

METHES ENERGIES INTERNATIONAL LTD
Form 10-Q
July 14, 2014

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 May 31, 2014

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 jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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 July 14, 2014, the registrant has 11,435,431 shares of Common Stock issued and outstanding.

METHES ENERGIES INTERNATIONAL LTD.

FORM 10-Q

INDEX

	Page No.
PART I FINANCIAL INFORMATION	
ITEM 1.	
Condensed Consolidated Financial Statements - Unaudited	1
Condensed Consolidated Balance Sheets as of November 30, 2013 and May 31, 2014	1
Condensed Consolidated Statements of Operations for the Three and Six Months ended May 31, 2013 and 2014	2
Condensed Consolidated Statements of Stockholders' Equity for the Year ended November 30, 2013 and the Six Months ended May 31, 2014	3
Condensed Consolidated Statements of Cash Flows for the Six Months ended May 31, 2013 and 2014	4
Notes to Condensed Consolidated Financial Statements	5
ITEM 2.	
Management's Discussion and Analysis of Financial Condition and Results of Operations	19
ITEM 3.	
Quantitative and Qualitative Disclosures About Market Risk	26
ITEM 4.	
Controls and Procedures	26
PART II OTHER INFORMATION	
ITEM 5.	
Unregistered Sales of Equity Securities and Use of Proceeds	27
ITEM 6.	
Exhibits	27

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,” “s” “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, 2013, 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, 2013 AND MAY 31, 2014
(EXPRESSED IN US\$)

ASSETS	November 30, 2013 (Unaudited)	May 31, 2014 (Unaudited)
Current assets		
Cash and cash equivalents	\$ 174,084	\$ 4,048,226
Accounts receivable, net (notes 10 and 12)	1,154,916	136,637
Inventories (note 3)	801,063	249,728
Prepaid expenses and deposits	84,990	402,768
Deferred financing fees	49,139	6,424
Total current assets	2,264,192	4,843,783
Deposits	30,398	28,199
Property, plant and equipment, net (note 4)	8,178,694	8,056,626
Intangible assets, net	393,015	382,913
Total assets	\$ 10,866,300	\$ 13,311,521
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Credit facility (note 7)	\$ 1,019,513	\$ —
Accounts payable (note 10)	2,766,661	1,740,695
Accrued liabilities	211,296	224,664
Customer deposits (note 10)	8,185	9,104
Payable to related parties and others (note 5)	2,251,402	745,750
Short-term loans (note 6)	1,961,651	3,394,039
Total liabilities	8,218,708	6,114,252
Stockholders' equity		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized; 260,782 and 111,822 shares issued and outstanding as at November 30, 2013 and May 31, 2014, respectively (note 8)	261	112
Common stock, \$0.001 par value, 75,000,000 shares authorized; 7,231,417 and 11,435,431 shares issued and outstanding at November 30, 2013 and May 31, 2014, respectively (note 8)	7,231	11,435
Additional paid-in capital	18,532,803	26,142,945
Accumulated deficit	(15,892,703)	(18,957,223)
Total stockholders' equity	2,647,592	7,197,269

Total liabilities and stockholders' equity	\$ 10,866,300	\$ 13,311,521
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Commitments (note 11)

See accompanying notes to unaudited condensed consolidated financial statements

1

METHES ENERGIES INTERNATIONAL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
FOR THE THREE AND SIX MONTHS ENDED MAY 31, 2013 AND MAY 31, 2014
(EXPRESSED IN US\$)

	Three Months Ended May 31, 2013	Three Months Ended May 31, 2014	Six Months Ended May 31, 2013	Six Months Ended May 31, 2014
Revenue				
Biodiesel sales	\$ 2,080,304	\$ 316,294	\$ 2,210,740	\$ 625,831
Feedstock sales	40,802	69,719	84,988	96,341
Glycerin sales	22,635	10,649	36,441	23,847
Government incentives (note 12)	170,124	25,557	179,004	38,592
Equipment sales	2,657	750	2,657	1,397
Royalties	2,793	11,454	6,775	11,454
Others	9,039	4,982	17,860	20,421
	2,328,354	439,405	2,538,465	817,883
Cost of goods sold	2,221,184	371,921	2,410,713	664,540
Gross profit	107,170	67,484	127,752	153,343
Operating expenses				
Selling, general and administrative expenses (note 4, 8 and 9)				
	1,476,838	1,442,291	2,767,926	2,907,700
Loss before interest and taxes	(1,369,668)	(1,374,807)	(2,640,174)	(2,754,357)
Other expenses				
Interest expense (notes 5, 6 and 7)	(122,143)	(192,035)	(242,969)	(293,927)
Loss before income taxes	(1,491,811)	(1,566,842)	(2,883,143)	(3,048,284)
Income taxes				
Net loss for the period	\$ (1,491,811)	\$ (1,566,842)	\$ (2,883,143)	\$ (3,048,284)
Net Loss Per Common Share - Basic and Diluted	\$ (0.21)	\$ (0.18)	\$ (0.42)	\$ (0.36)
Weighted average number of common shares - Basic and Diluted	6,978,169	8,702,605	6,790,324	8,411,002

