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C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
COURT. No.: 500-11-061483-224

S U P E R I O R C O U R T
Commercial Division

IN THE MATTER OF A PLAN OF ARRANGEMENT OR COMPROMISE OF:

XEBEC ADSORPTION INC.
XEBEC RNG HOLDINGS INC.
COMPRESSED AIR INTERNATIONAL INC.
APPLIED COMPRESSION SYSTEMS LTD.
XEBEC HOLDING USA INC.
ENERPHASE INDUSTRIAL SOLUTIONS INC.
CDA SYSTEMS, LLC
XEBEC ADSORPTION USA INC.
THE TITUS COMPANY
NORTEKBELAIR CORPORATION
XBC FLOW SERVICES – WISCONSIN INC.
CALIFORNIA COMPRESSION, LLC
- and -
XEBEC SYSTEMS USA, LLC

Debtors / Petitioners

- and -

DELOITTE RESTRUCTURING INC.

Monitor

THIRD REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS MONITOR
(*Companies' Creditors Arrangement Act*)

INTRODUCTION

1. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

2. Unless otherwise stated, the Debtors/Petitioners in the Application (as defined below) are collectively referred to herein as the "**Petitioners**" or the "**Debtors**".

3. The Petitioners and the other material direct or indirect subsidiaries of Xebec Adsorption Inc. ("**Xebec Inc.**"), which are not currently parties in the CCAA Proceedings (as defined below), are collectively referred to herein as the "**Xebec Group**" or the "**Company**".

4. Capitalized terms not otherwise defined herein are as defined in the previous reports of the Monitor.

5. On September 29, 2022, the Petitioners filed an *Application for the Issuance of a First Day Initial Order, a Deemed Extension of the Stay Period and a Bidding Procedures Order* (the "**Initial Application**") under the *Companies' Creditors Arrangement Act* ("**CCAA**").

6. On September 29, 2022, Deloitte Restructuring Inc., then in its capacity as Proposed Monitor, issued its first report to the Court (the "**First Report**") as part of the Debtors' CCAA proceedings (the "**CCAA Proceedings**"). The purpose of the First Report was to provide information to the Court with respect to I) the business, financial affairs and financial results of Xebec Group; II) the Petitioners' main creditors; III) the proposed restructuring process; IV) the proposed sale and investment solicitation process; V) charges sought in the proposed "First Day Initial Order"; VI) payments to Critical Suppliers; VII) overview of the Cash Flow Projections as of the date of the First Report; VIII) Deloitte's qualification to act as Monitor; IX) Recognition Proceedings in the United States; and X) the Proposed Monitor's conclusions and recommendations.

7. On September 29, 2022, the Court granted the Initial Application and rendered the First Day Initial Order and the Bidding Procedures Order which provided for, *inter alia*, (i) a stay of proceedings against the Petitioners until and including October 9, 2022 (the "**Initial Stay Period**"); (ii) a stay of proceedings against the Directors and Officers; (iii) the appointment of Deloitte Restructuring Inc. as the monitor under the CCAA ("**Deloitte**" or the "**Monitor**"); (iv) entitlement to pay Critical Suppliers up to a maximum aggregate amount of $700K; (v) an Administration Charge of $250K, a D&O Charge of $2.2M, a Transaction Charge of $975K; and (vi) the approval of the SISP.

8. On October 4, 2022, the Petitioners notified to the Service List and filed with the Court an *Application for an Extension of the Stay of Proceedings*, seeking an extension of the First Day Initial Order until October 20, 2022.

9. On October 6, 2022, the Monitor issued its Second Report. The purpose of the Second Report was to provide information to the Court on the activities of Xebec and of the Monitor since the commencement of the CCAA Proceedings and to support the Petitioners' demand for the issuance of the Order Extending the Stay of Proceedings. The Monitor provided, *inter alia*, updated information in respect to the SISP, payments to Critical Suppliers, as well as to cash flow projections.

10. On October 7, 2022, the Court extended the Initial Stay Period and the application of the First Day Initial Order up to and including October 20, 2022 (the "**Stay Period**").

11. On October 18, 2022, the Petitioners notified to the Service List and filed with the Court an *Application for the Issuance of an Amended and Restated Initial Order* (the "**Application**"), seeking, *inter alia*, (i) the issuance of an Amended and Restated Initial Order (the "**ARIO**"); (ii) the extension of the Stay Period until November 28, 2022; (iii) an increase of the Administration Charge from $250,000 to $900,000; (iv) an increase of the D&O Charge from $2.2M to $3.7M; (v) the approval of the DIP Facility and the approval of a DIP Charge in the amount of $3.6M (as defined below); and (vi) the approval of KERPs and of a KERP Charge (as defined in the Application) up to a maximum amount of $1.08M.

12. On October 18, 2022, the Petitioners notified to the Service List the *Application For The Extension of the Stay of Proceedings to Certain Third Parties* (the "**Application to Extend Stay to Third Parties**"), seeking *inter alia*, an order extending the stay of proceedings to any Person named as a defendant or respondent in the Class Actions (as these terms are defined in the aforementioned application). This application is to be heard at a date yet to be determined.

13. In accordance with the First Day Initial Order, the Monitor hereby issues its third report (the "**Third Report**"), which will cover the following items:

    I. Update regarding Xebec Group's communications and operations;

    II. The Monitor's activities since the Second Report;

    III. Update on the SISP;

    IV. Recognition Proceedings in the United States;

    V. Modifications sought to the Charges in the proposed ARIO;

    VI. DIP Facility;

    VII. Key employee retention programs;

    VIII. Payments to Critical Suppliers;

    IX. Intercompany payments;

    X. Actual Receipts and disbursements;

    XI. Overview of the 8-week Cash Flow Projections;

    XII. The request for an extension of the Stay Period;

    XIII. The Application to Extend Stay to Third Parties; and

    XIV. The Monitor's conclusions and recommendations.

14. In preparing the Third Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, the Petitioners' books and records and financial information prepared by the same and discussions with management ("**Management**") of the Petitioners (collectively, the "**Information**"). Except as described in this Third Report in respect of the Debtors' Cash Flow Statement (as defined below):

(i) The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

(ii) Some of the information referred to in this Third Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in Chartered Professional Accountants Canada Handbook, has not been performed.

