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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

**SIXTH 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 hereafter) 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.**" or "**BLA**"), which are not currently parties in the CCAA Proceedings (as defined hereafter), 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 28, 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 of 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 "**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) the authorization 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 along with the bidding procedures for the conduct of same (the "**Bidding Procedures**").
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 beginning 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 Stay Period and the application of the First Day Initial Order up to and including October 20, 2022.

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 "**ARIO 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 \$250K to \$900K; (iv) an increase of the D&O Charge from \$2.2M to \$3.7M; (v) the approval of a DIP Facility for a total amount of \$3M and of a DIP Charge in the amount of \$3.6M; and (vi) the approval of KERPs and of a KERP Charge 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*, 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). At this time, this has yet to be heard and no presentation date has been scheduled.
13. On October 19, 2022, the Monitor issued its Third Report. The purpose of the Third 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 ARIO Application.
14. On October 20, 2022, just prior to the scheduled hearing on the ARIO Application, the secured lenders NBC and EDC agreed to put forward a term sheet to provide for a DIP Facility in a total amount of \$3M, on a *pari passu* basis.
15. On October 20, 2022, the Court issued an ARIO, and authorized the DIP Facility from NBC and EDC. On October 24, 2022, the Court issued its reasons in support of the issuance of the ARIO, which also included its reasons in respect of dismissing specific requests and addressing allegations from certain class action petitioners and from Mr. Simon Arnsby, a shareholder of Xebec Inc. ("**Mr. Arnsby**").
16. On November 22, 2022, the Petitioners notified to the Service List and filed with the Court an *Application for an Extension of the Stay of Proceedings and for Ancillary Relief*, seeking, *inter alia* (i) the extension of the Stay Period until February 3, 2023, and (ii) the approval of an amendment to the list of participants to the KERPs.
17. On November 24, 2022, the Monitor issued its Fourth Report. The purpose of the Fourth Report was to provide information to the Court on the activities of Xebec and of the Monitor since the beginning of the CCAA Proceedings and to support the aforementioned Application.
18. On November 28, 2022, the Court issued the *Order Extending the Stay of Proceedings and Granting Ancillary Relief* (the "**Extension Order**"). This Extension Order was namely meant to allow for the substantial completion phase 2 of the SISP, and to allow the Petitioners, *inter alia*, to (i) select the Successful Bid(s), (ii) negotiate Definitive Documentation, and (iii) file the Approval Application in respect of the Successful Bid(s), as these terms are defined under the Bidding Procedures Order.
19. On November 29, 2022, the Court issued its reasons in support of the issuance of the extension, as well as its reasons in respect of dismissing Mr. Arnsby's *Urgent Ex Parte Application for Investigation*.

