

METHES ENERGIES INTERNATIONAL LTD
Form 10-K
March 11, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended November 30, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 001-35652

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

Nevada
(State or other
jurisdiction of
incorporation or
organization)

71-1035154
(I.R.S. Employer
Identification
No.)

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

89103

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each Name of each

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

| | |
|-----------------|--------------|
| class: | exchange on |
| | which |
| | registered: |
| Common Stock | The NASDAQ |
| (par value | Stock Market |
| \$0.001 per | LLC |
| share), Class A | |
| Warrants and | |
| Class B | |
| Warrants | |

Securities registered pursuant to Section 12(g) of the Act:

None.

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (section 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a 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 Act). Yes No

On May 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of Common Stock held by non-affiliates was \$19,212,559.

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

TABLE OF CONTENTS

| | Page |
|---|------|
| PART I | |
| ITEM 1. Business | 4 |
| ITEM 1A. Risk Factors | 17 |
| ITEM 1B. Unresolved Staff Comments | 23 |
| ITEM 2. Properties | 23 |
| ITEM 3. Legal Proceedings | 24 |
| ITEM 4. Mine Safety Disclosures | 24 |
| PART II | |
| Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer | |
| ITEM 5. Purchases of Equity Securities | 25 |
| ITEM 6. Selected Financial Data | 26 |
| ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 26 |
| ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk | 35 |
| ITEM 8. Financial Statements and Supplementary Data | 35 |
| ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 35 |
| ITEM 9A. Controls and Procedures | 36 |
| ITEM 9B. Other Information | 36 |
| PART III | |
| ITEM 10. Directors, Executive Officers and Corporate Governance | 37 |
| ITEM 11. Executive Compensation | 39 |
| Security Ownership of Certain Beneficial Owners and Management and Related | |
| ITEM 12. Stockholder Matters | 42 |
| ITEM 13. Certain Relationships and Related Transactions, and Director Independence | 43 |
| ITEM 14. Principal Accounting Fees and Services | 43 |
| PART IV | |
| ITEM 15. Exhibits, Financial Statement Schedules | 44 |
| Signatures | 46 |

Cautionary Statement Regarding Forward-Looking Information

This Form 10-K 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 labour 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 the section entitled “Risk Factors” 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-K 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

ITEM 1. BUSINESS

Overview

We are a renewable energy company that offers an array of products and services to a network of biodiesel fuel producers. We also market and sell in the U.S. and Canada biodiesel fuel produced at our small-scale production and demonstration facility in Mississauga, Ontario, Canada and at our intermediate scale biodiesel production facility in Sombra, Ontario, Canada. The first of two Denami 3000 processors, designed to produce up to 6.5 million gallons per year, or mgy, of biodiesel, was placed in production in 2013 and the second Denami 3000 was placed in production in early 2014. In fiscal 2013 we shipped 67 railcars (over 1.7 million gallons) of biodiesel from our Sombra facility and 50 railcars (over 1.3 million gallons) in fiscal 2014. In fiscal 2013 and 2014, our largest source of revenue was from the sale of biodiesel fuel.

Among other services and from time to time, we sell feedstock to our network of biodiesel producers, sell their output in the U.S. and Canada, provide them with proprietary software used to operate and control their processors, remotely monitor the quality and characteristics of their output, upgrade and repair their processors, and advise them on adjusting their processes to use varying feedstock and improve their output. Through the accumulation of production data from our network, we are equipped to provide consulting services to network members and other producers for operating their facilities, maintaining optimum production and solving production problems. In addition, we provide assistance to network members and others in production site selection, site development, installation of equipment and commissioning of processors. For our network services and the license of our operating and communications software, we receive a royalty from some network members based on gallons of biodiesel produced.

Network members currently produce biodiesel through use of Denami 600 processors purchased from us, which have a maximum rated capacity of 1.3 million gallons per year “mgy”, of biodiesel, and starting in fiscal 2015 some new clients may purchase or license to manufacture one or more of our new Denami 3000 processors designed to produce up to 6.5 mgy of biodiesel. We market Denami processors designed to meet the needs of 2 to 20 mgy biodiesel producers. We believe that small and medium-scale producers will be the fastest growing segment of the biodiesel market. Our processors are flexible and can use a variety of virgin vegetable oils, used vegetable oil and rendered animal fat feedstock, allowing operators to take advantage of feedstock buying opportunities. Our Denami processors operate automatically in a continuous flow mode and can be rapidly fine-tuned to adjust to feedstock and production variables. In addition to low production and labor costs, our processors minimize electrical use and utilize water only in closed loop components for cooling purposes. The absence of waste water discharge has facilitated obtaining environmental permits for our facilities and those of our customers.

We expect to achieve economies of scale for our network members by bulk purchasing feedstock, methanol, catalyst and other biodiesel related products and negotiating more favorable sales prices through the sale of larger quantities of biodiesel and glycerin for these members. Achieving our growth plan will enable us to spread fixed overhead costs over a larger revenue base.

In August 2014, we introduced, what we believe is, a better way to pre-treat oils for the production of biodiesel. This pre-treatment process allows for substantial savings compared to some of the traditional ways of pre-treating oils and offers additional benefits such as saving on maintenance costs and access to cheaper oils such as non-edible corn oil coming out of ethanol facilities. This pre-treatment process allows us to expand our customer base and may provide for additional sources of revenues beyond the sale of our Denami processors.

Growth Plan

We plan to expand our business by (i) developing a computer-linked, North American network of small and medium-scale independent biodiesel producers, (ii) adding to our production capacity at our Sombra location, (iii) marketing and selling our Denami processors in Europe, Asia and South America, (iv) marketing and selling our pre-treatment process, and (v) expanding our consulting services. The network is intended to provide us not only with royalties but also with opportunities to offer additional services to network members, such as sales of feedstock and process monitoring services. Purchasers of our Denami processors benefit from the computer-linked, real-time monitoring services which improve the quality of processor output and processor efficiency. Other small and intermediate producers can take advantage of our upgrade, repair and service capabilities. We may also offer to purchase biodiesel from computer-linked network members and others. Specific steps contemplated by our growth plan include:

Expand our biodiesel production network. We believe that our existing small network can be expanded. We already consult with entrepreneurs, existing producers and other businesses seeking to enter into small and intermediate-scale biodiesel production. We expect most new members of our network will be purchasers of our Denami processors, but certain network services will be open to other small and intermediate producers.

Increase production capacity. We began commercial operation at the Sombra, Ontario facility in November 2013. Depending upon the availability of financing, we plan to further increase capacity at our Sombra facility by another 13 mgy by August 2016 and install a 13 mgy new pre-treatment system as soon as possible at our Sombra facility. The pre-treatment system will allow us to substantially reduce our production costs and access cheaper feedstock.

Increase marketing and sales of Denami processors. We plan to begin selling our new 6.5 mgy Denami 3000 processors to potential members of our North American network as well as to other purchasers outside the areas served by our network. We also plan to offer our processors in Europe, Asia and South America. We believe there is demand for small and intermediate biodiesel processors in these regions that we have been unable to exploit because of our small size, limited resources and small marketing staff. We did not sell any Denami processors to third parties in fiscal 2014.

Marketing and sales of pre-treatment process. We believe that our new pre-treatment process which includes the use of the PP-MEC catalyst to be very efficient and beneficial to any biodiesel facilities currently using traditional pre-treatment processes. We also believe that ethanol facilities are ideal clients for this process as well. We intend to aggressively market this pre-treatment process worldwide in 2015 and also setup, if funds are available at acceptable terms, this new process at our Sombra facility which would facilitate and help with marketing as potential clients could see a full commercial scale unit in production.

Expand consulting services. We plan to offer consulting services to other biodiesel producers in North America, providing them with solutions to production process, quality, sourcing and marketing problems. We also expect to offer additional “turnkey” services to those considering entry into the biodiesel industry, including assistance in finding suitable production sites, setting up production facilities, obtaining required zoning approval and environmental permits, and installing production equipment. We

believe that our strong research and development background and our experience in providing these services give us a clear advantage in offering these services.

Addition of new products. We plan to offer a new Enterprise Resources Planning (ERP) software to biodiesel producers in North America starting in the first quarter of fiscal 2015. The software was mostly designed by us and is intended to help producers keep track of their compliance requirements under the Renewable Fuel Standard (RSF2) and the various Quality Assurance Plans (QAP's). The software provides producers the ability to manage their accounting, customer relationships and manufacturing processes.

Competitive Advantages

We believe we have a number of competitive advantages that will contribute to our ability to achieve our growth plans:

Superior product design. Our Denami processors are engineered to offer the following advantages:

- Adaptability to multiple feedstocks. Unlike most equipment now in production, our Denami processors can use a variety of feedstocks, including soy oil, canola oil, used vegetable oil, used cooking oil, corn oil, pork lard and beef tallow, to produce high-quality biodiesel which enables us and our network members to purchase in the market whatever feedstock is then most economical.
- Modular component design. As the biodiesel industry matures, the regulatory standards will likely continue to evolve, which will require modifications to current production processes and upgrades to existing equipment. The modular design of the Denami 600 and Denami 3000 allows components to be removed, repaired or replaced without replacing the entire unit, thus permitting upgrades to components of the process to be made in a cost-effective manner.
- Small footprint and short build time. Our Denami processors are compact and can be installed in a footprint as small as 11 feet wide by 16 feet long and 16 feet high, and can be manufactured in as little as 16 weeks unlike many other processors which require more than seven months to build.
- Pre-treatment system. Our new pre-treatment process combined with the PP-MEC catalyst provides significant advantages over traditional pre-treatment processes. Maintenance costs reduction, savings on certain chemicals and access to cheaper feedstock provide for lower costs of production. By converting to this process or adding it in front of an existing biodiesel processor, biodiesel producers can now benefit on several aspects of their production resulting in additional savings.

Sophisticated proprietary technology. Our processors are controlled by proprietary and encrypted software developed by us which provides real-time information to the operators and our Canadian operating headquarters, and permits remote monitoring and control of our members' processors. The real-time information provided includes the quantities of oil, methanol, catalyst and other feedstock components consumed; the flow rate of material through the system; the temperatures at which each of the system components operate; and the output derived and elapsed time for each processing component.

Superior quality assurance processes. We regularly receive samples of biodiesel output from network members so we can provide the highest level of quality assurance to our customers. In addition, we continuously monitor production processes for network members. These quality assurance processes enable us to assure compliance with applicable industry purity standards and offer consistent product quality.

Products designed for small and intermediate scale producers. Our Denami 600 and Denami 3000 processors are specifically designed to meet the needs of 2 to 20 mgy producers, and require a relatively small capital investment and less time to complete a production facility. Production is scalable as additional units can then be added with relative ease to increase capacity. Expanding production through individual units also

provides more flexibility in processing different feedstocks, as the production process can be grouped by type of feedstocks or by feedstock from a particular source.

Experience in operating a biodiesel producers' network. We have operated an interconnected computer-linked network of biodiesel producers since 2010 and have the background, knowledge and skills to assist network members in acquiring feedstock, marketing and selling their biodiesel output, refining and improving production processes and resolving any production difficulties. At present, our network consists of four production facilities, two of which are owned by us. Data collected from an expanded network of members will enhance our biodiesel trading and consulting services.

Multiple revenue streams. We derive revenue from sale of our biodiesel and biodiesel produced by others, feedstock sales, equipment sales, government incentives, royalties and miscellaneous other revenues. In fiscal 2013 and 2014, respectively, these revenue sources contributed the following percentages of our total revenue: internal biodiesel production 70.6% and 83.5%; biodiesel re-sales 17.2% and 2.8%; feedstock sales 3.6% and 3.4%; equipment sales 0.10% and 0.03%; government incentives 6.2% and 6.7%; royalties 0.40% and 0.60%; and other 1.9% and 3%. These diverse revenue sources and the synergies among the different parts of our business helps reduce the seasonality of our business and our dependence on any one market.

Biodiesel Industry Background

Biodiesel is an engine fuel produced from vegetable oils and animal fats that has favorable environmental and lubrication characteristics when used as a blend with or alternative for petroleum-based diesel fuels. Federal and state environmental requirements and incentives, particularly the Renewable Fuel Standard program and RFS2 there under, have encouraged the production and use of biodiesel in recent years. U.S. biodiesel production in 2013 was estimated at nearly 1.8 billion gallons and approximately 1.7 billion gallons in 2014. Canadian biodiesel production is still in its infancy with its first federally mandated use of 2% renewable in diesel and home heating oil which began on July 1, 2011. Canada has approximately 10 biodiesel production facilities, mostly small, which were operating in 2014 with an estimated production capacity of 150 million gallons per year.

Rudolph Diesel designed the diesel engine in 1894 to run on peanut oil. Until recently, however, vegetable oils (biodiesel) have not been a significant source of energy for the diesel engine. Instead, petroleum-based distillate fuels became the primary energy source for a variety of heating, diesel fuel and electric power generation uses. According to the Energy Information Administration, the United States consumed approximately 57.2 billion gallons of distillate fuel in 2011, an increase of 1.2 billion gallons over 2010. Diesel fuel makes up approximately two-thirds of the distillate fuel use and fuel oil approximately one-third. The major distillate market segments include “on-highway” with 65 percent of the market; “residential” with seven percent; “farm” and “commercial” with five percent; and “railroad,” “industrial” and “off-highway” with approximately four percent each.

The biggest change in the diesel fuel market in the past decade has been the requirement to decrease regulated emissions, principally in the “on-highway” portion of the market. This has required diesel fuel refineries to produce fuel with lower sulfur content. Effective June 2006, all diesel fuel was required to have a sulfur content of less than 15 parts per million. A problem encountered with “ultra low sulfur diesel or “ULSD” is decreased lubricity of the fuel. All diesel fuel injection equipment depends on diesel fuel for lubrication of internal moving parts, which reduces equipment wear and premature breakdown. Accordingly, producers and distributors of ULSD are under pressure to find additives or other means to increase the lubricity of their diesel fuels.

The U.S. federal government began encouraging biodiesel production in 2000. The 2002 Energy Bill provided producers of biodiesel a tax credit of \$0.80 per gallon, and mandated that all federal, state and local governments with diesel-powered vehicles and diesel-powered equipment use a mixture of 2 percent biodiesel (B2). As of late 2011, the National Biodiesel Board, a trade association, estimates that there is capacity to produce approximately 3.2 billion gallons of biodiesel in the United States annually. It is important to note that production capacity differs from the actual number of gallons sold.

The Canadian federal government began the ecoENERGY for Biofuels Program in 2008 to support the production of renewable alternatives to gasoline and diesel. Under this incentive program Canadian producers of biodiesel receive incentive payments per gallon of biodiesel produced in declining amounts through 2017 when the incentive program ends. In addition, the Canadian Government has adopted regulations requiring 2% renewable content in diesel and heating oil starting July 1, 2011, with an 18-month compliance period to meet that volume requirement.

Benefits of Biodiesel: Environmental and Lubricity

Biodiesel, which is produced from animal and vegetable oils, can be used as a fuel in its pure form or blended with petroleum distillate in any percentage to ensure proper performance in diesel engines. Fuel-grade biodiesel must be produced in compliance with ASTM D6751, a standard issued in December 2001 by ASTM International, formerly known as the American Society for Testing and Materials. Issuance of this specification has been crucial in standardizing fuel quality for biodiesel in the U.S. market and increasing the confidence of consumers and engine makers. Although Canada has yet to establish its own standards for biodiesel, The Canadian General Standards Board (CGSB) recognizes ASTM D6751 as part of a Canadian biodiesel specification.

According to the National Biodiesel Board, biodiesel is the only alternative fuel to have fully completed the health effects testing requirements of the 1990 Clean Air Act Amendments. Biodiesel that meets ASTM D6751 requirements is a legal motor fuel that may be sold and distributed in the United States. It has been registered as a fuel and fuel additive with the EPA and meets clean diesel standards established by the California Air Resources Board. According to the National Biodiesel Board, biodiesel, in pure form, has been designated as an alternative fuel by the U.S. Department of Energy and the U.S. Department of Transportation.

Based on a comprehensive technical report of biodiesel emissions data released by the EPA, the use of biodiesel (B100) can reduce emissions of particulate matter by up to 47 percent when compared to petroleum diesel in unmodified diesel engines. The report also verified a 67 percent reduction in unburned hydrocarbons and a 48 percent reduction in carbon monoxide with pure biodiesel. However, there was a 10 percent increase in NOx emissions compared with petroleum diesel fuel. Source: EPA, A Comprehensive Analysis of Biodiesel Impacts on Exhaust Emissions (Oct. 2002). Biodiesel is the only alternative automotive fuel to have successfully completed the Tier I and Tier II health effects testing requirements of the Clean Air Act Amendments of 1990. The results of the tests concluded that biodiesel is nontoxic and biodegradable, and posed no known threat to human health.

To assist in ensuring that biodiesel is produced and maintained at the ASTM D6751 industry standard, the National Biodiesel Board created the National Biodiesel Accreditation Commission (the "NBAC") to certify producers and marketers of biodiesel that successfully meet the accreditation criteria as "Accredited BQ9000 Producers." Accreditation is awarded following a successful formal review and audit of the capacity and commitment of the applicant to produce or market biodiesel fuel that meets the ASTM D6751 specification for Biodiesel Fuel (B100) Blend Stock for Distillate Fuels. The accreditation process is comprehensive and includes a detailed review of the applicant's quality system documentation, followed by a formal audit of the applicant's conformance to its system. The BQ-9000 accreditation is voluntary and optional. We achieved BQ-9000 certification both as a Producer and Marketer, in May 2014.

In addition to its lower emissions than petroleum-based diesel, the better lubricity characteristics of biodiesel have caused it to emerge as an attractive alternative fuel or blending resource. According to the National Biodiesel Board, bench-scale testing has shown that a one percent biodiesel blend can improve the lubricity of diesel fuel by up to 65 percent, depending on the base diesel fuel product. Subject to the adaptability of the engine or use, biodiesel can be blended or used in any ratio, ranging from one percent (B1) to 100 percent (B100).

Market Overview

Since biodiesel has been more expensive to produce than petroleum-based diesel fuel over the past few years, the biodiesel industry is dependent on government programs that support a market for biodiesel that might not otherwise exist. Stimulated largely by federal, state and provincial government environmental regulations and incentives, the biodiesel market has grown substantially in recent years. According to the website of the National Biodiesel Board, biodiesel production reached approximately 250 million gallons in 2006 and 1.8 billion gallons in 2013. According to Biodiesel Magazine, there were approximately 195 biodiesel facilities as of October 2014 with the capacity to produce approximately 3.2 billion gallons of biodiesel in the United States.

The future demand for biodiesel will depend in part on whether federal and state government incentives and mandates are maintained and expanded and on the demand for diesel fuel in general, which is relatively large but growing slowly. We believe the demand for biodiesel may increase as automobiles and small trucks shift to using diesel to take advantage of the benefits of biodiesel and biodiesel blends.

Biodiesel is one of the fastest growing alternative fuels in the United States. In January 1999, there were only a few fleets buying and using biodiesel. According to information published on company websites, as of May 2012, several hundred major fleets have implemented biodiesel programs across the country, including federal fleets such as the U.S. Postal Service, the U.S. Air Force, the U.S. Army, the U.S. Department of Energy and NASA; state fleets in Ohio, Iowa, Virginia, Missouri, Delaware and New Jersey; city buses such as Cincinnati Metro in Cincinnati, Ohio and the Bi-State in St. Louis, Missouri; and major public utility fleets such as Commonwealth Edison, Florida Power and Light, Duke Energy, Georgia Power, Alabama Power and others. The Company believes that this growth is spurred in part by three principal factors: (1) standards established by the ASTM, (2) health effects testing criteria by the federal EPA, and (3) the necessity to comply with standards established under the Energy Policy Act of 1992.

The biodiesel market in Canada is expected to develop in a manner similar to the U.S. market. In order to meet the mandate of 2% biodiesel content in Canada, approximately 150 mg of biodiesel is required per year. Several provinces also have their own mandates which helps create an increase in demand. The province of Ontario has introduced a 2% provincial mandate in 2014.

We believe, based on the number of small and intermediate size production facilities now existing or under development in the United States and Canada and the number of additional investors that may seek to enter into biodiesel production, that the market for the services we provide to members of our network and other biodiesel producers will be strong over the next several years. Our services facilitate the marketing of biodiesel by our network members, enable network members to achieve production efficiencies by purchasing feedstock through us which provides the highest yield at the lowest cost, provide potential new biodiesel producers with the benefit of our “turnkey” services and otherwise assist network members in efficiently running their production processes and remediating production problems.

Government Incentives and Policies

United States

The U.S. federal government and various state governments have created incentive programs to encourage biodiesel production in the United States. The federal incentive programs include direct payments to eligible U.S. producers for increased biodiesel production. State incentive programs include tax exemptions and credits for U.S. producers. We compete with U.S. biodiesel producers that benefit from the programs described below, and as a result they may affect our ability to be competitive in the U.S. biodiesel market.

U.S. Biodiesel Tax Credits. The first biodiesel-specific tax incentives were adopted as part of the American Jobs Creation Act of 2004. Under these incentives, federal income and excise tax credits are available to certain distributors and blenders of biodiesel and agri-biodiesel. The incentives were designed to reduce the price of and increase the demand for biodiesel. The American Taxpayer Relief Act of 2012 retroactively extended certain fuel tax credits that expired on December 31, 2011. The retroactively extended credits were the biodiesel mixture credit, biodiesel credit, alternative fuel credit and alternative fuel mixture credit. Those credits expired again on December 31, 2013 and were retroactively reinstated on December 19, 2014 for 2014 only. It is still uncertain if the credit will be reintroduced for 2015. However, certain states, such as Illinois, exempt biodiesel from sales or fuel excise taxes.

Renewable Fuel Standard: On July 1, 2010, RFS2’s biomass-based diesel requirement became effective, requiring for the first time that a certain percentage of the diesel fuel consumed in the United States be made from renewable sources. The biomass-based diesel requirement can be satisfied by two primary fuels, biodiesel and renewable diesel. Prior to 2013, renewable diesel had not been available in the United States in significant commercial quantities and thus, biodiesel has satisfied the vast majority of the RFS2 biomass-based diesel requirement. RFS2 required the use of one billion gallons of biomass-based diesel in 2012, required 1.28 billion gallons in 2013 and at least one billion

gallons each year thereafter, with such higher amounts subject to the United States Environmental Protection Agency, or EPA, proposals and the Office of Management and Budget, or OMB, approval. As of this filing, the EPA has not finalized the 2014 biomass-based diesel requirement. The EPA has proposed a 2014 biomass-based diesel required volume obligation, or RVO, of 1.28 billion gallons and a reduced Advanced Biofuel RVO of 2.0 to 2.51 billion gallons rather than the original Energy Independence and Security Act of 2009, or EISA, volume of 3.75 billion gallons of advanced biofuels for 2014. We expect RFS2 to continue to create demand for biodiesel. The EPA has indicated that the 2014, 2015 and 2016 RVO's will be announced in early 2015.

The biomass-based diesel requirement is one of four separate renewable fuel requirements under RFS2. The RFS2 requirements are based on two primary categories and two subcategories. The two primary categories are conventional renewable fuel, which is primarily satisfied by corn ethanol, and advanced biofuel, which is defined as a biofuel that reduces lifecycle greenhouse gas emissions by at least 50% compared to the petroleum-based fuel the biofuel is replacing. The advanced biofuel category has two subcategories, cellulosic biofuel, to be satisfied by newly developed cellulosic biofuels, such as ethanol made from woody biomass, and biomass-based diesel, which is intended to be satisfied by biodiesel and renewable diesel. RFS2's total advanced biofuel requirement is larger than the combined cellulosic fuel and biomass-based diesel requirements, thus requiring the use of additional volumes of advanced biofuels.

The RFS2 requirement for additional volumes of advanced biofuels can be satisfied by any advanced biofuel, including biodiesel, renewable diesel, biogas used in transportation, biobutanol, cellulosic ethanol or sugarcane-based ethanol. Biodiesel comprises the majority of advanced biofuel produced in the United States and we expect the RFS2 advanced biofuel requirement to increase demand for biodiesel.

The advanced biofuel RVO is expressed in terms of ethanol equivalent volumes, or EEV, which is based on the fuel's renewable energy content compared to ethanol. Biodiesel has an EEV of 1.5 compared to 1.0 for sugarcane-based ethanol. Accordingly, it requires less biodiesel than sugarcane-based ethanol to meet the required volumes as each gallon of biodiesel counts as 1.5 gallons for purposes of fulfilling the advanced biofuel RVO, providing an incentive for Obligated Parties to purchase biodiesel to meet their advanced biofuel RVO.

Renewable Identification Numbers: The EPA created the renewable identification number, or RIN, system to track renewable fuel production and compliance with the renewable fuel standard. EPA registered producers of renewable fuel may generate RINs for each gallon of renewable fuel they produce. In the case of biodiesel, 1.5 biomass-based diesel RINs may be generated for each gallon of biodiesel produced. Most renewable fuel, including biodiesel, is then sold with its associated RINs attached. Under the RFS2 regulations, the RINs may also be separated from the gallons of renewable fuel and once separated they may be sold as a separate commodity. RINs are ultimately used by Obligated Parties to demonstrate compliance with the RFS2. Obligated Parties must obtain and retire the required number of RINs to satisfy their RVO during a particular compliance period. An Obligated Party can obtain RINs by buying renewable fuels with RINs attached, buying RINs that have been separated, or producing renewable fuels themselves. All RIN activity under RFS2 must be entered into the EPA's moderated transaction system, which tracks RIN generation, transfer and retirement. RINs are retired when used for compliance with the RFS2 requirements.

States Programs: According to the U.S. Department of Energy, more than 40 states currently have implemented various programs that encourage the use of biodiesel through blending requirements as well as various tax incentives.

Canada

Canadian Federal ecoENERGY for Biofuels Program. The ecoENERGY for Biofuels Program is aimed at helping producers of renewable alternatives to gasoline or diesel by providing financial incentives. Financial incentives are provided for the number of liters produced in Canada and sold anywhere, based on fixed declining incentive rates established by the program and as agreed upon in each contribution agreement. The incentive for biodiesel (converted to U.S. dollars per gallon at the exchange rate in effect on November 30, 2014) was \$0.61 per gallon for the April 1, 2013 through March 31, 2014 program year, and will decline in steps to \$0.15 per gallon for the 2016-2017 program year, at the end of which the program is scheduled to end.

Canadian Provincial Road Tax Exemption for Biodiesel. Provincial jurisdictions have acted individually to implement biodiesel initiatives to stimulate biodiesel production and investment. British Columbia and Manitoba are the only provinces that offer tax exemption. The province of Ontario exemption was repealed on April 1, 2014 on biodiesel from its road tax at CDN \$0.143 per liter. British Columbia has introduced a tax exemption of CDN \$0.15-\$0.21 per liter for biodiesel when used in blends from 5-50% with petroleum diesel. The Manitoba government no longer collects road and provincial sales tax on pure biodiesel of CDN \$0.115 per liter. In addition, Manitoba released a CDN \$1.5 million support program for biodiesel production.

Other Canadian National and Provincial Requirements. Biodiesel demand in Canada is expected to continue to grow in 2015 due to Canada's renewable fuel policies and provincial mandates. Those policies require a 2% renewable blend into Canadian petroleum-based diesel for an estimated 150 mgy per year. Additionally, several Canadian provinces maintain provincial blend requirements, including a 2% biodiesel blend requirement into diesel fuel in Manitoba, a 4% renewable fuel content in British Columbia and a 2% renewable fuel content requirement in Alberta. Ontario has

recently introduced a 2% biodiesel provincial mandate which is set to move to 4% in the coming years. According to the Canadian Renewable Fuels Association, there is 150 mgy of operating production capacity in Canada. We expect biodiesel production in Canada to increase in order to satisfy higher demand levels pursuant to the recently enacted national and provincial blend requirements.

Our Biodiesel Production Process

The production of biodiesel, or methyl esters, is a well-known chemical process that has been used for decades in the soaps and detergents industry. There are three basic chemical routes to produce methyl esters from oils and fats: base-catalyzed trans-esterification of oil with methanol; direct acid catalyzed esterification of oil with methanol; and conversion of the oil to fatty acids, and then to methyl esters with acid catalysis. Each of these trans-esterification processes describe complex organic chemical reactions in which existing esters are transformed into methyl esters through the use of differing catalysts or reactants. Denami processors use only the base-catalyzed trans-esterification method. This is the most economical process technology, and most methyl esters are produced using it. The base-catalyzed trans-esterification method is a low-temperature (160-180° F) and low-pressure (15 to 30 psi) chemical process that yields high conversion (98 percent) with minimal side reactions when feedstocks low in free fatty acids are used. In our processors, for every 100 pounds of oil feedstock and 10 pounds of methanol in the presence of a base catalyst, we produce 100 pounds of biodiesel and 10 pounds of glycerin. To speed the conversion, we input added methanol which is recovered for reuse. Generally, we use sodium methylate as our base catalyst.