15. Future oriented financial information referred to in this Third Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

16. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this Third Report concerning the Petitioners and their business is based on the Information, and not independent factual determinations made by the Monitor.

17. The Information that was analyzed does not include the extent of the impact of Coronavirus ("**COVID-19**") on the Petitioners' operations. At the time of the Third Report, the situation is continuing to evolve, and many uncertainties remain as to the effect the COVID-19 crisis has had and may continue to have on the Petitioners and the broader domestic and global economies.

18. The Monitor relied, in part, on publicly available information, Management forecasts and other information provided by Management in relation to the effect COVID-19 has had and may continue to have on the Petitioners.

I. UPDATE REGARDING XEBEC GROUP'S COMMUNICATIONS AND OPERATIONS

19. Since the Second Report, the Company continued to have regular communications with all of its main customers, suppliers and other key stakeholders to explain the current situation and the next steps relating to the Restructuring Process.

20. Since the Second Report and due to the uncertainty surrounding the company's future operations, the Company continued to have regular communications with its local management teams and its employees, with the view to ensure that key resources remain in place during the Restructuring Process, in order to minimize impacts on operations.

21. The Company, with the assistance of the Monitor, has pursued its ongoing discussions with its secured lenders, EDC and NBC, in view of securing interim financing and keeping them updated of the relevant developments regarding the operations of the Company and the Restructuring Process generally, including with respect to the SISP. Since the Second Report, several meetings and regular exchanges of information have taken place, almost on a daily basis, and the Company, the Monitor and their respective counsel have continued to collaborate with NBC and EDC and their respective financial and legal advisors, including by providing them with requested information and documentation relating to the finances and operations of the Company and the Restructuring Process generally.

22. The Company and its advisors, in consultation with the Monitor, also continued its discussions with NBC in order to extend the forbearance agreement and to continue to have access to its credit facilities until the expiry of the proposed stay period, November 28, 2022, subject to further extensions as may be required.

23. The Company and the Monitor continued to have several discussions and exchanges of information with the Petitioners' key customers in order to:
    a) optimize working capital on key projects; and
    b) assess the viability of key contracts and the opportunity to continue same.

24. The Company and the Monitor continued to have several discussions and exchanges of information with the Petitioners' main suppliers relating to:
    a) parts & equipment suppliers; and
    b) employee agencies.

25. The Company has been proactive in responding to the different stakeholders' inquiries relating to the CCAA Proceedings and the Restructuring Process.

26. The Company remained careful and vigilant in managing its liquidities. The Company has continued to focus on limiting disbursements until a clear path has been established with respect its operations during the Restructuring Process, including with respect to interim financing and to the decision pertaining to the continuation of certain key contracts.

27. To the Monitor's knowledge, the Company has remained in compliance with the provisions of the First Day Initial Order and the Bidding Procedures Order since their issuance by the Court.

II. THE MONITOR'S ACTIVITIES SINCE THE SECOND REPORT

28. Since the Second Report and following the establishment of a dedicated email address and a phone number, the Monitor has answered to inquiries received from various parties in respect of the Restructuring Process and the CCAA proceedings. The inquiries pertaining to the SISP are directed to the SISP Manager.

29. Since the Second Report, the Monitor posted a copy of the CCAA Proceedings' materials, the Second Report of the Monitor as well as the Order Extending the Stay of Proceedings on the Monitor's Website, which it updates on a regular and proactive basis.

30. On October 12, 2022, a second notice to creditors was published in La Presse+ (French version) and in the Globe and Mail National Edition (English version), as provided by the First Day Initial Order.

31. In addition, the *Notice of Sale and Investment Solicitation Process* was published on the Monitor's website on October 13, 2022 and will be published in La Presse+ (French version) and in the Globe and Mail National Edition (English version) on October 19, 2022, as provided by the Bidding Procedures Order.

32. The Monitor continued to assist the Petitioners in their discussions with their main customers, suppliers and other key stakeholders. The Monitor has participated in meetings with several stakeholders since the Second Report, including:
    a) the Company's secured lenders, NBC and EDC, and their respective financial advisors, PwC and Richter;
    b) some of the Company's main customers and suppliers;
    c) one of the Company's unsecured creditors, FSTQ; and
    d) the Company's employees.

33. More generally, the Monitor has been responding to questions and inquiries of various stakeholders in relation to the CCAA Proceedings and the Restructuring Process.

34. Since the Second Report, the Monitor continued to work with the Company to develop and implement procedures to monitor the Company's activities in view of reporting to the Court.

35. The Monitor has had multiple communications and discussions with NBF and the Company regarding the launching and ongoing progress of the SISP.

36. The Monitor has held regular discussions with the Company and has been kept apprised on:
    a) the Petitioners' operations;
    b) the Petitioners' efforts to secure an interim financing facility; and
    c) any other issues the Petitioners encounter from time to time.

37. The Monitor implemented a daily review of the Petitioners bank accounts' receipts and disbursements. Since the Second Report, daily information relating to the payment of goods or services supplied to the Petitioners has been presented to the Monitor by the Petitioners. The Monitor received the full cooperation from Management at all times.

38. The Monitor has continued to assist the Company in establishing the Petitioners' revised cash flow projections and modeling the different scenarios regarding the funding of its operations until early February 2023, time at which the SISP is currently projected to be completed.

III. UPDATE ON THE SISP

39. As mentioned in the Second Report, pursuant to the Bidding Procedures Order, the Petitioners initiated the SISP, which is intended to solicit interest in respect of the Xebec group and eventually lead to one or more transactions relating to the business and assets of the Company. The SISP is being conducted by the Company, with the assistance of the SISP Manager NBF, under the oversight of the Monitor.

40. The SISP Manager is regularly updating the Petitioners and the Monitor regarding the progress of the SISP and, at least twice a week, the SISP Manager conducts meetings with the Monitor, the Petitioners and their respective legal advisors in order to update all the parties on the latest developments.

