METHES ENERGIES INTERNATIONAL LTD
Form 424B1
October 29, 2012

Filed Pursuant to Rule 424(b)(1)
Registration No. 333-182302

560,000 Units
each consisting of
one share of common stock, one Class A Warrant and one Class B Warrant

This is our initial public offering. We are offering, on a firm commitment basis, 560,000 units, each unit consisting of one share of our common stock, one Class A warrant and one Class B warrant. Each Class A warrant entitles its holder to purchase one share of our common stock at an exercise price equal to 150% of the initial unit offering price. Each Class B warrant entitles its holder to purchase one share of our common stock at an exercise price equal to 200% of the initial unit offering price. The Class A and Class B warrants are exercisable at any time after they become separately tradeable on November 26, 2012 until their expiration date, five years after the date of this prospectus. Commencing six months after the date of this offering, we may redeem some or all of the Class A warrants at a price of $0.05 per warrant after the closing bid price of our common stock, as reported on the principal market on which our stock trades, has been at or above 200% of the unit offering price for five consecutive trading days, by giving the holders not less than 30 days notice. Commencing six months after the date of this offering, we may redeem some or all of the Class B warrants at a price of $0.05 per warrant after we report, for any four consecutive fiscal quarters, a total of $8 million of income before income taxes, as defined under U.S. GAAP, by giving the holders not less than 30 days notice.

The initial public offering price of the units will be $5.00 per unit.

Initially, only the units will trade. The common stock and the warrants will begin trading separately on November 26, 2012. Once separate trading in the common stock and warrants begins, trading in the units will cease, and the units will be delisted.

The units, common stock, Class A warrants and Class B warrants have been accepted for trading on the Nasdaq Capital Market under the symbols MEILU, MEIL, MEILW and MEILZ, respectively.

We are an emerging growth company under the federal securities laws and will be subject to reduced public company reporting requirements. Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 7 for a discussion of information that should be considered in connection with an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of the disclosures in this prospectus. Any representation to the contrary is a criminal offense.

	Per Unit	Total
Public offering price	$5.00	$2,800,000

Underwriting discount	$0.45	$ 252,000
Proceeds to us, before expenses	$4.55	$2,548,000

We have also agreed to pay Paulson Investment Company, Inc., the representative of the underwriters of this offering, a non-accountable expense allowance equal to 3% of the total initial public offering price for the units sold pursuant to this prospectus and issue to Paulson warrants to purchase a total of 56,000 units, identical to the units offered by this prospectus, having an exercise price per unit equal to 120% of the initial unit public offering price. We have also granted to Paulson a 45-day option to purchase up to an additional 84,000 units to cover overallotments. The underwriters expect to deliver the units on or about October 30, 2012.

Paulson Investment Company, Inc. **Barrett & Company**

The date of this prospectus is October 12, 2012.

Our Sombra plant at commencement of retrofit

Our Denami 3000 processors

All references in this Prospectus to 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*.

You may rely on the information contained in this prospectus. We have not authorized anyone to provide information different from that contained in this prospectus. Neither the delivery of this prospectus nor sale of the units means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy our units in any circumstances under which the offer or solicitation is unlawful.

Table of Contents

PROSPECTUS SUMMARY

This summary provides a brief overview of key aspects of the offering. However, it is a summary and may not contain all of the information that is important to you. For a more complete understanding of this offering, we encourage you to read the entire prospectus, including our financial statements and the notes to those statements. All share information in this prospectus has been retroactively adjusted to reflect the reverse stock split of one share for each 3.835 outstanding shares of common stock effected on June 11, 2012. All references to dollars are to U.S. dollars unless otherwise indicated.

Methes Energies International Ltd.

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 have recently commissioned and are scaling-up biodiesel production at our new facility in Sombra, Ontario, Canada. In fiscal 2011, our largest source of revenue was from the sale of biodiesel fuel produced by others.

Among other services, 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 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, or mgy, of biodiesel, and starting in 2012 may purchase one 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. 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 May 2012, we completed construction and installation of two of our new intermediate-scale *Denami 3000* processors at our Sombra facility. Our *Denami 3000* processors at the Sombra plant have been favorably tested during full-scale operation for a few days in July 2012 and received United States EPA approval on October 4, 2012. We expect to begin full-scale commercial operation of the Sombra plant in October 2012.