20. On January 28, 2023, the Petitioners notified to the Service List an *Application for the Issuance of a Second Amended and Restated Initial Order and an Approval and Vesting Order* (as amended by the *Amended Application for the Issuance of a Second Amended and Restated Initial Order and an Approval and Vesting Order* dated February 1, 2023, the "**Application for Second ARIO**"), seeking, *inter alia* (i) the extension of the Stay Period until February 13, 2023, (ii) the increase of the Administration Charge to a maximum amount of \$3M, and (iii) the issuance of an approval and vesting order (the "**ACS Approval and Vesting Order**") regarding the proposed sale of substantially all of the assets of the Petitioner Applied Compression Systems Ltd. ("**ACS**").
21. On February 1, 2023, the Monitor issued its Fifth Report. The purpose of the Fifth Report was namely to report on the activities of Xebec and of the Monitor since the beginning of the CCAA Proceedings and to support the Petitioners' request for the issuance of the Second ARIO, including an extension of the Stay Period until February 13, 2023, and an increase of the Administration Charge to an amount of \$3M, and for the issuance of the ACS Approval and Vesting Order.
22. The Monitor provided in the Fifth Report, *inter alia*, updated information in respect to (i) the SISP and certain transactions in connection thereto (Holding/UK and ACS), (ii) operations of Petitioners and non-Petitioners and the impact of the results of phase 2 of the SISP on same, (iii) the need for a supplemental DIP facility and ongoing discussions with EDC in connection thereto, (iv) subsequent exchanges with various stakeholders, as well as (v) in respect to actual cash flows and cash-flow projections until March 18, 2023.
23. On February 3, 2023, the Court granted the Application for Second ARIO and issued the ACS Approval and Vesting Order and the *Second Amended and Restated Initial Order and an Approval and Vesting Order* (the "**Second ARIO**").
24. On February 8, 2023, the Petitioners served the *Application for the Issuance of a Third Amended and Restated Initial Order and Approval and Vesting Orders* (hereinafter, the "**Application**") seeking *inter alia*:
 - a) the approval of a Second DIP Facility from EDC in the amount of \$2.5M (the "**Second DIP Facility**") and the granting of a "**Second DIP Charge**" in the amount of \$3.0M;
 - b) the issuance of three approval and vesting orders (the "**Sullair AVO**", the "**Ivys AVO**" and the "**FSTQ AVO**", [collectively defined herein as the "**AVOs**"]) regarding, respectively:
 - i. the proposed sale of substantially all of the assets of CDA Systems, LLC ("**CDA**") and California Compression, LLC ("**CAL**") to Sullair (the "**Sullair Transaction**");
 - ii. the proposed sale of substantially all of the assets of Xebec Inc. and Compressed Air International Inc. ("**CAI**") to Ivys (the "**Ivys Transaction**"); and
 - iii. the sale of Xebec Inc.'s limited partnership interests in the capital of GNR Québec Capital L.P. ("**GNR LP**") and the shares of RNG Holdings in the capital of GNR Québec Capital Management Inc. ("**GNR GP**") (collectively, "**GNR**") (the "**FSTQ Transaction**"); and
 - c) the extension of the Stay Period up and until March 17, 2023.

25. Following the notification of the Application, the Monitor hereby issues its sixth report (the "**Sixth Report**"), which will cover the following items:
- I. General Update since the Fifth Report
 - II. Transactions completed or to be completed and Update on the SISP since the Fifth Report
 - III. Releases of Directors as part of Vesting Orders and Channelling of Claims to D&O Insurers
 - IV. Second DIP Facility, Second DIP Charge and Reduction of the amount of the Administration Charge
 - V. General comments on the 8-Week Cash-Flow Projections contained in the Fifth Report
 - VI. Extension of the Stay Period
 - VII. Monitor's Conclusions and Recommendations
26. In preparing the Sixth 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 Sixth 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 Sixth 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.
27. Future oriented financial information referred to in this Sixth 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.
28. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this Sixth Report concerning the Petitioners and their business is based on the Information, and not independent factual determinations made by the Monitor.
29. 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 Sixth 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.

30. 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. GENERAL UPDATE SINCE THE FIFTH REPORT

31. The Fifth Report issued of February 1, 2023, and the testimony of the representative of the Monitor at the hearing of February 3, 2023, contained detailed information regarding the Xebec Group's communications and operations since the Fourth Report issued on November 28, 2022 (including the impact on the results of the phase 2 of the SISP on the operations of certain Petitioners) and the Monitor's activities. No material update is to be reported as at the date of this Sixth Report regarding the Xebec Group's communications and operations and the Monitor's activities, other than pertaining to the specific items described in the Sections below.

II. TRANSACTIONS COMPLETED OR TO BE COMPLETED AND UPDATE ON THE SISP SINCE THE FIFTH REPORT

A. STATUS ON THE TRANSACTIONS COMPLETED OR TO BE COMPLETED

32. As explained in the Fifth Report and by the representative of the Monitor at the hearing of February 3, 2023, no acceptable offer had been received during phase 2 of the SISP for some of the Xebec Group entities (both Petitioners and non-Petitioners). The Company and NBF have actively been looking for potential going concern transactions regarding these entities. Since then, letters of intention have been received for some of the Xebec Group entities (both Petitioners and non-Petitioners) and are under review and discussions, and other communications are ongoing with potentially interested parties.
33. **Appendix A** to this Sixth Report contains a summary prepared by the Monitor showing the Xebec Group entities (both Petitioners and non-Petitioners) for which transactions have been completed or are expected to be completed (excluding values which remain confidential), and those Xebec Group entities for which there currently is no acceptable binding offer.