41. In accordance with the Bidding Procedures Order, the SISP Manager has been sending to targeted potential bidders "teasers", solicitation letters (advising of the SISP, including the deadline of November 11, 2022 in order to submit letters on interest) and a draft non-disclosure agreement ("**NDA**"). As of October 17, 2022, such packages have been sent to approximately 477 targeted potential bidders worldwide, composed of 141 strategic parties, 324 financial sponsors and 12 special purpose acquisition companies. Out of these parties:

    a) 44 entered into a NDA and were provided access to the virtual data room (VDR) to conduct their due diligence process;
    b) 18 are currently in communication with the SISP Manager regarding the terms of the NDA and are expected to execute one;
    c) 110 of those parties declined interest; and
    d) One party submitted a letter of intent, but was advised that the SISP timeline as initially presented was being maintained and was encouraged to submit an offer in conformity with the Bidding Procedures Order.

42. Based and relying upon information provided by the SISP Manager, the Monitor is of the view that the SISP is being diligently conducted and is yielding interest from many third parties.

IV. RECOGNITION PROCEEDINGS IN THE UNITED STATES

43. As mentioned in the Second Report, on September 30, 2022, the Debtors obtained an order granting provisional relief pursuant to section 1519 of the Bankruptcy Code. A recognition hearing has been scheduled by the United States Bankruptcy Court for the District of Delaware for November 1st, 2022.

44. As per the order scheduling the recognition hearing and specifying the form and manner of service of notice dated October 3rd, 2022, all objections to the requested recognition of the Canadian proceedings must be filed on or before October 25, 2022.

45. As of the date of this report, no objection has been filed.

V. MODIFICATION SOUGHT TO THE CHARGES IN THE PROPOSED ARIO

Administration Charge

46. As mentioned in the previous reports, the First Day Initial Order provides a priority charge in the amount of up to $250,000 in favor of the Debtors' counsel, the Monitor and its counsel as security for their professional fees and disbursements incurred both before and after the issuance of the First Day Initial Order in respect of these CCAA Proceedings, as well as for the portion of the SISP Manager Fee excluding the Transaction Fee and the Financing Advisory Fee (the "**Administration Charge**"), it being understood that an increase of the Administration Charge would be sought at the comeback hearing.

47. As expected at the outset of the CCAA Proceedings, the Application seeks to increase the amount of the Administration Charge to an amount of $900,000. This amount has been established based on the respective professionals' previous experience with restructuring of similar magnitude and complexity, as well as upon reviewing costs and expenses to date.

48. The Monitor believes that the increase of the Administration Charge amount is required and reasonable under the circumstances and should be granted upon the issuance of the ARIO.

Directors' and Officers' Charge

49. As mentioned in the previous reports, the First Day Initial Order provided a priority charge in the amount of up to $2.2M which secures the indemnity provided to the directors and officers in respect of liabilities incurred in such capacity after the First Day Initial Order, except to the extent that such obligation or liability would have incurred as a result of the directors' and officers' gross negligence or willful misconduct (the "**D&O Charge**").

50. The Application seeks to increase the amount of the D&O Charge to an amount of $3.7M. This amount has been established in consultation with the Monitor and is in line with the updated calculation attached at **Appendix A** to this report. The increase of the amount of the D&O Charge is namely required since the Petitioners have not implemented the accelerated schedule of payments and payroll expenses, which was potentially contemplated at the outset of the CCAA Proceedings.

51. The Monitor believes that the increase of the D&O Charge amount is required and reasonable under the circumstances and should be granted upon the issuance of the ARIO.

VI. DIP FACILITY

52. As appears from the Application, the Company has negotiated the terms of an interim financing facility term sheet (the "**DIP Facility**" and the "**DIP Term Sheet**") with NBC (the "**DIP Lender**"), which allows the Xebec Group to borrow up to a principal amount of $3M in

order to maintain its operations throughout the period of the SISP, subject to the terms and conditions set forth in the DIP Term Sheet.

53. Prior to the First Day Initial Order, several parties were approached by the Petitioners, via NBF and in consultation with Deloitte (then in its capacity as proposed Monitor), in order to ascertain their interest to provide an interim financing facility. The Monitor is informed that fifteen (15) potential lenders were solicited, including current stakeholders and other third parties, eight (8) of which had signed a confidentiality agreement to allow access to useful information in order to prepare a potential term sheet.

54. The Monitor was also informed that, prior to the First Day Initial Order, certain third parties had manifested themselves to explore the possibility of extending a potential interim facility. However, no concrete offer or interim facility term sheet ensued from these discussions.

55. No other party than the current secured lenders of the Petitioners continued sustained discussions pertaining to a potential interim financing urgently needed by the Petitioners. These discussions have continued diligently since the Second Report. The Petitioners insisted upon the need to secure interim financing prior to the comeback hearing. This term sheet received from NBC was discussed and negotiated between NBC and the Petitioners, in consultation with the Monitor.

56. The DIP Term Sheet further provides that the advances under the DIP Facility are to take place starting in mid-November, subject to certain conditions, including pertaining to the satisfaction of NBC with respect to (i) the LOIs submitted as part of the SISP (which are set to be received by the SISP Manager on November 11, 2022 at the latest, as per the Bidding Procedures Order), and (ii) the actual financial results of the Company and its updated forecasts. The DIP Term Sheet also contains reporting obligations imposed upon the Petitioners on a weekly basis.

57. As also appears from the DIP Term Sheet, all amounts advanced thereunder are to be secured by a Court-ordered super-priority charge in the amount of $3.6M, as part of the proposed ARIO, on all of the Company's present and future assets and property, in priority to all other existing encumbrances and Court-ordered charges, except for the Administration Charge and the D&O Charge (the "**DIP Charge**").

58. In excess of the information provided above, further details in connection with the DIP Facility are provided for in the Application, and additional details are included in the DIP Term Sheet which have been filed under seal in support of the Application prior to the hearing on the Application.