Growth Plan

We plan to expand our business by (i) further 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, and (iv) expanding our consulting services. 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 available to other small and intermediate producers.

Increase production capacity. Our Sombra facility is expected to begin full-scale operation, at or near its rated capacity of 13 mgy, in October 2012. Depending upon the availability of financing, we plan to further increase

production capacity at our Sombra facility by another 13 mgy by May 2014.

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 2011.

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 gives us a clear advantage in offering these consulting services.

Competitive Advantages

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

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 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 sales of biodiesel; royalties; consulting services; feedstock, methanol and catalyst sales; and equipment sales. These diverse revenue sources and the synergies among the different parts of our business reduce the seasonality of our

business and our dependence on any one market.

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.

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 build 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.

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.

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, 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 continue to evolve, which will likely 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.

Challenges, Risks and Limitations

Our ability to utilize our competitive advantages in order to strengthen and expand our business and achieve our growth plan is subject to a number of risks and uncertainties more fully discussed under Risk Factors in this Prospectus. At May 31, 2012, we had negative working capital of $1,947,002 and, after giving effect to the net proceeds from this offering and the issuance of 33,898 shares of common stock subsequent to May 31, 2012 for $260,000, our working capital at May 31, 2012 would have been only $596,998 on a pro forma as adjusted basis. This limited working capital may make accomplishment of our growth plan difficult. In assessing the likelihood of our future success, investors in this offering should note our history of losses and the likelihood of our operating profitably in the future. Further, historically, we have relied on a few major customers to purchase our biodiesel. While we believe there are bidders for biodiesel on the spot market, this may not always prove to be the case. In addition, shortages of feedstock or increases in feedstock costs in the future could reduce our profitability.

Corporate Information

Methes was organized as Global Biodiesel Ltd. on June 27, 2007 under the laws of the state of Nevada. On September 5, 2007, Methes purchased all the outstanding shares of Methes Energies Inc., now known as Methes Energies Canada Inc. (Methes Canada), an Ontario (Canada) corporation incorporated in December 2004, in exchange for 1,303,780 shares of its common stock, plus an additional 181,225 shares issued to retire debt of that corporation. On October 11, 2007, Global Biodiesel Ltd. changed its name to Methes Energies International Ltd.

Our principal executive office is located at 3651 Lindell Road, Suite D-272, Las Vegas, Nevada, 89103 and our telephone number is (702) 932-9964. Our web address is www.methes.com. None of the information on our website is part of this prospectus.

The Offering

Securities Offered	560,000 units, each unit consisting of one share of common stock, one Class A redeemable common stock purchase warrant and one Class B redeemable common stock purchase warrant. Initially, only the units will trade. The common stock and the warrants included in the units will not trade separately until the 30th calendar day following the commencement of trading or the first trading day thereafter if the 30th day is a weekend or holiday. Once separate trading in the common stock and warrants commences, the units will cease trading and will be delisted.
Shares of common stock to be outstanding after this offering	6,553,169
Warrants:	
Number of Class A warrants to be outstanding after this offering	560,000
Number of Class B warrants to be outstanding after this offering	560,000
Exercise terms of Class A and Class B Warrants	Each Class A warrant entitles its holder to purchase one share of our common stock at an exercise price equal to 150% of the initial unit offering price. Each Class B warrant entitles its holder to purchase one share of our common stock at an exercise price equal to 200% of the initial unit offering price. The Class A and Class B warrants are exercisable at any time after they become separately tradable.

