

METHES ENERGIES INTERNATIONAL LTD

Form 10-Q

April 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Quarterly Period Ended February 28, 2015

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission File Number 001-35652

METHES ENERGIES INTERNATIONAL LTD.
(Exact name of registrant as specified in its charter)

NEVADA	71-1035154
(State of other	(I.R.S. Employer
jurisdiction of	Identification No.)
incorporation or	
organization)	

3651 Lindell Road, Suite D-272, Las Vegas, Nevada, 89103
(Address of principal executive offices)

(702) 932-9964
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: METHES ENERGIES INTERNATIONAL LTD - Form 10-Q

company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of April 13, 2015, the registrant has 11,510, 431 shares of Common Stock issued and outstanding.

METHES ENERGIES INTERNATIONAL LTD.

FORM 10-Q

INDEX

Page
No.

PART I FINANCIAL INFORMATION

<u>ITEM 1.</u>	<u>Condensed Consolidated Financial Statements - Unaudited</u>	1
	<u>Condensed Consolidated Balance Sheets as of November 30, 2014 and February 28, 2015</u>	1
	<u>Condensed Consolidated Statements of Operations for the Three Months ended February 28, 2014 and 2015</u>	2
	<u>Condensed Consolidated Statements of Stockholders' Equity for the Year ended November 30, 2014 and the Three Months ended February 28, 2015</u>	3
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months ended February 28, 2014 and 2015</u>	4
	<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>ITEM 4.</u>	<u>Controls and Procedures</u>	23

PART II OTHER INFORMATION

<u>ITEM 5.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>ITEM 6.</u>	<u>Exhibits</u>	24

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Form 10-Q contains “forward looking information” within the meaning of applicable securities laws. Such statements include, but are not limited to, statements with respect to the Company’s beliefs, plans, strategies, objectives, goals and expectations, including expectations about the future financial or operating performance of the Company and its projects, capital expenditures, capital needs, government regulation of the industry, environmental risks, limitations of insurance coverage, and the timing and possible outcome of regulatory matters, including the granting of patents and permits. Words such as “expect,” “anticipate,” “intend,” “attempt,” “may,” “will,” “plan,” “believe,” “estimate” and variations of such words and similar expressions are intended to identify such forward looking information. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict.

These statements are based on and were developed using a number of factors and assumptions including, but not limited to: stability in the U.S. and other foreign economies; stability in the availability and pricing of raw materials, energy and supplies; stability in the competitive environment; the continued ability of the Company to access cost effective capital when needed; and no unexpected or unforeseen events occurring that would materially alter the Company’s current plans. All of these assumptions have been derived from information currently available to the Company including information obtained by the Company from third party sources. Although management believes that these assumptions are reasonable, these assumptions may prove to be incorrect in whole or in part. As a result of these and other factors, actual results may differ materially from those expressed, implied or forecasted in such forward looking information, which reflect the Company’s expectations only as of the date hereof.

Factors that could cause actual results or outcomes to differ materially from the results expressed, implied or forecasted by the forward-looking information include risks associated with general business, economic, competitive, political and social uncertainties; risks associated with changes in project parameters as plans continue to be refined; risks associated with failure of plant, equipment or processes to operate as anticipated; risks associated with accidents or labor disputes; risks associated in delays in obtaining governmental approvals or financing, or in the completion of development or construction activities; risks associated with financial leverage and the availability of capital; risks associated with the price of commodities and the inability of the Company to control commodity prices; risks associated with the regulatory environment within which the Company operates; risks associated with litigation including the availability of insurance; and risks posed by competition. These and other factors that could cause actual results or outcomes to differ materially from the results expressed, implied or forecasted by the forward looking information are discussed in more detail in Item 1A under “Risk Factors” in Part I of our Annual Report on Form 10-K for the fiscal year ended November 30, 2014, as may be supplemented or amended from time to time and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I, Item 2 in this document.

The Company does not intend to, and the Company disclaims any obligation to, update any forward-looking information (including any financial outlooks), whether written or oral, or whether as a result of new information, future events or otherwise, except as required by law.

All references in this Form 10-Q to “Company,” “Methes,” “we,” “us,” or “our” refer to Methes Energies International Ltd. and its wholly owned subsidiaries Methes Energies Canada Inc. and Methes Energies USA Ltd. unless the context otherwise indicates.

We have rights to the trademarks Methes Energies and Design, Methes, The Biodiesel Company and Denami.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

METHES ENERGIES INTERNATIONAL LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS AS OF NOVEMBER 30, 2014 AND FEBRUARY 28, 2015
(EXPRESSED IN US\$)