Our Denami processors produce ASTM biodiesel in an automated, remotely controlled, continuous flow process. The Denami 600 processor produces 600 liters per hour, and the Denami 3000 produces 3,000 liters per hour of grade B100 biodiesel fuel, which exceeds current ASTM biodiesel standards. We believe that our Denami 600 was the industry's first compact, fully automated processor that offers the flexibility of using a wide variety of feedstock options. Although our Mississauga plant used primarily yellow grease (used cooking oil) as its feedstock, it can use such common and widely available feedstocks as soy oil, canola oil, beef tallow or poultry fat. In fiscal 2013, our Sombra plant used a combination of yellow grease, corn oil and soy oil. In fiscal 2014, our Sombra plant used mainly soybean oil and canola oil.

Biodiesel Production Process

The Denami processor performs all critical processes needed to produce ASTM grade biodiesel, specifically:

The conversion process. The conversion process requires specific quantities of oil, methanol and catalyst in the heated and pressurized environment to successfully convert the oils to biodiesel that meet ASTM specifications. Parameters can be changed "on-the-fly" in order to cover a wide variety of feedstock options. After the conversion process, two products are produced: crude biodiesel and crude glycerin.

The separation process. The separation process uses a continuous gravity settling process. This is the most robust method of separation because it does not need to be configured for specific feedstocks.

The methanol recovery process. The crude biodiesel will have high methanol content. The methanol recovery process uses flash evaporation technology to recover the methanol and reuse it in the conversion process.

The polishing/refining process. The crude biodiesel is passed through a centrifuge to remove bulk impurities such as glycerin, soaps, salts and water. Then it is passed through a dry resin bed to remove the remaining trace amounts of impurities to produce ASTM-grade biodiesel.

The methanol removal process. The methanol removal process is designed to remove methanol from the polished biodiesel to meet either the ASTM D93 flashpoint test or EN14014 methanol content test.

The stabilization process. Biodiesel is naturally unstable and oxidizes when exposed to air. The stabilization process meters in the appropriate amount of antioxidants (stabilizers) to the biodiesel. After this process, the biodiesel is transferred to a storage tank and is ready to be sold.

We originally retained a third party equipment manufacturer to design our biodiesel processor. We purchased all the ownership rights to, and interest in, the intellectual property rights, including the design and specifications, for the Denami 600 biodiesel processor from this equipment manufacturer in March 2009. We developed the Denami 3000 in collaboration with this equipment manufacturer and we now own all intellectual property rights to the Denami 600 and Denami 3000 processors. Since September 2007, we have retained this vendor as the exclusive manufacturer of our processors in the United States and Canada. We expect to continue to retain this vendor as the exclusive manufacturer of our processors until the expiration of the current term of our agreement in August 2015. Our decision to work with this vendor was based on quality, experience, industry track record, warranties, equipment capabilities, price and representations made by this vendor. This manufacturer has no objection on the technology licensing agreement with a United States entity completed subsequent to year end as it does not have the resources to fund a large scale development in the United States.

Research and Development

We regularly engage in research and development, primarily on the development, improvement and enhancement of the efficiency of our Denami processors and the software used to operate those processors. Generally, research and development activities are conducted at our Mississauga facility.

Denami Processor Sales

We offer our biodiesel processors for sale either alone or with a range of services up to a complete turn-key solution where we obtain the production facility site, manage the construction or renovation of the facility, obtain all necessary permits, and install the processor and related storage tanks, pipes, containment wall and truck-loading facility. If the customer desires, we will also manage and operate the facility in exchange for an additional fee.

After sale of a Denami processor, the customer is required to enter into a license agreement which grants the customer a non-exclusive, perpetual, royalty-bearing license to use our proprietary monitoring technology. Our licensed software allows the operation and maintenance of the Denami in an unmanned and remotely controlled environment. The license agreement requires the customer, in some cases, to pay us a royalty of up to CDN\$0.11 per gallon, in perpetuity, for each gallon of biodiesel produced.

Maintenance and support services provided to purchasers of Denami processors include real-time monitoring of the customer's processor(s) via our proprietary monitoring technology and in-process testing to ensure that the biodiesel produced meets quality standards. In some cases, the Denami processors come with an extended warranty, pursuant to which we provide our customers, under certain conditions that might change from one customer to another, labor and replacement parts for products that prove to be defective in material or workmanship and which result in the production of biodiesel that does not meet the applicable ASTM D6571 specifications. The warranty does not cover products or parts that are damaged due to accident, misuse, improper or insufficient maintenance, improper operation, and normal wear and tear. Warranty claims are not subject to any dollar limitation for the first year after commissioning, and might be limited for each year thereafter.

Pre-Treatment Process

In August 2014, we introduced, what we believe, is a much better way to pre-treat feedstock for biodiesel production. Most biodiesel facilities pre-treat their feedstock to remove some impurities and reduce or convert the free fatty acid ("FFA"). This process could be expensive and laborious as well as time consuming. Our process which is easy to use and safe allows producers to reduce costs and access lower cost feedstock. We generate revenues by selling the PP-MEC catalyst that is required to make this process work. The catalyst is a consumable that must be purchased on a regular basis. The catalyst is produced by a third party chemical company and is dropped shipped to customers at our

direction.

Our Facilities

Sombra Facility

Our Sombra facility is setup with two Denami 3000 processors capable of producing 13.2 mgy of biodiesel and 182 tons of glycerin per year. It is located on a 20.6-acre property near the St. Clair River in Sombra, Ontario. It is close to the border with the United States to which most of the biodiesel produced is expected to be shipped. Sombra is an excellent production location due to its proximity to oil refiners and extensive manufacturing infrastructure, including easy access by road, rail and water. We believe that due to its geographical location, the Sombra facility will play a key role in meeting the regional demand for biodiesel in the United States and in North America.

The Sombra facility site was formerly a refinery that produced oil, gas and chemical products. We purchased the facility from a third party in July 2008 for CDN\$2,200,000. The property includes a production warehouse, rail access, storage tanks, loading area and office space. There are 3,600 feet of rail, four rail spurs, three switches, and a spill containment unit for unloading bulk liquid rail cars on the property. The electrical supply is 27,000 volts. The site currently has 27,163 square feet of buildings and 26 storage tanks with an aggregate capacity of 1,227,665 gallons.

The zoning of this property is regulated by the Planning Act of the Province of Ontario where this property is classified as M3-1 Industrial land. We have entered into several agreements with local authorities that restrict our use of the site, including agreements that we will not use the site for any purpose related to the manufacture or sale of choline chloride, specialty choline derivatives, monomethylamine, dimethylamine, trimethylamine, monomethylformamide or dimethylformamide, none of which are used in our production of biodiesel. We have not been notified of any environmental problems at the Sombra facility.

We installed two Denami 3000 processors at the Sombra plant that were favorably tested during full operation for a few days in July 2012. We filed our application for EPA approval on July 21, 2012 and received approval on October 4, 2012. We began commercial operation and formal training of our employees at the Sombra, Ontario facility in November 2012. With further development, the site could accommodate two to four additional Denami 3000 processors.

Mississauga Facility

We operate a biodiesel production, research and development and demonstration facility in Mississauga, Ontario, Canada. The facility utilizes a single Denami 600 processor capable of producing 1.3 mgy of biodiesel. However, since this facility is also used as a demonstration site for the sale of Denami 600 processors, as a test site for various animal and vegetable feedstocks, as well as for research and development, it does not generally operate at full capacity. The facility occupies 6,319 square feet, approximately 40 percent of which is corporate office space and the remaining 60 percent is used for the production of biodiesel. The facility contains six above-ground storage tanks. Five of these tanks have an aggregate capacity of 72,500 gallons of which two tanks are used for feedstocks, two tanks are used for biodiesel and one is used for glycerin. These tanks are located within a spill containment area that has been constructed as a dike-system using concrete block partial walls that are epoxy coated to be impervious to liquids. The last tank is for methanol and has a 11,138 gallon capacity. The methanol tank is separated from the feedstock and product storage within the containment area in a fire rated methanol room. The fire safety room complies with Provincial building and fire codes. We lease the Mississauga facility, but pursuant to the terms of the lease agreement, we own all of the equipment located at, and improvements to, the facility.

The plant is also used to demonstrate our production of biodiesel in an automated and remotely controlled environment and to test the different types of feedstock that could be used by us or our clients to produce biodiesel. The Mississauga facility has been kept idle during 2014 in light of the work being done at our Sombra facility. We expect to restart Mississauga as soon as full capacity is achieved in Sombra.

BQ-9000

In May 2014, we received BQ-9000 Producer and Marketer status from the National Biodiesel Accreditation Commission (NBAC). The National Biodiesel Accreditation Program is a cooperative and voluntary program for the accreditation of producers and marketers of biodiesel fuel called BQ-9000®. The program is a unique combination of the ASTM standard for biodiesel, ASTM D6751, and a quality systems program that includes storage, sampling, testing, blending, shipping, distribution, and fuel management practices.

Supplies

Feedstock

We currently process virgin animal fats, vegetable oil and used cooking oil at our facilities in Mississauga and Sombra. The Mississauga facility requires 5,000 tons of feedstock per year to run at full capacity, and we anticipate that the Sombra facility will require 50,000 tons per year to run at its full design capacity. We purchase animal fats,

and used cooking and vegetable oils on the open market and have not previously entered into any definitive feedstock supply agreements to secure feedstock on favorable terms. All of the feedstock supplies utilized in our biodiesel production are readily available in the marketplace. We manage the risks associated with varying prices for our feedstock by utilizing the feedstock which will give us the highest effective yield based on the varying feedstock costs for different fats and oils and by purchasing feedstock that is available in the vicinity of our facility to minimize transportation costs.

Chemical Inputs

We purchase methanol, sodium methylate, acetic acid, sulfuric acid and caustic potash from various vendors and suppliers for use at our plants. All of these chemical inputs are readily available.

Transportation and Delivery

The Mississauga facility is accessible by road and the Sombra facility is accessible by road and rail, and may in the future be accessible seasonally by barge (the facility is approximately 3,000 feet from the St. Clair River). We intend for the Sombra facility to continue to be supplied by railcar, and have entered into an agreement with CSX Transportation with respect to the connection of our private tracks to CSX's and CN's rail lines. We currently have a leased fleet of over 17 rail cars that we use to ship biodiesel and receive oil. At our Mississauga facility, the biodiesel is shipped by truck to Sombra to be transloaded into rail cars.

Whenever we are required to arrange for transportation of oil or biodiesel, we contract with local transport companies. To date, transportation has been readily available and priced competitively. We currently have no long-term agreement with a freight company.

Risk Management

The profitability of the biodiesel production business largely depends on the spread between prices for feedstock and for biodiesel fuel. We actively monitor changes in prices of these commodities and attempt to manage a portion of the risks associated with these price fluctuations. However, the extent to which we engage in risk management activities varies substantially from time to time, and from feedstock to feedstock, depending on market conditions and other factors. Adverse price movements for these commodities directly affect our operating results. In making risk management decisions, we may receive input from others with risk management expertise and could utilize research conducted by outside firms to provide additional market information.

Sales and Marketing

We market and sell two principal products to the biodiesel industry: Denami biodiesel processors and biodiesel (B100) fuel. We also sell glycerin as a by-product and offer services related to the production of biodiesel. We also purchase feedstock from various sources on the spot markets for our own use as well as for resale to certain customers.

Biodiesel

Sales and marketing of our biodiesel are handled by our in-house sales and marketing team. Our largest customer accounted for 67% of total revenue in 2013 and our two largest customers accounted for 67% and 8% of total revenue in 2014. The sales to these customers were made at spot market prices, and we have no binding agreements covering our production. There are additional potential customers for the biodiesel sold to these three largest customers, including potential customers already in our customer base, and we believe that the loss of one or more of these three customers would not have a material adverse effect on our business. We also sell our biodiesel directly to private fleet users and others who can blend our biodiesel with petroleum based diesel fuels. We expect our current customers or other wholesaler/marketers will sell most of our biodiesel to fuel users and retail locations in the United States and Canada. It is also our intention to approach private fleet users such as trucking companies to maximize market penetration and increase sales.

Our Sombra facility currently sells almost all of its biodiesel into the United States market. Our Mississauga and Sombra facilities are registered with the EPA as Foreign Renewable Fuel Producers under RSF2 which allows for RINs to be generated when our biodiesel is imported into the United States.

Under the Canadian Federal ecoENERGY for Biofuels Program, we received incentives in program years 2013 and 2014 for production at our facilities in the amount of \$547,046 and \$365,960, respectively. In December 2011, we were approved for incentives under that program for biodiesel produced at our Sombra facility up to its full 13 mgy capacity. The following table outlines the incentive rate per gallon (converted to U.S dollars at the exchange rate in effect on November 30, 2014) for the years 2010 to 2017, when the program is scheduled to end, and the maximum incentive amounts in Canadian dollars that we may receive in the program years 2014-2015 through 2016-2017:

| Program Year | 2010 / 2011 | 2011 / 2012 | 2012 / 2013 | 2013 / 2014 | 2014 / 2015 | 2015 / 2016 | 2016 / 2017 |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | \$ 1.02 | \$ 0.82 | \$ 0.72 | \$ 0.61 | \$ 0.26 | \$ 0.20 | \$ 0.15 |

| Incentive Rate Payable | For remainder of the program year @ | | |
|---------------------------|-------------------------------------|----------------|----------------|
| Maximum Incentive Payable | \$0.26 per gallon | \$2.62 million | \$1.75 million |

Biodiesel Processors

Sales and marketing of Denami biodiesel processors are handled by our in-house sales and marketing team consisting of two employees headed by our Vice President of Sales and Marketing. Our sales and marketing team use traditional advertising methods to target potential buyers looking to enter the biodiesel production industry or existing producers seeking to expand their production capacity or upgrade their production equipment. We have from time to time advertised in Biodiesel Magazine and Ethanol Magazine, which are online and offline magazines published by BBI International, Inc. The other method used by our sales and marketing team consists of promoting our product at the National Biodiesel Conference & Expo, held once each year in a different location in the United States. Members of our sales and marketing team are paid salaries and also receive commissions based on the sales they generate. Our target market segment is biodiesel production facilities in the 1.3 mgy to 20 mgy range, which is not addressed by the majority of our competitors, who focus on facilities over 20 mgy. This strategy allows our customers to open production facilities in places that would not support production capacities greater than 20 mgy.

Glycerin

We produce glycerin as a primary by-product of our biodiesel production process. Glycerin, equals approximately 11 percent of the amount of biodiesel produced. We do not expect to invest our resources in actively marketing or refining our glycerin production in the near term. Once our Sombra facility is operating at full capacity and, depending on the availability of capital and the current market for glycerin, we anticipate investing in additional infrastructure that will enable us to refine and market our glycerin. Until such time, we plan to sell our glycerin on the spot market as crude glycerin. Glycerin prices have declined significantly in recent years due to overcapacity in the glycerin market, caused in large part by expansion of the biodiesel industry. Since 2006, market prices for crude glycerin have been reported at between no value to \$0.05 per pound.

Services

We market and sell our services through our in-house sales and marketing team consisting of two employees who use traditional advertising methods to target existing small and intermediate scale biodiesel producers and potential customers looking to enter the biodiesel production industry. We promote our service offering at the National Biodiesel Conference & Expo, held once each year in a different location in the United States. In the future we intend to expand our sales and marketing efforts through increased appearances at trade shows, additional advertising in trade publications and, possibly, additional sales personnel.

Employees

We currently have 23 full-time employees of which five are executive officers, seven are other officers, managers or professional employees, six are production employees, and five are office or clerical employees. Of our employees, 13 work at the Sombra facility. As our production increases at Sombra, we plan to expand to two-shift and three-shift schedules to achieve maximum volume of our operations and then will require approximately five additional full-time employees. None of our employees are unionized. We believe we enjoy good relations with our employees.

Environmental and Other Regulatory Matters; Governmental Approvals

Our biofuel production facilities, like other fuel and chemical production facilities, are subject to environmental regulations. Although our biodiesel production processes generally do not discharge pollutants into the environment, we are subject to environmental regulation in preparation for unanticipated or unexpected releases of contaminants into the environment. Construction and operation of our plants required us to obtain a number of environmental permits from the Ontario Ministry of Environment (the "MOE") and the Counties of Lambton and St. Clair, including an industrial storm water permit for our Sombra plant. We currently hold all required permits to operate our plants. We have not received any notices of violation of any environmental regulations.

Permitting and environmental and other regulatory requirements may change in the future. Changes in permitting and regulatory requirements, including testing protocols, could make compliance more difficult and costly. If we are unable to obtain necessary permits or to comply with the requirements of such permits or any other environmental regulations, our business may be adversely affected and we may not be able to operate our plants.

Air Pollution Standards and Permits

There are a number of Canadian environmental standards that affect the operation of our plants, including those applicable to boilers, biodiesel processors, storage tanks and other equipment which may discharge a contaminant into any part of the natural environment other than water.

The air permits for our plants have terms and conditions that include strict emission limits and associated specific control technologies for each pollutant that must be maintained, and monitoring and record-keeping requirements that must be provided or made available to environmental officials. Any failure to comply with these requirements can result in a notice of violation and penalties that can include fines and even a requirement to cease facility operations until the violation is remedied. We have conducted an Emission Summary and Dispersion Modeling Report which was submitted as part of our approved Certificate of Air permit application for our Sombra plant.

Pollution Discharge Permits

We use water to cool and heat closed loop boiler and chiller systems in our plants. Since we use closed loop systems, water will not be discharged into the St. Clair River by our Sombra plant or Lake Ontario by our Mississauga plant.

Biodiesel Quality Testing Procedures

We are required to retain a certificate of analysis for each batch of B100 sold or delivered for at least one year. Natural Resources Canada, the ministry of the government of Canada responsible for natural resources, may examine these records, perform on-site testing or obtain samples of biodiesel from us.

Competition

We compete directly with producers of biodiesel and other alternative fuel additives, with providers of biodiesel processing equipment, and indirectly with producers of petroleum-based diesel fuel. Many of these producers have significantly greater resources than we do. We also expect the number of direct biodiesel fuel competitors to increase in the future. The development of other biodiesel plants, particularly those in close proximity to our plants, will increase the supply of biodiesel and may result in lower local biodiesel prices and higher costs for feedstock locally.

Biodiesel Fuel

In our direct competition with biodiesel producers, many of which produce the same product that we do, we compete on the basis of price; ease, time and cost of delivery; and the quality and consistency of our products.

There are approximately 10 other biodiesel producers in Canada with a total capacity of approximately 150 mgy. We also compete with a large number of U.S.-based biodiesel producers. In the future we will also compete with companies developing and using second-generation biofuels technologies, which may prove less costly to construct and operate and may produce superior biodiesel fuel, including biorefineries that will produce biodiesel from wood fiber. If the input and operational costs for second-generation biofuels technologies are lower or yields are higher, these companies could experience higher margins and it could be more difficult for us to compete with them because our biodiesel may be more expensive to produce.

In our indirect competition with producers of petroleum-based diesel fuel, the capital and operating costs of producing biodiesel make it prohibitive to compete on the basis of price. If the diesel fuel industry is able to produce diesel fuel with acceptable environmental characteristics, or if government regulations supporting or mandating the blending of biodiesel with petroleum based diesel are eliminated or weakened, biodiesel producers would find it extremely difficult to compete. Petroleum refiners are continually attempting to develop diesel fuels with low sulfur and other clean burning attributes, together with lubricity and other characteristics necessary for the diesel engines in the marketplace. It is not possible to predict what success the petroleum industry may experience in making diesel fuel more acceptable or the impact these efforts may have on the biodiesel industry. Accordingly, we are able to compete principally as a consequence of government environmental regulations and incentives, assisted by current high petroleum and diesel fuel prices.

Processors

In the sale of our processors, we compete with other biodiesel-technology companies from the United States and abroad, who focus on providing modular biodiesel processors to small and medium-sized producers. We are aware of at least five other companies who sell modular biodiesel processors, and there may be others. Our competitors rely on different proprietary technologies that may prove to be more efficient, less costly to operate, or produce a higher quality of biodiesel than ours do. While we believe we have a superior technology platform for our biodiesel processors, our competitors may have greater marketing resources or may achieve greater market acceptance for their processors.

Our strategy for generating revenues from sale of our processors to our target market segment also differs from our competitors' strategies. The large biodiesel processor manufacturers are currently pursuing big projects, where a significant portion of revenues are earned from design, engineering, and construction services (\$100 million and greater). Such projects generally take at least 2-3 years to complete. In contrast, we focus on small production facilities ranging in size from \$1.6 million to \$20 million, and our strategy is based not only on selling processors, but also on earning royalties from the use of our software controlling these processors and other revenues from the services provided to purchasers of our processors who become members of our network.

Intellectual Property

We hold Canadian trademark registrations for Methes Energies and Design and Methes, The Biodiesel Company. We have applied for U.S. registrations for Methes Energies The Biodiesel Company & Flame Design. We have also have applied for Canadian and United States registrations of our proprietary trademark Denami. The structure and design of our Denami processors is not protected by patent or other intellectual property laws. We protect the proprietary software that controls, operates and assesses the performance of our Denami processors by encrypting and preserving the confidentiality of the software. We believe that encrypting and preserving the confidentiality of the software that controls and operates our Denami processors and monitors their performance provides a meaningful measure of protection for our intellectual property and makes it more difficult for a competitor to produce similar processors. We do not believe the absence of patent protection for our processors adversely affects our business.

ITEM 1A. Risk Factors

Investors in our securities should carefully consider the risks described below before making an investment decision. For the reasons below and elsewhere in this document, investing in our units involves a high degree of risk. If any of the events described below actually occur, our business, financial condition or results of operation could be harmed, which could cause the value of our shares to decline and investors to lose all or part of their investment.

Risks Related to Our Operations and Market

There is substantial doubt regarding our ability to continue as a going concern

At November 30, 2014, we had an accumulated deficit of \$22,215,415 and significant losses and negative cash flows from operations. In addition, due in large part to the funds spent to develop and build our Sombra facility, we have a working capital deficiency of \$1,488,952. Further, our Sombra facility is now idle because of lack of demand for biodiesel at favorable prices. When put back into commercial production, we anticipate that our Sombra facility will generate positive cash flow from operations and will operate profitably once a sufficient level of commercial operations is achieved. However, there is uncertainty that this will occur in the near future so as to enable us to meet our obligations as they come due. As a result, there is substantial doubt regarding our ability to continue as a going concern.

Additional Financing Requirements and Access to Capital.

In order to get us to a point where our cash flow is no longer negative, we will have to obtain bank or similar type financing, and/or sell additional equity securities in future financings. Additional equity financings may cause further dilution for existing stockholders. There can be no assurance that any such additional financing will be available or, if available, that its terms will be satisfactory to us. In addition, our costs and expenses may be higher than anticipated, and there can be no assurance that we will not be required to seek additional financing to meet our operating cash requirements or other financing needs. Failure to obtain additional financing, if needed, would have material adverse effect on our results of operation and, in such event, we may be required to materially curtail all or some of our activities.

Shortages of feedstock or increases in the cost of feedstock will reduce our profitability.

To produce biodiesel we must purchase significant amounts of feedstock. In the past, for our Mississauga plant, we have purchased this feedstock on the spot market and have not entered into fixed price or formula priced contracts with sources of supply. There is risk that adequate supplies of feedstock may not be available to us at affordable costs, particularly for the larger quantities that will be required at our Sombra plant. Increased demand for virgin vegetable oil, used vegetable oil or rendered animal fat either for feedstock or for other uses may increase spot market prices and reduce our ability to enter into supply contracts at prices which will allow us to remain competitive. Bad weather in the Midwestern United States, in the past, has increased the cost of corn and soybeans and may increase the cost of certain biodiesel feedstock in the future, including vegetable oil and animal fat. The impact of the bad weather on the prices of our feedstock is uncertain, but may increase the prices of some or all of our feedstock as the market adjusts to potential higher corn and soybean prices. The availability and price of this feedstock will significantly affect our gross margins. A significant reduction in the quantity of available feedstock or an increase in the prices of feedstock could result in increased costs and adversely affect our cash flow and results of operations.

We have installed a larger version of our Denami processor at our Sombra plant, the performance of which has been assessed during a short period of full-scale operations.

We have installed a larger version of our Denami processor, the Denami 3000, at the Sombra plant. Although the Denami 3000 is based on the same technology as the Denami 600, the Denami 3000 is much larger and operates at a faster flow rate. The larger Denami 3000 has been favorably tested during full scale operation for only a short period of time and we could still experience unexpected problems during sustained operations that might make it difficult to produce quality biodiesel. Potential problems with the Denami 3000 could increase costs, adversely affect our ability to sell our Denami processors, and adversely affect our revenues and results of operations.

Our operating costs at our Sombra plant could be higher than we expect.

In addition to general market fluctuations and economic conditions, we could experience significant operating cost increases as a result of the failure of our Sombra plant to operate as efficiently as we expect. Other factors, many of which are beyond our control, which may also increase our costs include:

- Higher feedstock prices because of an inadequate supply of or greater demand by others for feedstock;
- Higher labor costs;
- Higher costs for electricity and natural gas due to market conditions; and
- Higher transportation costs because of greater demands on truck and rail transportation services.

Our management team has little or no experience in the operation of a biodiesel facility the size of our Sombra plant, which increases the risk that we will be unable to manage and operate it successfully.

We are highly dependent on our management team to operate our Sombra plant. Our management team has substantial business experience and four years' experience operating our Mississauga plant, but has little or no experience in building and operating a biodiesel production plant of the size of our new Sombra facility. Although we expect to hire additional personnel and enter into agreements with contractors and consultants to assist us in our operations at Sombra, there is no assurance that we will be able to hire employees or enter into agreements satisfactory to us. If our management team is unable or finds it difficult to manage our Sombra operations successfully, our results of operations and our ability to succeed as a business will be adversely affected.

Compliance with existing or new environmental laws and rules could significantly increase our costs, or cause us to suspend or halt operations at our Sombra plant.

To operate our plants, we will need to comply with ongoing and new environmental and permitting requirements. At this time we have received all permits required to operate our Mississauga and Sombra plants. Even final permits may be subject to changes in requirements and compliance reviews. Failure to maintain other necessary permits could subject us to demands by regulators that increase our costs of operations. Environmental issues, such as contamination and compliance with applicable environmental standards, could arise at any time. If this occurs, it could require us to spend significant resources to remedy the issues and may suspend or prevent operation of our plants. There can be no assurance that we will be able to comply with all permitting and environmental requirements to operate our plants efficiently on a continuing basis.

Defects in the construction or performance of the Sombra plant could result in a reduction in our revenues and profitability.

Although we used experienced third-party companies to construct the Sombra plant, we did not receive any warranties with respect to materials and workmanship or assurances that the project will operate at design capacity. Defects in the performance of the plant could still occur, and there is no assurance that we, our sub-contractors or anyone else that we contracted with to construct the project could correct these problems. If defects hinder the operations of the plant, our revenues, profitability and the value of your shares could be materially adversely affected. If defects require a lengthy or permanent discontinuance of production, your shares could have little or no value.

We have a history of losses which should be considered by investors in assessing the likelihood of our operating profitably in the future.

We have never earned a profit. For the years ended November 30, 2013 and 2014, we reported net losses of approximately \$5.65 million and \$6.31 million, respectively. As of November 30, 2014, our accumulated deficit was approximately \$22.22 million. Investors should consider this history of losses in assessing the likelihood of our operating profitably in the future.

The maximum incentive amount and the incentive rate payable to us under the Canadian federal ecoENERGY for biofuels program will gradually decrease during the term of our agreement with the Canadian government.