B. COMPLETED TRANSACTIONS: HOLDING UK/TIGER, ACS AND HYGEAR

34. As detailed in the Fifth Report, the Tiger Transaction closed on January 27, 2023; the Company issued a press release on January 31, 2023, announcing same. Since the Fifth Report, two more transactions have closed, namely the ACS Transaction and the HyGear Transaction.

The ACS Transaction

35. On February 3, 2023, the Court issued the ACS Approval and Vesting Order. The sale of substantially all assets of ACS, a Petitioner (the "**ACS Transaction**"), closed shortly thereafter on February 7, 2023, and the Monitor issued and notified its certificate to the service list on the same date.
36. As further detailed in the Fifth Report, the ACS Transaction provides for, *inter alia*, the sale of substantially all assets of ACS and the continuation of the business by the purchaser, including the employment of twenty-three (23) individuals.
37. The ACS Transaction has been entered into on an "as is, where is" basis without any legal warrant and at the risk and peril of the Purchaser. The ACS Transaction excludes namely the cash of ACS and any intercompany receivables owing to ACS from any affiliates, including from other Petitioners. The cash of ACS has been used or will be used to make the last payments pertaining to the payroll (including deductions at source) until the closing date, and

the balance is expected to be transferred to Xebec Inc. as an Intercompany Transaction pursuant to the Second ARIO and used as part of the cash flow of the Petitioners.

38. In conformity with the ACS Approval and Vesting Order, the net proceeds from the ACS Transaction were paid to the Monitor who has used them to pay partially certain outstanding invoices owing to the beneficiaries of the Administration Charge, without any corresponding reduction of the amount of the Administration Charge.
39. On February 7, 2023, the Company issued a press release announcing the closing of the ACS Transaction.

The HyGear Transaction

40. As further detailed in the Application, on February 6, 2023, Xebec Europe B.V., a wholly owned subsidiary of Xebec Inc., concluded a transaction (the "**HyGear Transaction**") for the sale of its shares in Green Vision Holding B.V., a Netherlands-based non-Petitioner being the holding company of six other non-Petitioners collectively referred to herein as "HyGear".
41. As explained in previous reports and as mentioned in the Application, HyGear was, up and until the completion of the HyGear Transaction, facing a critical financial situation and on the brink of a potential assignment into bankruptcy in the Netherlands.
42. As of the Phase 2 Bid Deadline, no offers were made in respect to HyGear, which was in serious financial trouble, notably as it had limited liquidities to fund its operations and would no longer receive any from the Petitioners, and the bondholders had issued a notice of default.
43. However, discussions were initiated following the Phase 2 Bid Deadline between the Company, its advisors and multiple stakeholders of HyGear, including creditors, bondholders, employee committees and others.
44. The Monitor, while not being the monitor of HyGear as it is a non-Petitioner, was kept apprised of material discussions in that respect, since HyGear was, prior to closing of the HyGear Transaction, an indirect subsidiary of Xebec Inc. and was included in the entities being part of the SISP. None of NBC or EDC had security over the assets of HyGear or guarantees from HyGear, but they were also kept apprised as any equity in HyGear would have been for the benefit of Xebec.
45. As of the date of the Fifth Report, the outstanding amount of letters of credit under the letter of credit facility provided by NBC (for a total amount of \$7.5M at the initiation of the CCAA proceedings) represented approximately \$4.0M (excluding an amount of approximately \$500K for a letter of credit that was drawn), as further detailed in Appendix E to the Fifth Report.
46. As detailed in the Application, it is to be noted that the HyGear Transaction also included, as a condition, the issuance of a new letter of credit by the European bank of the purchaser in replacement of an outstanding letter of credit provided by the NBC letter of credit facility relating to a customer of HyGear, in an amount of approximately 400K EUROS (being approximately \$585K).
47. Therefore, as of the date of this Sixth Report, the outstanding amount in respect to outstanding letters of credit now represents approximately \$3.4M.
48. In light of the critical context surrounding HyGear and the results of phase 2 of the SISP regarding the HyGear entities, and after careful consideration of the limited options available to HyGear and its affiliates, the Company determined that the offer received as part of the HyGear Transaction, despite the nominal consideration paid for the shares, was the most advantageous to the stakeholders of HyGear and of the Xebec Group generally, as it allows

to maintain the going concern of HyGear, preserves employment of approximately 80 individuals and limits any further costs and allows to cut the link with seven non-Petitioners in a simple and orderly manner, in comparison with the negative impacts to stakeholders relating to otherwise assigning HyGear into bankruptcy.