59. Despite the advances under the DIP Facility being scheduled to begin in mid-November, the Petitioners consider it is urgent that this Court approves the DIP Facility as part of the proposed ARIO at the comeback hearing on October 20, 2022, and the Monitor agrees with this position. Indeed, as previously reported to the Court, the Company has had to maintain expenses at a minimum until the securing of an interim financing facility. Given the nature of the business and the cash cycle, this has already had a negative impact on the projected cash receipts for the coming weeks and months and it is thus urgent that access to the DIP Facility be confirmed, such that the Petitioners can proceed with orders and expenses necessary to complete contracts during the CCAA Proceedings.

60. As indicated in the Application, without the approval of the DIP Facility, the Petitioners would have to immediately initiate drastic cost-reducing measures, including significant layoffs of their North American workforce (which could be in excess of 200 employees).

61. The approval of the DIP Facility is meant to stabilizing the operations by comforting suppliers, customers and employees that the Company is in a position to maintain its operations

throughout the period of the SISP, while at the same time maximizing the value of the Xebec Group for all stakeholders by doing so.

62. The Monitor was kept apprised of the efforts undertaken by the Debtors in order to secure interim financing and was party to many discussions with the secured creditors NBC and EDC in connection thereto, and was given the opportunity to comment on the terms of the DIP Term Sheet prior to it being finalized.

63. The Monitor supports the Company's request for the authorization of the DIP Facility and the granting of the DIP Charge for the following reasons:

    (i) In the Monitor's view, no creditor will be materially prejudiced as a result of the DIP Facility and DIP Charge, to the contrary;

    (ii) The funding is expected to allow the Company to continue its restructuring efforts and proposed restructuring, by allowing it to maintain operations for the benefit of suppliers, customers and employees and to maximize the value of the Xebec Group, as opposed to the critical scenario and measures which would need to be urgently implemented in the absence of an interim financing facility;

    (iii) The DIP Facility is also necessary to maximize the value of the businesses and assets as part of the SISP; and

    (iv) The Monitor considers the terms of the DIP Facility and its costs (fees and interest rate) reasonable in the circumstances and in line with what is regularly offered in the market.

64. The Monitor supports the DIP Facility sought by the Petitioners and the DIP Charge proposed herein, as it will allow the Petitioners to preserve and maximize the value of the Company and facilitate the Company's operations throughout the duration of the SISP and the CCAA Process. Given the impact on the operations of the Xebec Group and on the restructuring generally, the Monitor is of the view that it is urgent that the DIP Facility be approved by the Court without delay.

65. The Monitor is advised that, as of the date of this report, the DIP Term Sheet remains subject to approval by the credit committee of NBC, which is expected to be obtained shortly.

VII. KEY EMPLOYEE RETENTION PROGRAMS

66. As more fully described in the Application, the Petitioners have prepared (i) a key employee retention plan, (ii) a key vice-president retention plan, and (iii) a key executive incentive plan (collectively, the "**KERPs**") to encourage key resources to remain in the employment of the Xebec Group. This program aims to maximize the enterprise value of Xebec Group and to avoid potential operational challenges and disruptions resulting from possible departures.

67. The Petitioners and the Monitor believe that the continued employment of the fifteen (15) identified key individuals is critical to the successful restructuring of the Xebec Group and that, in the absence of an incentive plan in favor of these key individuals, these resources are at risk of seeking other employment opportunities, especially in the current employment market and in light of the Xebec Group's financial situation.

68. As described in the Application, the proposed KERPs include four (4) executives, five (5) vice-presidents, and six (6) other key employees.

69. The Petitioners and the Monitor believe that it would be very challenging to replace the key employees identified in the KERPs considering their specific knowledge of the Petitioners' operations, the specialized nature of the Company's operations, these CCAA proceedings, as well as the structural limitations in respect of the current labor market.

70. The Petitioners and the Monitor believe that without ensuring the retention of these key individuals, a successful restructuring would likely be impeded.

71. The global cost of the KERPs proposed by Management is $1.08M, as further detailed in an exhibit of the Application, filed under seal.

72. The KERP payments would be made in three (3) instalments payable as follows: (i) 30 percent of the total retention bonus payable two months following the filing date of these CCAA Proceedings; (ii) 30 percent of the total retention bonus payable four months following the filing date of these CCAA Proceedings; and (iii) the remaining 40 percent of the total retention bonus payable on the earlier of eight months following the filing date of these CCAA proceedings or a Successful Restructuring (as defined thereunder).

73. The Monitor reviewed the proposed KERPs on an employee-by-employee basis, and agreed with the selection of the fifteen (15) employees by the Petitioners.

74. The secured creditors NBC and EDC and their respective financial advisors have been informed of the terms of the KERPs and of the KERP payments provided by same that have been included in various forecasts provided to them.

75. The Monitor has reviewed the KERPs and believes that it is necessary in the above-mentioned circumstances, and that the milestones in the KERPs are aligned with those of the proposed Restructuring Process, namely the successful closing of a transaction or multiple transactions providing for the sale of all or substantially all of the Xebec Group's assets, as part of the ongoing SISP.

VIII. PAYMENTS TO CRITICAL SUPPLIERS

76. The First Day Initial Order provides that the Petitioners shall be entitled, with the prior consent of the Monitor, to pay amounts owing for goods or services actually supplied to the Petitioners prior to the First Day Initial Order by third party suppliers up to a maximum aggregate amount of $700,000, if, in the opinion of the Petitioners and of the Monitor, the supplier is considered as a Critical Supplier.

77. Given the current situation and developments in the CCAA Proceedings, the Petitioners are of the view that it is not currently necessary to modify the maximum amount of $700K.

78. As of the date of this report, the Monitor has approved one single payment totaling $39K USD to a Critical Supplier of an entity of the Xebec Group located in the United States.

79. As mentioned in the First Report, the opportunity and extent of payments to Critical Suppliers namely depend on the liquidities of the Company and in particular on the discussions with customers regarding the terms of their contracts, which discussions will impact the measures and steps of the Restructuring Process.