Under the Canadian Federal ecoENERGY for Biofuels Program, we received incentives in program years 2013 and 2014 for production at our Mississauga plant in the amount of \$547,046 and \$365,960, respectively. In December 2011, we were approved for incentives under that program for biodiesel produced at our Sombra facility up to its full 13 mgy capacity. The following table outlines the incentive rate per gallon (converted to U.S dollars at the exchange rate in effect on November 30, 2014) for the years 2010 to 2017, when the program is scheduled to end, and the maximum incentive amounts in Canadian dollars that we may receive in the program years 2014-2015 through 2016-2017:

| Program Year | 2010 / 2011 | 2011 / 2012 | 2012 / 2013 | 2013 / 2014 | 2014 / 2015 | 2015 / 2016 | 2016 / 2017 |
|---------------------------|----------------|----------------|----------------|----------------|------------------|----------------|----------------|
| Incentive Rate Payable | \$ 1.02 | \$ 0.82 | \$ 0.72 | \$ 0.61 | \$ 0.26 | \$ 0.20 | \$ 0.15 |
| Maximum Incentive Payable | | | | | For remainder of | \$2.62 million | \$1.75 million |

the
program
year @
\$0.26 per
gallon

As a result, the maximum potential revenues under this program during the term of our agreement with the Canadian government will gradually decrease and will end in 2017, which could negatively impact our results of operations.

As more biodiesel plants are built, biodiesel production will increase and, if demand does not sufficiently increase, this could result in lower prices for biodiesel, which will decrease the amount of revenue we may generate.

We expect that the number of biodiesel producers and the amount of biodiesel produced will likely continue to increase. In particular, we believe there is a significant effort in the United States and in Canada to develop and construct biodiesel plants and produce biodiesel products that would compete with us in the marketplace. We cannot assure you that the demand for biodiesel will continue to increase proportionally or at all. The demand for biodiesel is dependent on numerous factors, including governmental regulations, mandates, and incentives, as well as the development of other technologies or products that may compete with biodiesel. If the demand for biodiesel does not increase sufficiently, then increased biodiesel production may lead to lower biodiesel prices. Decreases in the price of biodiesel will result in decreases in our revenues.

We face intense competition within the biodiesel marketplace.

We operate in the intensely competitive alternative fuels business, and there can be no assurance that we will be able to compete effectively. Other companies presently in the market, or that could enter the market, could adversely affect prices for the biodiesel and glycerin we sell. There are numerous other entities considering or constructing biodiesel plants, some of which are near or in our potential trade territory and supply region. In Canada and the United States, the biodiesel industry is expected to become more competitive given the substantial initial construction of biodiesel facilities currently taking place. In addition, several regional biodiesel producers have been recently formed or are under consideration, which are or would be of a similar or greater size and have similar or greater resources than us. In light of such competition, there is no assurance that we will be able to complete or successfully operate our plants.

We have no long-term sale contracts and we may not be successful in profitably selling our biodiesel.

We have no long-term or fixed price agreements for the sale of our biodiesel and must compete with other producers of biodiesel. This competition could impair our ability to sell our biodiesel at profitable price points. Competition in the biodiesel industry is strong and growing more intense as more biodiesel production facilities are built and the industry expands. We are in direct competition with larger biodiesel producers, many of which have greater resources than we do. We compete with other facilities in Canada and the United States for customers in our regional market. We expect that additional biodiesel producers will enter the market if the regulatory environment remains favorable and the demand for biodiesel continues to increase.

Our business is only diversified within the biodiesel industry and is primarily dependent on the sale of biodiesel products and services. As a consequence, we may not be able to adapt to changing market conditions or endure any decline in the biodiesel industry.

Our success depends on the overall success of the biodiesel industry and on our ability to efficiently produce biodiesel and to provide the biodiesel industry with competitive equipment and services to produce biodiesel. With the exception of selling the glycerin that is produced as a byproduct of our biodiesel production, our revenues, including license fees from use of our software to run Denami processors, are all generated in the biodiesel industry. If we cannot efficiently produce biodiesel, if our Denami processors are not competitive with other biodiesel processors or if the demand for biodiesel declines, our business would be seriously harmed. Our plants do not have the ability to produce any other products. Our lack of diversification means that we may not be able to adapt to changing market conditions or any significant decline in the biodiesel industry.

The market price of biodiesel is influenced by the price of petroleum-based distillate fuels, such as ultra-low sulfur diesel, and decreases in the price of petroleum-based distillate fuels or RIN values would very likely decrease the price we can charge for our biodiesel, which could harm our revenues and profitability.

Historically, biodiesel prices have been strongly correlated to petroleum-based diesel prices and in particular ultra-low sulfur diesel, or ULSD, regardless of the cost of producing biodiesel itself. We market our biofuel as an alternative to petroleum-based fuels. Therefore, if the price of petroleum-based diesel falls, the price of biodiesel could decline, and we may be unable to produce products that are a commercially viable alternative to petroleum-based fuels. Petroleum prices are volatile due to global factors such as wars, political uprisings, and other events, Organization of Petroleum Exporting Countries, or OPEC, production quotas, worldwide economic conditions, changes in refining capacity and natural disasters. Additionally, demand for liquid transportation fuels, including biodiesel, is affected by economic conditions. A reduction in petroleum-based fuel prices may have a material adverse effect on our revenues and profits if such price decreases reduce the price we are able to charge for our biodiesel. Increasing required volume obligations for biodiesel under Renewable Fuel Standard 2, or RFS2, has made the price of biodiesel more sensitive to changes in feedstock costs. Increased RIN values have, in part, offset the higher cost of biodiesel when compared to

petroleum-based fuels. A reduction in RIN values may have a material adverse effect on our revenues and profits if such reduction reduces the price we are able to charge for our biodiesel.

Technological advances and changes in production methods in the biodiesel industry could render our plants obsolete and adversely affect our ability to compete.

We expect that technological advances in the processes and methods for processing biodiesel will continue to occur. It is possible that those advances could make the processes at the Sombra plant less efficient or obsolete, or cause the biodiesel we produce to be of a lesser quality. These advances could also allow our competitors to produce biodiesel below our cost. If we are unable to adopt or incorporate technological advances, our biodiesel production methods and processes could be less efficient than our competitors, which could cause our plants to become uncompetitive and our results of operations to be substantially harmed.

The development of alternative fuels and energy sources may reduce the demand for biodiesel, resulting in a reduction in our revenues and profitability.

The development of alternative fuels, including a variety of energy alternatives to biodiesel, has attracted significant attention and investment. The construction of several renewable diesel plants by competitors has been announced. Under RFS2, renewable diesel made from biomass meets the definition of biomass-based diesel and thus is eligible, along with biodiesel, to satisfy the RFS2 biomass-based diesel requirement described in “Business–Government Incentives.” Renewable diesel is biodiesel that has been hydro-cracked and refined so that it becomes molecularly indistinguishable from petroleum based distillates. Furthermore, under RFS2, renewable diesel may receive up to 1.7 RINs per gallon, whereas biodiesel currently receives 1.5 RINs. As the value of RINs increase, this 0.2 RIN advantage may make renewable diesel more cost-effective, both as a petroleum-based diesel substitute and for meeting RFS2 requirements. If renewable diesel proves to be more cost-effective than biodiesel, our revenues and results of operations would be adversely affected.

The biodiesel industry will also face increased competition resulting from the advancement of technology by automotive, industrial and power generation manufacturers which are developing more efficient engines, hybrid engines and alternative clean power systems. Improved engines and alternative clean power systems offer a technological solution to address increasing worldwide energy costs, the long-term availability of petroleum reserves and environmental concerns. If and when these clean power systems are able to offer significant efficiency and environmental benefits and become widely available, the biodiesel industry may not be able to compete effectively with these technologies and government requirements for the use of biodiesel may not continue.

The development of alternative fuels and renewable chemicals also puts pressure on feedstock supply and availability to the biodiesel industry. If these emerging technologies compete with biodiesel for feedstock, are more profitable or have greater governmental support than biodiesel does, then the biodiesel industry may have difficulty in procuring the feedstock necessary to be successful.

We depend upon the continued services of certain members of our senior management team, without whom our business operations would be significantly disrupted.

Our success depends, in part, on the continued contributions of our executive officers and other key employees. Our management team has industry experience, at least in operating a small-scale biodiesel plant, and would be difficult to replace. We believe that the expertise and knowledge of these individuals in our industry, and in their respective fields, is a critical factor to our continued growth and success. The loss of the services of any of these individuals could have a material adverse effect on our business and prospects if we are unable to identify a suitable candidate to replace any such individual. Our success is also dependent upon our ability to attract and retain additional qualified marketing, sales, technical and other personnel.

Our insurance and manufacturer warranties may be inadequate to cover all the liabilities we may incur.

We face the risk of exposure to product liability claims and adverse public relations in the event that our processors cause damage to the facilities in which they are installed, harm persons at those facilities or cause environmental problems. If a product liability claim is successful, our insurance may not be adequate to cover all liabilities we may incur, including harm to our reputation, and we may not be able to continue to maintain such insurance, or obtain comparable insurance at a reasonable cost, or at all. If we do not have adequate insurance or warranty protection, product liability claims relating to defective products could have a material adverse effect on our financial condition and operating results.

Our business is subject to seasonal and quarterly fluctuations, which are likely to cause our revenues and operating results to fluctuate.

Our operating results are influenced by seasonal fluctuations in the price of biodiesel. Our sales tend to decrease during the winter season due to perceptions that biodiesel will not perform adequately in colder weather. Colder seasonal temperatures can cause the higher cloud point biodiesel we make from inedible animal fats to become cloudy and eventually gel. The cloud point of a fluid is the temperature at which dissolved solids are no longer completely soluble giving the fluid a cloudy appearance. In general, biodiesel made from inedible animal fats will become cloudy at a higher temperature than petroleum-based diesel or lower cloud point biodiesel made from soybean, canola or inedible corn oil. Such gelling can lead to plugged fuel filters and other fuel handling and performance problems for customers and suppliers. Reduced demand in the winter for our higher cloud point biodiesel may result in excess supply of such higher cloud point biodiesel or lower prices for such higher cloud point biodiesel. In addition, our production facilities are located in Canada and our costs of shipping biodiesel to warmer climates generally increase in cold weather months. Additionally, as a result of seasonal fluctuations and the higher than usual demand in the last quarter of fiscal 2013, comparisons of operating measures between consecutive quarters may not be as meaningful as comparisons between longer reporting periods.

We are an “emerging growth company” under the U.S. JOBS Act of 2012 and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Common Stock less attractive to investors.

We are an “emerging growth company”, as defined in the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”), and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our Common Stock less attractive because we may rely on these exemptions. If some investors find our Common Stock less attractive as a result, there may be a less active trading market for our Common Stock and our stock price may decrease or may be more volatile.

In addition, Section 107 of the JOBS Act also provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We are choosing to take advantage of the extended transition period for complying with new or revised accounting standards. As a result of our election to be treated as an emerging growth company, our financial statements may not be comparable to those of companies that comply with public company effective dates for the adoption of new accounting standards.

We will remain an “emerging growth company” for up to five years, although we will lose that status sooner if our revenues exceed \$1 billion, if we issue more than \$1 billion in non-convertible debt in a three year period, or if the market value of our Common Stock that is held by non-affiliates exceeds \$700 million as of any June 30.

Our status as an “emerging growth company” under the JOBS Act of 2012 may make it more difficult to raise capital as and when we need it.

Because of the exemptions from various reporting requirements provided to us as an “emerging growth company” and because we will have an extended transition period for complying with new or revised financial accounting standards, we may be less attractive to investors and it may be difficult for us to raise additional capital as and when we need it. Investors may be unable to compare our business with other companies in our industry if they believe that our financial accounting is not as transparent as other companies in our industry. If we are unable to raise additional capital as and when we need it, our financial condition and results of operations may be materially and adversely affected.

Risks Related to Regulation and Governmental Action

Loss or reductions of governmental requirements in Canada and the United States for the use of biofuels could have a material adverse effect on our revenues and operating margins.

The biodiesel industry relies substantially on Canadian national and provincial requirements, U.S. federal requirements and state policies for use of biofuels. Since biodiesel has been more expensive to produce than petroleum-based diesel fuel over the past few years, the biodiesel industry depends on governmental programs that support a market for biodiesel that might not otherwise exist.

The most important of these government programs in the United States is RFS2, which requires that a certain volume of biomass-based diesel fuel, which includes biodiesel, be consumed. RFS2 became effective on July 1, 2010 and applies through 2022.

There can be no assurance that the U.S. Congress or the U.S. Environmental Protection Agency, or EPA, will not repeal, curtail, grant a waiver under or otherwise change the RFS2 program in a manner adverse to us. The petroleum industry has opposed the retroactive application of certain provisions of the rule and fundamental fairness in the implementation of policy involved in RFS2 and can be expected to continue to press for changes that eliminate or reduce its impact. Any repeal, waiver or reduction in the RFS2 requirements or reinterpretation of RFS2 resulting in our biodiesel failing to qualify as a required fuel would materially decrease the demand for and price of our product, which would materially and adversely harm our revenues and cash flows.

If Congress decides to repeal or curtail RFS2, or if the EPA is not able or willing to enforce RFS2 requirements, the demand for our product based on this program and any increases in demand that we expect due to RFS2 would be significantly reduced or eliminated and our revenues and operating margins would be materially harmed. In addition, although we believe that state requirements for the use of biofuels increase demand for our biodiesel within such

states, they generally may not increase overall demand in excess of RFS2 requirements. Rather, existing demand for our biofuel from petroleum refiners and petroleum fuel importers in the 48 contiguous states or Hawaii, which are defined as “obligated parties” in the RFS2 regulations, in connection with federal requirements, may shift to states that have use requirements or tax incentive programs.

Loss of or reductions in tax incentives for biodiesel production or consumption may have a material adverse effect on revenues and operating margins.

The biodiesel industry has historically been substantially aided by federal and state tax incentives. Prior to RFS2, the biodiesel industry relied principally on these tax incentives to bring the price of biodiesel more in line with the price of petroleum-based diesel fuel to the end user. The most significant tax incentive program has been the federal blenders tax credit (“BTC”). The BTC provided a \$1.00 refundable tax credit per gallon of pure biodiesel, or B100, to the first blender of biodiesel with petroleum-based diesel fuel. The BTC came into existence on January 1, 2005, had been continuously reinstated until it expired on December 31, 2009 and was re-enacted in December 2010, retroactively for all of 2010 and prospectively for 2011. The BTC expired again on December 31, 2011 and was again reinstated on January 2, 2013, retroactively for all of 2012 and prospectively for 2013, and expired again December 31, 2013. In December 2014 the BTC was again re-enacted to expire again on December 31, 2014. There is no assurance that it will be reinstated again. Unlike RFS2, the blenders tax credit has a direct effect on federal government spending and could be changed or eliminated as a result of changes in the federal budget policy.

Our business is subject to extensive and potentially costly environmental regulation in Canada that could change and significantly increase our operating costs.

We are subject to environmental regulations of the Canadian Minister of Environment or the MOE, related to release of methane into the atmosphere and storm water run-off. These regulations could result in significant compliance costs and may change in the future. Also, the MOE may seek to implement additional regulations or implement stricter interpretations of existing regulations. Changes in environmental laws or regulations or stricter interpretation of existing regulations may require significant additional capital expenditures or increase our operating costs.

In addition, our plants, and particularly our new Sombra plant which was recently placed in service, could be subject to environmental nuisance or related claims by employees, property owners, environmental groups or residents near the plant arising from air, water or other discharges, particularly the discharge of methane which is used in our production process. These individuals and entities may object to these discharges or emissions into the environment from the plant. Environmental and public nuisance claims, tort claims based on emissions, or increased environmental compliance costs could significantly increase our operating costs, affect our profitability and reduce the value of your shares.

Failure to comply with governmental regulations, including EPA requirements relating to RFS2, could result in the imposition of penalties, fines, or restrictions on our operations and remedial liabilities.

The biodiesel industry is subject to extensive U.S. federal, state, Canadian, provincial and local laws and regulations related to the general population's health and safety and compliance and permitting obligations, including those related to the use, storage, handling, discharge, emission and disposal of municipal solid waste and other waste, pollutants or hazardous substances, or discharges and other emissions, as well as land use and development. Though both our plants are located in Canada, we may be subject to certain of these laws to the extent our biodiesel is exported to the United States.

In addition to the regulations mentioned above, we are subject to various laws and regulations related to RFS2, most significantly regulations related to the generation and dissemination of RINs. These regulations are highly complex and evolving, requiring us to periodically update our compliance systems. Any violation of these regulations by us, inadvertently or otherwise, could result in significant fines and harm our customers' confidence in the RINs we issue, either of which could have a material adverse effect on our business.

Public company expenses may reduce our net income or increase our loss.

We have operated as a public company only since October 12, 2012. As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and the Nasdaq Capital Market, have imposed various new requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance requirements. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. New expenses as a result of our being a public company include additional amounts for legal and accounting services, listing fees for Nasdaq, transfer agent fees, additional insurance costs, printing and filing fees, fees for investor and public relations and compensation payable to non-employee directors. In addition, we expect the application of these rules and regulations to our company will make it more difficult and more expensive for us to obtain director and officer liability insurance.

If we fail to maintain effective internal control over financial reporting, we might not be able to report our financial results accurately or prevent fraud, which could harm our business or negatively affect the value of our stock.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In 2012, we began to perform system and process evaluation and testing of our internal control over financial reporting periodically in order to allow our chief executive officer and our chief financial officer to certify as to the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management time on compliance-related issues. We currently do not have an internal audit group, and continue to evaluate the need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. If we are not able to comply with the requirements of Section 404, the market price of our stock could decline and we could be subject to sanctions or investigations by the Securities and Exchange Commission, the Nasdaq Capital Market, or other regulatory authorities, which would require additional financial and management resources. In addition, if we are unable to meet filing deadlines for reports required by the Securities Exchange Act, our securities could be delisted from the Nasdaq Capital Market. If our securities were delisted from Nasdaq, trading, if any, in our securities would be conducted in the over the counter market. Consequently, the liquidity and price of our securities could be impaired.

Risk Related to our Common Stock

Our Common Stock has been thinly traded.

There is currently a limited volume of trading in our Common Stock, and on some days there has been no trading activity at all. Holders of our Common Stock may find it difficult to resell their shares at prices quoted in the market.

If our shares of Common Stock are removed or delisted from the NASDAQ, the ability of stockholders to sell our Common Stock in the secondary market could be restricted.

The Securities and Exchange Commission has adopted regulations which generally define “penny stock” to be an equity security that has a market price, as defined, of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions, including an exception of an equity security that is quoted on the NASDAQ. If our Common Stock are removed or delisted from the NASDAQ, the security may become subject to rules that impose additional sales practice requirements on broker-dealers who sell these securities and as such, many broker-dealers choose not to handle transactions with dealing with “penny stock.” As such, in the event that our securities are delisted from the NASDAQ, the “penny stock” rules may restrict the ability of stockholders to sell our Common Stock in the secondary market.

If we are unable to satisfy NASDAQ’s maintenance requirements, our Common Stock may be delisted from NASDAQ which could impair the liquidity and the value of our Common Stock.

While the shares of our Common Stock met current NASDAQ listing requirements when initially listed and are currently included on the Nasdaq Capital Market, there can be no assurance that we will meet the criteria for continued listing. Continued listing on NASDAQ generally requires that (i) we maintain at least \$2,500,000 in stockholders equity, or \$35,000,000 in market capitalization, or \$500,000 in net income for either the last fiscal year, or two out of the last three fiscal years, (ii) we maintain a minimum bid price of \$1.00 per share, (iii) there be at least 500,000 shares in the public float valued at \$1,000,000 or more, (iv) our Common Stock have at least two active market makers, and (v) our Common Stock be held by at least 300 holders. If we are unable to satisfy NASDAQ’S maintenance requirements, our Common Stock may be delisted from the NASDAQ. In that event, trading in our Common Stock would be conducted in the over-the-counter market on the “OTC Markets” or the “OTC Bulletin Board.” Consequently, the liquidity of our Common Stock could be impaired, not only in the number of shares of Common Stock which could be bought and sold, but also through delays in the timing of transactions, reduction in security analysts and new media coverage of Methes, and lower prices for our Common Stock than might otherwise be obtained.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. PROPERTIES

The following table lists each of our biodiesel production facilities and its location, use, and nameplate production capacity.

FACILITIES IN OPERATION

| Location | Use | Nameplate |
|----------|-----|-----------|
|----------|-----|-----------|

| | | Production Capacity (mgy) |
|--------------------------|----------------------|---------------------------------|
| Mississauga, Ontario | Biodiesel production | 1.3 |
| Sombra, Ontario (Note 1) | Biodiesel production | 13.0 |

Note 1: We began commercial operation and formal training of our employees at the Sombra, Ontario facility in November 2012.

Sombra Facility

Our Sombra facility utilizes two Denami 3000 processors capable of producing 13.2 mgy of biodiesel and 182 tons of glycerin per year. It is located on a 20.6-acre property near the St. Clair River in Sombra, Ontario. It is close to the border with the United States to which some of the biodiesel produced is expected to be shipped. Sombra is an excellent production location due to its proximity to oil refiners and extensive manufacturing infrastructure, including easy access by road, rail and water. We believe that due to its geographical location, the Sombra facility will play a key role in meeting the regional demand for biodiesel in the United States and Canada.

The Sombra facility site was formerly a refinery that produced chemical products. We purchased the facility from a third party in July 2008 for CDN\$2,200,000. The property includes a production warehouse, rail access, storage tanks, loading area and office space. There are 3,600 feet of rail, four rail spurs, three switches, and a spill containment unit for unloading bulk liquid rail cars on the property. The electrical supply is 27,000 volts. The site currently has 27,163 square feet of buildings and 26 storage tanks with an aggregate capacity of 1,227,665 gallons.

The zoning of this property is regulated by the Planning Act of the Province of Ontario where this property is classified as M3-1 Industrial land. We have entered into several agreements with local authorities that restrict our use of the site, including agreements that we will not use the site for any purpose related to the manufacture or sale of choline chloride, specialty choline derivatives, monomethylamine, dimethylamine, trimethylamine, monomethylformamide or dimethylformamide, none of which are used in our production of biodiesel. We have not been notified of any environmental problems at the Sombra facility.

We have installed two Denami 3000 processors at the Sombra plant that were favorably tested during full operation in July 2012. We filed our application for EPA approval on July 21, 2012 and received approval on October 4, 2012. We began commercial operation and formal training of our employees at the Sombra, Ontario facility in November 2012. With further development, the site could accommodate two to four additional Denami 3000 processors.

Mississauga Facility

We operate a biodiesel production, research and development and demonstration facility in Mississauga, Ontario, Canada. The facility utilizes a single Denami 600 processor capable of producing 1.3 mgy of biodiesel. However, since this facility is also used as a demonstration site for sale of Denami 600 processors, as a test site for various animal and vegetable feedstocks, as well as for research and development, it does not generally operate at full capacity. The facility occupies 6,319 square feet, approximately 40 percent of which is corporate office space and the remaining 60 percent is used for the production of biodiesel. The facility contains six above-ground storage tanks. Five of these tanks have an aggregate capacity of 72,500 gallons of which two tanks are used for feedstocks, two tanks are used for biodiesel and one is used for glycerin. These tanks are located within a spill containment area that has been constructed as a dike-system using concrete block partial walls that are epoxy coated to be impervious to liquids. The last tank is for methanol and has an 11,138 gallon capacity. The methanol tank is separated from the feedstock and product storage within the containment area in a fire rated methanol room. The fire safety room complies with Provincial building and fire codes. We lease the Mississauga facility, but pursuant to the terms of the lease agreement, we own all of the equipment located at, and improvements to, the facility.

The plant is also used to demonstrate our production of biodiesel in an automated and remotely controlled environment and to test the different types of feedstock that could be used by us or our clients to produce biodiesel. A chemist is employed full-time on site to monitor the quality of the biodiesel produced at the Mississauga facility as well as to perform analysis of the raw materials used for the production of biodiesel. The Mississauga facility has been kept idle during 2014 in light of the work being done at our Sombra facility. We expect to restart Mississauga as soon as full capacity is achieved in Sombra.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material pending legal proceeding, nor is any of its property the subject of any material pending legal proceeding, except ordinary routine litigation arising in the ordinary course of the Company's business and incidental to its business, none of which is expected to have a material adverse impact upon the Company's business, financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market For Our Common Equity

Our Common Stock is listed on the NASDAQ Capital Market and traded under the symbol "MEIL." The following table sets forth for the periods indicated the high and low prices per share for our Common Stock, as reported on the NASDAQ. Such quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

| 2014 | Sales Price | |
|----------------|-------------|---------|
| | High | Low |
| Fourth Quarter | \$ 1.97 | \$ 0.80 |
| Third Quarter | \$ 2.40 | \$ 1.65 |
| Second Quarter | \$ 4.35 | \$ 1.93 |
| First Quarter | \$ 5.50 | \$ 2.18 |
| | | |
| 2013 | Sales Price | |
| | High | Low |
| Fourth Quarter | \$ 3.75 | \$ 1.90 |
| Third Quarter | \$ 3.17 | \$ 1.50 |
| Second Quarter | \$ 4.28 | \$ 2.88 |
| First Quarter | \$ 8.19 | \$ 3.25 |

Holders

As of March 11, 2015, we had approximately 136 record holders of our Common Stock and we believe that we have more than 500 round-lot shareholders.

Dividend

We have never declared or paid any dividends and do not intend to pay any dividends in the foreseeable future. We intend to retain any future earnings for use in the operation and expansion of our business. Any future decision to pay dividends on Common Stock will be at the discretion of our Board of Directors (the "Board") and will depend upon, our financial condition, results of operations, capital requirements and other factors the Board may deem relevant.

Recent Sales of Unregistered Securities

In November 2014, we issued 50,000 shares of Common Stock to a consultant for services rendered. There were no other sales and issuances of our securities within the fiscal year ended November 30, 2014 that were not registered under the Securities Act of 1933, as amended (the "Securities Act") and not previously included in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

Unless otherwise stated, the sales of the securities described above were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(a)(2) and 4(a)(5) of the Securities Act (or Regulation D or Regulation S promulgated thereunder), or Rule 701 promulgated under Section 3(b) of the Securities Act as transactions by an issuer not involving any public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701. The purchasers of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and, other than with respect to the non-transferable options, appropriate legends were placed on the securities issued in these transactions. All purchasers had adequate access, through their relationships with us, to information about our company. The sales of these securities were made without any general solicitation or advertising.

Issuer Purchases of Equity Securities

There are currently no authorized repurchase programs in effect under which we may repurchase shares of our outstanding Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. Some of the statements in this discussion and elsewhere in this report constitute forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. See "Cautionary Statement Regarding Forward-Looking Information" following the Table of Contents of this report. Because this discussion involves risk and uncertainties, our actual results may differ materially from those anticipated in these forward-looking statements.

Business Overview

We are a renewable energy company that offers an array of products and services to a network of biodiesel fuel producers. We also market and sell in the U.S. and Canada biodiesel fuel produced at our small-scale production and demonstration facility in Mississauga, Ontario, Canada, and at our production facility in Sombra, Ontario, Canada. The first of two Denami 3000 processors, designed to each produce up to 6.5 million gallons per year, or mgy, of biodiesel, was placed in production in 2013. In fiscal 2013 we shipped 67 railcars (over 1.7 million gallons) of biodiesel from our Sombra facility and 50 railcars (over 1.3 million gallons) in fiscal 2014. In fiscal 2013 and 2014, our largest source of revenue was from the sale of biodiesel fuel.

Among other services and, from time to time, we sell feedstock to our network of biodiesel producers, sell their output in the U.S. and Canada, provide them with proprietary software used to operate and control their processors, remotely monitor the quality and characteristics of their output, upgrade and repair their processors, and advise them on adjusting their processes to use varying feedstock and improve their output. Through the accumulation of production data from our network, we are equipped to provide consulting services to network members and other producers for operating their facilities, maintaining optimum production and solving production problems. For our network services and the license of our operating and communications software, we receive a royalty from some network members based on the gallons of biodiesel produced.

Our revenue sources include the sale of biodiesel produced at our own facility, the sale of biodiesel that we purchase from network members and other third-party producers, the sale of biodiesel equipment, the sale of feedstock to network members and other third-party biodiesel producers, Canadian government incentive payments, royalties from our network members, and revenue from other services we provide related to the production of biodiesel.

Our Sombra facility is approved by the U.S. Environmental Protection Agency ("EPA") as a Foreign Renewable Fuel Producer and as a result the biodiesel produced at this facility is eligible for export to the United States. Obtaining this approval from the EPA enables us to sell our biodiesel into the U.S., and provides our U.S. importers the ability to generate Renewable Identification Numbers ("RINS"). RINS are used in the U.S. by obligated parties to comply with certain obligations under the Renewable Fuel Standard 2 ("RFS2"). We began commercial operation at the Sombra plant in November 2012.