49. As mentioned in the Application, a condition of the HyGear Transaction was that all other entities of the Xebec Group, including the Petitioners, renounced to their intercompany claims against HyGear. The Petitioners, in consultation with the Monitor and with the consent of the secured creditors, agreed to do so, namely given the fact that these intercompany claims were deemed to have no realization value in light of the offers received as part of the SISP and of the many advantages of the HyGear Transaction.
50. Furthermore, given the very limited liquidities available to HyGear and the fact that the purchaser was refusing to assume the costs of Xebec Europe B.V. and HyGear in connection with the HyGear Transaction, the Petitioners had to fund the legal costs to negotiate and structure the HyGear Transaction. The Petitioners, in consultation with the Monitor and with the consent of the secured creditors, agreed to do so, up to a maximum amount of 100K Euros, namely given the many advantages of the HyGear Transaction, including namely the replacement of an outstanding letter of credit in an amount of more than 400K Euros.
51. On February 7, 2023, the Company issued a press release announcing the closing of the HyGear Transaction.

C. TRANSACTIONS SUBMITTED FOR APPROVAL BY THE COURT AND TO BE COMPLETED: THE SULLAIR TRANSACTION, THE IVYS TRANSACTION AND THE FSTQ TRANSACTION

52. The Application seeks for the approval of the Sullair Transaction, the Ivys Transaction and the FSTQ Transaction.

The Sullair Transaction (CAL and CDA)

53. The Petitioners CAL and CDA are wholly owned subsidiaries of Xebec Holding USA Inc. which in turn is a wholly owned subsidiary, both of which are also Petitioners.
54. As indicated in the Application, CAL and CDA provide their customers with parts, service, operations and maintenance of compressed air products by providing ancillary services for specialized applications in the industry sector and have their main activities in California, while having their registered office in North Carolina.
55. As at the Phase 2 Bid Deadline, one or more offers were made for the acquisition of substantially all the assets of CAL and CDA (the "**Sullair Purchased Assets**"), as mentioned in the confidential Appendix A to the Fifth Report (filed under seal).
56. Following this date, NBF and the Company engaged with the bidders by raising certain issues regarding the offers received and certain overlapping offers, which led to revised proposals.
57. After careful consideration of all available alternatives and the possibility afforded to bidders to improve their offers, the Company determined, in consultation with the Monitor and NBF, that the revised offer from Sullair was the most advantageous to the stakeholders of CAL and CDA and of the Xebec Group generally, as it allows, *inter alia*, to (i) maintain the going concern of these two Petitioners, (ii) preserve the employment of 24 individuals (10 in CDA and 14 in CAL), (iii) provide a realization value which would otherwise be uncertain and lesser in a liquidation scenario, while limiting any further costs related thereto, and (iv) allow for the closing of other transactions which are not overlapping with the Sullair Transaction.

58. On February 8, 2023, CAL and CDA as sellers and Sullair as purchaser executed an *Asset Purchase Agreement* (the "**Sullair APA**"), which is filed under seal as part of the Application.
59. The Sullair APA provides (i) that the Sullair Purchased Assets exclude the cash of CAL and CDA and any intercompany receivables owing from any affiliates, including from other Petitioners, (ii) for the payment of a cash purchase price (which should remain confidential at this stage) by Sullair to the Monitor at closing and the assumption by Sullair of certain Assumed Liabilities, and (iii) for other conditions and representations, as further detailed in the Sullair APA.
60. It is a condition that the Sullair Transaction must close on or before February 24, 2023. Should the Court issue the Sullair AVO on February 13, 2023, and should the US Court issue a US Recognition Order to be sought by the Petitioners at a hearing scheduled on February 16, 2023, as part of the Chapter 15 proceedings, the intent of the Company and of Sullair is to close the Sullair Transaction as soon as possible, potentially on February 17, 2023.
61. The approval of the Sullair Transaction and its expedited closing would benefit all stakeholders, including the employees of CAL and CDA and the creditors of the Petitioners.
62. The Monitor supports the Sullair Transaction, and the Monitor understands that the DIP Lenders and secured creditors are also supportive of same.