80. The Petitioners are still of the view that such payments to Critical Suppliers will be kept to a minimum.

IX. INTERCOMPANY PAYMENTS

81. As mentioned in the previous reports, and as provided by the First Day Initial Order, intercompany funding has been required between entities of the Xebec Group in order to preserve value and maintain going concern operations. The Monitor is being informed of these intercompany payments and reviews them. As indicated in the First Report, the Monitor will include in its reports all relevant information with respect to material post-filing intercompany payments to take place during the CCAA process.

82. The detailed list of all intercompany payments is presented at **Appendix B** of this report. As indicated in the notes of said Appendix B, the mechanics regarding the Petitioners' allocated share of the restructuring costs and other intercompany payments, as the case may be, could be adjusted retroactively as part of the CCAA Proceedings and/or once the SISP is completed.

X. ACTUAL RECEIPTS AND DISBURSEMENTS

83. The Petitioners have remained careful and vigilant in managing the Company's liquidities and accordingly, incurred limited obligations until the Company has a better understanding of the source(s) of financing available to fund the Petitioners' operations.

84. Xebec Group's financial performance highlights for the period from September 25, 2022 to October 8, 2022, are presented in the Actual Cash Flow appended hereto as **Appendix C**. The Monitor's comments on the Xebec Group's financial performance during this period are as follows:

    a) compared with the initial statement of projected cash flow presented to the Court in the Second Report (the "**Initial Cash Flow Statement**"), the Debtors experienced a favorable variance of $2.9M in cash inflows mainly explained by the following:

        i. the sales receipts of $5.9M were higher than the budgeted $4.8M, creating a favorable variance of $1.1M. This variance is mainly due to accelerated collection of account receivables and a permanent favorable variance of $400K from the collection of receivables that were deemed uncollectible in the budget; and

        ii. transfers from related parties which were made exclusively between the Petitioners over the 2-week period ended October 8, 2022. Xebec Adsorption Inc. received an unbudgeted amount of $1.7M from Xebec Systems USA, LLC regarding restructuring costs and payroll expenses as mentioned in Appendix B of this report (this positive variance is offset by a negative variance for the same amount as part of the disbursements). The remaining favorable variance of $78K is due to the deferral of a transfer to Xebec Italy S.r.l.

    b) compared with the Initial Cash Flow Statement, the Debtors experienced a favorable variance of $3.3M in cash outflows (net of the unfavorable variance of $1.7M for intercompany transfers discussed above). The variance is primarily attributable to the following:

        i. the favorable variance of $1.3M in payroll related expenses, which is mainly temporary. The budget reflected an accelerated schedule of payments in payroll expenses, which after consideration was not implemented by the Company during the period under review;

ii. due namely to the absence of confirmation of access to an interim financing facility, Management kept disbursements associated to trade payables to a strict minimum resulting in a favorable variance of $3.0M;

iii. the favorable variance of $521K in professional fees is mainly due to timing, as certain invoices had not been received by the Company at the end of the period; and,

iv. the favorable variance of $134K in interest payable is due to timing of payments.

c) compared with the Initial Cash Flow Statement, the Debtors experienced a net favorable variance of approximately $6.1M, as explained, mainly related to timing differences.

85. Although the Petitioners, with the assistance of the Monitor, are currently finalizing the compilation of the transactions which occurred during the week ended October 15, 2022 in order to compare them with the Initial Cash Flow Statement, the Monitor understands that the cash position as at October 15, 2022 was approximately $14M compared to an amount of approximately $4M as budgeted. As mentioned in the previous reports and outlined in the explanations provided in the prior paragraphs, the Petitioners have been managing their disbursements to a minimum, pending the confirmation of access to an interim financing facility. This has had a negative impact on the forecasted receipts going forward, and the confirmation of the interim financing facility is expected to allow the Petitioners to incur certain expenses necessary to continue its viable contracts.

86. In the First Report, it was reported that the Company's indebtedness towards NBC excluded outstanding letters of credit in the amount of approximately $7.5M. The Monitor has since been made aware that an amount of approximately $360K was drawn against a letter of credit.

87. As of the date of this Third Report, all post-filing expenses incurred by the Petitioners have been paid or will be paid in the normal course of business out of the existing working capital of the Petitioners, including its different bank accounts, as described in the previous reports.

XI. OVERVIEW OF THE CASH FLOW PROJECTIONS

88. The Company, with the assistance of the Monitor, has prepared the statement of projected cash flow (the "**Cash Flow Statement**") for the 8-week period from October 9, 2022 to December 3, 2022 (the "**Cash Flow Period**") for the purpose of projecting the Company's estimated liquidity needs during the Cash Flow Period. A copy of the Cash Flow Statement is attached as **Appendix D** to this report.

89. The Cash Flow Statement has been prepared by the Company using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement attached as **Appendix E** to this report.

90. The Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to information supplied to it by Management. Since the hypothetical assumptions need not be supported, the Monitor's procedures with respect to these assumptions were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Monitor also reviewed the documents provided by Management in support of the probable assumptions, and the preparation and presentation of the Cash Flow Statement.

91. Based on the Monitor's review and subject to the foregoing qualifications and limitations, nothing has come to its attention that causes it to believe that, in all material respects:

(i) The hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;

(ii) As at the date of this Third Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Statement, given the hypothetical assumptions; or

(iii) The Cash Flow Statement does not reflect the probable and hypothetical assumptions.

92. Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no opinion as to whether the projections in the Cash Flow Statement will be achieved. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report or, relied upon in preparing this report. Neither does the Monitor express any opinion as to the performance of the Company's statutory obligations with regard to projected payments to be made in accordance with the Cash Flow Statement, inter alia the payment of wages, the government remittances and the payroll deductions to be made by the Debtors.

93. The Cash Flow Statement has been prepared solely for the purpose described in the Notes to the Cash Flow Statement (**Appendix E**), and readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

94. As mentioned above, the key assumptions used in the Cash Flow Statement are based on the Petitioners' most recent sales and costs trends prior to the First Day Initial Order and on the issuance of the proposed ARIO including approval of the DIP Facility. The Petitioners' consolidated cash balance as at December 3, 2022 is estimated to be $5.4M. This presumes access to DIP Facility and draws of $3M under same, to take place starting in mid-November.