Subsequent to the consummation of our initial public offering ("IPO") on October 30, 2012, we have raised aggregate net proceeds of approximately \$9.5 million from the sale of our equity securities including the following:

net proceeds of approximately \$1.5 million from a private placement completed in February 2013;
net proceeds of approximately \$50,000 from a Regulation S private placement completed in August 2013;
net proceeds of approximately \$473,000 from a private placement of Series A Preferred Stock completed in October 2013;
net proceeds of approximately \$2.24 million from a private placement completed in December 2013;
net proceeds of approximately \$125,000 (including, \$25,000 of services rendered to us) from a private placement completed in January 2014; and
net proceeds of approximately \$5.05 million from a public offering completed in May 2014.

As of November 30, 2014 due in large part to the funds we spent to develop and build our Sombra facility, we had a working capital deficiency of \$1,488,952. In addition, during the fiscal year ended November 30, 2014, we incurred a loss of \$6,306,476, and had negative cash flow from operations of \$5,643,886.

Factors Influencing Our Results of Operations

The principal factors affecting our results of operations are as follows:

Biodiesel and feedstock price fluctuations

Biodiesel is a low carbon, renewable alternative to petroleum-based diesel fuel and is primarily sold to the end user after it has been blended with petroleum-based diesel fuel. Biodiesel prices have historically been correlated to petroleum-based diesel fuel prices. Accordingly, biodiesel prices have generally been affected by the same factors that affect petroleum prices, such as worldwide economic conditions, wars and other political events, OPEC production quotas, changes in refining capacity and natural disasters. Recently enacted government requirements and incentive programs, such as RFS2 and the blenders' tax credit, which expired on December 31, 2014, have reduced this correlation, although it remains a significant factor in the market price of our product.

Our operating results also generally reflect the relationship between the price of biodiesel and the price of the feedstock used to produce biodiesel. Spot market prices for virgin vegetable oil or used vegetable oil or rendered animal fat may increase, which would adversely affect our gross margins. The price of vegetable oil, as with most other products made from crops, is affected by weather, disease, changes in government incentives, demand and other factors. A significant reduction in the supply of vegetable oil because of weather or disease, or increases in the demand for vegetable oil, could result in higher feedstock prices. The price of vegetable oil and other feedstock has fluctuated significantly in the past and may fluctuate significantly in the future.

Government programs related to biodiesel production and use

Biodiesel has been more expensive to produce than petroleum-based diesel fuel and as a result the industry depends on Canadian and U.S. federal and, to a lesser extent, provincial and state usage requirements and tax incentives.

On July 1, 2010, RFS2 was implemented, stipulating volume requirements for the amount of biomass-based diesel that must be utilized in the United States each year. Under RFS2, obligated parties, including petroleum refiners and fuel importers, must show compliance with these standards. The RFS2 program required the domestic use of 800 million gallons of biodiesel in 2011, one billion gallons in 2012 and 1.28 billion gallons in 2013. The 2014 quantity was set at 1.7 billion gallons under RFS2 but as of February 2015 the EPA is considering keeping the 2014 and 2015 quantity at 1.28 billion gallons. We believe that the EPA will announce the 2014, 2015 and 2016 RVO's for biodiesel in early 2015 but the announcement could be later.

Seasonal fluctuations

Our operating results are influenced by seasonal fluctuations in the price of biodiesel. Our sales tend to decrease during the winter season due to perceptions that biodiesel will not perform adequately in colder weather. Colder seasonal temperatures can cause the higher cloud point biodiesel we make from inedible animal fats to become cloudy and eventually gel at a higher temperature than petroleum-based diesel or lower cloud point biodiesel made from soybean, canola or inedible corn oil. Reduced demand in the winter for our higher cloud point biodiesel may result in excess supply of such higher cloud point biodiesel or lower prices for such higher cloud point biodiesel. In addition, our production facilities are located in Canada and our costs of shipping biodiesel to warmer climates generally increase in cold weather months.

Dependence on significant customers

A large part of our revenue is generated from a few large customers. The sales to these customers are made at spot market prices, and we have no binding purchase agreements for our biodiesel, which could affect the consistency of our revenues. Potential customers for biodiesel regularly bid for biodiesel in the spot market at prices that are quoted on a daily basis. As a matter of convenience, we prefer to deal with customers with whom we have had a past relationship, although the specific customers to whom we sell have varied over time. The loss of one or more customers who have been among our largest customers historically would not have a material adverse effect on our business because we believe that a customer or customers could be replaced by one or more new customers regularly bidding for biodiesel, and we believe this will continue to be the case. For example, in the year ended November 30, 2014, one new major customer accounted for 8% of our total revenue and our largest customer in the year ended November 30, 2013 remained steady at 67% of total revenue in fiscal 2014.

Lengthy sales cycle

The sale of one of our Denami processors in a particular financial period would have a significant effect on our quarter-to-quarter and year-to-year results. The purchase of our Denami processors involves a significant commitment

of capital by customers, with the attendant delays frequently associated with large capital expenditures. For these and other reasons, the sales cycle associated with our Denami processors is typically lengthy, varying from 6 to 18 months. The lengthy sales cycles of our equipment sales, as well as the size and timing of orders, make it difficult to forecast our future results of operations.

Components of Revenue and Expense

Revenue

We derive revenues primarily from the sale of biodiesel. We also derive revenue from several other related sources. The following table lists our revenue sources by amount and their respective percentages of total revenue for the years ended November 30, 2013 and 2014:

| | For the Year Ended November 30, 2013 | | For the Year Ended November 30, 2014 | |
|----------------------|--|--------|--|--------|
| | \$ | % | \$ | % |
| Biodiesel sales | | | | |
| Resales | 1,525,248 | 17.2 | 154,406 | 2.8 |
| Internal production | 6,268,173 | 70.6 | 4,550,515 | 83.5 |
| Feedstock sales | 320,585 | 3.6 | 185,739 | 3.4 |
| Glycerin sales | 111,507 | 1.3 | 96,982 | 1.8 |
| Equipment sales | 7,567 | 0.1 | 1,592 | 0.0 |
| Government incentive | 547,046 | 6.2 | 365,961 | 6.7 |
| Royalties | 33,045 | 0.4 | 33,382 | 0.6 |
| Other | 56,767 | 0.6 | 63,302 | 1.2 |
| | 8,869,938 | 100.0% | 5,451,879 | 100.0% |

The following factors may significantly affect our revenues in any fiscal period:

Revenue from the sale of biodiesel, excluding government incentives, includes biodiesel purchased from third-party producers in Canada. The sale price of our biodiesel to our customers is influenced by several factors and is generally based upon the posted price for B100 biodiesel, including the value of the RINs and the blender's tax credit, by companies such as The Jacobsen and Argus Media Ltd., providers of price assessments and business intelligence. Our sale price is also affected by the posted rates for NYMEX Heating Oil plus the value of the RINs and a negotiated premium or discount that reflects market conditions at the time of the transaction.

Revenue from feedstock sales is derived from the sale of feedstock, methanol, catalyst, resin and shipping charges to third party biodiesel producers in Canada.

Revenue from equipment sales includes sale of the Denami 600 biodiesel processors and other smaller equipment related to the production of biodiesel.

We receive government incentive payments under Natural Resources Canada's ecoENERGY for Biofuels Program for qualified sales of biodiesel produced at our Mississauga, Ontario, facility. Our Sombra facility has also been approved to receive the government incentive, and we expect our revenue from the government incentive to increase as we increase production at our Sombra facility. Sales of biodiesel to the United States, Canada and elsewhere qualify under the program. For the years ended November 30, 2013 and 2014, we claimed \$547,000 and \$365,960, respectively, as an incentive from the Canadian Government for production at our facilities. The ecoENERGY incentive is recognized as revenue when the right to receive is established upon production and sale of the biodiesel.

Revenue from royalties was derived from the two customers that purchased our Denami 600 processors in fiscal 2010. Royalties for the year ended November 30, 2013 and 2014 were \$33,000 and \$33,000, respectively. Royalties are recognized on an accrual basis in accordance with the Sales and Licensing Agreement for the biodiesel processing equipment. The royalty is charged on gallons of biodiesel produced by our customers using our biodiesel processing equipment.

Other revenue includes sales of glycerin, a by-product of biodiesel production, consulting fees, rental income, training grants and miscellaneous other fees charged to our customers.

Cost of Goods Sold

Our cost of goods sold expense include the cost of feedstock, catalysts, methanol and other chemicals used in the production process; the purchase price of biodiesel acquired for resale from network members and others; the purchase price of feedstock and other items used in the production of biodiesel acquired for sale to network members and others; the purchase price of equipment sold to others; leases, utilities, depreciation, salaries and other indirect expenses related to the production process at our facilities; salaries and related expenses for employees involved in production or supplying services; and related expenses for transportation, storage, insurance, labor and other indirect expenses.

Results of Operations

Fiscal Year ended November 30, 2013 compared to fiscal year ended November 30, 2014

Revenue. Our total revenues for the fiscal year ended November 30, 2013 and 2014 were \$8.9 million and \$5.5 million, respectively, representing a decrease of \$3.42 million, or 39%. The reasons for this decrease are outlined below.

Biodiesel. Data from our biodiesel sales is as follows:

| | Fiscal Year Ended November 30, 2013 | Fiscal Year Ended November 30, 2014 | \$ Change | % Change |
|--------------------------------------|--|--|----------------|-------------|
| Biodiesel Sales: | | | | |
| -Resales | \$ 1,525,248 | \$ 154,406 | \$ (1,370,842) | (90%) |
| -Internal production | \$ 6,268,173 | \$ 4,550,515 | \$ (1,717,658) | (27%) |
| | \$ 7,793,421 | \$ 4,704,921 | \$ (3,088,500) | (40%) |
| Average Biodiesel Sales Price | \$ 4.40 | \$ 3.57 | \$ (0.83) | (19%) |
| Gallons Sold: | | | | |
| -Resales | 348,000 | 33,000 | (315,000) | (91%) |
| -Internal production | 1,422,000 | 1,285,000 | (137,000) | (10%) |
| | 1,770,000 | 1,318,000 | (452,000) | (26%) |

The overall decrease in revenue from the sales of our biodiesel and the resales of biodiesel purchased from others was primarily due to a very low demand as a result of the expiration of the BTC on December 31, 2013 which, combined with an extremely cold winter, reduced the demand for biodiesel in the first half of 2014. Furthermore, the delay, by the EPA, in establishing the 2014 RVOs greatly affected the demand for biodiesel for this year. According to the National Biodiesel Board (“NBB”), 57% of their biodiesel producing members were not producing as of early June 2014. Subsequent to year end on December 19, 2014 the BTC was reinstated retroactively to January 1, 2014.

Feedstock. For the fiscal year ended November 30, 2013 and 2014, feedstock sales were \$320,600 and \$185,740, respectively, a decrease of \$134,860, or 42%. In the more recent period, with some variations in quantities, we were able to source additional feedstock as well as other products related to the production of biodiesel on the spot market that we resold immediately to our customers in Canada at a profit. We intend to continue with this strategy as opportunities arise to generate additional profit.

Glycerin. For the fiscal year ended November 30, 2013 and 2014, Glycerin sales were \$111,500 and \$96,980, respectively, a decrease of \$14,520 or 13%. This decrease was as a result of the decreased internal production of glycerin from our Sombra facility, which is a byproduct of our biodiesel production.

Government incentives. For the fiscal year ended November 30, 2013 and 2014 we recognized \$547,000 and \$365,960, respectively, as incentive claims from the Canadian Government. This decrease of \$181,040 or 33% was due to the decrease of internal production at Sombra site as a result of lower demand.

Equipment sales. For the fiscal year ended November 30, 2013 and 2014, equipment sales were \$7,600 and \$1,600, respectively, a decrease of \$6,000 or 79%. This fluctuation is immaterial.

Royalties. Royalties for the fiscal year ended November 30, 2013 and 2014 were \$33,000 and \$33,400, an increase of \$400. This fluctuation is immaterial.

Other. Other revenue includes sales of consulting services, delivery charges, lab and shop supplies, storage and rental income and training grants. Other revenue for the fiscal year ended November 30, 2013 and 2014 was \$56,800 and \$63,300, respectively, an increase of \$6,500, or 11%, an insignificant fluctuation.

Cost of goods sold. Our cost of goods sold for the fiscal year ended November 30, 2013 and 2014 were \$8.33 million and \$5.49 million, respectively, a decrease of \$2.84 million, or 34%. This decrease was primarily due to decrease in costs associated with the decreased quantity of biodiesel sold in the fiscal year ended November 30, 2014.

Biodiesel cost of goods sold. Data for the biodiesel cost of goods sold is as follows:

| | Fiscal Year Ended November 30, 2013 | Fiscal Year Ended November 30, 2014 | \$ Change | % Change |
|---|--|--|----------------|-------------|
| Biodiesel Cost of Goods Sold: | | | | |
| -Resales | \$ 1,455,292 | \$ 133,919 | \$ (1,321,373) | (91%) |
| -Internal production | \$ 5,746,264 | \$ 4,743,875 | \$ (1,002,389) | (17%) |
| | \$ 7,201,556 | \$ 4,877,794 | \$ (2,323,762) | (32%) |
| Average Feedstock Price: | | | | |
| | \$ 4.04 | \$ 3.70 | \$ (0.34) | (8.4%) |
| Average Biodiesel Purchase price from third parties | \$ 4.18 | \$ 4.05 | (0.13) | (3.1%) |
| Gallons Sold: | | | | |
| -Resales | 348,000 | 33,000 | (315,000) | (91%) |
| -Internal production | 1,422,000 | 1,285,000 | (137,000) | (10%) |
| | 1,770,000 | 1,318,000 | (452,000) | (26%) |

The overall decrease in biodiesel cost of goods sold was as a result of the decrease in the sales volume in the current fiscal year. We produced over 1,225,000 gallons of biodiesel at our Sombra facility in the last two quarters of the fiscal year. However, while that was a record high level of production for five months, it was still substantially below capacity and resulted in significant under-utilization of our Sombra plant resulting in negative gross profit and a net loss. Continued production at higher levels should result in improved future financial results. This could be attainable in fiscal 2015 as a result of an increase in the price of RIN's in early January which compensates for the non-reinstatement of the BTC for 2015.

If the average feedstock price and the price paid for biodiesel purchased from other biodiesel producers in Canada remained constant from the fiscal year ended November 30, 2013 to the end of the same period in 2014, the decrease in gallons of biodiesel sold would have resulted in a \$1,869,537 decrease in the related biodiesel cost of goods sold. The decrease in average feedstock prices from the fiscal year ended November 30, 2013 to the end of the same period in 2014 resulted in \$450,506 of the decrease in biodiesel cost of goods sold and the lower price paid for biodiesel purchased from others resulted in \$3,719 of this decrease.

All other costs of goods sold, excluding biodiesel cost of goods sold, for the fiscal year ended November 30, 2013 and November 30, 2014 were \$1.129 million and \$611,000, respectively. The decrease was due lower production and operations in fiscal 2014. Fiscal year 2013, had a one-time charge for the write off of oil processing equipment of \$115,600

Selling, general and administrative expenses. Our selling, general and administrative expenses for the fiscal year ended November 30, 2013 and 2014 were \$5.67 million and \$5.78 million, respectively, an increase of \$111,300, or 2%. The increase in the more recent period was mainly related to an increase in professional fees of \$646,000 due to investor relations consulting services, board of director's fees, higher audit fees and an increase of \$67,000 in equipment rentals due to an increase in rental fees. This increase was offset by but not limited to a decrease in salaries and wages of \$368,000 due to layoffs, decrease in utilities of \$113,000 due to lower production, decrease in discretionary expenses such as travel and meals of \$72,000 and decrease in office and general of \$48,000.

Other income (expenses). Other expenses were \$525,000 and \$493,000 for the fiscal years ended November 30, 2013 and 2014, respectively. These amounts relate to interest accruals on promissory notes and interest payments on our

outstanding term loans. The decrease in interest expense was due to a decrease in interest rate on our term loan from 23% in 2013 to 12% in the same period in 2014.

Income taxes. No income tax expense or benefit was recorded during the fiscal year ended November 30, 2013 and November 30, 2014 due to ongoing taxable losses. As of November 30, 2014, we were not subject to any uncertain tax exposures.

Net loss. Our net loss for the fiscal year ended November 30, 2013 was \$5.65 million and increased by \$655,000 to \$6.31 million for the fiscal year ended November 30, 2014 due primarily to the \$3.42 million decrease in revenue and \$111,300 increase in selling, general, administrative expenses. The increase in these costs was offset by a decrease of \$2.84 million in cost of sales.

Liquidity and Capital Resources

Sources of liquidity. Since inception, a significant portion of our operations was financed through the sale of our capital stock. At November 30, 2013 and November 30, 2014, we had cash and cash equivalents of approximately \$174,100 and \$65,650, respectively.

Subsequent to the consummation of our IPO on October 30, 2012, we have raised aggregate net proceeds of approximately \$9.5 million from the sale of our equity securities including the following:

net proceeds of approximately \$1.5 million from a private placement completed in February 2013;

net proceeds of approximately \$50,000 from a Regulation S private placement completed in August 2013;

net proceeds of approximately \$473,000 from a private placement of Series A Preferred Stock completed in October 2013;

net proceeds of approximately \$2.24 million from a private placement completed in December 2013;

net proceeds of approximately \$125,000 (including, \$25,000 of services rendered to us) from a private placement completed in January 2014;
and

net proceeds of approximately \$5.05 million from a public offering completed in May 2014.

On July 12, 2013, Methes Canada entered into a term loan facility agreement with a lender (the "Agreement") pursuant to which Methes Canada borrowed \$1,540,640 (\$1,600,000 CAD) for a term of 12 months at an interest rate of 12% per annum (the "July 2013 Facility"). Under the terms of the Agreement, interest is payable monthly and outstanding principal is due at maturity. Outstanding principal would be prepayable after six months upon 30 days' notice and payment of a penalty equal to one-month's interest. The July 2013 Facility is collateralized by a security agreement from Methes Canada on certain of its assets except for accounts receivable and inventory and a first collateral mortgage on its real property located at Sombra, Ontario. The July 2013 Facility prohibits payment of debt owed by us to certain of our stockholders, a director and an unrelated Corporation (see note 9 and 10) during the life of the facility and contains other customary debt covenants. During the quarter ended August 31, 2014, we made a partial payment of \$227,875 against the principal outstanding on the July 2013 Facility.

On August 28, 2014, we entered into a feedstock credit facility with a major provider of credit to the renewable fuels industry (the "Lender"), which will provide us all the feedstock that is required to run at full current capacity and allow us to fulfill future orders for biodiesel from customers that have been approved by the credit department of the Lender (the "Feedstock Credit Facility"). The facility bears interest at 5% per annum. The facility will initiate upon payment by us of a \$400,000 deposit that is required as collateral for the feedstock. As at November 30, 2014 the deposit had not been made.

Cash flow. The following table presents information regarding our cash flows and cash and cash equivalents for the fiscal year ended November 30, 2013 and 2014:

(Amounts rounded to
nearest thousands)

| | Fiscal Year Ended November 30, | |
|---|-----------------------------------|------------|
| | 2013 | 2014 |
| Net cash flows used in operating activities | \$ (4,135) | \$ (5,619) |
| Net cash flows used in investing activities | (390) | (115) |
| Net cash flows provided by financing activities | 4,296 | 5,625 |
| Net change in cash and cash equivalents | (229) | (108) |
| Cash and cash equivalents, end of period | \$ 174 | \$ 66 |

Operating activities. The net cash used in operating activities was \$4.1 million for the fiscal year ended November 30, 2013. For the fiscal year ended November 30, 2013, the net loss was \$5.65 million, which includes total non-cash charges for depreciation, amortization, stock compensation expense, and unrealized foreign exchange gain of \$120,966, deferred financing fees amortization, accrued interest expense and bad debts. The net cash used in operating activities included a net working capital increase of \$625,500. The working capital increase was a result of a decrease in inventories of \$280,100, an increase in accounts payable and accrued liabilities of \$1,215,200, and an increase in customer deposits of 8,200, offset by an increase in accounts receivable of \$877,500 and an increase in prepaid expenses and deposits of \$600. The net result was cash used in operations of \$4.135 million.

The net cash used in operating activities was \$5.64 million for the fiscal year ended November 30, 2014. For the fiscal year ended November 30, 2014, the net loss was \$6.31 million, which includes total non-cash charges for depreciation, amortization, stock compensation expense, and unrealized foreign exchange gain of \$107,907, deferred financing fees amortization, accrued interest expense, bad debts, issuance of common stock/unit for consulting services and unrealized loss on call options. The net cash used in operating activities included a net working capital decrease of \$676,000. The working capital decrease was a result of a decrease in accounts payable and accrued liabilities of \$2,129,250, offset by a decrease in accounts receivable of \$871,500, decrease in inventories of \$390,400, decrease in prepaid expenses and deposits of \$43,300, decrease in deposits and employee loan of \$11,500 and increase in customer deposits of \$136,450. The net result was cash used in operations of \$5.64 million. Our current operating cash requirement is approximately \$232,000 per month. However, once our Sombra facility commences full-scale production, we expect to generate positive cash flow from operations.

Days' sales outstanding increased from 30 days for the fiscal year ended November 30, 2013 to 47 days for the fiscal year ended November 30, 2014 as a result of slow paying customers.

Inventory turnover was 8 times for the fiscal year ended November 30, 2013 and 9 times for the fiscal year ended November 30, 2014 as a result of utilizing feedstock credit facility in the last six months of the year.

Investing activities. Net cash used in investing activities for the fiscal year ended November 30, 2013 was \$390,700, consisting of additions to property, plant and equipment, mainly representing costs related to our Sombra facility. Net cash used in investing activities for the fiscal year ended November 30, 2014 was \$90,027 consisting of additions to property, plant and equipment at Sombra facility and additions to short term investments.

Financing activities. Net cash provided by financing activities for the fiscal year ended November 30, 2013 was \$6.37 million, which included financing from credit facility of \$1.02 million, advances of short term loans of \$2 million, repayments of short term loans of \$1.44 million, advances from related parties of \$692,000, repayments to related parties of \$143,000, deferred financing fees of \$71,200 and cash proceeds received from issuance of Common Stock and Preferred Stock of \$2.31 million. Net cash provided by financing activities for the fiscal year ended November 30, 2014 was \$5.63 million, which included repayment of credit facility of \$1.02 million, repayments of short term loans of \$497,000, advances from related parties of \$80,000, repayments to related parties of \$34,000, advances from long term related party loans of \$212,000 and cash proceeds received from issuance of Common Stock of \$6.93 million.

As of November 30, 2014, due in large part to the funds spent to develop and build our Sombra facility, we had a working capital deficiency of \$1,488,952. In addition, during the fiscal year ended November 30, 2014, we incurred a net loss of \$6.31 million and had negative cash flow from operations of \$5.64 million.

Capital Expenditures. We have expended \$8.49 million to purchase our Sombra facility, retrofit that facility and equip it so it can begin full scale production of biodiesel. These funds were expended as follows: \$2.03 million for the original purchase price of the facility; \$1.56 million for the costs of retrofitting and \$4.88 million for Denami 3000 processors, storage tanks and other production equipment.

Future commitments. We otherwise have no material commitments for future capital expenditures.

At November 30, 2014, we had an accumulated deficit of \$22,215,415 and significant losses and negative cash flows from operations. In addition, due in large part to the funds spent to develop and build our Sombra facility, we have a working capital deficiency of \$1,488,952. Further, our Sombra facility is now idle because of lack of demand for biodiesel at favorable prices. When put back into commercial production, we anticipate that our Sombra facility will generate positive cash flow from operations and will operate profitably once a sufficient level of commercial operations is achieved. However, there is uncertainty that this will occur in the near future so as to enable us to meet our obligations as they come due. As a result, there is substantial doubt regarding our ability to continue as a going concern. We may require additional financing to fund our operations, which may not be available at acceptable terms or at all. We plan on utilizing the existing feedstock credit facility once Sombra recommences commercial operations and finalizing the terms of the Technology Licensing Agreement, as described in subsequent events below (and in Note 21 to the audited consolidated financial statements filed with this Annual Report on Form 10K).

Subsequent Events

On December 19, 2014, the Blenders Tax Credit (the "BTC") was reinstated retroactively to January 2014. Accordingly, the Company expects to receive its negotiated share of the BTC on applicable sales invoices issued to customers during fiscal 2014. As of the end of fiscal 2014 the amount of the BTC that the Company will receive from customers is approximately \$894,000. This amount will be recognized in the first quarter of fiscal 2015.

On December 24, 2014, the Natural Resources of Canada terminated the Contribution Agreement for the Mississauga facility under the ecoENERGY for Biofuels program as the facility was not being used to meet the minimum production requirement.

On January 19, 2015, the Company signed a Technology Licensing Agreement with a U.S. based entity (the “Licensee”). Under this agreement, the Company will provide to the licensee a 99 year non-exclusive license to use Methes’ design and software for a 3,000 liter per hour biodiesel processor to manufacture biodiesel processors for its own projects in the United States. The Company will receive a \$4 million upfront cash payment and will be entitled to an additional \$100,000 for each of the first 40 units manufactured and installed by the Licensee. Final terms and actual date of the payment have not yet been resolved.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

Our discussion and analysis of our consolidated financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, equities, revenues and expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for judgments we make about the carrying values of assets and liabilities that are not readily apparent from other sources. Because these estimates can vary depending on the situation, actual results may differ from the estimates.

We believe the following critical accounting policies reflect our more significant judgments used in the preparation of our consolidated financial statements:

Revenue Recognition

We recognize revenue, from the following sources, in accordance with ASC 605, “Revenue Recognition in Financial Statements.” Under ASC 605, product or service revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or the service has been performed, the sales price is fixed and determinable and collectability is reasonably assured.

These criteria apply to the following sales:

- the sale of biodiesel and biodiesel co-products, feedstock and biodiesel processing equipment;
- government of Canada incentives under ecoENERGY for Biofuels Program;
- services provided to customers; and
- royalties on the production of biodiesel from a Denami processor.

Revenue from the sale of biodiesel and its co-products, feedstock and biodiesel processing equipment is recognized when title and possession of the product is transferred to the customer. Possession is transferred to the customer at the time of shipment from the Company’s facility or at the time of delivery to a specified destination, depending on the terms of the sale.

The ecoENERGY incentive is recognized as revenue when the right to receive revenue is established upon production and sale of biodiesel.

Revenue from services is recognized as services are performed.

Royalty revenue is recognized on an accrual basis in accordance with the Sales & Licensing Agreement associated with the biodiesel processing equipment sale. Royalties are charged on gallons of biodiesel produced by the Company's customers using the Company's biodiesel processing equipment.

We believe that revenue recognition is a critical accounting estimate because our terms of sale vary significantly, and management exercises judgment in determining whether to recognize or defer revenue based on those terms. Such judgments may materially affect revenue for any period.

Impairment of Long-Lived Assets and Certain Identifiable Intangibles

We review long-lived assets, including property, plant and equipment and definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If impairment exists based on expected future undiscounted cash flows, an impairment loss is recognized. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset, typically based on discounted future cash flows. Fair value is determined by management estimates using discounted cash flow calculations. The estimate of cash flows arising from the future use of the asset that are used in the impairment analysis is a critical accounting estimate because it requires judgment regarding what we would expect to recover from the future use of the asset. Significant assumptions used by management in the undiscounted cash flow analysis include the projected demand for biodiesel based on annual renewable fuel volume obligations under RFS2, our capacity to meet that demand, the market price of biodiesel and the cost of feedstock used in the manufacturing process. Changes in these estimates could result in a determination of asset impairment, which would result in a reduction to the carrying value and a reduction in net income in the affected period. We have assessed the Company's long-lived assets and definite-lived intangible assets and have determined that there was no impairment in their carrying amounts at November 30, 2013 and 2014.

Inventories

Our inventories consist primarily of biodiesel, methanol, catalyst and crude glycerin, and are valued at the lower of cost or market value, with cost determined on a weighted average basis. Cost for finished goods inventories includes materials, direct labor, and an allocation of overhead. Market value for raw materials is replacement cost and for finished goods is net realizable value.

We evaluate the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared with quantities on hand, the price we expect to obtain for products in the market compared with historical cost and the remaining useful life of inventories on hand.