The Ivys Transaction (Xebec Inc. and CAI)

63. As of the Phase 2 Bid Deadline, a binding offer was submitted by Ivys to acquire substantially all assets of Xebec Inc. and CAI, as well as Xebec Inc.'s interest in Xebec Shanghai.
64. Following that date, the Petitioners, with the assistance of the SISP Manager, negotiated an improved and revised offer from Ivys, which after review of available alternatives, was deemed by the Petitioners as the most advantageous to the stakeholders of Xebec Inc., CAI and the Company.
65. The Ivys Transaction contemplates the sale of substantially all the assets of Xebec Inc. and CAI (the "**Ivys Purchased Assets**") and the continuation of its business by the purchaser in a going concern, including the likely continued employment of most of the current employees (other than most of the executives) of Xebec Inc. and of CAI, namely 117 individuals (104 at Xebec Inc. in Blainville and 13 at CAI in Ontario). The Ivys Purchased Assets relate to the business carried on directly by Xebec Inc. at the Blainville facilities, including the product lines for various products, all intellectual property assets related thereto, associated parts and services, and the parts distribution and maintenance services business carried on by CAI which is located in the Greater Toronto area, in Ontario.
66. On February 8, 2023, Xebec Inc. and CAI as sellers and two Ivys entities as purchasers executed an *Asset Purchase Agreement* (the "**Ivys APA**"), which is filed under seal as part of the Application.
67. The Ivys APA provides (i) that the Ivys Purchased Assets namely exclude the cash of Xebec Inc., any intercompany receivables owing from any affiliates, including from other Petitioners, and any equity interest of Xebec Inc. in other entities, except for Xebec Shanghai; (ii) for the payment of a cash purchase price (which should remain confidential at this stage) by Ivys to the Monitor at closing and the assumption by Ivys of certain Assumed Liabilities, and (iii) for other conditions and representations, as further detailed in the Ivys APA.
68. It is a condition that the Ivys Transaction must close on or before February 24, 2023. Should the Court issue the Ivys AVO on February 13, 2023, the intent of the Company and of Ivys is to close the Ivys Transaction by February 24, 2023.

69. The approval of the Ivys Transaction and its expedited closing would benefit all stakeholders, including the employees of Xebec Inc. and CAI and the creditors of the Petitioners.
70. In addition, and as further detailed in the Application, the Ivys Transaction contemplates a post-closing assignment of contracts mechanism, by which, *inter alia*:
- a) Ivys will be afforded a 30-day period following closing to request identify Post-Closing Assigned/Assumed Contracts (as defined in the Application);
 - b) The Monitor will be afforded 5 days to review the proposed assignment, following which he may issue notices of assignment to affected parties or reject the assignment;
 - c) Affected parties will be afforded a 15-day delay to oppose the potential assignment, following which, in the absence of contestation, a post-closing assignment certificate will be issued by the Monitor;
 - d) Alternatively, the Monitor or Ivys will be entitled to apply to the Court to obtain approval of a potential contested assignment; and
 - e) The Cure Costs associated with the Post-Closing Assigned/Assumed Contracts (as both terms are defined in the Application) shall be assumed by Ivys.

GNR Transaction

71. Prior to the initiation of these proceedings, the Company had entered into a partnership in Québec with the *Fonds de solidarité des travailleurs du Québec (F.T.Q.)* ("**FSTQ**") with the goal of accelerating the development of projects generating renewable gas.
72. As stated earlier in this Sixth Report and in the Application, Xebec Inc. holds directly and indirectly a 50% interest in GNR LP, and FSTQ holds the other 50% interest in GNR LP. Xebec Inc. also holds shares in the capital of GNR GP.
73. At the outset of the Phase 2 Bid Deadline, no offer was submitted by a potential bidder in respect to GNR LP or GNR GP.
74. Three (3) weeks after the Phase 2 Bid Deadline, FSTQ, submitted to the SISP Manager an offer to acquire substantially all of the assets of GNR.
75. On February 8, 2023, Xebec Inc., GNR LP, Xebec RNG Holdings Inc. and FSTQ executed a *Share Purchase and Unit Repurchase Agreement* (the "**FSTQ SPA**"), which is filed under seal for approval by the Court as part of the Application.
76. In light of the current context and in the absence of other alternatives, whether as at the Phase 2 Bid Deadline or thereafter, the Company determined, in consultation with the Monitor and NBF, that the offer from FSTQ was the most advantageous to the stakeholders of GNR and of the Xebec Group generally, as it allows to maintain the going concern of the entity, preserve the jobs, guarantee a realization value which would be uncertain in a liquidation scenario and limit the costs.
77. The FSTQ SPA provides that the FSTQ Transaction must close on or before February 14, 2023, and the intent of the Company and of FSTQ is to close the FSTQ Transaction on that date to the extent the Court issues the GNR AVO on February 13, 2023.