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, 2013 AND THE SIX MONTHS ENDED MAY 31, 2014
(EXPRESSED IN US\$)

	Common Stock		Preferred Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	
Balance at November 30, 2012	6,553,169	\$ 6,553	—	—\$	—\$ 16,033,123	\$ (10,241,029)	\$ 5,798,647
Issuance of common stock units under private placement	653,248	653	—	—	2,149,347	—	2,150,000
Issuance cost – common stock under private placement	—	—	—	—	(368,611)	—	(368,611)
Issuance of Common stock for services	25,000	25	—	—	51,975	—	52,000
Issuance of preferred stock units under private placements	—	—	260,782	261	622,239	—	622,500
Issuance cost – preferred stock under private placement	—	—	—	—	(149,330)	—	(149,330)
Stock-based compensation	—	—	—	—	155,578	—	155,578
Dividends payable on preferred stock units	—	—	—	—	—	(9)	(9)
Issuance of common stock options to employees and officer	—	—	—	—	38,482	—	38,482
Net loss for the period	—	—	—	—	—	(5,651,665)	(5,651,665)
Balance at November 30,	7,231,417	\$ 7,231	260,782	\$ 261	\$ 18,532,803	\$ (15,892,703)	\$ 2,647,592

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2013								
Issuance of common stock units under private placement	1,081,161	1,081	—	—	2,161,240	—	2,162,321	
Issuance of common stock under public offering	2,800,000	2,800	—	—	5,597,200	—	5,600,000	
Issuance cost—common stock units under private placement	—	—	—	—	(949,358)	—	(949,358)	
Issuance of common stock units for cash upon conversion of preferred stock units	148,960	149	(148,960)	(149)	—	—	—	
Issuance of common stock upon conversion of dividends on preferred stock	7,205	7	—	—	16,229	(16,236)	—	
Issuance of common stock units for cash	16,129	16	—	—	99,984	—	100,000	
Issuance of common stock and units for services	108,871	109	—	—	447,141	—	447,250	
Issuance of common stock units for loan settlement	34,688	35	—	—	127,964	—	128,000	
Issuance of common stock upon conversion of placement agent warrants	7,000	7	—	—	13,993	—	14,000	
Stock-based compensation	—	—	—	—	95,749	—	95,749	
Net loss for the period	—	—	—	—	—	(3,048,284)	(3,048,284)	
Balance at May 31, 2014	11,435,431	\$ 11,435	111,822	\$ 112	\$ 26,142,945	\$ (18,957,223)	\$ 7,197,269	

See accompanying notes to unaudited condensed consolidated financial statements

METHES ENERGIES INTERNATIONAL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE SIX MONTHS ENDED MAY 31, 2013 AND MAY 31, 2014
(EXPRESSED IN US\$)

	Six Months Ended May 31, 2013	Six Months Ended May 31, 2014
Cash flows from operating activities:		
Net loss for the period	\$ (2,883,143)	\$ (3,048,284)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation and amortization	243,695	222,197
Stock-based compensation	66,633	95,749
Unrealized foreign exchange gain	(76,193)	(40,357)
Deferred financing fees amortization	22,583	42,715
Accrued interest	81,641	90,623
Bad debts	—	35,662
Issuance of common stock/units for consulting services	—	371,854
Changes in operating assets and liabilities:		
Accounts receivable	(113,432)	982,617
Inventories	97,173	551,335
Prepaid expenses and deposits	(15,756)	(240,184)
Accounts payable and accrued liabilities	440,132	(1,012,596)
Customer deposits	—	919
Net cash used in operating activities	(2,136,667)	(1,947,750)
Cash flows from investing activity:		
Additions to property, plant and equipment	(351,828)	(90,027)
Additions to intangible assets	(191)	—
Net cash used in investing activity	(352,019)	(90,027)
Cash flows from financing activities:		
Repayment of credit facility	—	(1,019,513)
Advances from short-term loans	385,800	135,705
Repayments of short-term loans	—	(269,401)
Advances from related parties and others	519,258	172,000
Repayments to related parties and others	—	(33,835)
Issuance of common stock/units under private placement and public offering (net of issuance costs)	1,369,390	6,812,963
Issuance of common stock/units for cash	—	100,000
Issuance of common stock upon conversion of placement agent warrants	—	14,000
Net cash provided by financing activities	2,274,448	5,911,919
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(214,238)	3,874,142
Cash and cash equivalents, beginning of period	402,724	174,084