We believe the accounting estimate related to the valuation of inventories is a critical accounting estimate because it is susceptible to changes from period-to-period due to the requirement for management to make estimates relative to the underlying factors. If actual demand or market conditions are adversely different from those estimated by management, inventory adjustments to lower market values would result in a reduction to the carrying value of inventory, an increase in inventory write-offs and a decrease to gross margins.

Allowance for Doubtful Accounts

We establish an allowance for doubtful accounts based on management's assessment of the collectability of trade receivables. A considerable amount of judgment is required in assessing the amount of the allowance. We make judgments about the creditworthiness of each customer based on ongoing credit evaluations, and monitor current economic trends that might affect the level of credit losses in the future. We believe that the accounting estimate related to the allowance for doubtful accounts is a critical accounting estimate because it requires management judgment in making assumptions relative to customer or general economic factors that are outside our control. If the financial condition of the customers was to deteriorate, resulting in their inability to make payments, a specific allowance will be required. Account balances are charged off against the allowance when we believe it is probable the receivable will not be recovered and the carrying value of accounts receivable would decrease and net income would be reduced.

Stock-based Compensation

We maintain a stock-based compensation plan under which incentive stock options to buy Common Stock may be granted to directors, officers and employees. Pursuant to ASC 718, we recognize an expense for our stock-based compensation based on the fair value of the awards that are granted. The fair values of stock options are estimated at the date of grant using the Black-Scholes option pricing model. This estimate includes estimates of the expected term of the option, expected volatility of the Company's stock price, expected dividends, and the risk-free interest rate. Measured compensation cost is recognized ratably over the vesting period of the related stock-based compensation award. The amount recognized as expense is adjusted to reflect the number of stock options expected to vest. When exercised, stock options are settled through the issuance of Common Stock and are therefore treated as equity awards. The expected volatility of our Common Stock is estimated using an average of volatilities of publicly traded companies in similar renewable energy businesses.

We believe the accounting estimate related to valuation of stock-based compensation is a critical accounting estimate because it is based on highly subjective estimates and assumptions that may result in materially different amounts should circumstances change such that the Company decides to employ different assumptions in future periods.

Income Taxes and Uncertain Tax Positions

We account for income taxes under ASC 740 Accounting for Income Taxes. Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. ASC 740-10-05, Accounting for Uncertainty in Income Taxes, prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Potential tax benefits from net operating losses and foreign tax credit carry forwards are not recognized by the Company until their realization is more likely than not. We assess the validity of our conclusions regarding uncertain tax positions on a quarterly basis to determine if facts or circumstances have arisen that might cause us to change our judgment regarding the likelihood of a tax position's sustainability under audit. We have determined that there were no tax exposures at November 30, 2013 and 2014.

We believe that the accounting estimate related to income taxes is a critical accounting estimate because it relies on significant management judgment in making assumptions relative to temporary and permanent timing differences of tax effects, estimates of future earnings, prospective application of changing tax laws in more than one jurisdiction, and the resulting ability to utilize tax assets at those future dates. If our operating results were to fall short of expectations, thereby affecting the likelihood of realizing the deferred tax assets, judgment would have to be applied to determine the amount of the valuation allowance required to be included in the financial statements in any given period. Establishing or increasing a valuation allowance would reduce the carrying value of the deferred tax asset, increase tax expense and reduce net earnings.

Emerging Growth Company (EGC)

The Company is an EGC pursuant to Jumpstart Our Business Startups Act of 2012 (the JOBS Act). Under Section 102(b) of the JOBS Act, the Company has elected to apply any new or revised financial accounting standard on the same date a company that is not an issuer is required to apply the new or revised accounting standard, if the standard applies to a non-issuer. If the new or revised accounting standard does not apply to a non-issuer, then the Company will apply it according to the transition provisions for a non-EGC. As a result of our election to be treated as an emerging growth company, our financial statements may not be comparable to those of companies that comply with public company effective dates for the adoption of new accounting standards. The Company's election to use the extended transition period for complying with new or revised accounting standards under Section 102(b) of the JOBS Act had no impact on the consolidated financial statements as of November 30, 2014.

Recent Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-08, Intangibles - Goodwill and Other, which amends ASC Topic 350 and the current guidance on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit exceeds its carrying amount. If an entity determines it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, then performing the two-step impairment test is unnecessary. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this statement effective December 1, 2012. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities (Topic 210). The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. The amendments are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The disclosures required by the amendments are required to be applied retrospectively for all comparative periods presented. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

All other recent pronouncements issued by the FASB or other authoritative standards groups with future effective dates are either not applicable or are not expected to be significant to the consolidated financial statements of the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information in response to this item is contained elsewhere in this Report beginning on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the our management, with the participation of both of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 (the “Exchange Act”) Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the “Evaluation Date”). Based upon that evaluation, our chief executive officer and chief financial officer each concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of our assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of November 30, 2014.

Changes in Internal Control over Financial Reporting

There have been no changes during the quarter ended November 30, 2014 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

MANAGEMENT

Directors and Executive Officers

The following table sets forth the names, ages at March 11, 2015 and principal positions of our directors and executive officers.

| Name | Age | Position with the Company | Director Since |
|-----------------------------|-----|---|----------------|
| Michel G. Laporte, | 51 | Chairman, Chief Executive Officer and Treasurer | 2007 |
| Han Swoong (Nicholas) Ng | 39 | President* | |
| Johann (John) Loewen | 39 | Vice President of Operations* | |
| Edward A. Stoltenberg | 75 | Chief Financial Officer and Secretary | |
| Steven Anthony | 56 | Vice President of Sales and Marketing* | |
| Afrin Shams | 38 | Chief Accounting Officer* | |
| Kebir Ratnani | 64 | Director | 2008 |
| John Pappain | 77 | Director | 2012 |
| Perichiyappan Senthilnathan | 63 | Director | 2012 |
| Anthony T. Williams | 68 | Director | 2012 |

*These officers also hold the same positions at our wholly owned subsidiary, Methes Canada and receive all of their cash compensation from that entity.

The principal occupation and business experience for at least the last five years for each director and executive officer is set forth below.

Michel G. Laporte has served as our Chairman, Chief Executive Officer, Treasurer and Secretary since June 2007. Mr. Laporte also served as President, Chief Executive Officer and Director of ForceField Energy Inc., a distributor and provider of LED lighting products and a NASDAQ listed company, from March 2009 to December 2010, and provides ongoing consulting services to World Asset Management Inc. We believe Mr. Laporte is qualified to serve as a director because of his demonstrated leadership skills as our Chief Executive Officer since 2007, his senior executive experience with public corporations and his extensive background and experience in international transactions.

Edward A. Stoltenberg has served as our Chief Financial Officer since November 2011. Prior thereto, and since 1999, Mr. Stoltenberg was a Managing Director of Phoenix Financial Services LLC, an investment banking firm, which provides financial services to middle market public and private companies. From March 2007 to July 2013, Mr. Stoltenberg was a Director of Converted Organics Inc., a NASDAQ listed company, a manufacturer of organic fertilizer. Mr. Stoltenberg is a certified public accountant. He holds a B.A. from Ohio Wesleyan University and an M.B.A. from the University of Michigan.

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

Han Swoong (Nicholas) Ng has served as our President, or that of Methes Canada, of which he is a co-founder, since February 2012. Prior thereto, he served as Director of Business Development for Methes Canada since December 2004. Mr. Ng holds a B.A. from the University of Toronto.

Johann (John) Loewen has served as our Vice President of Operations, or that of Methes Canada, of which he is a co-founder, since February 2012. Prior thereto, Mr. Loewen had been President of Methes Canada since December 2004.

Steven Anthony has served as our Vice President of Sales and Marketing, or that of Methes Canada, since August 2008. Prior thereto, Mr. Anthony had been employed by LANMark Systems Inc. as a sales and marketing consultant to information technology and services companies.

Afrin Shams has served as our Chief Accounting Officer since May 2010. Prior thereto from February 2008, Ms. Shams was a Senior Staff Accountant with Sloan Partners, LLP a Chartered Accounting Firm, where she managed audits, reviews and compilations in various industries. From September 2005 to February 1, 2008, she was employed as a staff accountant at Vottero Fremes McGrath Yee, a chartered accounting firm. Ms. Shams is a Chartered Professional Accountant.

Kebir Ratnani has served as a director since 2008. He has been Senior Vice President of SNC Lavalin - International, an international engineering and construction group since 2000, where he is responsible for water, energy and infrastructure projects in Africa, the Middle East and Latin America. Mr. Ratnani is a director of Sofame Technologies Inc., a manufacturer of heat recovery equipment, and of SunSi Energies Inc. Mr. Ratnani is qualified to serve as a director because of his extensive business background and his long service in senior executive positions in clean energy and other related industries. In particular, we believe his experience and background in dealing with government agencies in more than 20 countries on energy and waste water projects, his experience in personnel management and his training and experience as a Chemical Engineer has enabled him to make an important contribution to our board.

John Pappain has served as a director since the effective date of our initial public offering on October 12, 2012 and been President and Chief Executive Officer of Terrajay Holdings Energy Consultants since 2005. Mr. Pappain has created, co-founded, arranged financing and constructed numerous renewable energy production facilities, including the Peel Resource Recovery Inc. Energy from Waste power plant in partnership with the Regional Municipality of Peel and Ontario Hydro, and the Medical Waste Processing Facility, both located in Brampton, Ontario, Canada. Mr. Pappain is qualified to serve as a director because of his experience as a consultant to renewable energy businesses. We believe his experience in financing and constructing renewable energy facilities and his extensive background in dealing with environmental laws will enable him to make an important contribution to our board.

Perichiyappan Senthilnathan (Senthil) has served as a director since the effective date of our initial public offering on October 12, 2012 and as Technical Director for EnviroGem Inc. a provider of environmental solutions and technical services since October 1995. Mr. Senthilnathan also serves on the Methes International Advisory Board. Mr. Senthilnathan is qualified to serve as a director because of his extensive business background and his experience in environmental businesses. In particular, we believe his experience in biodiesel and glycerin treatment, his training as a Chemical Engineer and his experience with Fortune 500 companies will enable him to make an important contribution to our board.

Anthony T. Williams has served as a director since the effective date of our initial public offering on October 12, 2012 and has been an independent financial and business consultant since 2002. From 2006 until 2007, he served as Chairman of the Board of Anvil Holdings, Inc., a manufacturer of active wear and other apparel which filed a voluntary plan of reorganization under Chapter 11 in 2006. He was President and Chief Operating Officer and Chief Financial Officer of Pillowtex Corporation/Fieldcrest Cannon, a manufacturer of home fashion brands from 2000 to 2002, leading that corporation through bankruptcy reorganization proceedings which commenced in 2000 and from which it emerged in May 2002. He is a Chartered Accountant. Mr. Williams is qualified to serve as a director because of his extensive business background and experience. In particular, we believe that his training and certification as a Chartered Accountant and his experience as a Chief Operating Officer and Chief Financial Officer of major public corporations bring valued knowledge and experience to our board.

Each of Messrs. Ratnani, Pappain, Senthilnathan and Williams (the "Independent Directors") qualifies as independent as defined by the independence standards established under the applicable rules of the SEC and Nasdaq Rule 5605(a)(2).

Committees of the Board of Directors

The board has established three standing committees: an audit committee, a compensation committee and a corporate governance and nominating committee. Each committee will be made up entirely of independent directors as defined in Nasdaq Rule 5605(a)(2).

Audit Committee. The audit committee oversees our accounting and financial reporting processes, internal systems of accounting and financial controls, relationships with auditors and audits of financial statements. Specifically, the

audit committee's responsibilities include the following:

- selecting, hiring and terminating our independent auditors;
- evaluating the qualifications, independence and performance of our independent auditors;
- approving the audit and non-audit services to be performed by the independent auditors;
- reviewing the design, implementation and adequacy and effectiveness of our internal controls and critical accounting policies:
- overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to our financial statements and other accounting matters;
- reviewing with management and our independent auditors, any earnings announcements and other public announcements regarding our results of operations; and
- overseeing the preparation of the report that the SEC requires in our annual proxy statement.

Mr. Williams is chairman of the audit committee and the other members of the audit committee are Messrs. Pappain and Senthilnathan. The board has determined that Mr. Williams is qualified to be an "audit committee financial expert," as that term is defined in Item 407(d)(5) of Regulation S-K, and all audit committee members will be qualified to be "independent" for purposes of Nasdaq listing standards and Rule 10A-3(b) under the Exchange Act.

Compensation Committee. The compensation committee assists the board in determining the development plans and compensation of our officers, directors and employees. The members of the compensation committee are Messrs. Pappain, Ratnani and Senthilnathan. Specific responsibilities include the following:

- approving the compensation and benefits of our executive officers;
- reviewing the performance objectives and actual performance of our officers; and
- administering our stock option and other equity and incentive compensation plans.

Corporate Governance and Nominating Committee. The corporate governance and nominating committee will assist the board by identifying and recommending individuals qualified to become members of the board. The members of the corporate governance and nominating committee are Messrs. Pappain, Ratnani and Senthilnathan. Specific responsibilities include the following:

- evaluating the composition, size and governance of our board and its committees and make recommendations regarding future planning and the appointment of directors to our committees;
- establishing a policy for considering stockholder nominees to our board;
- reviewing our corporate governance principles and making recommendations to the board regarding possible changes; and
- reviewing and monitoring compliance with our code of ethics and insider trading policy.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Pursuant to Section 16(a) of the Exchange Act, our directors, officers and beneficial owners of more than 10% of our Common Stock are required to report their beneficial ownership of Common Stock and any changes in that ownership to the SEC. Officers, directors, and greater-than-10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on review of the copies of such forms furnished to us, or written representations that no Forms 5 were required, we believe that all Section 16(a) filing requirements applicable to our officers, directors, and greater-than-10% stockholders were complied with during the fiscal year ended November 30, 2014.

CODE OF ETHICS

We maintain a Code of Ethics to provide guidance on sustaining our commitment to high ethical standards. The code applies to our principal executive officer, principal financial officer and other persons performing similar functions, as well as all of our other employees and directors. This Code of Ethics is posted on our website at www.methes.com.

ITEM 11. EXECUTIVE COMPENSATION

Summary of Compensation

For the year ended November 30, 2014, Michel G. Laporte, our chairman and chief executive officer was paid total compensation of \$60,000 and no other executive officer received compensation in excess of \$100,000. For the year ended November 30, 2013, Michel G. Laporte was paid total compensation of \$50,000 and no other executive officer received compensation in excess of \$100,000.

The primary objective of our executive compensation program is to attract and retain qualified, energetic managers who are enthusiastic about our mission and culture. A further objective of the compensation program is to provide incentives and reward each manager for their contribution. In addition, we strive to promote an ownership mentality

among key leadership and the board of directors.

It is our intention to set total executive cash compensation at levels sufficient to attract and retain a strongly motivated leadership team. Each executive's current and prior compensation is considered in setting future compensation. In addition, we review the compensation practices of other companies. To some extent, our compensation plan is based on the market and the companies we compete against for executive management. The elements of our proposed compensation plan, base salary, bonus and stock options, are similar to the elements of compensation used by many companies.

Risks Arising from the Company's Compensation Policies and Practices

Messrs. Laporte and Ratnani have reviewed our compensation policies and practices, and based on their review, concluded that any risks associated with our compensation programs are not reasonably likely to have a material adverse effect on Methes.

Outstanding Equity Awards at Fiscal-Year End

The following table details all outstanding equity awards held by Mr. Laporte at November 30, 2014:

| Name | Outstanding Equity Awards at Fiscal Year-End Option Awards | | | Stock Awards | |
|----------------|---|----------------------------|------------------------|---|---|
| | Number of Securities Underlying Unexercised Options (#) Exercisable (1) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock that have not vested (#) (2) | Market Value of Shares or Units of Stock that have not vested (\$)(3) |
| Michel Laporte | 52,151 | 3.84 | 12/4/2019 | - | - |

(1) Consists of stock option grants awarded under the 2008 Plan (described below) at fair market value on the date of grant.

Director Compensation

The following table presents information relating total compensation for our Independent Directors for the fiscal year ended November 30, 2014.

| Name | Fees Earned or Paid in | | | All Other Compensation | Total |
|---------------------------------|------------------------|------------------|------|------------------------|-------|
| | Cash | Option Awards(1) | | | |
| John Pappain (2) | \$ 10,000 | \$ 58,435 | \$ — | \$ 68,435 | |
| Kebir Ratnani (2) | 10,000 | 58,435 | — | 68,435 | |
| Perichiyappan Senthilnathan (2) | 10,000 | 58,435 | — | 68,435 | |
| Anthony T. Williams (2) | 10,000 | 58,435 | — | 68,435 | |

(1) The 2014 expense as calculated for a stock option grant covering 20,000 shares of our Common Stock in accordance with FASB ASC 718.

(2) At November 30, 2014: (i) Mr. Pappain held an option exercisable for 20,000 shares at an exercise price of \$3.94 per share; (ii) Mr. Ratnani held options exercisable for an aggregate of 52,593 shares at exercise prices ranging from \$3.84 to \$3.94 per share; (iii) Mr. Senthilnathan held options exercisable for an aggregate of 26,518 shares at exercise prices ranging from \$3.84 to \$3.94 per share; and (iv) Mr. Williams held options exercisable for 20,000 shares at an exercise price of \$3.94 per share. The number of shares to be acquired upon exercise assumes that the options were fully exercisable at November 30, 2014.

Limitations of Directors' Liability and Indemnification

Our articles of incorporation provide that a director will not be personally liable to us or to our stockholders for monetary damages for breach of their fiduciary duty of care as a director, including breaches which constitute gross negligence. This provision does not eliminate or limit the liability of a director:

Our articles of incorporation also provide that we indemnify and hold harmless each of our directors and officers, to the fullest extent authorized by law, against all expense, liability and loss (including attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement), reasonably incurred or suffered by such person in connection their service as our director or officer. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act") may be permitted to directors, officers and controlling persons pursuant to our certificate of incorporation, bylaws or Nevada law, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Equity Incentive Plans

In 2008, our stockholders approved the Amended and Restated Directors, Officers and Employees Stock Option Plan (the "2008 Plan") providing for the issuance of up to 391,134 shares through grants of incentive and non-qualified stock options, shares of restricted stock and tandem stock appreciation rights ("TSARs") to our employees, consultants and directors. In 2012, our stockholders approved the 2012 Equity Incentive Plan (the "2012 Plan and, collectively with the 2008 Plan, the "Plans") providing for the issuance of up to 400,000 shares. The 2012 Plan is identical to the 2008 Plan, except for its name, the number of shares which can be awarded thereunder, and a provision allowing Methes to satisfy TSARs either in cash or shares of Common Stock. The Plans give our board of directors the ability to provide incentives to attract and retain the personnel necessary for our success.

A total of 791,134 shares of our Common Stock are reserved for issuance under the Plans. If an award expires or terminates unexercised or is forfeited to us, the shares underlying the option award become available for further awards under the plan. The purpose of the Plans is to provide incentives to employees, directors and consultants whose performance will contribute to our long-term success and growth, to strengthen Methes' ability to attract and retain employees, directors and consultants of high competence, to increase the alignment of interests of such people with those of our stockholders and to help build loyalty to Methes through recognition and the opportunity for stock ownership. The compensation committee of the board will administer the Plan and, except as otherwise provided in the Plans, will have complete authority and discretion to determine the terms of awards.

Eligibility

Under the Plans, incentive stock options and TSARs may be granted only to employees and non-qualified stock options, TSARs and restricted stock may be granted to employees, directors and consultants.

Term and Amendment of the Plans

Unless terminated earlier, the 2008 Plan will expire in 2018 and the 2012 Plan will expire in 2022. Our board may amend the Plans, provided that no amendment will be effective without approval of our stockholders if stockholder approval is required to satisfy any applicable statutory or regulatory requirements.

Terms of Options, TSARs and Restricted Stock

The Plans permit the granting of both incentive stock options and nonqualified stock options. Under the terms of the plan, the option price of both incentive stock options and non-qualified stock options must be at least equal to 100% of the fair market value of the shares on the date of grant. The maximum term of each option is ten years. For any participant who owns shares possessing more than 10% of the voting rights of Methes' outstanding shares of Common Stock, the exercise price of any incentive stock option must be at least equal to 110% of the fair market value of the shares subject to such option on the date of grant and the term of the option may not be longer than five years. Options become exercisable at such time or times as the compensation committee may determine at the time it grants options, but become exercisable immediately on a change of control as defined under the Plans. Shares of restricted stock may be granted under the Plans for such consideration, including promissory notes and services, as may be determined by the board. Shares of restricted stock may be subject to such forfeiture provisions as are determined by board and may also include restrictions on transferability and repurchase by us.

TSARs may be granted in the discretion of the board together with incentive and non-qualified stock options. TSARs will expire on the same date as a related option and, if exercised by the holder, will extinguish the equivalent number of options to which they relate. On the exercise of a TSAR, the holder will be entitled to be paid an amount equal to the differential between the fair market value of the number of shares for which the TSAR is exercised and the aggregate exercise price of the options for those shares, provided however that with respect to TSARs under the 2012 Plan, we, in our discretion, may pay that fair market value either in cash or in shares of Common Stock valued at their fair market value on the date of exercise.

Federal Income Tax Consequences

Incentive Stock Options. The grant of an incentive stock option will have no immediate tax consequences to Methes or its employee. If the employee exercises an incentive stock option and does not dispose of the acquired shares within two years after the grant of the incentive stock option nor within one year after the date of the transfer of such shares to him or her (a "disqualifying disposition"), he or she will realize no compensation income and any gain or loss that he or she realizes on a subsequent disposition of such shares will be treated as a long-term capital gain or loss. For

purposes of calculating the employee's alternative minimum taxable income, however, the option will be taxed as if it were a nonqualified stock option.

Non-qualified Stock Options. The grant of non-qualified stock options will have no immediate tax consequences to Methes or the grantee. The exercise of a non-qualified stock option will require an employee to include in gross income the amount by which the fair market value of the acquired shares on the exercise date (or the date on which any substantial risk of forfeiture lapses) exceeds the option price. Upon a subsequent sale or taxable exchange of the shares acquired upon exercise of a non-qualified stock option, an employee will recognize long or short-term capital gain or loss equal to the difference between the amount realized on the sale and the tax basis of such shares. Methes will be entitled (provided applicable withholding requirements are met) to a deduction for Federal income tax purposes at the same time and in the same amount as the employee is in receipt of income in connection with the exercise of a non-qualified stock option.

Restricted Stock. Generally, restricted stock is not taxable to a participant at the time of grant, but instead is included in ordinary income (at its then fair market value) when the restrictions lapse. A participant may elect to recognize income at the time of grant, in which case the fair market value of the stock at the time of grant is included in ordinary income and there is no further income recognition when the restrictions lapse. Methes will be entitled, in general, to a tax deduction in an amount equal to the ordinary income recognized by the participant, except to the extent that such participant's total compensation for the taxable year exceeds one million dollars, in which case such deduction may be limited by section 162(m) of the Code unless any such grant of restricted stock is made pursuant to a performance-based benchmark established by the compensation committee.

The following table sets forth the information about our Plans as of November 30, 2014:

Equity Compensation Plan Information

| | Number of securities to be issued upon exercise of outstanding options and warrants | Weighted average price of outstanding options and warrants | Number of securities remaining available for future issuance under equity compensation plans |
|--|---|--|--|
| Equity compensation plans approved by stockholders | 432,034 | \$ 3.94 | 359,100 |
| Equity compensation plans not approved by stockholders (1) | 237,694 | \$ 3.38 | Not Applicable |

(1) Consist of compensatory warrants issued to the managing underwriter in our IPO and to the placement agents in our various private placements since our IPO (“Placement Agent Warrants”). See Note 14 to the audited consolidated financial statements filed with this Annual Report on Form 10K for a description of the Placement Agent Warrants.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of March 11, 2015 regarding the beneficial ownership of our Common Stock by (i) our named executive officer, (ii) each of our directors, (iii) each person we know to beneficially own more than 5% of our outstanding Common Stock, and (iv) all directors and executive officers of Methes as a group. All shares of our Common Stock shown in the table reflect sole voting and investment power. For purposes of computing the number and percentage of shares beneficially owned by a security holder, any shares which such person has the right to acquire presently or within 60 days of March 11, 2015 are deemed to be outstanding, but those shares are not deemed to be outstanding for the purpose of computing the percentage ownership of any other security holder. All percentages computed based on 11,510,431 shares of Common Stock outstanding as of March 11, 2015.

| Name and address of beneficial owner | Common Shares Beneficially Owned | Percent of Common Shares Beneficially Owned |
|--|----------------------------------|---|
| Directors and Named Executive Officers | | |
| Michel G. Laporte | 821,205 (1) | 7.1 % |
| John Pappain | 26,518 (2) | * |
| Kebir Ratnani | 52,594 (3) | * |
| Perichiyappan Senthilnathan | 26,518 (4) | * |
| Anthony T. Williams | 23,000 (5) | * |

| | | | |
|---|---------------|------|---|
| All directors and executive officers as a group(10 persons) | 1,981,094 (6) | 16.7 | % |
|---|---------------|------|---|

*Less than 1%

(1) Includes 52,151 shares of Common Stock underlying options.

(2) Consists of 20,000 shares of Common Stock underlying options and 6,518 shares of Common Stock held by Terrajay Holdings Inc., in which Mr. Pappain holds a controlling interest.

(3) Consists of 52,594 shares of Common Stock underlying options.

(4) Consists of 26,518 shares of Common Stock underlying options.

(5) Includes: (1) 20,000 shares of Common Stock underlying options; (ii) 1,000 shares of Common Stock underlying Class A warrants, each to purchase one share at an exercise price of \$7.50; and (iii) 1,000 shares of Common Stock underlying Class B warrants, each to purchase one share at an exercise price of \$10.00.

(6) Includes 324,336 shares underlying options and warrants beneficially owned by all directors and executive officers as a group.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Policies and Procedures for Review and Approval of Related Person Transactions

The Audit Committee reviews statements of related parties required to be disclosed in the proxy statement. In evaluating related person transactions, the Audit Committee considers all factors it deems appropriate, including, without limitation, whether the related person transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances, the extent of the related person's interest in the transaction, and whether products or services of a similar nature, quantity, or quality are readily available from alternative sources.

As required under the Audit Committee Charter, our Audit Committee is responsible for reviewing and approving all related party transactions for potential conflict of interest situations. A related party transaction refers to transactions required to be disclosed pursuant to Item 404 of Regulation S-K promulgated by the SEC.

Related Person Transactions

In January 2011, Methes borrowed \$150,000 from Michel G. Laporte pursuant to a demand note bearing interest at 8% per annum. As of November 30, 2014, the balance owed on this note including interest was approximately \$196,000. Mr. Laporte is the Chairman and Chief Executive Officer of Methes. This outstanding note including interest is not due until April 2016.

In fiscal year 2013, Methes borrowed a total of \$623,000 from Michel G. Laporte pursuant to a demand note bearing interest at 8% per annum. As of November 30, 2013, a total principal amount of \$110,000 was repaid and the balance owed on this note including interest was approximately \$576,000. These outstanding notes including interests are not due until April 2016.

In fiscal year 2014, Methes borrowed a total of \$80,000 from Michel G. Laporte pursuant to a demand note bearing interest at 8% per annum. As of November 30, 2014 and the balance owed on this note including interest was approximately \$81,000. This note including interest is due on demand.

Director Independence

In accordance with the listing standards of The NASDAQ Stock Market LLC, the Board must consist of a majority of independent directors. Each of Messrs. Ratnani, Pappain, Senthilnathan and Williams qualifies as independent as defined by the independence standards established under the applicable rules of the SEC and Nasdaq Rule 5605(a)(2). In making these determinations, the Board reviewed information provided by the directors and us with regard to each director's business and personal activities as they may relate to us and our management.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Disclosure about Fees

The following table shows the aggregate fees that we paid or accrued for the audit and other services provided by MNP LLP, our independent registered public accountants, for fiscal years 2014 and 2013:

| | 2014 | 2013 |
|--|------|------|
|--|------|------|

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

| | | |
|--------------------|------------|------------|
| Audit fees | \$ 141,071 | \$ 128,825 |
| Audit related fees | — | — |
| Tax fees | — | 3,640 |
| All other fees | — | — |
| Total fees | \$ 141,071 | \$ 132,465 |

43

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Report:

1. Financial Statements. The following financial statements and the report of Methes' independent auditor thereon, are filed herewith.