78. The expedited closing of the FSTQ Transaction would benefit all stakeholders, including namely FSTQ as the partner of Xebec Inc. in GNR and the 4 employees of GNR (including the general manager).

General observations of the approval of the Sullair Transaction, Ivys Transaction and GNR Transaction which is being sought

79. The Monitor is of the view that the SISP was conducted by the Company and its advisors in a fair and reasonable manner and in accordance with the Bidding Procedures Order.
80. The Monitor supports the Sullair Transaction, the Ivys Transaction and the GNR Transaction, and understands that the DIP Lenders and secured creditors are also supportive of same.
81. It is expected that the net proceeds from the Sullair Transaction, the Ivys Transaction and the GNR Transaction will be paid to the Monitor. The AVOs provide that the Monitor is authorized to pay up to an amount of \$1.1M from these proceeds to the beneficiaries of the Administration Charge in partial payment of their outstanding invoices for services rendered in connection with the Restructuring Process, without any corresponding reduction of the Administration Charge (other than the reductions referred to in section IV below following the disbursements of each tranche of the Second DIP). The balance of the net proceeds will be kept in trust by the Monitor until a subsequent order from this Court is sought in the coming weeks, which is expected to provide for payments or holdbacks in favour of the beneficiaries of the CCAA Charges pursuant to the Third ARIO (being the Administration Charge, the D&O Charge [which is expected to be reduced further to an upcoming calculation following the closings of the transactions], the DIP Charge, the Second DIP Charge, the KERP Charge and the Transaction Charge).

III. RELEASES OF DIRECTORS AS PART OF VESTING ORDERS AND CHANNELLING OF CLAIMS TO D&O INSURERS

82. As appears from the Application and from the AVOs filed in support thereto, the Petitioners seek the issuance of releases in favour of the current and former employees, legal counsel and advisors of the respective sellers, as well as the Monitor and its legal counsel, upon the issuance of the Monitor's certificates confirming the closings of the respective transactions.
83. The Petitioners also request the issuance of a channelling injunction mechanism, by which any person having a D&O Claim (as defined in the AVOs) shall be limited to recovery in respect of such a D&O claim solely from the proceeds of the applicable insurance policies held by the sellers, and not in any way against the directors or officers of the respective sellers.
84. The directors and officers have been instrumental in the current Restructuring Process. The directors of Xebec Inc. are external independent director (other than for Mr. Jim Vounasis, the CEO of the Xebec Group), and they have met at least on a weekly basis since the initiation of the CCAA proceedings, and the Monitor has participated to all such board meetings. The directors of the other sellers are all officers of the Xebec Group, and they have been working tirelessly, on a daily basis, to maximize value for all stakeholders and to navigate the difficult waters in restructuring the Company, while running a SISP in respect to multiple entities at once.
85. The requested mechanism would allow any potential claimants to retain a right to claim against the D&O insurers, while at the same time providing for a release in favor of the D&Os, which appears desirable in the present circumstances and as further detailed in the Application.

86. Such a mechanism would indeed protect the rights of potential claimants under an insurance policy, as applicable.
87. As reported notably in the First Report of the Monitor, dated September 29, 2022, an extension of the reporting period coverage for the insurance policy bearing number QSDO29060 in the amount of \$10M and issued by Chubb, provides for a tail period until December 1, 2023. This policy solely provides for an extended reporting period for acts prior to December 1, 2022.
88. Moreover, and as reported in Court by the Monitor and in the Fifth Report, a second insurance policy of \$5M issued by Zurich and bearing no 8621189 was negotiated and obtained on December 1, 2022, for a period of (1) year starting on such date.
89. The Monitor supports the releases and channelling injunction sought by the Petitioners under the AVOs.