95. Management anticipates more restrictive payment terms for purchases from suppliers following the announcement of the CCAA proceedings. As such, Management has anticipated certain "cash on delivery" purchases and payment of deposits to certain supply providers.

96. As appears from the Cash Flow Statement and the Application, the Xebec Group intends to continue to pay its trade creditors for services rendered and goods supplied in the normal course of business during these CCAA proceedings, but also, with the permission from this Court and exceptionally, for services rendered and goods supplied in the normal course of business before the present CCAA proceedings with respect to the Critical Suppliers (as described above).

97. Management has advised the Monitor that it believes that the forecast reflected in the Cash Flow Statement is reasonable.

98. This being said, the Cash Flow Statement of the Company for the Cash Flow Period and for the period subsequent to same will depend in particular on the ongoing discussions with its suppliers and customers in respect to their contracts.

XII. THE REQUEST FOR AN EXTENSION OF THE STAY PERIOD

99. The Debtors are seeking an extension of the Stay Period until November 28, 2022, in order to, *inter alia*, continue the ongoing SISP and the discussions with its key customers and the implementation of related restructuring measures, as well as to obtain recognition of the CCAA Proceedings in the United States.

100. The Stay Period allows the Company to operate in a more structured and stable environment, necessary given the multiple issues to deal with in various business segments and jurisdictions with different stakeholders, and for Management to fully concentrate on the Restructuring Process and on the operations of the Company in this particular context, the whole for the benefit of all stakeholders.

101. Moreover, at the expiry of the Stay Period being sought, phase 1 of the SISP will have been completed and the Qualified Bidders will have been advised by the SISP Manager if their bid constitutes a Phase 1 Satisfactory Bid (as these terms are defined in the Bidding Procedures Order and pursuant thereto). The Company and the Monitor will therefore have clearer visibility as to potential outcomes from the SISP.

102. The Monitor is informed that the Petitioners intend to continue to pay their trade creditors for services rendered and goods supplied in the normal course of business during the CCAA Proceedings.

103. As described in this Third Report, the Cash Flow Statement indicates that the Petitioners should have sufficient liquidity to continue to meet their obligations in the ordinary course of business with continued access to their current liquidities and existing working capital and, the DIP Facility.

XIII. THE APPLICATION TO EXTEND STAY TO THIRD PARTIES

104. On October 18, 2022 the Petitioners notified the Application to Extend Stay to Third Parties.

105. On the same day, the Petitioners and the Monitor were informed by email that the Plaintiffs (as also defined in the Application to Extend Stay to Third Parties) intended to contest the extension of the Stay Period, notably because the Application was purportedly time-barred because it was filed without providing a two-day notice.

106. The Monitor’s counsel responded to this correspondence and indicated that all efforts had been placed on negotiating and securing an interim financing facility, with a view of maintaining ongoing operations, maximizing the value of the business as part of the SISP, as well as continuing to work with the Company’s key customers in order to ensure the viability of contracts that are continuing during the Restructuring Process. Given the foregoing and although the Petitioners had all intent and willingness to serve the Application at an earlier date, such was not possible given the ongoing discussions to secure interim financing.

107. The Petitioners and the Monitor were also informed of the aforementioned Plaintiff’s counsel’s position that the class action proceedings should continue despite the CCAA Proceedings. On October 17, 2022, the Petitioners’ class action counsel had advised the Plaintiff’s counsel and the judge supervising the class action proceedings that they disagreed with this position and that they would be seeking an extension of the stay to other parties, including the underwriters named as defendants in such proceedings, in order to allow the Debtors and their directors and officers to focus all resources, time and efforts on the Restructuring Proceedings.

108. As stated in the present report, the extension of the Stay Period is essential to allow Management to focus completely on the Restructuring Process, with an unfettered focus on operational matters and on the heavy burden imposed upon them daily. In effect, it is essential that the Company and its resources, time and energies are not diverted to matters that are not directly related to the Restructuring Process, the whole to the benefit of all stakeholders and in furtherance to the remedial objectives of the CCAA.

109. In that respect, the Monitor is of the view that the Application to Extend Stay to Third parties is justified in order to pursue such objectives.

110. The Monitor has been kept apprised and has participated in the very important and time consuming efforts deployed by the Company to secure interim financing for the benefit of all involved and which is central to the Company's restructuring efforts, which explain why the Application could not be filed earlier. The Monitor's view with respect to the necessity of the extension of the Stay Period, as detailed in the sections above and in the previous reports, remains unchanged.

XIV. THE MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

111. The Monitor believes that the Petitioners should be granted the benefit from the protection available pursuant to the CCAA in the form of the proposed ARIO, including the granting of the charges provided for therein for the amounts set out above, since same would provide the Company with the opportunity for a successful restructuring.

112. As noted above, the current Stay Period expires on October 20, 2022. The extension of the Stay Period sought by the Petitioners is required to continue the Restructuring Process.

113. It is the Monitor's view that the continuation of the Restructuring Process is beneficial to its creditors and stakeholders as a whole.

114. The Monitor also believes that the Petitioners have acted, and are acting, in good faith and with due diligence and that the extension of the Stay Period is appropriate.

DATED AT MONTREAL, this 19th day of October 2022.