1. Report of Independent Registered Public Accounting Firm
2. Consolidated Balance Sheets as of November 30, 2014 and 2013
3. Consolidated Statements of Operations for the years ended November 30, 2014 and 2013
4. Consolidated Statements of Changes in Stockholders' Equity for the years ended November 30, 2014 and 2013
5. Consolidated Statements of Cash Flows for the years ended November 30, 2014 and 2013
6. Notes to Consolidated Financial Statements

2. Financial Statement Schedules.

None.

3. Exhibits Incorporated by Reference or Filed with this Report.

Exhibit

| Number | Description |
|--------|--|
| 3.1 | Amended and Restated Articles of Incorporation of Methes Energies International Ltd. filed on July 6, 2012(2) |
| 3.1(a) | Certificate of Designation of Series A-1 10% Cumulative Convertible Preferred Stock filed on September 17, 2013 (9) |
| 3.1(b) | Certificate of Correction to the Series A-1 Certificate of Designation filed on November 20, 2013(11) |
| 3.1(c) | Certificate of Designation of Series A-2 10% Cumulative Convertible Preferred Stock filed on November 20, 2013(11) |
| 3.2 | 2012 Amended and Restated Bylaws(1) |
| 4.1 | Specimen stock certificate(1) |
| 4.2 | Form of warrant agreement, including form of Class A and Class B warrants(4) |
| 4.3 | Specimen unit certificate(1) |
| 4.4 | Form of representative's warrant(4) |
| 4.5 | Form of warrant agreement issued in the November Offering and the January Offering for 65,189 and 26,075 shares of Common Stock, respectively, at an exercise price of \$7.67 per share(1) |
| 4.6 | Final Form of Placement Agent Warrant issued in the February 2013 Private Placement (5) |
| 4.7 | Promissory Note, dated July 11, 2013, in the principal amount of \$1,536,000 (CDN\$1,600,000), bearing interest at the rate of 12.0% per annum issued to 1730636 Ontario Limited (7) |

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

| | |
|---------|---|
| 4.8 | Demand Grid Promissory Note issued to BridgingFactor Inc. dated August 13, 2013 (8) |
| 4.9 | Form of Warrant Agreement issued in the Common Stock Unit Offering (10) |
| 10.1 | Amended and Restated 2008 Directors, Officers and Employees Stock Option Plan(1) |
| 10.2 | 2012 Directors, Officers and Employees Stock Option Plan(1) |
| 10.3 | Form of Non-Statutory Stock Option Agreement(1) |
| 10.4 | Form of Incentive Stock Option Agreement(1) |
| 10.5 | Form of 8% Demand Note made by the Company to World Asset Management, Inc. in the aggregate principal amount of \$1,280,000; and Michael G. Laporte in the amount of \$150,000(1) |
| 10.5(i) | Commitment by noteholders to defer payment on Demand Notes(4) |
| 10.6 | Lease Agreement dated November 5, 2007, by and between Methes Energies Canada Inc. and The Erin Mills Development Corporation(1) |
| 10.7 | Non-Repayable Contribution Agreement dated February 9, 2009, by and between Methes Energies Canada Inc. and Canada(1) |
| 10.8 | Non-Repayable Contribution Agreement dated December 6, 2011, by and between Methes Energies Canada Inc. and Canada(1) |
| 10.9 | Promissory Notes from Methes to World Asset Management each in the amount of \$500,000 and dated March 12 and April 26, 2012(2) |
| 10.10 | Letter re Term Loan Facility between Methes Energies Canada, Inc. and TCE Capital Corporation dated June 12, 2012(2) |
| 10.11 | Exclusive Marketing Agreement dated as of August 27, 2012 between Methes Energies Canada, Inc. and Turnkey Modular Systems, Inc.(3) |
| 10.12 | Form of Non-Statutory Stock Option Agreement under the 2012 Directors, Officers and Employees Stock Option Plan (7) |

| | |
|-------------|---|
| 10.13 | Form of Incentive Stock Option Agreement under the 2012 Directors, Officers and Employees Stock Option Plan(7) |
| 10.14 | Term Loan Facility Agreement between Methes Energies Canada, Inc. and 1730636 Ontario Limited, dated June 24, 2013 (7) |
| 10.15 | Security Agreement, dated July 11, 2013, between Methes Energies Canada, Inc. and 1730636 Ontario Limited securing the July 2013 Note (7) |
| 10.16 | Collateral Mortgage on the real property located at Sombra, Ontario securing the July 2013 Note (7) |
| 10.17 | Master Factoring Agreement between Methes Energies Canada, Inc. and BridgingFactor Inc. dated August 13, 2013 (8) |
| 10.18 | Security Agreement, dated August 13, 2013, between Methes Energies International Ltd. and BridgingFactor Inc. (8) |
| 10.19 | Security Agreement, dated August 13, 2013, between Methes Energies USA Ltd. and BridgingFactor Inc. (8) |
| 10.20 | Final Form of Technology License Agreement between Methes Canada and the Licensee, dated as of January 19, 2015 (12) |
| 14.1 | Code of Ethics (6) |
| 21.1 | Subsidiaries of Methes Energies International Ltd.(1) |
| 23.1 | Consent of MNP LLP* |
| <u>31.1</u> | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| <u>31.2</u> | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| <u>32.1</u> | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002** |
| <u>32.2</u> | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002** |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema Document* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |

* Filed herewith.

** Furnished with this report in accordance with Item 601 (32)(ii) of Regulation S-K.

- (1) Filed as an exhibit to our Registration Statement on Form S-1 (SEC No. 333-182302) on June 22, 2012 and incorporated herein by reference.
- (2) Filed as an exhibit to Amendment #1 to our Registration Statement on Form S-1 (SEC No. 333-182302) on August 14, 2012 and incorporated herein by reference.
- (3) Filed as an exhibit to Amendment #2 to our Registration Statement on Form S-1 (SEC No. 333-182302) on August 30, 2012 and incorporated herein by reference.
- (4) Filed as an exhibit to Amendment #4 to our Registration Statement on Form S-1 (SEC No. 333-182302) on October 5, 2012 and incorporated herein by reference.
- (5) Filed as Exhibit 4.1 to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2013 and incorporated herein by reference.

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

- (6) Filed as Exhibit 14.1 to our Annual Report on Form 10-K for the fiscal year ended November 30, 2012 and incorporated herein by reference.
- (7) Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2013 and incorporated herein by reference.
- (8) Filed on August 20, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (9) Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2013 and incorporated herein by reference.
- (10) Filed on December 26, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (11) Filed as an exhibit to our Annual Report on Form 10-K for the fiscal year ended November 30, 2013 and incorporated herein by reference.
- (12) Filed on January 23, 2015 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Methes Energies International Ltd. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

METHES ENERGIES INTERNATIONAL LTD.

Date: March 11, 2015

By: /s/ Michel G. Laporte
Michel G. Laporte - Chairman and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Methes Energies International Ltd. and in the capacities indicated on this 11th day of March 2015.

| Signature | Title |
|--|---|
| /s/ Michel G. Laporte Michel G. Laporte | Chairman and Chief Executive Officer (Principal Executive Officer) |
| /s/ Edward A. Stoltenberg Edward A. Stoltenberg | Chief Financial Officer (Principal Financial and Accounting Officer) |
| /s/ Kebir Ratnani Kebir Ratnani | Director |
| /s/ John Pappain John Pappain | Director |
| /s/ Anthony T. Williams Anthony T. Williams | Director |
| /s/ Perichiyappan Senthilnathan Perichiyappan Senthilnathan | Director |

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Methes Energies International Ltd. and Subsidiaries

Audited Consolidated Financial Statements

For the Fiscal Years Ended

November 30, 2014 and 2013

| | |
|---|-------------|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Balance Sheets | F-3 |
| Consolidated Statements of Operations | F-4 |
| Consolidated Statements of Stockholders' Equity | F-5 |
| Consolidated Statements of Cash Flows | F-6 |
| Notes to Consolidated Financial Statements | F-7 to F-29 |

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board or Directors and Stockholders of
Methes Energies International Ltd. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Methes Energies International Ltd. (the "Company") as of November 30, 2014 and 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Methes Energies International Ltd. and subsidiaries as of November 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed on Note 1, the Company has a significant working capital deficiency and has incurred significant losses and negative cash flows from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SIGNED: "MNP LLP"

Chartered Professional Accountants
Licensed Public Accountants
Mississauga, Ontario
March 11, 2015

METHES ENERGIES INTERNATIONAL LTD.
Consolidated Balance Sheets

(Expressed in US dollars)

| | As at November 30, 2013 | As at November 30, 2014 |
|---|----------------------------------|-------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 174,084 | \$ 65,649 |
| Accounts receivable, net (notes 3, 16 and 18) | 1,154,916 | 247,771 |
| Inventories (note 4) | 801,063 | 410,699 |
| Prepaid expenses and deposits | 84,990 | 41,692 |
| Deferred financing fees | 49,139 | — |
| Total current assets | 2,264,192 | 765,811 |
| Deposits | 30,398 | 18,891 |
| Property, plant and equipment, net (note 5) | 8,178,694 | 7,845,745 |
| Intangible assets, net (note 6) | 393,015 | 372,811 |
| Total assets | \$ 10,866,300 | \$ 9,003,258 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Credit facility (note 9) | \$ 1,019,513 | \$ — |
| Accounts payable and accrued liabilities (notes 7 and 16) | 2,977,957 | 848,706 |
| Customer deposits (note 16) | 8,185 | 144,640 |
| Short-term loans (note 8) | 1,961,651 | 1,180,035 |
| Payable to related parties and others (note 10) | 2,251,402 | 81,382 |
| Total current liabilities | 8,218,708 | 2,254,763 |
| Payable to related party (note 11) | — | 772,270 |
| Term loan (note 12) | — | 1,837,188 |
| Total liabilities | 8,218,708 | 4,864,221 |
| Stockholders' equity | | |
| Preferred stock, \$0.001 par value, 10,000,000 shares authorized; 260,782 and 111,822 shares issued or outstanding as at November 30, 2013 and 2014, respectively (note 14) | 261 | 112 |
| Common stock, \$0.001 par value, 75,000,000 shares authorized; 7,231,417 and 11,510,431 shares issued and outstanding at November 30, 2013 and 2014, respectively (note 14) | 7,231 | 11,509 |
| Additional paid-in capital | 18,532,803 | 26,342,831 |
| Accumulated deficit | (15,892,703) | (22,215,415) |

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

| | | |
|--|---------------|--------------|
| Total stockholders' equity | 2,647,592 | 4,139,037 |
| Total liabilities and stockholders' equity | \$ 10,866,300 | \$ 9,003,258 |

Going concern (note 1)
Commitments (note 17)
Subsequent events (note 21)

See accompanying notes to consolidated financial statements

F-3

METHES ENERGIES INTERNATIONAL LTD.
Consolidated Statements of Operations

(Expressed in US dollars)

| | For the Year Ended November 30, 2013 | For the Year Ended November 30, 2014 |
|--|--|--|
| Revenue | | |
| Biodiesel sales | \$ 7,793,420 | \$ 4,704,921 |
| Feedstock sales | 320,585 | 185,739 |
| Glycerin sales | 111,507 | 96,982 |
| Government incentives (note 18) | 547,046 | 365,961 |
| Equipment sales | 7,567 | 1,592 |
| Royalties | 33,045 | 33,382 |
| Others | 56,767 | 63,302 |
| | 8,869,937 | 5,451,879 |
| Cost of goods sold (note 4) | 8,330,648 | 5,488,680 |
| Gross profit | 539,289 | (36,801) |
| Operating expenses | | |
| Selling, general and administrative expenses (notes 5, 6, 14, 15 and 16) | 5,665,778 | 5,777,052 |
| Loss before interest and taxes | (5,126,489) | (5,813,853) |
| Other income (expenses) | | |
| Interest expense (note 20) | (525,576) | (492,772) |
| Interest income | 400 | 149 |
| Loss before income taxes | (5,651,665) | (6,306,476) |
| Income taxes (note 13) | — | — |
| Net loss for the year | \$ (5,651,665) | \$ (6,306,476) |
| Net Loss Per Common Share - Basic and Diluted | \$ (0.82) | \$ (0.63) |
| Weighted average number of common shares - Basic and Diluted | 6,904,706 | 9,943,682 |

See accompanying notes to consolidated financial statements

METHES ENERGIES INTERNATIONAL LTD.
Consolidated Statements of Stockholders' Equity
For the years ended November 30, 2013 and 2014

(Expressed in US dollars)

| | 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 placements (note 14) | 653,248 | 653 | — | — | 2,149,347 | — | 2,150,000 |
| Issuance Cost -Common Stock (note 14) | — | — | — | — | (368,611) | — | (368,611) |
| Issuance of Common Stock for services (note 14) | 25,000 | 25 | — | — | 51,975 | — | 52,000 |
| Issuance of preferred stock units under private placements (note 14) | — | — | 260,782 | 261 | 622,239 | — | 622,500 |
| Issuance cost - preferred shares (note 14) | — | — | — | — | (149,330) | — | (149,330) |
| Issuance of common stock options to employees and officers (note 15) | — | — | — | — | 194,060 | — | 194,060 |
| Dividends payable on preferred stock units | — | — | — | — | — | (9) | (9) |
| Net loss for the year | — | — | — | — | — | (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 |

| | | | | | | | | |
|---|------------|-----------|-----------|--------|---------------|-----------------|--------------|--|
| 2013 | | | | | | | | |
| Issuance of Common Stock units under private placement (note 14) | 1,081,161 | 1,081 | — | — | 2,161,240 | — | 2,162,321 | |
| Issuance of Common Stock under public offering (note 14) | 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 14) | 148,960 | 149 | (148,960) | (149) | — | — | — | |
| Issuance of Common Stocks upon conversion of dividends on Preferred Stock (note 14) | 7,205 | 7 | — | — | 16,229 | (16,236) | — | |
| Issuance of Common Stock units for cash (note 14) | 16,129 | 16 | — | — | 99,984 | — | 100,000 | |
| Issuance of Common Stock for services (note 14) | 183,871 | 184 | — | — | 545,566 | — | 545,750 | |
| Issuance of Common Stock for loan settlement (note 14) | 34,688 | 34 | — | — | 127,965 | — | 127,999 | |
| Issuance of Common Stock upon conversion of placement agent Warrants (note 14) | 7,000 | 7 | — | — | 13,993 | — | 14,000 | |
| Stock-based compensation (note 15) | — | — | — | — | 197,209 | — | 197,209 | |
| Net loss for the year | — | — | — | — | — | (6,306,476) | (6,306,476) | |
| | 11,510,431 | \$ 11,509 | 111,822 | \$ 112 | \$ 26,342,831 | \$ (22,215,415) | \$ 4,139,037 | |

Balance at
November 30,
2014

See accompanying notes to consolidated financial statements

F-5

METHES ENERGIES INTERNATIONAL LTD.
Consolidated Statements of Cash Flows

(Expressed in US dollars)

| | For the Year Ended November 30, 2013 | For the Year Ended November 30, 2014 |
|--|--|--|
| Cash flow from operating activities: | | |
| Net loss for the year | \$ (5,651,665) | \$ (6,306,476) |
| Adjustments to reconcile net loss to net cash used in operations | | |
| Depreciation and amortization | 463,825 | 443,180 |
| Stock-based compensation | 194,060 | 197,209 |
| Unrealized foreign exchange gain | (120,966) | (107,907) |
| Deferred financing fees amortization | 48,388 | 49,139 |
| Accrued interest expense | 164,306 | 175,699 |
| Bad debts | 25,970 | 35,662 |
| Write-down of processing equipment (note 4) | 115,600 | — |
| Issuance of common stock for consulting services | — | 545,750 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (877,468) | 871,483 |
| Inventories | 280,135 | 390,364 |
| Prepaid expenses and deposits | (603) | 54,805 |
| Accounts payable and accrued liabilities | 1,215,283 | (2,129,251) |
| Customer deposits | 8,185 | 136,456 |
| Net cash used in operating activities | \$ (4,134,950) | \$ (5,643,886) |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (390,490) | (90,027) |
| Additions to intangibles assets | (192) | — |
| Net cash used in investing activities | \$ (390,682) | \$ (90,027) |
| Cash flows from financing activities: | | |
| Advances (repayments) of credit facility (note 9) | 1,019,513 | (1,019,513) |
| Advances of short term loans | 1,938,040 | — |
| Repayments of short term loans | (1,444,350) | (497,278) |
| Advances from related parties and other | 692,258 | 80,000 |
| Repayments to related parties and other | (143,835) | (33,835) |
| Advances from long term related party loans | — | 172,000 |
| Deferred financing fees | (71,193) | — |
| Issuance of Common Stock/Units, net of issuance costs | 1,833,389 | 1,212,963 |
| Issuance of Preferred Stock/Units, net of issuance costs | 473,170 | 14,000 |
| Issuance of Common Stock under public offering | — | 5,600,000 |
| Issuance of Common Stock/Units for cash | — | 100,000 |
| Net cash provided by financing activities | \$ 6,370,314 | \$ 5,625,478 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (228,640) | (108,435) |
| Cash and cash equivalents, beginning of year | 402,724 | 174,084 |

| | | | | |
|--|----|---------|----|--------|
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ | 174,084 | \$ | 65,649 |
|--|----|---------|----|--------|

Supplemental disclosures of cash flow information

Cash paid during year for:

| | | | | |
|--|----|---------|-----|---------|
| Interest | \$ | 361,270 | \$ | 317,073 |
| Common shares issued as payment for loan | \$ | | —\$ | 128,000 |

See accompanying notes to consolidated financial statements

F-6

METHES ENERGIES INTERNATIONAL LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Year Ended November 30, 2014 and 2013
(Expressed in US\$)

1. NATURE OF THE BUSINESS AND GOING CONCERN

Methes Energies International Ltd. (the "Company", or "Methes") was incorporated on June 27, 2007 in the State of Nevada. Methes, through its operations in Canada and the United States, is a biodiesel processing equipment provider and a biodiesel producer. The Company has developed biodiesel processing equipment to produce biodiesel from recycled oils. The Company, through its wholly-owned subsidiary Methes Energies Canada Inc. ("Methes Canada"), owns two biodiesel manufacturing facilities; one is located in Mississauga, Ontario with a nameplate production capacity of 1.3 million gallons per year (mgy), and the second facility is capable of producing 13.0 mgy of biodiesel located in Sombra, Ontario. In addition to Methes Canada, Methes Energies USA Ltd. ("Methes USA") was incorporated as the wholly-owned subsidiary of the Company on June 27, 2007.

On October 4, 2012, Methes Canada was approved by the U.S. Environmental Protection Agency ("EPA") as a Foreign Renewable Fuel Producer at its Sombra, Ontario plant. As a result the biodiesel produced at its Sombra, Ontario facility also became eligible for export to the United States. Obtaining this approval from the EPA enables the Company to sell its biodiesel produced at its Sombra, Ontario facility into the U.S., and provides its U.S. importer the ability to generate Renewable Identification Numbers ("RINS"). RINS are used in the U.S. by obligated parties to comply with the Renewable Fuel Standard 2 ("RFS2").

On October 12, 2012, the Company's registration statement on Form S-1 (File No. 333-182302) for its initial public offering ("IPO") was declared effective by the U.S. Securities and Exchange Commission ("SEC"). On October 30, 2012, the Company consummated the IPO pursuant to which it sold 560,000 units (each a "Unit") at a price of \$5.00 per Unit, and received net proceeds of \$1.8 million, after deducting the underwriting fees and offering expenses. Each Unit consisted of (i) one share of common stock, \$.001 par value ("Common Stock"), (ii) one Class A warrant, to purchase one share of Common Stock at an exercise price of \$7.50 (each a "Class A Warrant"), and (iii) one Class B warrant, to purchase one share of Common Stock at an exercise price of \$10.00 (each a "Class B Warrant").

The Units were listed on the NASDAQ Capital Market under the symbol "MEILU". Up to November 26, 2012, only the Units were traded. On November 26, 2012, the Common Stock and the Warrants began trading separately under the symbols MEIL, MEILW and MEILZ when the Units ceased trading and were delisted.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which contemplates continuation of the Company as a going concern.

At November 30, 2014, the Company had an accumulated deficit of \$22,215,415 and significant losses and negative cash flows from operations. In addition, due in large part to the funds spent to develop and build its Sombra facility, the Company had a working capital deficiency of \$1,488,952. Further, the Sombra facility is now idle because of lack of demand for biodiesel at favorable prices. When put back into commercial production, the Company anticipates that its Sombra facility will generate positive cash flow from operations and will operate profitably once a sufficient level of commercial operations is achieved. However, there is uncertainty that this will occur in the near future so as to enable the Company to meet its obligations as they come due. As a result, there is substantial doubt regarding the Company's ability to continue as a going concern. The Company may

require additional financing to fund its operations, which may not be available at acceptable terms or at all. The Company plans on utilizing the existing feedstock credit facility once its Sombra facility recommences commercial operations, and finalizing the terms of the Technology Licensing Agreement as described in subsequent events (see note 21).

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of the recorded asset amounts or the amounts and classification of the recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. All adjustments, consisting only of normal recurring items considered necessary for fair presentation have been included in these consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The consolidated financial statements of the Company prepared in accordance with GAAP are expressed in United States dollars. The Company's fiscal year-end is November 30.

The Company is an emerging growth company (EGC) pursuant to Jumpstart Our Business Startups Act of 2012 (the JOBS Act). Under Section 102(b) of the JOBS Act, the Company has elected to apply any new or revised financial accounting standard on the same date a company that is not an issuer is required to apply the new or revised accounting standard, if the standard applies to a non-issuer. If the new or revised accounting standard does not apply to a non-issuer, then the Company will apply it according to the transition provisions for a non-EGC. The Company's election to use the extended transition period for complying with new or revised accounting standards under Section 102(b) of the JOBS Act had no impact on the consolidated financial statements as of November 30, 2014 and 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Methes Canada and Methes USA. All significant inter-company transactions and balances have been eliminated. Methes Canada was incorporated on December 23, 2004, and became a wholly-owned subsidiary of the Company on September 5, 2007. Methes USA was incorporated as a wholly-owned subsidiary of the Company on June 27, 2007.

c) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Areas involving significant estimates and assumptions include: inventory valuation reserves; allowance for doubtful accounts; deferred income tax liabilities and assets, and related valuation allowances; expected future cash flows used in evaluating intangible assets and property, plant and equipment for impairment; estimated useful life of property, plant and equipment and intangible assets; and valuation of stock options and broker warrants. The estimates and assumptions made require judgment on the part of management and are based on the Company's historical experience and various other factors that are believed to be reasonable in the circumstances. Management continually evaluates the information that forms the basis of its estimates and assumptions as the business of the Company and the business environment generally changes. If historical experience and other factors used by management to make these estimates do not reasonably reflect future activity, the Company's consolidated financial statements could be materially impacted.

d) Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents consist primarily of bank deposits held in the United States and Canada.

e) Inventories

The Company's inventories consist primarily of bulk biodiesel, methanol, catalyst, crude glycerin and biodiesel processing equipment and are valued at the lower of cost and market value, with cost determined on a weighted average basis. Cost for finished goods inventories includes materials, direct labor, and an allocation of overheads. Market for raw materials is replacement cost, and for finished goods is net realizable value.

The Company evaluates the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared with quantities on hand and the price the Company expects to obtain for products in the market compared with historical cost.

f) Allowance for Doubtful Accounts

The Company establishes an allowance for doubtful accounts based on management's assessment of the collectability of trade receivables. A considerable amount of judgment is required in assessing the

amount of the allowance. The Company makes judgments about the creditworthiness of each customer based on ongoing credit evaluations, and monitors current economic trends that might impact the level of credit losses in the future. If the financial condition of the customers were to deteriorate, resulting in their inability to make payments, a specific allowance will be required. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered.

g) Revenue Recognition

Revenue is recognized in accordance with ASC 605, "Revenue Recognition in Financial Statements." Under ASC 605, product or service revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or service has been performed, the sales price is fixed and determinable and collectability is reasonably assured. The Company has not experienced any material expense in satisfying warranties. Details of specific recognition by product or service categories are as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from the sale of biodiesel and its co-product, biodiesel processing equipment and feedstock is recognized when title and possession of the product is transferred to the customer. Possession is transferred to the customer at the time of shipment from the Company's facility or at the time of delivery to a specified destination, depending on the terms of the sale.

The ecoENERGY incentive is recognized as revenue when the right to receive is established upon production and sale of biodiesel.

Revenue from services is recognized as services are performed.

Royalty revenue is recognized on an accrual basis in accordance with the Sales & Licensing Agreement of the biodiesel processing equipment sale. Royalties are charged on gallons of biodiesel produced by the Company's customers using the Company's biodiesel processing equipment.

h) Shipping and Handling Costs

The Company accounts for shipping and handling fees in accordance with FASB ASC 705 "Cost of Sales and Services". Shipping and handling costs for the years ended November 30, 2013 and 2014 were \$309,675 and \$191,906, respectively. Costs related to raw materials purchased, are included in inventory or cost of goods sold, as appropriate. While amounts charged to customers for shipping product are included in revenues, the related outbound freight costs are included in expenses as incurred.

i) Deferred Financing Fees

Financing fees are deferred and amortized over the term of the respective loan. Deferred financing fees as at November 30, 2013 and 2014 were \$49,139 and \$Nil respectively.

j) Financial Instruments

The Company's financial instruments recognized in the consolidated balance sheets and included in working capital consist of cash and cash equivalents, accounts receivable, credit facility, accounts payable and accrued liabilities, amounts payable to related parties and others, short-term loans and term loan. The fair values of these instruments approximate their carrying values either due to their short-term maturities or interest rates that are comparable to market rates.

k) Fair Value Measurements

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into hierarchy based on the degree to which the fair value inputs are observable.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). Fair value measurements are estimated based on inputs categorized as follows:

Level 1 inputs include quoted prices (unadjusted) for identical assets or liabilities in active markets that are observable.

Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted

prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 includes unobservable inputs that reflect the Company's own assumptions about what factors market participants would use in pricing the asset or liability.

When measuring fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Foreign Currency Translation

The functional currency of the Company and its subsidiaries is the United States dollar. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Revenue and expenses are translated at average rates in effect during the reporting periods. All exchange gains or losses arising from translation of these foreign currency transactions are included in net income (loss) for the year. The Company has not, to the date of these consolidated financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

m) Income Taxes and Uncertain Tax Positions

The Company accounts for income taxes under ASC 740 Accounting for Income Taxes. Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. ASC 740-10-05, Accounting for Uncertainty in Income Taxes, prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return.

For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Potential tax benefits from net operating losses and foreign tax credit carry forwards are not recognized by the Company until their realization is more likely than not. We assess the validity of our conclusions regarding uncertain tax positions on a quarterly basis to determine if facts or circumstances have arisen that might cause us to change our judgment regarding the likelihood of a tax position's sustainability under audit. The Company has determined that there were no material uncertain tax positions as at November 30, 2013 and 2014.

n) Stock-based Compensation

The Company maintains stock-based compensation plans under which incentive stock options to buy Common Stock may be granted to directors, officers and employees. Pursuant to ASC 718, the Company recognizes expense for its stock-based compensation based on the fair value of the awards that are granted. The fair values of stock options are estimated at the date of grant using the Black-Scholes option pricing model, that require the input of highly subjective assumptions.