IV. SECOND DIP FACILITY, SECOND DIP CHARGE AND REDUCTION OF THE AMOUNT OF THE ADMINISTRATION CHARGE

90. Since the Fifth Report, the Petitioners were able to secure additional financing from EDC, pursuant to the Second DIP Facility, as required to continue operations, to continue the ongoing SISP in view of closing the Sullair Transaction, the Ivys Transaction, the FSTQ Transaction and potential other upcoming transactions and, generally to continue the Restructuring Process.
91. As appears from the Application, the Company has negotiated the terms of an additional interim financing facility term sheet (the "**Second DIP Term Sheet**") with EDC, which is filed under seal as part of the Application, allowing the Xebec Group to borrow up to a principal amount of \$2.5M, in two tranches of \$1.25M, subject to the terms and conditions set forth in the Second DIP Term Sheet, including the issuance of the Third ARIO.
92. The proceeds from the Second DIP are to be used in accordance with the cash flow projections included as Appendix F to the Fifth Report, including to pay general corporate and working capital expenses of the Petitioners and fees pertaining to the continuation of the SISP and the CCAA proceedings and Chapter 15 proceedings.
93. The Second DIP Term Sheet requires that all amounts advanced thereunder be secured by the Second DIP Charge in the amount of \$3M on all of the Petitioners' present and future assets and property, in priority to all other existing encumbrances and Court-ordered charges, except for the Administration Charge, the D&O Charge and the existing DIP Charge.
94. The Second DIP Term Sheet also provides that, upon the disbursement of the first tranche of \$1.25M of the Second DIP, the amount of the Administration Charge is to be reduced by \$750K, to \$2.25M, and upon the disbursement of the second tranche of \$1.25M of the Second DIP, the amount of the Administration Charge is to be reduced by \$750K, to \$1.5M. The Third ARIO contemplates that these reductions to the Administration Charge will be applicable upon issuance of Monitor's certificates confirming the respective disbursements of the Second DIP.
95. 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 Second DIP Term Sheet, which has been filed *under seal* in support of the Application, as was the DIP Term Sheet in the context of its approval by the Court.

96. As indicated in the Application and in the Fifth Report, without the approval of the Second DIP Facility, the Petitioners would not have the sufficient liquidity to continue the Restructuring Process and to complete the SISP. This Second DIP Facility allows the Petitioners to maintain most of its operations, albeit in certain cases at a reduced level, while at the same time endeavouring to maximize the value of the Xebec Group for all stakeholders by doing so. In particular, it will allow the Company to have sufficient liquidity until all transactions can come to closing.
97. The Monitor was kept apprised of the efforts undertaken by the Petitioners in order to secure interim financing and was party to many discussions with secured creditors NBC and EDC in connection thereto, and was given the opportunity to review the terms of the Second DIP Term Sheet prior to it being executed.
98. The Monitor supports the Company's request for the authorization of the Second DIP Facility and the granting of the Second DIP Charge for the following reasons:
- (i) In the Monitor's view, no creditor will be materially and/or unduly prejudiced as a result of the Second DIP Facility and Second DIP Charge;
 - (ii) The funding is expected to allow the Company to conclude the SISP while maximizing the value of the Petitioners' assets, as opposed to the critical scenario and measures which would need to be urgently implemented in the absence of the Second DIP Facility;
 - (iii) Given the context and all the efforts made to secure financing for the initial DIP Facility, provided that secured lenders NBC and EDC hold a DIP Charge and that any further interim financing would be subject to their approval, it is unlikely that alternative financing could have been arranged with a third party at this cost; and
 - (iv) The Monitor considers the terms of the Second DIP Facility and its costs (fees and interest rate) reasonable in the circumstances and in line with what is regularly offered in the market and what was provided for in the initial DIP Facility.
99. The Monitor supports the approval of the Second DIP Facility and the granting of the Second DIP Charge sought by the Application. Given the impact on the operations of the Petitioners and on the restructuring generally, the Monitor is of the view that it is urgent that the Second DIP Facility be approved by the Court without delay.