	November 30, 2014 (Unaudited)	February 28, 2015 (Unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 65,649	\$ 115,585
Accounts receivable, net (notes 12, 13 and 15)	247,771	602,073
Inventories (note 3)	410,699	414,767
Prepaid expenses and deposits	41,692	54,252
Total current assets	765,811	1,186,675
Deposits	18,891	20,588
Property, plant and equipment, net (note 4)	7,845,745	7,741,008
Intangible assets, net	372,811	367,760
Total assets	\$ 9,003,258	\$ 9,316,031
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable (note 13)	\$ 634,466	\$ 890,088
Accrued liabilities	214,240	202,820
Customer deposits	144,640	132,346
Payable to related party (note 5)	81,382	82,982
Short-term loan (note 6)	1,180,035	1,079,730
Total current liabilities	2,254,763	2,387,966
Payable to related party (note 7)	772,270	797,371
Term loan (note 8)	1,837,188	1,867,028
	2,609,458	2,664,399
Total liabilities	4,864,221	5,052,365
Stockholders' equity		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized; 111,822 and 111,822 shares issued and outstanding as at November 30, 2014 and February 28, 2015, respectively (note 10)	112	112
Common stock, \$0.001 par value, 75,000,000 shares authorized; 11,510,431 and 11,510,431 shares issued and outstanding at November 30, 2014 and February 28, 2015, respectively (note 10)	11,509	11,509
Additional paid-in capital	26,342,831	26,411,520
Accumulated deficit	(22,215,415)	(22,159,475)
Total stockholders' equity	4,139,037	4,263,666
Total liabilities and stockholders' equity	\$ 9,003,258	\$ 9,316,031

Going concern (note 1)

Commitments (note 14)

Subsequent event (note 19)

See accompanying notes to unaudited condensed consolidated financial statements

METHES ENERGIES INTERNATIONAL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
 FOR THE THREE MONTHS ENDED FEBRUARY 28, 2014 AND FEBRUARY 28, 2015
 (EXPRESSED IN US\$)

	Three Months Ended February 28, 2014	Three Months Ended February 28, 2015
Revenue		
Biodiesel sales	\$ 309,537	\$ 36,638
Feedstock sales	26,623	—
Glycerin sales	13,197	—
Government incentives (note 15)	13,035	1,637
Equipment and part sales	647	—
Royalties	—	2,706
Other (note 12)	15,440	843,338
	378,479	884,319
Cost of goods sold	292,618	12,900
Gross profit	85,861	871,419
Operating expenses		
Selling, general and administrative expenses (notes 4, 10 and 11)	1,465,409	753,641
(Loss) income before interest, rental income and taxes	(1,379,549)	117,778
Other (expense) income		
Interest expense (note 17)	(101,892)	(70,202)
Rental income	—	8,364
(Loss) income before income taxes	(1,481,441)	55,940
Income taxes	—	—
Net (loss) income for the period	\$ (1,481,441)	\$ 55,940
Net (Loss) Income Per Common Share - Basic and Diluted	\$ (0.18)	\$ 0.01
Weighted average number of Common Shares - Basic	8,125,419	11,510,431
Weighted average number of Common Shares - Diluted	8,125,419	11,647,898

See accompanying notes to unaudited condensed consolidated financial statements

METHES ENERGIES INTERNATIONAL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
 FOR THE YEAR ENDED NOVEMBER 30, 2014 AND THE THREE MONTHS ENDED FEBRUARY 28, 2015
 (EXPRESSED IN US\$)

	Common Stock		Preferred Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	
Balance at November 30, 2013	7,231,417	\$7,231	260,782	\$261	\$18,532,803	\$(15,892,703)	\$2,647,592
Issuance of Common Stock units under private placement (note 10)	1,081,161	1,081	—	—	2,161,240	—	2,162,321
Issuance of Common Stock under public offering (note 10)	2,800,000	2,800	—	—	5,597,200	—	5,600,000
Issuance Cost - Common Stock	—	—	—	—	(949,358)	—	(949,358)
Issuance of Common Stock units upon conversion of Preferred Stock units (note 10)	148,960	149	(148,960)	(149)	—	—	—
Issuance of Common Stocks upon conversion of dividends on Preferred Stock (note 10)	7,205	7	—	—	16,229	(16,236)	—
Issuance of Common Stock units for cash (note 10)	16,129	16	—	—	99,984	—	100,000
Issuance of Common Stock for services (note 10)	183,871	184	—	—	545,566	—	545,750
Issuance of Common Stock for loan settlement (note 10)	34,688	34	—	—	127,965	—	127,999
	7,000	7	—	—	13,993	—	14,000

Issuance of Common Stock upon conversion of placement agent Warrants (note 10)							
Stock-based compensation (note 11)	—	—	—	—	197,209	—	197,209
Net loss for the year	—	—	—	—	—	(6,306,476)	(6,306,476)
Balance at November 30, 2014	11,510,431	\$ 11,509	111,822	\$ 112	\$ 26,342,831	\$(22,215,415)	\$ 4,139,037
Stock-based compensation (note 11)	—	—	—	—	1,009	—	1,009
Issuance of common stock warrants	—	—	—	—	67,680	—	67,680
Net income for the period	—	—	—	—	—	55,940	55,940
Balance at February 28, 2015	11,510,431	\$ 11,509	111,822	\$ 112	\$ 26,411,520	\$(22,159,475)	\$ 4,263,666

See accompanying notes to unaudited condensed consolidated financial statements

METHES ENERGIES INTERNATIONAL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE THREE MONTHS ENDED FEBRUARY 28, 2014 AND FEBRUARY 28, 2015
(EXPRESSED IN US\$)

	Three Months Ended February 28, 2014	Three Months Ended February 28, 2015
Cash flows from operating activities:		