Expiration date of Class A and Class B Warrants	October 12, 2017
Redemption of Class A and Class B Warrants	We may redeem all of the warrants, or some of the warrants on a pro rata basis, commencing six months after this offering at a price of $0.05 per warrant, on 30 days notice to the holders. However, we may redeem the Class A warrants only if the closing bid price of our common stock, as reported on the principal market on which our stock trades, has been at or above 200% of the initial unit offering price for five consecutive trading days, and redeem the Class B warrants only after we report, for any four consecutive fiscal quarters, a total of $8 million of income before income taxes, as defined under U.S. GAAP.
Nasdaq Capital Market symbols:	Units MEILU Common Stock MEIL Class A Warrants MEILW Class B Warrants MEILZ

Risk Factors	Investing in our securities involves a high degree of risk. As an investor, you should be able to bear the loss of your entire investment. You should carefully consider the information set forth in the Risk Factors section beginning on page 7 of this prospectus in evaluating an investment in our securities.
Use of Proceeds	We will use approximately $1.5 million of the net proceeds of the offering to purchase additional production and storage equipment and to upgrade rail tracks at our Sombra plant, $300,000 for marketing and sales to expand our network and sell processors to new and existing network members and others, and the balance for working capital and general corporate purposes.

Unless otherwise stated, the information contained in this prospectus assumes no exercise of:

- outstanding warrants to purchase 91,264 shares of common stock exercisable at $7.67 per share;
- any of the Class A and Class B warrants;
- the over-allotment option granted to the representative to purchase up to an additional 84,000 units;
- the warrant to purchase 56,000 units granted to the representative in connection with this offering; and
- outstanding options to purchase 383,310 shares of common

stock granted under the 2008 Amended and Restated Directors, Officers and Employees Stock Option Plan, of which 299,869 are exercisable at $3.84 per share and 83,441 are exercisable at $7.67 per share.	

SUMMARY FINANCIAL DATA

Statement of Operations Data:

	Years Ended November 30,			Six months ended May 31 and May 31,	
	2009	2010	2011	2011	2012
Revenue	$ 887,524	$ 5,712,899	$ 11,785,853	$ 3,781,881	$ 5,064,400
Gross Profit	121,165	1,046,639	1,665,283	799,779	626,348
Operating Expenses	1,320,339	2,043,227	2,436,615	1,153,833	1,807,435
Net Loss	$ (1,205,762)	$ (1,014,533)	$ (810,950)	$ (372,934)	$ (1,212,535)

Balance Sheet Data:

Pro forma as adjusted information gives effect to the following: (i) the issuance of 33,898 shares of common stock subsequent to May 31, 2012 for $260,000 to complete a $1,985,050 private placement; and (ii) the issuance of 560,000 shares and the receipt of approximately $2,284,000 of net proceeds from this offering.

	At May 31, 2012	
	Actual	Pro forma, as adjusted
Cash and cash equivalents	$ 510,352	$ 3,054,352
Working capital (deficiency)	$ (1,947,002)	$ 596,998
Total assets	$ 9,588,153	$ 12,132,153
Total liabilities	$ 3,623,180	$ 3,623,180
Stockholders equity	$ 5,964,973	$ 8,508,973

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. For the reasons below and elsewhere in this Prospectus, 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 your shares to decline and you to lose all or part of your investment.

Risks Related to Our Operations and Market

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. The drought in the Midwestern United States has increased the cost of corn and soybeans and may increase the cost of certain biodiesel feedstocks in the future, including vegetable oil and animal fat. The impact of the drought on the prices of our feedstocks is uncertain, but the drought may increase the prices of some or all of our feedstocks as the market adjusts to 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 only a few days of full-scale operation.

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 few days 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 and delay the start of full-scale production, and could 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 the construction of that facility is now complete, it may not have been properly designed or constructed. 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. Although we have received all permits required to operate our Mississauga and Sombra plants, the stormwater permit for Sombra is not yet finalized and must be confirmed by issuance of a final permit. Even final permits may be subject to changes in requirements and compliance reviews. Failure to receive a final stormwater permit or 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 have engaged experienced third-party companies to construct the Sombra plant, we have not received any warranties with respect to materials and workmanship or assurances that the project will operate at design capacity. Defects in the construction or performance of the plant could 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 liklihood of our operating profitably in the future.

We have never earned a profit. For the years ended November 30, 2010 and 2011 and for the six-month period ended May 31, 2012, we reported net losses of approximately $1.0 million, $811,000 and $1.2 million, respectively. As of May 31, 2012, our accumulated deficit was approximately $7.5 million. Investors should consider this history of losses in assessing the likelihood of our operating profitably in the future.

Our ability to continue and expand operations depends in part on the success of this offering.