DELOITTE RESTRUCTURING INC.
In its capacity as Court-Appointed Monitor of the Petitioners

Jean-François Nadon, CPA, CIRP, LIT

Julie Mortreux, CPA, CIRP, LIT

Appendix A – D&O Charge Calculation

Xebec North America	**Estimated D&O Charge Calculation**				
Analysis by legal entities (in $000 CAD)	Wages (2.5 weeks)	Vacation (2 months)	Fringe benefits (2.5 weeks)	Sales taxes (2 months)	**Total**
Petitioners entities					
Xebec Adsorption Inc.	771	140	154	-	**1,064**
Compressed Air International Inc.	69	12	14	46	**141**
Applied Compression Systems Ltd.	120	19	24	72	**234**
California Compression, LLC	127	32	19	88	**266**
CDA Systems LLC	71	18	11	67	**166**
Enerphase Industrial Solutions Inc.	156	40	23	8	**226**
Nortekbelair Corporation	95	27	14	2	**139**
The Titus Company	132	21	20	6	**179**
UEC, LLC / Xebec Systems USA LLC	630	101	107	109	**946**
XBC Flow Services - Wisconsin Inc.	67	15	10	6	**98**
Xebec Adsorption USA Inc.	154	20	23	-	**197**
Total	**2,390**	**445**	**419**	**403**	**3,657**

Appendix B – Intercompany Payments

Related party - Advances transfer summary		In thousand CAD		
For the week ending		01-oct-22	08-oct-22	Total
Related party - Advances collection				
BLA from CAI (1)	Compressed Air Int. --> Xebec Adsorption Inc.	-	500	500
BLA from UEC (2)	Xebec System USA LLC --> Xebec Adsorption Inc.	-	1 718	1 718
XSU from AIR (3)	Enerphase Industrial Solutions Inc. --> Xebec Adsorption USA Inc.	27	-	27
XSU from TIT (3)	The Titus Company --> Xebec Adsorption USA Inc.	55	-	55
XSU from XBC (3)	XBC Flow Services --> Xebec Adsorption USA Inc.	69	-	69
XBC from CAL (4)	California Compression LLC --> XBC Flow Services	-	68	68
Total		**151**	**2 286**	**2 437**
Related party - Advances disbursements				
CAI to BLA (1)	Compressed Air Int. --> Xebec Adsorption Inc.	-	500	500
UEC to BLA (2)	Xebec System USA LLC --> Xebec Adsorption Inc.	-	1 718	1 718
AIR to XSU (3)	Enerphase Industrial Solutions Inc. --> Xebec Adsorption USA Inc.	27	-	27
TIT to XSU (3)	The Titus Company --> Xebec Adsorption USA Inc.	55	-	55
XBC to XSU (3)	XBC Flow Services --> Xebec Adsorption USA Inc.	69	-	69
CAL to XBC (4)	California Compression LLC --> XBC Flow Services	-	68	68
Total		**151**	**2 286**	**2 437**

(1) - Intercompany transfer related to management fees. This intercompany transfer has been made from a Canadian entity to another Canadian entity and is still under review. The mechanics of intercompany payments, as the case may be, could be adjusted retroactively as part of the CCAA Proceedings and/or once the SISP is completed.

(2) - The intercompany transfer relates to (i) allocation of the restructuring costs between Xebec Inc. (a Canadian entity) and Xebec System USA LLC (a United States entity) for approximately $1.1M and (ii) a transfer from Xebec System USA LLC to Xebec Inc. to reimburse Xebec Inc. for an advance of USD $457,000 made to California Compression in order to pay certain of its employees and former employees as wage and benefits adjustments as further described in the First Report. The mechanics of the allocation and other intercompany payments, as the case may be, could be adjusted retroactively as part of the CCAA Proceedings and/or once the SISP is completed.

(3) - Xebec Adsorption USA inc., being a corporate office, is mainly a cost center entity with overhead costs including amongst other things, payroll and insurance. The transfers to Xebec Adsorption USA inc. represent the allocated share of payroll.

(4) - Intercompany transfer related to payroll that is still under review. The mechanics of the allocation and other intercompany payments, as the case may be, could be adjusted retroactively as part of the CCAA Proceedings and/or once the SISP is completed.

Appendix C – Actual Cash-flow
(period from September 25, 2022 to October 8, 2022)

Xebec North America Budget-to-Actual Analysis In $000s CAD	For the 2-week period ended Oct 8, 2022 Actual	Budget	Var. ($)	Var. (%)	Notes
Collections					
Sales from operation	5,943	4,845	1,098	23%	1
Other collections	326	326	-	0%	
Transfer from related party - Collection	2,437	651	1,786	274%	2
	8,706	**5,822**	**2,884**	**50%**	
Disbursements					
Payroll	2,142	3,405	1,263	37%	3
Purchases and suppliers deposits	2,783	5,521	2,738	50%	4
Critical Suppliers	-	250	250	100%	4
Obligation under capital leases	270	285	15	5%	
Professional fees	1,154	1,675	521	31%	5
CAPEX	-	45	45	100%	
Transfer to related party - Disbursements	2,437	729	(1,708)	-234%	2
Debt reimbursements and interests	-	134	134	100%	6
	8,786	**12,044**	**3,258**	**189%**	
Net cash flow	**(80)**	**(6,222)**	**6,142**	**238%**	
Net cash (Shortfall) - Beginning	**13,435**	**13,466**	**(31)**	**0%**	
Net cash (Shortfall) - End	**13,355**	**7,244**	**6,111**	**84%**	

Note 1	**Sales from operation**	The sales receipts of $5.9M were higher than the budgeted $4.8M, generating a favorable variance of $1.1M. This variance is mainly due to accelerated collection of accounts receivables and a permanent favorable variance of $400K from the collection of receivables that were initially deemed uncollectible.
Note 2	**Transfer from related party**	The transfer from related party of $2,437K were made exclusively between the Petitioners over the 2-week period ended October 8, 2022. Xebec Adsorption Inc. received unbudgted amount of $1.7M from Xebec Systems USA, LLC (formerly "UEC LLC") and $500K from Compressed Air International Inc. In addition, a transfer of $78K planned from the Petitionners to Xebec Italy S.r.l. has been postponed.
Note 3	**Payroll**	The favorable variance of $1.3M in payroll related expenses is mainly due to timing of payments since the budget reflected an accelerated schedule of payments that not implemented during the period under review.
Note 4	**Purchases and suppliers deposits**	Management kept disbursements associated to trade payables to a strict minimum resulting in a favorable variance of $3.0M;
Note 5	**Professional fees**	The favorable variance of $521K in professional fees is due to timing as invoices have not all been received by the Company as of the date of this report.
Note 6	**Debt reimbursements and interests**	The favorable variance of $134K in interests is due to timing of disbursement.