Measured compensation cost is recognized ratably over the vesting period of the related stock-based compensation award. The amount recognized as expense is adjusted to reflect the number of stock options expected to vest. When exercised, stock options are settled through the issuance of Common Stock and are therefore treated as equity awards. The expected volatility of our Common Stock is estimated using an average of volatilities of publicly traded companies in similar renewable energy businesses.

o) Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line basis at the following annual rates reflecting the estimated useful lives of the assets:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| | |
|-------------------------|---------------------|
| Sombra facility: | |
| Building | 40 years |
| Equipment | 5 years |
| Equipment - Denami 3000 | 25 years |
| Computer equipment | 2 years |
| Vehicle | 10 years |
| Mississauga facility: | |
| Computer equipment | 2 years |
| Leasehold improvements | Over the lease term |
| Equipment and fixtures | 5 years |
| Equipment - Denami 600 | 25 years |

p) Intangible Assets

The Company's finite-lived intangible assets consist of acquired intellectual property from a third party for the design and engineering of Denami 600 and Denami 3000 biodiesel processor equipment. The intangible assets related to the Denami 600 and Denami 3000 are recorded at cost, less accumulated amortization and the amortization is provided over their 25 year estimated useful life on a straight-line basis.

q) Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If impairment exists based on expected future undiscounted cash flows, a loss is recognized in income. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset, typically based on discounted future cash flows. The Company has assessed its long-lived assets and has determined that there was no impairment in their carrying amounts at November 30, 2013 and 2014.

r) Per Share Data

Basic earnings per share (“EPS”) is determined by dividing net earnings available to common stockholders (numerator) by the weighted average number of shares outstanding (denominator) during the year. In computing diluted EPS, the average number of shares of Common Stock outstanding is increased by Common Stock options and warrants outstanding if the exercise prices were lower than the average market price of Common Stocks using the treasury stock method. Diluted earnings per share exclude all potentially dilutive shares if their effect is anti-dilutive. Potentially dilutive shares include 2,678,872 warrants, 260,782 Preferred Stock and 465,931 Common Stock options issued and outstanding as at November 30, 2013 and 3,923,149 warrants, 111,822 Preferred Stock and 432,034 Common Stock options issued and outstanding as at November 30, 2014. All outstanding warrants, Preferred Stock and options have an anti-dilutive effect on the loss per share and are therefore excluded from the determination of the 2013 and 2014 diluted loss per share calculation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Renewable Identification Numbers (RINs)

When the Company imports and sells a gallon of biodiesel into United States, 1.5 RINs per gallon are generated. RINs are used to track compliance with Renewable Fuel Standards (RFS2). RFS2 allows the Company to attach between zero and 2.5 RINs to any gallon of biodiesel. When the Company imports and sells a gallon of biodiesel, 1.5 RINs are generally attached. As a result, a portion of the selling price for a gallon of biodiesel is generally attributable to RFS2 compliance. However, RINs that the Company generates are a form of government incentive and not a result of the physical attributes of the biodiesel production. Therefore, no cost is allocated to the RIN when it is generated, regardless of whether the RIN is transferred with the biodiesel produced or held by the Company pending attachment to other biodiesel production sales.

The Company may, however, obtain RINs returned from its customers as part of the biodiesel sales terms after having separated the RINs from gallons of biomass-based diesel. From time to time, the Company holds varying amounts of these separated RINs for resale. RINs obtained from customers are initially recorded at fair value on the date received, and are subsequently revalued at fair value as of the last day of each accounting period. Fair value adjustments are reflected in costs of goods sold for the period. Included in biodiesel sales for the year ended November 30, 2014 are sales of RINs totaling \$114,922 (for the year ended November 30, 2013, \$nil).

t) Derivative Instruments

Derivatives are recorded on the balance sheet at fair value with changes in fair value recognized in current period earnings. The Company accounts for derivative instruments under ASC Topic 815 - 40, "Derivatives and Hedging" or ASC 815 - 40. Under these standards, derivative instruments are recognized as either assets or liabilities in the balance sheet and are measured at fair value. The Company utilizes futures contracts and options to hedge feedstock purchases. The Company has designated the derivatives as non-hedge derivatives that are utilized to manage cash flow. Unrealized gains and losses on the futures contracts and options are therefore recognized as a component of biodiesel cost of goods sold, and are reflected in current results of operations.

s) Recent Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities (Topic 210). The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. The amendments are effective for annual reporting periods beginning on or after January 1, 2013, and interim

periods within those annual periods. The disclosures required by the amendments are required to be applied retrospectively for all comparative periods presented. The Company adopted this statement effective December 1, 2013. The adoption of this statement did not have a material effect on the Company's consolidated financial statements.

On May 28, 2014, the FASB issued a new financial accounting standard on revenue from contracts with customers, Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact of this accounting standard.

On August 27, 2014, the FASB issued a new financial accounting standard on going concern, Update 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern . The standard provides guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern. The amendments in this Update apply to all companies. They become effective in the annual period ending after December 15, 2016, with early application permitted. The Company is currently evaluating the impact of this accounting standard.

All other recent pronouncements issued by the FASB or other authoritative standards groups with future effective dates are either not applicable or are not expected to be significant to the consolidated financial statements of the Company.

3. ACCOUNTS RECEIVABLE

The following schedule provides an analysis of the Company's accounts receivable:

| | As at November 30, 2013 | As at November 30, 2014 |
|---------------------------------|----------------------------------|----------------------------------|
| Trade receivables | \$ 1,184,916 | \$ 313,432 |
| Allowance for doubtful accounts | (30,000) | (65,661) |
| | \$ 1,154,916 | \$ 247,771 |

4. INVENTORIES

Inventories consisted of the following:

| | As at November 30, 2013 | As at November 30, 2014 |
|----------------|----------------------------------|----------------------------------|
| Raw materials | \$ 345,049 | \$ 199,669 |
| Finished goods | 444,648 | 199,664 |
| Equipment (i) | 11,366 | 11,366 |
| | \$ 801,063 | \$ 410,699 |

(i) During fiscal 2013, certain previously returned oil processing research and development related equipment having a cost of \$115,600 was written down and is included in cost of goods sold.

5. PROPERTY, PLANT AND EQUIPMENT

| | As at November 30, 2013 | | |
|-------------------------|-------------------------|-----------------------------|-------------------|
| | Cost | Accumulated Depreciation | Net Book Value |
| Sombra site: | | | |
| Land | \$ 409,134 | \$ — | \$ 409,134 |
| Building | 2,944,356 | 241,910 | 2,702,446 |
| Equipment | 775,865 | 385,400 | 390,465 |
| Equipment - Denami 3000 | 4,164,968 | 189,527 | 3,975,441 |
| Computer equipment | 11,835 | 5,917 | 5,918 |
| Vehicle | 11,622 | 291 | 11,331 |
| Mississauga site: | | | |
| Computer equipment | 23,464 | 22,148 | 1,316 |
| Leasehold improvements | 102,201 | 55,610 | 46,591 |
| Equipment and fixtures | 255,463 | 177,801 | 77,662 |

| | | | |
|------------------------|--------------|--------------|--------------|
| Equipment - Denami 600 | 720,042 | 161,652 | 558,390 |
| | \$ 9,418,950 | \$ 1,240,256 | \$ 8,178,694 |

F-13

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | | As at November 30, 2014 | |
|-------------------------|--------------|-----------------------------|-------------------|
| | Cost | Accumulated Depreciation | Net Book Value |
| Sombra site: | | | |
| Land | \$ 409,134 | \$ — | \$ 409,134 |
| Building | 2,944,356 | 315,518 | 2,628,838 |
| Equipment | 775,865 | 492,664 | 283,201 |
| Equipment - Denami 3000 | 4,254,995 | 359,039 | 3,895,956 |
| Computer equipment | 11,835 | 10,898 | 937 |
| Vehicle | 11,622 | 1,453 | 10,169 |
| Mississauga site: | | | |
| Computer equipment | 23,464 | 23,463 | 1 |
| Leasehold improvements | 102,201 | 66,001 | 36,200 |
| Equipment and fixtures | 255,463 | 203,742 | 51,721 |
| Equipment - Denami 600 | 720,042 | 190,454 | 529,588 |
| | \$ 9,508,977 | \$ 1,663,232 | \$ 7,845,745 |

Total depreciation expense included in selling, general and administrative expenses in the consolidated statements of operations related to property, plant and equipment for the year ended November 30, 2013 and 2014 was \$443,619 and \$422,976, respectively.

6. INTANGIBLE ASSETS

The major components of finite-lived intangible assets, which consist of acquired intellectual property for the design and engineering of biodiesel processor equipment, were as follows:

| | As at November 30, 2013 | | |
|-------------|-------------------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Denami 600 | \$ 414,174 | \$ 108,045 | \$ 306,129 |
| Denami 3000 | 90,927 | 4,041 | 86,886 |
| | \$ 505,101 | \$ 112,086 | \$ 393,015 |
| | As at November 30, 2014 | | |
| | Cost | Accumulated Amortization | Net Book Value |
| Denami 600 | \$ 414,174 | \$ 124,611 | \$ 289,563 |
| Denami 3000 | 90,927 | 7,679 | 83,248 |
| | \$ 505,101 | \$ 132,290 | \$ 372,811 |

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

Total amortization expense included in selling, general and administrative expenses in the consolidated statements of operations related to intangible assets for the years ended November 30, 2013 and 2014 were \$20,206 and \$20,204, respectively.

Estimated future aggregate amortization expense for fiscal years ending November 30 is as follows:

| | 2015 | 2016 | 2017 | 2018 | Thereafter |
|----------------------|-----------|-----------|-----------|-----------|------------|
| Amortization expense | \$ 20,202 | \$ 20,202 | \$ 20,202 | \$ 20,202 | \$ 292,003 |

F-14

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

| | As at November 30, 2013 | As at November 30, 2014 |
|---------------------|----------------------------------|----------------------------------|
| Accounts payable | \$ 2,766,661 | \$ 634,466 |
| Accrued liabilities | 211,296 | 214,240 |
| | \$ 2,977,957 | \$ 848,706 |

8. SHORT-TERM LOANS

| | As at November 30, 2013 | Advances and Reallocations | Interest Accrued | Repayments | Foreign Exchange Adjustments | As at November 30, 2014 |
|-----------------------|----------------------------------|----------------------------------|---------------------|--------------|------------------------------------|----------------------------------|
| Term loan (July 2013) | 1,506,560 | — | — | (227,875) | (98,650) | 1,180,035 |
| Promissory note (i) | 52,533 | (54,933) | 2,400 | — | — | — |
| Promissory note (ii) | 402,558 | — | 4,099 | (397,400) | (9,257) | — |
| | \$ 1,961,651 | \$ (54,933) | \$ 6,499 | \$ (625,275) | \$ (107,907) | \$ 1,180,035 |

Term loan (July 2013)

On July 12, 2013, Methes Canada entered into a term loan facility agreement with a lender (the “Agreement”) pursuant to which Methes Canada is able to borrow up to \$1,398,560 (CDN\$1,600,000) for a term of 12 months at an interest rate of 12% per annum (the “July 2013 Facility”). Under the terms of the Agreement, interest is payable monthly and outstanding principal is due at maturity. Outstanding principal would be prepayable after six months upon 30 days’ notice and payment of a penalty equal to one-month’s interest. The July 2013 Facility is collateralized by a security agreement from Methes Canada on certain of its assets except for accounts receivable and inventory and a first collateral mortgage on its real property located at Sombra, Ontario. The July 2013 Facility prohibits payment of debt owed by the Company to certain of its stockholders and a director (see note 10) during the life of the facility and contains other customary debt covenants.

Interest expense incurred during the year ended November 30, 2013 and 2014 was \$70,897 and \$167,650, respectively.

A partial payment of \$227,875 (CDN\$ 250,000) was made during the year ended November 30, 2014 against the principal outstanding, leaving a balance of \$1,180,035 (CDN\$ 1,350,000).

Promissory Notes:

- (i) In January 2010, the Company borrowed \$40,000 from a lender and issued to the lender a demand promissory note in the principal amount of \$40,000 bearing interest of 8% per annum. Repayment of

the loan and payment of the accrued interest is due upon demand.

Interest expense incurred during the year ended November 30, 2013 and 2014 was \$3,200 and \$2,400, respectively.

(ii)

On September 1, 2014 the outstanding loan and interest accrued were transferred to a current unrelated Corporate lender (refer to Note 12).

On January 26, 2013, the Company borrowed \$397,400 (CDN \$400,000) from a lender and issued to the lender a demand promissory note in the principal amount of \$397,400 bearing interest of 8% per annum (the "January 2013 Note"). Repayment of the loan and payment of the accrued interest is due upon demand.

8. SHORT-TERM LOANS (CONTINUED)

During the year ended November 30, 2014, the January 2013 Note was repaid in full, which included total principal and interest payments of \$364,829 (CDN \$400,000) and \$32,571 (CDN \$34,057), respectively, as follows:

- On January 17, 2014, the Company converted \$128,000 of the outstanding principal due on the January 2013 Note into 34,688 shares of Common Stock based at the closing market price of \$3.69 per share of Common Stock on January 17, 2014 (refer to note 14 under section “Issuance of Common Stock for loan settlement”).
- On January 30, 2014, the Company paid \$153,871 against the outstanding principal balance through borrowing a note payable from another lender.
- On May 30, 2014, the Company paid the remaining balance.

9. CREDIT FACILITY

Credit Facility No.1

On August 16, 2013, Methes Canada entered into and closed on a working capital loan facility from a Toronto, Ontario lending firm (the “Working Capital Facility”). Under the Working Capital Facility, Methes Canada may borrow up to \$1,500,000 for its Sombra, Ontario biodiesel manufacturing plant, of which up to \$750,000 may be from cash advances against Methes Canada’s accounts receivables through factoring of accounts receivable with full recourse and up to an additional \$750,000 in cash advances for use exclusively to purchase feedstock for the production of biodiesel. The Working Capital Facility is secured by a pledge of the accounts receivable and inventory of Methes Canada and Methes USA.

In connection with all borrowings to purchase feedstock, Methes Canada issued a promissory note to the lender bearing a per annum interest rate equal to the Bank of Montreal Prime Rate plus sixteen percent (16%) and is due and payable upon the earlier of demand or August 13, 2014. The effective interest rate as of November 30, 2013 was 19% (16% plus 3% prime rate). Under the terms of the promissory note, interest only is payable monthly on the last business day of each calendar month.

Cash advances against accounts receivables will be based on the amount of the receivables net of a purchase discount as agreed with the lender with an interest rate of Bank of Montreal Prime Rate plus three percent (3%). Effective interest rate as of November 30, 2014 was 6% (3% plus 3% prime rate). The amounts outstanding under this promissory note must be recorded on the grid schedule provided by the lender. The balance outstanding as at November 30, 2013 of \$1,019,513 was fully repaid in fiscal year 2014.

Interest expense incurred for the year ended November 30, 2013 and 2014 was \$65,822 and \$7,909, respectively.

During the 2014 fiscal year, this Working Capital Facility was discontinued and replaced with Credit Facility No. 2.

Credit Facility No.2

On August 28, 2014, the Company entered into a feedstock credit facility with a major provider of credit to the renewable fuels industry (the "Lender"), which will provide the Company all the feedstock that is required to run at full current capacity and allow the Company to fulfill future orders for biodiesel that it receives from its customers that have been approved by the credit department of the Lender. The Company had also agreed to a biodiesel sales contract subject to the Lender's approval and subject to a tripartite payment and Assignment Agreement. The facility bears interest at 5% per annum. The facility will initiate upon payment by the Company of a \$400,000 deposit that is required as collateral for the feedstock. As at November 30, 2014 the deposit had not been made.

During the current fiscal year, the Company also entered into certain derivative contracts with the Lender to hedge its exposure to price risk related to feedstock oil. The Company recorded realized losses of \$269,826 (year ended November 30, 2013 - \$ nil) as part of cost of goods sold upon expiry of these contracts during the fiscal year. As at November 30, 2014, no derivative futures contracts or call options were outstanding.

10. PAYABLE TO RELATED PARTIES AND OTHERS

Payable to related parties is comprised of the following:

| | As at November 30, 2013 | As at November 30, 2014 |
|---|----------------------------------|----------------------------------|
| Michel G. Laporte (stockholder and Director) (reclassified to non-current, see note 11) | \$ 719,230 | \$ 81,382 |
| Due to an unrelated corporation (reclassified to non-current, see note 12) | 1,495,477 | — |
| Other loan | 36,695 | — |
| | \$ 2,251,402 | \$ 81,382 |

As at November 30, 2014, the promissory note due to Michel Laporte, a stockholder and director of the Company bears interest at 8% per annum, is unsecured and is payable on demand.

Interest expense incurred during the year ended November 30, 2013 and 2014 was \$nil and \$1,382, respectively.

11. PAYABLE TO RELATED PARTY

Payable to related party includes promissory notes due to Michel Laporte, a stockholder and director of the Company. The promissory notes bear interest at 8% per annum, are unsecured and payable on demand. Mr. Laporte has agreed not to demand payment until April 1, 2016.

The principal amount outstanding as at November 30, 2014 is \$663,000 and total accrued interest includes \$109,270 (as at November 30, 2013, principal of \$663,000 and interest of \$56,230).

Interest expense incurred during the year ended November 30, 2013 and 2014 was \$33,841 and \$53,040, respectively.

12. TERM LOAN

Term loan includes promissory notes due to an unrelated Corporation. The promissory notes bear interest at 8% per annum, are unsecured and payable on demand. The unrelated Corporation has agreed not to demand payment until April 1, 2016.

The principal amount outstanding as at November 30, 2014 is \$1,492,000 and total accrued interest includes \$345,188 (as at November 30, 2013, principal of \$1,280,000 and total interest of \$215,477). On September 1, 2014, an outstanding promissory note of \$40,000 in principal amount and interest accrued of \$14,933 was taken over by this unrelated Corporation, which is included in the above mentioned principal amount (refer to Note 8 (i)).

Interest expense incurred during the year ended November 30, 2013 and 2014 was \$99,200 and \$114,778, respectively.

13. INCOME TAXES

The following table reconciles the expected income tax recovery at the statutory federal income tax rate of 34% to the amount recognized in the statements of operations:

| | Year Ended November 30, 2013 | Year Ended November 30, 2014 |
|--|---------------------------------------|---------------------------------------|
| Loss before income taxes | \$ 5,651,665 | \$ 6,306,476 |
| Expected income tax recovery | (1,978,080) | (2,144,200) |
| Non-deductible expenses | 74,570 | 5,280 |
| Difference in foreign tax rates, changes in tax rate, foreign exchange impact on translation of tax base and other adjustments | 558,030 | 733,530 |
| Change in valuation allowance | 1,345,480 | 1,405,390 |
| | \$ — | \$ — |

The Company's deferred income tax assets and liabilities, which are primarily related to Canada, are as follows:

| | As at November 30, 2013 | As at November 30, 2014 |
|---|----------------------------------|----------------------------------|
| Deferred income tax assets | | |
| Non-capital losses carried forward | \$ 4,024,820 | \$ 5,424,420 |
| Other deferred tax assets | — | 232,067 |
| Less: allocated against deferred tax liabilities | (631,390) | (857,670) |
| Less: valuation allowance | (3,393,430) | (4,798,817) |
| | \$ — | \$ — |
| Deferred tax liabilities | | |
| Property, plant and equipment and intangible assets | \$ 631,390 | \$ 857,670 |
| Less: offset by deferred tax assets | (631,390) | (857,670) |
| | \$ — | \$ — |

Since inception to November 30, 2014 the Company has incurred net losses, primarily related to Canada, for tax purposes of \$17,431,318, which expire at various times through fiscal 2034. Pursuant to ASC 740, the Company is required to compute tax asset benefits for net operating losses carried forward. However, the potential tax benefit of net operating losses has not been recognized in these consolidated financial statements due to the uncertainty of their realization.

As at November 30, 2014 and 2013, the Company has no uncertain tax positions.

14. STOCKHOLDERS' EQUITY

Common Stock

The Company is authorized to issue 75,000,000 shares of Common Stock with a par value of \$0.001 and had 7,231,417 and 11,510,431 shares of Common Stock issued and outstanding as of November 30, 2013 and 2014 respectively.

| | No. of Shares | Price per Share (\$) |
|---|---------------|----------------------|
| Common Stock | | |
| Balance as at November 30, 2012 | 6,553,169 | |
| February 2013 Private Placement | 425,000 | 4.00 |
| August 2013 Private Placement | 28,248 | 1.77 |
| November 2013 Private Placement | 200,000 | 2.00 |
| November 2013 Issuance | 25,000 | 2.08 |
| Balance as at November 30, 2013 | 7,231,417 | |
| Issuance of shares under private placement | 1,081,161 | 2.00 |
| Issuance of shares under public offering | 2,800,000 | 2.00 |
| Issuance of shares upon conversion of Preferred Stocks units | 148,960 | 2.26 |
| Issuance of shares upon conversion of accrued dividends on Preferred Stocks units | 7,205 | 2.26 |
| Issuance of shares for cash | 16,129 | See below |
| Issuance of shares for services | 183,871 | See below |
| Issuance of shares for loan settlement | 34,688 | 3.69 |
| Issuance of shares upon conversion of Placement Agent Warrant | 7,000 | 2.00 |
| Balance as at November 30, 2014 | 11,510,431 | |

During the year ended November 30, 2013, the following issuances were completed:

February 2013 Private Placement:

In the February 2013 Private Placement, the Company issued 425,000 Units to accredited investors at a price of \$4.00 per unit and raised net proceeds of approximately \$1,493,850, after deducting the sales commission and fees. Each Unit consists of one share of Common Stock, one Class A Warrant and one Class B Warrant, identical to the securities issued under the IPO. Each Class A and Class B warrant is exercisable to purchase one share of Common Stock at \$7.50 and \$10.00, respectively, and expires on October 12, 2017.

In connection with the issuance of the Units in the February 2013 Private Placement, the Company issued warrants to purchase an aggregate of 42,500 Units, with an exercise price of \$4.20 per Unit, to the placement agents for the February 2013 Private Placement. The fair value of these warrants on the issuance date was \$101,600, which has been recorded to additional paid-in capital. This amount was estimated using the Black-Scholes option pricing model with an expected life of 5 years, a risk free interest rate of 0.89%, a dividend yield of 0%, and an expected volatility of 75% (see Stock Warrants table below).

August 2013 Private Placement:

In August 2013, the Company raised gross proceeds of \$50,000 in the Regulation S Private Placement, pursuant to which it issued 28,248 shares of Common Stock and 28,248 Regulation S Warrants. Under the Regulation S Private Placement, the Company is authorized to sell, issue and deliver up to 1,000,000 units at a price per unit equal to the closing price per share of Common Stock on the trading day immediately preceding each closing plus \$0.125. Each unit consists of one share of Common Stock and one Regulation S Warrant.

November 2013 Private Placement:

In November 2013, the Company commenced a private offering of 1,281,161 common stock units ("Common Stock Units") at \$2.00 per unit (the "Common Stock Unit Private Placement"). Each unit consisted of one share of Common Stock and one five year Common Stock purchase warrant to purchase one share of Common Stock at an exercise price of \$4.00 per share, which are exercisable beginning six months after the issuance date (the "Common Stock Warrant"). In November 2013, the Company sold an aggregate of 200,000 Common Stock Units to accredited investors and raised net proceeds of approximately \$363,000, after deducting the sales commission and fees, in the Common Stock Unit Private Placement.

14. STOCKHOLDERS' EQUITY (CONTINUED)

In connection with the issuance of some of the units in the Common Stock Unit Private Placement, the Company issued warrants to purchase an aggregate of 5,000 Common Stock Units, with an exercise price of \$2.00 per unit, to the placement agents for the Common Stock Unit Private Placement. The fair value of these warrants on the issuance date of December 20, 2013, was \$6,400, which has been recorded to additional paid-in capital. This amount was estimated using the Black-Scholes option pricing model with an expected life of 5 years, a risk free interest rate of 1.36%, a dividend yield of 0%, and an expected volatility of 75%.

During the year ended November 30, 2014, the following issuances were completed:

Issuance of Common Stock units under Private Placement

During the month of December 2013 the Company issued a total of 1,081,161 units (each a "Unit") to accredited investors at a price of \$2.00 per Unit under a private placement and raised net proceeds of approximately \$1.87 million, after deducting the sales commission and fees (the "December 2013 Private Placement"). Each Unit consists of one share of Common Stock and one five year Common Stock Warrant to purchase one share of Common Stock at an exercise price of \$4.00 per share ("Common Stock Warrant"). (see Stock Warrant Table below).

In connection with the December 2013 Private Placement, the Company issued compensatory warrants (the "Placement Agent Warrant") to the Placement Agents for the offering exercisable for an aggregate of 108,116 Units. Each of these warrants is exercisable to acquire a Unit at an exercise price of \$2.00 per Unit. The fair value of these warrants at the grant date was \$257,553. This amount was estimated using the Black-Scholes option pricing model with an expected life of 5 years, risk free interest rates between 1.66% and 1.74%, a dividend yield of 0%, and an expected volatility of 75%. (see Stock Warrant Table below).

Issuance of Common Stocks under Public Offering

On May 27, 2014, the Company closed an underwritten public offering of 2,500,000 shares of Common Stock and raised net proceeds of \$4.5 million, after deducting Underwriter's fees and estimated offering expenses. Under the terms of the Underwriting Agreement, the Underwriter had an option through June 26, 2014, to purchase up to an additional 375,000 shares of Common Stock under the same terms as the public offering to cover over-allotments (the "Over-Allotment Option"), if any.

On May 28, 2014, the Underwriter partially exercised the Over-Allotment Option for 300,000 shares of Common Stock raising approximately \$550,000 of additional net proceeds for the Company.

Issuance of Common Stocks upon conversion of Preferred Stocks units and accrued dividends

i) Series A-2 Preferred Stock Conversions

On March 13, 2014, two holders of our Series A-2 Convertible Preferred Stock ("Series A-2 Preferred") converted 20,876 shares of outstanding Series A-2 Preferred with an aggregate stated value of approximately \$49,139 (including accrued dividends of \$1,750 or 772 stocks) into 21,648 shares of Common Stock at a price of \$2.27 per share.

On May 9, 2014, a holder of our Series A-2 Preferred converted 10,438 shares of outstanding Series A-2 Preferred with an aggregate stated value of approximately \$26,250 (including accrued dividends of \$1,250 or 551 stocks) into 10,989 shares of Common Stock at a price of \$2.27 per share.

ii) Series A-1 Preferred Stock Conversions

On March 17, 2014, two holders of our Series A-1 Convertible Preferred Stock (“Series A-1 Preferred”) converted 117,646 shares of outstanding Series A-1 Preferred with an aggregate stated value of approximately \$293,235 (including accrued dividends of \$13,235 or 5,882 stocks) into 123,528 shares of Common Stock at a price of \$2.25 per share.

Issuance of Common Stock for cash and services rendered:

i) Investor relation consulting services paid via issuance of Common Stock:

A one year term investor relation consulting services was paid through issuance of quarterly common shares for a total of 100,000 common shares valued at closing market price for those dates starting with first installment on November 18, 2013 valued at \$52,000, based on the closing market price of \$2.08 per share. The next three quarterly installments were issued in fiscal 2014 as follows:

F-20

14. STOCKHOLDERS' EQUITY (CONTINUED)

- On January 3, 2014, the Company issued 25,000 shares of Common Stock in the second installment quarterly payment of consulting fees for services to be rendered by a consultant for over a year which were valued at \$87,250, based on the closing market price of \$3.49 per share on the day of issuance.
- On May 1, 2014, the Company issued 25,000 shares of Common Stock in the third quarterly installment payment of consulting fees for services to be rendered by the consultant which were valued at \$61,250, based on the closing market price of \$2.45 per share on the date of issuance.
- On August 1, 2014, the Company issued 25,000 shares of Common Stock in the final quarterly installment payment of consulting fees for services to be rendered by the consultant which were valued at \$42,500, based on the closing market price of \$1.70 per share on the date of issuance.

ii) An accredited investor issued Common Stock for a combination of cash and consulting services:

On January 10, 2014, the Company sold 50,000 Units to an accredited investor in a private placement for a purchase price of \$125,000 (or \$2.50 per Unit) of which \$100,000 was paid in cash and \$25,000 was settled through services rendered to the Company, which was included in the selling, general and administrative expenses. The aggregate fair value of the Units sold in this offering was \$310,000 (or \$6.20 per Unit), based on the closing market price of \$3.58 per share of Common Stock on the day of issuance, and the fair value of the Common Stock Warrants of \$2.62 per warrant. The Common Stocks allocated to cash portion was 16,129 Common Stocks ($\$100,000/\$310,000 \times 50,000$ units) and the services portion allocated is 33,871 Common Stocks. The fair value of the Common Stock Warrants was estimated using the Black-Scholes option pricing model with an expected life of 5 years, risk free interest rates of 1.64%, a dividend yield of 0%, and an expected volatility of 100%. The excess of the estimated fair value over the purchase price in the amount of \$185,000 is included in the selling, general and administrative expenses. (see Stock Warrant Table below).

iii) Investor relation consulting services paid via issuance of Common Stock:

On January 28, 2014, the Company issued 25,000 shares of Common Stock in payment of consulting fees for services to be rendered by a consulting corporation for a term of six months. These shares of Common Stock were valued at \$88,750, based on the closing market price of \$3.55 per share on the date of issuance.

iv) Consultant issued Common Stocks in payment of confidentiality and inventions assignment:

On November 20, 2014, the Company issued 50,000 shares of Common Stock in payment of professional fees pursuant to the Confidentiality and Inventions Assignment Agreement between the Methes Canada and an individual dated August 26, 2014. These shares were value at \$56,000 at a closing market price of \$1.12 and fully expensed as part of professional fees in the fiscal year 2014.