Due in part to the funds spent to develop Sombra, at May 31, 2012 we had a working capital deficiency of $1,947,002, and during the six months then ended a loss of $1,212,535 and negative cash flow from operations of $41,000. In addition, our current operating cash requirement is approximately $213,000 per month. We have fully drawn our recently-obtained credit line. Our ability to continue and expand our operations through full-scale commercial operation of the Sombra plant will depend in large part upon the successful completion of this offering. We anticipate that Sombra will generate positive cash flow from operations and will operate profitably once full-scale commercial operation commences and, if completed, that the proceeds of this offering will therefore be sufficient to meet our cash requirements for at least the next 12 months. There can be no assurance that the offering will be completed, in which case we may not be able to continue to operate or expand our production.

8

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 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, in the last quarter of fiscal 2011, demand for biodiesel was particularly strong as blenders sought to take advantage of the blender s tax credit before it expired on December 31, 2011. Strong purchases by blenders in that quarter reduced demand in the subsequent quarter. As a result of seasonal fluctuations and the higher than usual demand in the last quarter of fiscal 2011, 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. We believe that the increase in demand for biodiesel and higher biodiesel prices in 2011 is directly attributable to the implementation of RFS2.

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.

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 stormwater 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 never operated as a public company. 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. Commencing in 2012, we will begin to perform system and process evaluation and testing of our internal control over financial

reporting 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 will require 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 we will 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 in a timely manner, 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.

Risks Related to this Offering

There is no public market for our units or common stock and an active trading market or any specific price for our securities may not be established or maintained.

Currently, there is no public trading market for our units or common stock. Although our units, common stock and warrants have been accepted for trading on the Nasdaq Capital Market, an active trading market for our securities may not develop, and even if it does develop, may not continue following the completion of this offering and the market price of our units may decline below the initial public offering price.

Our stock price in future public trading could be volatile, which could result in substantial losses for investors.

The market price for our units and common stock is likely to be volatile, which could result in substantial losses for investors. The market price of our securities may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

- quarterly and seasonal variations in our financial condition and operating results;
- changes in financial estimates and ratings by securities analysts;
- announcements by us or our competitors of new product and service

- offerings, significant contracts, acquisitions or strategic relationships;
- publicity about our company, our services, our competitors or business in general;
- additions or departures of key personnel;
- fluctuations in the costs of feedstock and supplies;
- any future sales of our common stock or other securities; and
- stock market price and volume fluctuations of publicly-traded companies in general and in the biodiesel industry in particular.

As a result, our units, shares of our common stock and our warrants may trade at prices significantly below the price you paid to acquire them. Furthermore, declines in the price of our securities may adversely affect our ability to conduct future offerings or to recruit and retain key employees.

We may be deemed to be controlled by our directors and executive officers, which will limit your ability to influence key decisions.

Immediately after this offering, our directors and executive officers, in the aggregate, will beneficially own 27.3% of the issued and outstanding shares of our common stock, or 27% if the over-allotment option is exercised in full. As a result, these stockholders will have the ability to exercise substantial control over our affairs and corporate actions requiring stockholder approval, including electing and removing directors, selling all or substantially all of our assets, merging with

14

another entity or amending our articles of incorporation. This *de facto* control could be disadvantageous to our other stockholders with interests that differ from those of the control group, if these stockholders vote together. For example, the control group could delay, deter or prevent a change in control even if a transaction of that sort would benefit the other stockholders. In addition, concentration of ownership could adversely affect the price that investors might be willing to pay in the future for our securities.

If we do not maintain an effective registration statement or comply with applicable state securities laws, you may not be able to exercise the warrants included in the units.

In order for you to be able to exercise the warrants included in the units, the underlying shares must be covered by an effective registration statement and qualify for an exemption under the securities laws of the state in which you live. We cannot assure you that we will continue to maintain a current registration statement relating to the offer and sale of the Class A and Class B warrants included in the units and the common stock underlying these warrants, or that an exemption from registration or qualification will be available throughout their term. This may have an adverse effect on the demand for the warrants and the prices that can be obtained from reselling them.

The warrants may be redeemed on short notice, which may have an adverse effect on their price.