V. GENERAL COMMENTS ON THE 8-WEEK CASH-FLOW PROJECTIONS CONTAINED IN THE FIFTH REPORT

100. In the Fifth Report, dated February 1, 2023, the Monitor provided an 8-week cash-flow projection up and until the end of the proposed Stay Period in the Application, namely until the period ending March 18, 2023.
101. As of the date of this Sixth Report, the cash-flow projection provided in the Fifth Report remains consistent and in line with the projected cash-flow of the Petitioners for the period mentioned above, such that an update is not necessary at this time.
102. The cash flow projection provides namely that all deductions at source will continue to be paid by the Petitioners when they become due, including with respect to Xebec Inc., CAI, CAL and CDA for which the payroll obligations are intended to be met until the closings of the Ivys Transaction and the Sullair Transaction respectively.

VI. EXTENSION OF THE STAY PERIOD

103. The Stay Period currently expires on February 13, 2023. The extension of the Stay Period until March 17, 2023, sought by the Petitioners is namely required to conclude the SISP, to close additional potential and/or contemplated transactions, to identify possible other transactions for certain entities of the Xebec Group with assistance of the SISP Manager, and, in the absence of such transactions in a reasonable timeframe, to organize an orderly wind down of these entities and to proceed to distributions to creditors in accordance with their rank and in a claims process to be confirmed.
104. The extension of the Stay Period would allow the Company to operate in a structured and stable environment, which is necessary given the various business segments and jurisdictions with different stakeholders, and allows 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.
105. 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.
106. As described in this Sixth 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.

VII. MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

107. In the context referred to above and herein, the Monitor supports the relief sought by the Application, including in particular the (i) the extension of the Stay Period until March 17, 2023, (ii) the approval of the Second DIP from EDC in an amount of the \$2.5M and the granting of the Second DIP Charge of \$3M (and the related reduction of the Administration Charge to \$2.25M following the disbursement of the first tranche of the Second DIP and to \$1.5M following the disbursement of the second tranche of the Second DIP), and (iii) the approval of the Sullair Transaction, the Ivys Transaction and the GNR Transaction, and the related issuance of the AVOs, including the releases and channelling injunctions provided therein.
108. It is the Monitor's view that the continuation of the Restructuring Process is beneficial to the creditors and stakeholders as a whole.
109. Without the relief sought by the Petitioners in the Application, drastic measures would be required to be put in place on an urgent basis, which would likely compromise the transactions contemplated by the Company and the going concern of all the businesses of the Xebec Group.
110. The Monitor believes that the Petitioners have acted, and are acting, in good faith and with due diligence and that the relief sought by the Application is appropriate.

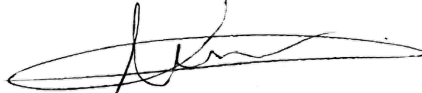
DATED AT MONTREAL, this 10th day of February 2023.

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 – SISP Summary

Monitor Summary Recapitulation

XEBEC ADSORPTION INC. & AI.

Scope of Bids - SISP Summary
As of February 10, 2023

Bidder	Transaction Date		Petitioners											Non-Petitioners						
			Note 1											Note 2		Note 1				
			BLA	CAI	ACS	GNR	CAL	CDA	UEC	XSU	TIT	NOR	AIR	XBC	TIGER	Shanghai	HyGear	ITA	Inmatec	
Forum Family Office	27-Jan-23	-			*												*			
Mike Sanderman	7-Feb-23	-			*															
HoSt Bioenergy Systems	6-Feb-23	-																	*	
Ivys Energy Solutions	-	20-Feb-23	*															*		
FSTQ	-	14-Feb-23				*														
Sullair	-	17-Feb-23						*												

- Following the Phase 2 Bid Deadline, these entities did not receive an acceptable binding offer, as further detailed in the Fifth Report (including in the confidential Appendix A of same filed under seal). Letters of intent have since been received and communications are ongoing with certain parties who may be interested in a transaction. Subject to receiving acceptable binding offers and satisfactory negotiations and clarifications as the case may be, transactions could take place in the near future.
- Xebec Italy filed an assignment in bankruptcy under applicable Italian laws. This assets are expected to be liquidated as part of the bankruptcy.