Appendix D - Cash-flow statement

Consolidated - North America
Weekly cash flow transactions

For the week ending In thousand CAD - Week #	15-Oct-22 1	22-Oct-22 2	29-Oct-22 3	5-Nov-22 4	12-Nov-22 5	19-Nov-22 6	26-Nov-22 7	3-Dec-22 8	Total W1 - W8
Collections									
Sales from operation	-	-	-	1,560	-	-	2,092	3,652	**7,304**
Opening accounts receivable collection	1,461	1,934	2,354	2,345	2,376	2,221	2,078	2,108	**16,878**
Financing	-	-	-	-	-	-	-	-	**-**
Sales taxes - Collection	-	-	-	-	-	-	-	-	**-**
DIP Financing - Collection	-	-	-	-	-	2,000	1,000	-	**3,000**
Transfer from related party - Collection	209	-	-	-	-	-	-	-	**209**
Collections - Total	**1,669**	**1,934**	**2,354**	**3,905**	**2,376**	**4,221**	**5,170**	**5,760**	**27,390**
Disbursements									
Payroll	1,486	315	1,377	205	1,474	209	1,491	208	**6,766**
Trade payable	1,996	2,515	2,793	2,088	2,599	2,599	2,599	2,105	**19,292**
Trade payable - Critical suppliers pre-filing amounts	100	100	267	117	117	-	-	-	**700**
Suppliers deposits	847	429	375	375	-	-	-	-	**2,026**
Obligation under capital leases	77	-	-	321	-	32	-	322	**752**
Professional fees	561	383	495	312	437	292	302	302	**3,084**
CAPEX	20	20	20	20	20	20	20	20	**160**
Transfer to related party - Disbursements	287	-	-	598	-	-	-	-	**885**
KERP	-	-	-	-	-	-	308	-	**308**
Interest and fees on DIP Financing	-	-	120	-	-	-	-	22	**142**
DIP Financing - Reimbursement	-	-	-	-	-	-	-	-	**-**
Debt reimbursements and interests	-	300	127	127	127	296	127	127	**1,231**
Disbursements - Total	**5,373**	**4,062**	**5,574**	**4,162**	**4,774**	**3,448**	**4,846**	**3,106**	**35,345**
Net cash flow	**(3,704)**	**(2,128)**	**(3,220)**	**(257)**	**(2,397)**	**774**	**324**	**2,654**	**(7,955)**
Net cash (Shortfall) - Beginning	**13,315**	**9,611**	**7,483**	**4,263**	**4,006**	**1,608**	**2,382**	**2,706**	**13,315**
Net cash (Shortfall) - End	**9,611**	**7,483**	**4,263**	**4,006**	**1,608**	**2,382**	**2,706**	**5,359**	**5,359**

Appendix E

Notes to the Cash-flow statement

NOTE A – PURPOSE

The purpose of these cash-flow projections is to determine the liquidity requirements of the Petitioners during the CCAA proceedings.

NOTE B

The Cash Flow Statement has been prepared by the Company using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement.

The Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to Information supplied to it by Management. Since the hypothetical assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Statement.

NOTE C - DEFINITIONS

(1) CASH-FLOW STATEMENT:
In respect of a Company, means a statement indicating, on a weekly basis (or such other basis as is appropriate in the circumstances), the projected cash-flow of the Company as defined in section 2(1) of the Act based on Probable and Hypothetical Assumptions that reflect the Company's planned course of action for the period covered.

(2) HYPOTHETICAL ASSUMPTIONS:
Means assumptions with respect to a set of economic conditions or courses of action that are not necessarily the most probable in the Company's judgment, but are consistent with the purpose of the Cash-Flow Statement.

(3) PROBABLE ASSUMPTIONS:
Means assumptions that:

- (i) The Company believes reflect the most probable set of economic conditions and planned courses of action, **Suitably Supported** that are consistent with the plans of the Company; and
- (ii) Provide a reasonable basis for the Cash-Flow Statement.

(4) SUITABLY SUPPORTED:
Means that the Assumptions are based on either one or more of the following factors:

- (i) The past performance of the Company;
- (ii) The performance of other industry/market participants engaged in similar activities as the Company;
- (iii) Feasibility studies;
- (iv) Marketing studies; or
- (v) Any other reliable source of information that provides objective corroboration of the reasonableness of the Assumptions.

The extent of detailed information supporting each Assumption, and an assessment as to the reasonableness of each Assumption, will vary according to circumstances and will be influenced by factors such as the significance of the Assumption and the availability and quality of the supporting information.

Appendix E (cont'd)

Notes to the Cash-flow statement

NOTE C - ASSUMPTIONS

Assumptions	Source	Probable Assumption	Hypothetical Assumption
Opening cash balance	Based on current bank balances.	X	
Forecast cash receipts:			
Sales from operation	Based on the latest forecasts available prepared by Management.	X	
Opening accounts receivable	Mostly based on the accounts receivable as of September 30, 2022 and Petitioners' historical collection days data.	X	
DIP Financing collections	DIP Facility, subject to approval by the Court.	X	
Forecast cash disbursements:			
Payroll	Based on Petitioners' historical payroll reports and on budgeted number of employees.	X	
Trade payable and Trade payable Interco	Based on the latest forecasts available prepared by Management.	X	
Trade payable – Critical suppliers	Based on Management's knowledge of potential payments to critical suppliers.		X
Supplier deposits	Based on Management's knowledge and historical deposits' trend to secure orders and utilities.		X
Obligation under capital leases	Based on lease agreements.	X	
Professional fees	Management estimate of professional fees to be incurred in the following months for monitor, financial advisors and legal services.		X
CAPEX	Estimate of disbursements required based on Management's knowledge on equipment to be replaced or repaired.		X
Transfer to related party	Management estimate of funds to be transferred to Petitioners and Xebec Group non-Petitioners.		X
Debt reimbursement and interest	Interest payments to the secured lenders as per their respective credit agreements, and payments to NBC as provided by the second amendment to the forbearance agreement.	X	