Issuance of Common Stock for loan settlement

On January 17, 2014, the Company issued 34,688 shares of Common Stock to a note holder at \$3.69 per share of Common Stock in conversion of \$128,000 of a note payable by the Company (See note 8(ii)).

Issuance of Common Stocks upon conversion of Placement Agent Warrants

On May 9 and 19, 2014, two holders of Placement Agent Warrants exercised their warrants for an aggregate of 7,000 Units at a price of \$2.00 per Unit or an aggregate stated value of \$14,000, which included 7,000 shares of Common Stock and 7,000 Warrants (each at an exercise price of \$4.00).

F-21

14. STOCKHOLDERS' EQUITY (CONTINUED)

Preferred Stock

The Company is authorized to issue 10,000,000 shares of Preferred Stock with a par value of \$0.001 and had 260,782 and 111,822 shares of preferred stock issued or outstanding as of November 30, 2013 and 2014.

| Preferred Stock | No. of Shares | Price per Share |
|---------------------------------|---------------|-----------------|
| Balance as at November 30, 2012 | — | |
| Series A-1 Private Placement | 138,654 | \$ 2.38 |
| Series A-2 Private Placement | 122,128 | \$ 2.395 |
| Balance as at November 30, 2013 | 260,782 | |
| Conversion of Series A-1 | (117,646) | \$ 2.38 |
| Conversion of Series A-2 | (31,314) | \$ 2.395 |
| Balance as at November 30, 2014 | 111,822 | |

Series A-1 Private Placement:

In September 2013, the Company issued 138,654 units to accredited investors at a price of \$2.38 per unit (the "Series A-1 Units") under its Series A-1 Preferred Stock private placement and raised net proceeds of approximately \$251,300, after deducting the sales commission and fees. Each unit consists of one share of Series A 10% Cumulative Convertible Preferred Stock, par value \$0.001 per share of the Company (convertible at Common Stock share price on date of conversion) ("Series A-1 Preferred Stock") and one five year Common Stock purchase warrant to purchase one share of Common Stock at an exercise price of \$4.00 per share, which are exercisable beginning six months after the issuance date (the "Series A-1 Warrant").

In connection with the issuance of the Series A-1 Units, the Company issued warrants to purchase an aggregate of 13,865 Series A-1 Units, with an exercise price of \$2.38 per Unit, to the placement agents for the Private Placement. The fair value of these warrants on the issuance date was \$10,330, which has been recorded to additional paid-in capital. This amount was estimated using the Black-Scholes option pricing model with an expected life of 5 years, a risk free interest rate of 1.74%, a dividend yield of 10%, and an expected volatility of 75%. (see Stock Warrants table below).

Conversion of Series A-1 Preferred Stock: During fiscal year 2014, 117,646 shares of Series A-1 Preferred Stock were converted into Common Stock.

Dividends: As at November 30, 2014, the Series A-1 Preferred Stock had total accumulated dividends of \$12,521 (as at November 30, 2013 - \$6,413), none of which have been declared by the board or accrued.

Series A-2 Private Placement:

In October 2013, the Company issued 122,128 units to accredited investors at a price of \$2.395 per unit (the "Series A-2 Units") under its Series A-2 Preferred Stock private placement and raised net proceeds of approximately \$221,610, after deducting the sales commission and fees. Each unit consists of one share of Series A 10% Cumulative Convertible Preferred Stock, par value \$0.001 per share of the Company (convertible at Common Stock share price on date of conversion) ("Series A-2 Preferred Stock") and one five year Common Stock purchase warrant to purchase one

share of Common Stock at an exercise price of \$4.00 per share, which are exercisable beginning six months after the issuance date (the "Series A-2 Warrant").

In connection with the issuance of the Series A-2 Units, the Company issued warrants to purchase an aggregate of 12,213 Series A-2 Units, with an exercise price of \$2.395 per Unit, to the placement agents for the Private Placement. The fair value of these warrants on the issuance date was \$8,500, which has been recorded to additional paid-in capital. This amount was estimated using the Black-Scholes option pricing model with an expected life of 5 years, a risk free interest rate of 1.29%, a dividend yield of 10%, and an expected volatility of 75%. (see Stock Warrants table below).

Conversion of Series A-2 Preferred Stock: During fiscal year 2014, 31,314 shares of Series A-2 Preferred Stock were converted into Common Stock.

Dividends: As at November 30, 2014, the Series A-2 Preferred Stock had total accumulated dividends of \$23,004 (as at November 30, 2013 - \$2,387), none of which have been declared by the board or accrued.

14. STOCKHOLDERS' EQUITY (CONTINUED)

Stock Warrants Table

| | Grant Date | Exercise Period | No of Warrants | Exercise Price per share | Fair Value of Broker Warrants |
|--|--------------------|-------------------------|----------------|--------------------------|-------------------------------|
| Balance as at November 30, 2012 | | | 1,271,264 | | |
| Class A warrants - Private Placement | Feb. 19, 2013 | 5 years from grant date | 425,000 | \$ 7.50 | |
| Class B warrants - Private Placement | Feb. 19, 2013 | 5 years from grant date | 425,000 | \$ 10.00 | |
| Placement Agent warrants - Private Placement | Feb. 19, 2013 | 5 years from grant date | 42,500 | \$ 4.20 | \$ 101,600 |
| Common stock warrants - Private Placement | Aug. 21, 2013 | 5 years from grant date | 28,248 | \$ 4.00 | |
| Common stock warrants - Private Placement | Sept. 17, 2013 | 5 years from grant date | 138,654 | \$ 4.00 | |
| Placement Agent warrants - Private Placement | Sept. 17, 2013 | 5 years from grant date | 13,865 | \$ 2.38 | \$ 10,330 |
| Common stock warrants - Private Placement | Oct. 29, 2013 | 5 years from grant date | 122,128 | \$ 4.00 | |
| Placement Agent warrants - Private Placement | Oct. 29, 2013 | 5 years from grant date | 12,213 | \$ 2.40 | \$ 8,500 |
| Common stock warrants - Private Placement | Nov. 4, 2013 | 5 years from grant date | 150,000 | \$ 4.00 | |
| Common stock warrants - Private Placement | Nov. 27, 2013 | 5 years from grant date | 50,000 | \$ 4.00 | |
| Balance as at November 30, 2013 | | | 2,678,872 | | |
| Common Stock warrants issued – Private Placement | Dec. 20, 2013 | 5 years from grant date | 1,081,161 | \$ 4.00 | |
| Placement Agent warrant – Private Placement | Dec. 20 2013 | 5 years from grant date | 108,116 | \$ 2.00 | \$ 257,553 |
| Placement Agent warrant – Private Placement (November 27, 2013) | Dec. 20 2013 | 5 years from grant date | 5,000 | \$ 2.00 | \$ 6,403 |
| Common Stock warrant issued-accredited investor | Jan. 10, 2014 | 5 years from grant date | 50,000 | \$ 4.00 | |
| Placement Agent warrant exercise | | | (7,000) | \$ 2.00 | |
| Common Stock warrant issued upon exercise of Placement Agent Warrant | May 9 and 14, 2014 | December 20, 2018 | 7,000 | \$ 4.00 | |

Balance as at November 30,
2014

3,923,149

F-23

15. STOCK-BASED COMPENSATION

2008 Option Plan:

The Company's Amended and Restated 2008 Directors, Officers and Employees Stock Option Plan, was originally approved by stockholders at the annual general meeting of the Company held on December 5, 2007, and subsequently amended by the stockholders on July 23, 2008. This plan was established to enable the Company to attract and retain the services of highly qualified and experienced directors, officers, employees and consultants and to give such persons an interest in the success of the Company and its subsidiaries. The total number of shares currently authorized under the plan is 391,134. The options and awards will be granted at the discretion of the Board of Directors. Options issued under the plan that are deemed to be incentive stock options will be priced at not less than 100% of the fair market value of the common shares at the date of the grant, subject to certain limitations for 10 percent stockholders. The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model using the following assumptions:

| Fiscal Year ended November 30, | 2013 | 2014 |
|--------------------------------|-------|------|
| Exercise price (\$) | 7.67 | N/A |
| Risk-free interest rate | 1.59% | N/A |
| Expected term (Years) | 10 | N/A |
| Expected volatility | 100% | N/A |
| Expected dividend yield | 0% | N/A |
| Fair value of option (\$) | 1.83 | N/A |
| Expected forfeiture rate | Nil | N/A |

All the grants vest quarterly over a two year period and expire on the tenth anniversary of the grant date. The following table summarizes the stock option activities of the Company:

| | Number of options |
|-------------------------------------|-------------------|
| Outstanding as of November 30, 2012 | 383,310 |
| Granted | 10,000 |
| Cancelled/forfeited | (27,379) |
| Outstanding as of November 30, 2013 | 365,931 |
| Granted | |
| Cancelled/forfeited | (33,897) |
| Outstanding as at November 30, 2014 | 332,034 |

As of November 30, 2014 the Company has granted a total of 332,034 options to purchase common stock to employees, directors and advisory board members, all of which are currently outstanding and of which 328,284 are vested and exercisable. All of these outstanding stock options have an exercise price above the average market price.

The Company recorded \$87,907 and \$11,187 in general and administrative expenses for stock-based compensation expense relating to the 2008 Option Plan for the years ended November 30, 2013 and 2014, respectively, with corresponding credits to additional paid-in capital. As of November 30, 2014, the total fair value of the options granted to employees at the respective grant dates was \$1,476,973, of which the unrecognized portion of \$1,901 related to the unvested shares associated with these stock option grants will be recognized over a period of one year. The Company will issue new shares upon exercise of the stock options.

2012 Option Plan:

Under the Company's 2012 Directors, Officers and Employees Stock Option Plan the Company granted a total of 100,000 options to purchase Common Stock to its four independent directors and chief financial officer on April 2, 2013. The total number of shares currently authorized under the plan is 400,000. The options and awards will be granted at the direction of the Board of Directors. Options issued under the plan that are deemed to be incentive stock options will be priced at not less than 100 percent of the fair market value of the shares of Common Stock underlying the options at the date of the grant, subject to certain limitations for 10 percent stockholders. The fair value of each option granted was estimated at the time of grant using the Black-Scholes option pricing model.

15. STOCK-BASED COMPENSATION (CONTINUED)

| Fiscal Year ended November 30, | 2013 | 2014 |
|--------------------------------|-------|------|
| Exercise price (\$) | 3.94 | N/A |
| Risk-free interest rate | 0.78% | N/A |
| Expected term (Years) | 5 | N/A |
| Expected volatility | 100% | N/A |
| Expected dividend yield | 0% | N/A |
| Fair value of option (\$) | 2.93 | N/A |
| Expected forfeiture rate | Nil | N/A |

All the grants vest yearly at the rate of 1/3 starting on the first year anniversary of the grant date and expire on the fifth anniversary of the grant date. On August 5, 2014, the vesting period was amended and all the options were fully vested and exercisable. The following table summarizes the stock option activities of the Company.

| | Number of options |
|-------------------------------------|-------------------|
| Outstanding as of November 30, 2012 | — |
| Granted | 100,000 |
| Exercised | — |
| Cancelled/forfeited | — |
| Outstanding as of November 30, 2013 | 100,000 |
| Granted | — |
| Exercised | — |
| Cancelled/forfeited | — |
| Outstanding as of November 30, 2014 | 100,000 |

The stock-based compensation relating to the 2012 Option Plan for the fiscal year ended November 30, 2014 was \$186,022 (November 30, 2013 - \$106,152).

As of November 30, 2014 the Company has granted options to purchase a total of 100,000 shares of Common Stock at an exercise price of \$3.94 per share, to its four independent directors and chief financial officer, all of which are currently outstanding and fully vested and exercisable. All of these outstanding stock options have an exercise price equal to the fair market price on the date of grant. As of November 30, 2014, the total fair value of the options granted to the independent directors and chief financial officer at the respective grant dates was \$292,174 all of which has been fully recognized as they are fully vested.

16. FAIR VALUE MEASUREMENTS, CONCENTRATIONS AND RISK

- a) The Company's cash and cash equivalents, which are carried at fair value, are classified as a level 1 financial instrument at November 30, 2013 and 2014.
- b) The Company is exposed to the following concentrations of risk:

Major Customers

The Company's revenue was earned primarily from two major customers in 2014 comprising 67% and 8% of total revenue (2013 - revenue earned primarily from two major customers comprising 67% and 30% of total revenue).

As at November 30, 2014, the accounts receivable balance from the two major customers was \$24,306 and \$24,194 respectively (as at November 30, 2013 the accounts receivable balance from two major customers was \$659,902 and \$26,083 respectively).

16. FAIR VALUE MEASUREMENTS, CONCENTRATIONS AND RISK (CONTINUED)

Major Vendor

The Company has an exclusive agreement to manufacture biodiesel processor equipment with a third party equipment manufacturer expiring in August 2015. During the year ended November 30, 2014, the Company made purchases of \$nil (November 30, 2013 - \$45,853) from this equipment manufacturer. As of November 30, 2014, the Company has accounts payable of \$6,837 (2013 - \$21,856) owing to this equipment manufacturer.

The Company's major purchases of feedstock oil and biodiesel from third parties were primarily from two major vendors in fiscal 2014 comprising total purchases of \$3,843,908 and \$31,411 (fiscal 2013 - three major vendor comprised total purchases of \$2,326,125, \$1,754,302 and \$1,720,589).

As at November 30, 2014, the accounts payable balance from the two major vendors in 2014 were \$nil and \$6,398 (as at November 30, 2013 - the accounts payable balance from the three major vendors was \$nil, \$1,053,479 and \$575,043). The three major vendors from fiscal year 2013 were fully paid in the 2014 fiscal year (payment included interest incurred on outstanding balance of \$116,637).

Economic and Political Risks

The Company faces a number of risks and challenges as a result of having primary operations and marketing in Canada and sales in the United States. Changing political climates in Canada and the United States could have a significant effect on the Company's business.

- c) The Company's financial instruments are exposed to certain financial risks, including credit risk, currency risk and liquidity risk.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents and trade accounts receivable. The Company places its cash and cash equivalents with institutions of high creditworthiness. The carrying value of the financial assets represents the maximum credit exposure.

The Company minimizes credit risk by routinely reviewing the credit risk of the counterparty to the arrangement and has maintained an allowance for doubtful accounts of \$65,661 related to credit risk as at November 30, 2014 and \$30,000 as at November 30, 2013, which is considered adequate. Amounts of \$685,985 and \$48,500 were due from major customers as at November 30, 2013 and November 30, 2014, respectively.

Customer deposit

As at November 30, 2014, the Company had received customer deposits of \$144,640 (November 30, 2013 - \$8,185) against potential sale of biodiesel equipment.

Currency Risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company's functional currency is U.S. dollars. A significant change in the currency exchange rates between the U.S. dollar

relative to the Canadian dollar could have an effect on the Company's results of operations, financial position and cash flows. The Company has not entered into any derivative financial instruments to manage exposures to currency fluctuations.

Included in selling general and administrative expenses are foreign currency gains for the fiscal year ended November 30, 2014 of \$90,995 (2013 - \$127,450).

16. FAIR VALUE MEASUREMENTS, CONCENTRATIONS AND RISK (CONTINUED)

The Canadian dollar balances and exchange differences are as follows:

| | CDN | USD Historical | USD November 30, 2014 |
|---|--------------|-------------------|-----------------------------|
| Note 8: Term loan ("July 2013") - Principal | \$ 1,350,000 | \$ 1,299,915 | \$ 1,180,035 |
| Note 18: Canadian Incentive - Sombra facility - Total Incentive remaining per Agreement | 5,000,000 | NA | 4,370,000 |

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a working capital deficiency, and is exposed to this risk mainly in respect of its accounts payable and accrued liabilities and short-term loans (see note 1).

17. COMMITMENTS

Building Leases:

Methes Canada is a party to a lease agreement for the Mississauga facility and to a sublease agreement for a unit adjacent to its Mississauga facility. On September 28, 2012, the Company re-negotiated and renewed a combined five year lease term for both of these facilities starting from January 1, 2013 to December 31, 2017. The renewed lease term provided for a two month rent free period in 2013.

As at November 30, 2014, Methes Canada must pay, in addition to other amounts such as its pro rata share of taxes, the following amounts over the term of the lease:

| | Annual Minimum Rent |
|------|---------------------------|
| 2015 | \$ 126,708 |
| 2016 | \$ 126,708 |
| 2017 | \$ 126,708 |
| 2018 | \$ 10,559 |

17. COMMITMENTS (CONTINUED)

Railroad Car Leases:

As at November 30, 2014, the Company is a party to the following lease agreements for railcars at its Sombra facility:

| | Start Date | End Date | Term |
|------------------------------------|------------------|-------------------|-----------|
| Four railcars at \$3,100 per month | August 1, 2013 | July 31, 2018 | 60 months |
| Four railcars at \$3,100 per month | April 1, 2013 | March 31, 2018 | 60 months |
| Four railcars at \$3,600 per month | July 1, 2013 | June 30, 2018 | 60 months |
| Four railcars at \$3,140 per month | December 1, 2011 | November 30, 2016 | 60 months |
| One railcar at \$575 per month | January 1, 2012 | December 31, 2016 | 60 months |
| One railcar at \$575 per month | May 1, 2012 | June 30, 2015 | 36 months |
| Ten railcars at \$8,460 per month | May 1, 2013 | April 30, 2018 | 60 months |
| Ten railcars at \$8,510 per month | May 1, 2013 | April 30, 2018 | 60 months |

| | Annual Minimum Rent |
|------|---------------------|
| 2015 | \$ 369,845 |
| 2016 | \$ 365,820 |
| 2017 | \$ 321,815 |
| 2018 | \$ 147,250 |

18. CONTRIBUTION AGREEMENTS WITH MINISTER OF NATURAL RESOURCES OF CANADA

Mississauga Facility:

In 2009, the Company entered into a Non-Refundable Contribution Agreement with the Minister of Natural Resources of Canada for the Mississauga facility under the ecoENERGY for Biofuels program. Under this agreement, as amended, the Company was eligible to receive up to \$4,728,881 (CDN\$5,410,000) in the years from 2009 to 2016 from the Canadian government in biodiesel production incentives when biodiesel is produced and sold. The contribution from the Canadian Government is non-refundable by the Company. As disclosed in note 21, Subsequent Events, on December 24, 2014 the Natural Resources of Canada terminated the Contribution Agreement for the Mississauga facility as it was not being used to meet the minimum production requirement.

For the year ended November 30, 2014, the Company claimed incentives of \$nil (2013 - \$10,171). Since entering into the program to November 30, 2014, the Company has claimed total incentives of \$1,458,286 and has received a total amount of \$1,458,286.

Included in accounts receivable as at November 30, 2013 and 2014 is an amount receivable of \$nil and \$nil respectively, due from the Minister of Natural Resources of Canada.

Sombra Facility:

In 2010, the Company applied for an incentive under the ecoENERGY for Biofuels program for its Sombra facility and was approved by the Canadian government. The final Contribution Agreement with the Minister of Natural Resources of Canada for the Sombra facility under the ecoENERGY for Biofuels program was signed by the Company and the Canadian Government on December 6, 2011. Under this agreement, as amended, the Company may receive a total of up to \$4,370,000 (CDN \$5,000,000) during program years 2015-2016 and 2016-2017, as well as \$0.26 per gallon for the remainder of program year 2014-2015, ending March 31, 2015, from the Canadian government in biodiesel production incentives when biodiesel is produced and sold. The contribution from the Canadian Government is non-refundable by the Company.

For the year ended November 30, 2014, the Company claimed incentives of \$365,961 (2013 - \$536,875). Since entering into the program to November 30, 2014, the Company has claimed total incentives of \$902,836 and has received total amount of \$755,060.

Included in accounts receivable as at November 30, 2013 and 2014 is an amount receivable of \$277,573 and \$147,776 respectively, due from the Minister of Natural Resources of Canada.

19. SEGMENT INFORMATION

The Company reports in a single operating segment, being a producer and seller of biodiesel fuel and biodiesel processing equipment.

Geographic segments:

The Company's assets and operating facilities, other than cash and cash equivalents balances of \$16,066 at November 30, 2013 and \$4,943 at November 30, 2014, are all located in Canada. The Company services the majority of its customers in the United States. The Company derives its revenue geographically as follows:

| | Year Ended November 30, 2013 | Year Ended November 30, 2014 |
|---------------|---------------------------------------|---------------------------------------|
| Revenue | | |
| United States | \$ 7,749,825 | \$ 4,678,570 |
| Canada | 1,120,112 | 773,309 |
| | \$ 8,869,937 | \$ 5,451,879 |

20. INTEREST EXPENSE

Interest expense table is as follows:

| | Year Ended November 30, 2013 | Year Ended November 30, 2014 |
|--------------------------------------|---------------------------------------|---------------------------------------|
| Interest accrued on promissory notes | \$ 164,308 | \$ 171,600 |
| Interest paid on term loans | 281,947 | 167,650 |
| Interest paid on vendor payables | 2,142 | 136,762 |
| Interest paid on credit facility | 44,542 | 6,494 |
| Financing fees | 32,637 | 10,266 |
| Total expense | \$ 525,576 | \$ 492,772 |

21. SUBSEQUENT EVENTS

The Company has performed an evaluation of subsequent events and has determined there have been the following material subsequent events requiring disclosure:

On December 19, 2014, the Blenders Tax Credit (the "BTC") was reinstated retroactively to January 2014. Accordingly, the Company expects to receive its negotiated share of the BTC on applicable sales invoices issued to customers during fiscal 2014. As of the end of fiscal 2014 the amount of the BTC that the Company will receive from customers is approximately \$894,000. This amount will be recognized in the first quarter of fiscal 2015.

On December 24, 2014, the Natural Resources of Canada terminated the Contribution Agreement for the Mississauga facility under the ecoENERGY for Biofuels program as the facility was not being used to meet the minimum production requirement.

On January 19, 2015, the Company signed a Technology Licensing Agreement with a U.S. based entity (the "Licensee"). Under this agreement, the Company will provide to the licensee a 99 year non-exclusive license to use Methes' design and software for a 3,000 liter per hour biodiesel processor to manufacture biodiesel processors for its own projects in the United States. The Company will receive a \$4 million upfront cash payment and will be entitled to an additional \$100,000 for each of the first 40 units manufactured and installed by the Licensee. Final terms and actual date of the payment have not yet been resolved.

* * * * *

EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|--|
| 3.1 | Amended and Restated Articles of Incorporation of Methes Energies International Ltd. filed on July 6, 2012(2) |
| 3.1(a) | Certificate of Designation of Series A-1 10% Cumulative Convertible Preferred Stock filed on September 17, 2013 (9) |
| 3.1(b) | Certificate of Correction to the Series A-1 Certificate of Designation filed on November 20, 2013(11) |
| 3.1(c) | Certificate of Designation of Series A-2 10% Cumulative Convertible Preferred Stock filed on November 20, 2013(11) |
| 3.2 | 2012 Amended and Restated Bylaws(1) |
| 4.1 | Specimen stock certificate(1) |
| 4.2 | Form of warrant agreement, including form of Class A and Class B warrants(4) |
| 4.3 | Specimen unit certificate(1) |
| 4.4 | Form of representative's warrant(4) |
| 4.5 | Form of warrant agreement issued in the November Offering and the January Offering for 65,189 and 26,075 shares of Common Stock, respectively, at an exercise price of \$7.67 per share(1) |
| 4.6 | Final Form of Placement Agent Warrant issued in the February 2013 Private Placement (5) |
| 4.7 | Promissory Note, dated July 11, 2013, in the principal amount of \$1,536,000 (CDN\$1,600,000), bearing interest at the rate of 12.0% per annum issued to 1730636 Ontario Limited (7) |
| 4.8 | Demand Grid Promissory Note issued to BridgingFactor Inc. dated August 13, 2013 (8) |
| 4.9 | Form of Warrant Agreement issued in the Common Stock Unit Offering (10) |
| 10.1 | Amended and Restated 2008 Directors, Officers and Employees Stock Option Plan(1) |
| 10.2 | 2012 Directors, Officers and Employees Stock Option Plan(1) |
| 10.3 | Form of Non-Statutory Stock Option Agreement(1) |
| 10.4 | Form of Incentive Stock Option Agreement(1) |
| 10.5 | Form of 8% Demand Note made by the Company to World Asset Management, Inc. in the aggregate principal amount of \$1,280,000; and Michael G. Laporte in the amount of \$150,000(1) |
| 10.5(i) | Commitment by noteholders to defer payment on Demand Notes(4) |
| 10.6 | Lease Agreement dated November 5, 2007, by and between Methes Energies Canada Inc. and The Erin Mills Development Corporation(1) |
| 10.7 | Non-Repayable Contribution Agreement dated February 9, 2009, by and between Methes Energies Canada Inc. and Canada(1) |
| 10.8 | Non-Repayable Contribution Agreement dated December 6, 2011, by and between Methes Energies Canada Inc. and Canada(1) |
| 10.9 | Promissory Notes from Methes to World Asset Management each in the amount of \$500,000 and dated March 12 and April 26, 2012(2) |
| 10.10 | Letter re Term Loan Facility between Methes Energies Canada, Inc. and TCE Capital Corporation dated June 12, 2012(2) |
| 10.11 | Exclusive Marketing Agreement dated as of August 27, 2012 between Methes Energies Canada, Inc. and Turnkey Modular Systems, Inc.(3) |
| 10.12 | |

Form of Non-Statutory Stock Option Agreement under the 2012 Directors, Officers and
Employees Stock Option Plan (7)

F-30

| | |
|-------------|---|
| 10.13 | Form of Incentive Stock Option Agreement under the 2012 Directors, Officers and Employees Stock Option Plan(7) |
| 10.14 | Term Loan Facility Agreement between Methes Energies Canada, Inc. and 1730636 Ontario Limited, dated June 24, 2013 (7) |
| 10.15 | Security Agreement, dated July 11, 2013, between Methes Energies Canada, Inc. and 1730636 Ontario Limited securing the July 2013 Note (7) |
| 10.16 | Collateral Mortgage on the real property located at Sombra, Ontario securing the July 2013 Note (7) |
| 10.17 | Master Factoring Agreement between Methes Energies Canada, Inc. and BridgingFactor Inc. dated August 13, 2013 (8) |
| 10.18 | Security Agreement, dated August 13, 2013, between Methes Energies International Ltd. and BridgingFactor Inc. (8) |
| 10.19 | Security Agreement, dated August 13, 2013, between Methes Energies USA Ltd. and BridgingFactor Inc. (8) |
| 10.20 | Final Form of Technology License Agreement between Methes Canada and the Licensee, dated as of January 19, 2015 (12) |
| 14.1 | Code of Ethics (6) |
| 21.1 | Subsidiaries of Methes Energies International Ltd.(1) |
| 23.1 | Consent of MNP LLP* |
| <u>31.1</u> | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| <u>31.2</u> | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| <u>32.1</u> | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002** |
| <u>32.2</u> | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002** |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema Document* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |

* Filed herewith.

** Furnished with this report in accordance with Item 601 (32)(ii) of Regulation S-K.

- (1) Filed as an exhibit to our Registration Statement on Form S-1 (SEC No. 333-182302) on June 22, 2012 and incorporated herein by reference.
- (2) Filed as an exhibit to Amendment #1 to our Registration Statement on Form S-1 (SEC No. 333-182302) on August 14, 2012 and incorporated herein by reference.
- (3) Filed as an exhibit to Amendment #2 to our Registration Statement on Form S-1 (SEC No. 333-182302) on August 30, 2012 and incorporated herein by reference.
- (4) Filed as an exhibit to Amendment #4 to our Registration Statement on Form S-1 (SEC No. 333-182302) on October 5, 2012 and incorporated herein by reference.
- (5)

- Filed as Exhibit 4.1 to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2013 and incorporated herein by reference.
- (6) Filed as Exhibit 14.1 to our Annual Report on Form 10-K for the fiscal year ended November 30, 2012 and incorporated herein by reference.
- (7) Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2013 and incorporated herein by reference.
- (8) Filed on August 20, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (9) Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2013 and incorporated herein by reference.
- (10) Filed on December 26, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (11) Filed as an exhibit to our Annual Report on Form 10-K for the fiscal year ended November 30, 2013 and incorporated herein by reference.
- (12) Filed on January 23, 2015 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.