021, a new partnership with Shanghai based Shenergy Group Company Limited was approved by the Chinese authority. Xebec Shanghai received a direct equity investment of $3,400K in exchange for the debt and interest owed by Xebec for its share buyback obligation. Xebec Adsorption Inc. participation reduced from 70% to 60%, along with changes to the shareholder agreement, which resulted in a change of control thus Xebec Shanghai have been deconsolidated from the date that control ceases. Following this transaction, the investment in the new partnership is recognised and presented as an equity investment.

27 Related party transactions

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

	2021 $	2020 $
Marketing and professional services expenses paid to companies controlled by members of the immediate family of an officer	**84**	80
Rent paid to companies controlled by members of the immediate family of an officer	**240**	24
Salaries and short-term benefits paid to members of immediate family of an officer	**186**	165
Material purchased to companies controlled by members of the immediate family of an officer	**55**	34
Total related party transactions	**565**	303

The Company's transactions and outstanding balances with equity accounted investees are as follows:

	2021 $	2020 $
Revenue	**700**	-
Accounts receivables	**1,141**	-