

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2023

Commission file number 000-33067

MIDWEST ENERGY EMISSIONS CORP.

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

87-0398271

(I.R.S. Employer
Identification No.)

1810 Jester Drive
Corsicana, Texas

(Address of principal Executive offices)

75109

(Zip Code)

(614) 505-6115

(Registrant's Telephone Number, Including Area Code)

Not applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act: None.

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated Filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes No

State the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date: Common, \$.001 par value per share, 94,318,310 outstanding as of November 20, 2023.

MIDWEST ENERGY EMISSIONS CORP.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements,” as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and reflect our current expectations regarding our future growth, results of operations, cash flows, performance and business prospects, and opportunities, as well as assumptions made by, and information currently available to, our management. Forward-looking statements are generally identified by using words such as “anticipate,” “believe,” “plan,” “expect,” “intend,” “will,” and similar expressions, but these words are not the exclusive means of identifying forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such risks include, without limitation, the following:

- the loss of major customers;
- dependence on availability and retention of key suppliers;
- changes, or lack of changes, in environmental regulations;
- risks related to advancements in technologies;
- lack of diversification in the Company’s business;
- risks related to intellectual property, including the ability to protect intellectual property and the success of the ongoing patent litigation;
- competition risks;
- changes in demand for coal as a fuel source for electricity production;
- ability to retain key personnel;
- absence of a liquid public market for our common stock;
- share price volatility;
- the potential that dividends may never be declared; and
- other factors discussed under the caption “*Risk Factors*” in the Company’s 2022 Form 10-K.

Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all the information presented in this report, and particularly our forward-looking statements, by these cautionary statements.

Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events, or otherwise.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Current assets		
Cash	\$ 2,497,128	\$ 1,504,225
Accounts receivable	2,549,022	2,777,607
Inventory	801,602	991,131
Prepaid expenses and other assets	226,410	267,393
Total current assets	<u>6,074,162</u>	<u>5,540,356</u>
Security deposits	10,175	10,175
Property and equipment, net	1,819,879	1,828,592
Right of use asset - operating lease	21,140	51,563
Intellectual property, net	1,756,147	1,909,597
Total assets	<u>\$ 9,681,503</u>	<u>\$ 9,340,283</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued expenses (related party \$118,359 and \$25,000 at September 30, 2023 and December 31, 2022, respectively)	\$ 4,201,605	\$ 2,946,835
Current portion of operating lease liability	22,176	43,262
Customer credits	167,000	167,000
Accrued salaries	12,844	67,478
Total current liabilities	<u>4,403,625</u>	<u>3,224,575</u>
Operating lease liability	-	11,289
Secured note payable, net of discount – related party	234,549	219,962
Unsecured note payable, net of discount and issuance costs – related party	10,647,851	9,663,056
Profit share liability – related party	4,251,705	3,638,260
Total liabilities	<u>19,537,730</u>	<u>16,757,142</u>
COMMITMENTS AND CONTINGENCIES		
Stockholders' deficit		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized, no shares issued	-	-
Common stock, \$0.001 par value; 150,000,000 shares authorized 94,298,372 and 93,087,796 shares issued and outstanding as of September 30, 2023 and December 31, 2022 respectively.	94,298	93,088
Additional paid-in capital	61,786,820	61,188,442
Accumulated deficit	(71,737,345)	(68,698,389)
Total stockholders' deficit	<u>(9,856,227)</u>	<u>(7,416,859)</u>
Total liabilities and stockholders' deficit	<u>\$ 9,681,503</u>	<u>\$ 9,340,283</u>

See accompanying notes to these condensed consolidated financial statements.

MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	<u>For the Three Months Ended September 30, 2023</u>	<u>For the Three Months Ended September 30, 2022</u>	<u>For the Nine Months Ended September 30, 2023</u>	<u>For the Nine Months Ended September 30, 2022</u>
Revenues	\$ 6,747,256	\$ 7,485,972	\$ 13,871,725	\$ 15,956,439
Costs and expenses:				
Cost of sales	4,471,788	5,104,887	9,118,279	10,810,365
Selling, general and administrative expenses (related party of \$137,967, \$75,000, \$379,634 and \$225,385)	2,459,229	1,325,460	6,159,740	4,285,638
Interest expense (related party of \$342,647, \$317,510, \$1,017,671 and \$1,319,752)	344,193	317,510	1,019,217	1,319,752
Loss on change in fair value of profit share	299,548	168,736	613,445	476,153
Total costs and expenses	<u>7,574,758</u>	<u>6,916,593</u>	<u>16,910,681</u>	<u>16,891,908</u>
Net Income (loss) before provision for income taxes	<u>(827,502)</u>	<u>569,379</u>	<u>(3,038,956)</u>	<u>(935,469)</u>
Provision for income taxes	-	-	-	-
Net Income (loss)	<u>\$ (827,502)</u>	<u>\$ 569,379</u>	<u>\$ (3,038,956)</u>	<u>\$ (935,469)</u>
Net Income (loss) per common share – basic	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding - basic	<u>94,279,780</u>	<u>89,871,132</u>	<u>94,120,499</u>	<u>89,456,920</u>
Net Income (loss) per common share - diluted	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding - dilutive	<u>94,279,780</u>	<u>93,530,946</u>	<u>94,120,499</u>	<u>89,456,920</u>

See accompanying notes to these condensed consolidated financial statements.

MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
(UNAUDITED)

	Three and Nine Months Ended September 30, 2023				
	Common Stock		Additional Paid-in Capital	Accumulated (Deficit)	Total
	Shares	Par Value			
Balance - January 1, 2023	93,087,796	\$ 93,088	\$ 61,188,442	\$ (68,698,389)	\$ (7,416,859)
Issuance of stock options	-	-	30,029	-	30,029
Stock issued for cash exercise of options	850,000	850	208,650	-	209,500
Stock issued for cashless exercise of options	311,880	312	(312)	-	-
Issuance of stock for compensation	-	-	120,000	-	120,000
Net loss	-	-	-	(1,446,984)	(1,446,984)
Balance - March 31, 2023	<u>94,249,676</u>	<u>\$ 94,250</u>	<u>\$ 61,546,809</u>	<u>\$ (70,145,373)</u>	<u>\$ (8,504,314)</u>
Issuance of stock options	-	-	16,260	-	16,260
Stock issued for cashless exercise of options	17,620	18	(18)	-	-
Issuance of stock for compensation	-	-	121,334	-	121,334
Net loss	-	-	-	(764,470)	(764,470)
Balance - June 30, 2023	<u>94,267,296</u>	<u>\$ 94,268</u>	<u>\$ 61,684,385</u>	<u>\$ (70,909,843)</u>	<u>\$ (9,131,190)</u>
Issuance of stock options	-	-	(20,201)	-	(20,201)
Stock issued for cashless exercise of options	31,076	30	(30)	-	-
Issuance of stock for compensation	-	-	122,666	-	122,666
Net loss	-	-	-	(827,502)	(827,502)
Balance - September 30, 2023	<u>94,298,372</u>	<u>\$ 94,298</u>	<u>\$ 61,786,820</u>	<u>\$ (71,737,345)</u>	<u>\$ (9,856,227)</u>

	Three and Nine Months Ended September 30, 2022				
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Par Value			
Balance - January 1, 2022	89,115,951	\$ 89,116	\$ 56,788,321	\$ (67,116,913)	\$ (10,239,476)
Share based compensation expense	-	-	138,622	-	138,622
Stock issued for cashless exercise of options	5,181	5	(5)	-	-
Net loss	-	-	-	(1,148,181)	(1,148,181)
Balance - March 31, 2022	89,121,132	89,121	56,926,938	(68,265,094)	(11,249,035)
Stock issued for consulting services	500,000	500	159,500	-	160,000
Issuance of stock for compensation	250,000	250	54,750	-	55,000
Share based compensation expense	-	-	143,745	-	143,745
Net loss	-	-	-	(356,667)	(356,667)
Balance – June 30, 2022	89,871,132	89,871	57,284,933	(68,621,761)	(11,246,957)
Capital contribution for gain on extinguishment of unsecured note payable – related party	-	-	488,274	-	488,274
Net income	-	-	-	569,379	569,379
Balance – September 30, 2022	<u>89,871,132</u>	<u>\$ 89,871</u>	<u>\$ 57,773,207</u>	<u>\$ (68,052,382)</u>	<u>\$ (10,189,304)</u>

See accompanying notes to these condensed consolidated financial statements.

MIDWEST ENERGY EMISSIONS CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Cash flows from operating activities		
Net loss	\$ (3,038,956)	\$ (935,469)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation – amortization of prepaid services	364,001	196,042
Stock-based compensation expense	26,088	337,367
Amortization of discount of notes payable	999,382	1,204,488
Amortization of debt issuance costs	-	79,188
Amortization of right to use assets – operating lease	30,423	281,521
Amortization of patent rights	153,450	153,450
Depreciation expense	11,454	11,204
Loss on change in fair value of profit share	613,445	476,153
Change in assets and liabilities		
Accounts receivable	228,585	(2,283,396)
Inventory	189,529	115,813
Deferred revenue and customer credits	-	22,500
Prepaid expenses and other assets	40,983	(286,838)
Accounts payable and accrued liabilities	1,254,769	818,385
Accrued salaries	(54,634)	(275,089)
Operating lease liability	(32,375)	(283,074)
Net cash provided by (used in) operating activities	786,144	(367,755)
Cash flows from investing activities		
Purchase of property and equipment	(2,741)	(10,727)
Net cash used in investing activities	(2,741)	(10,727)
Cash flows from financing activities		
Payments of equipment notes payable	-	(2,677)
Proceeds from the issuance of short-term debt - related party	-	250,000
Proceeds from exercise of stock options	209,500	-
Net cash provided by financing activities	209,500	247,323
Net increase (decrease) in cash	992,903	(131,159)
Cash - beginning of period	1,504,225	1,388,307
Cash - end of period	\$ 2,497,128	\$ 1,257,148
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 13,608	\$ -
Taxes	\$ -	\$ 13,213
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
Stock issued for prepaid services	\$ -	\$ 160,000

See accompanying notes to these condensed consolidated financial statements.

MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2023 (Unaudited)

Note 1 - Organization

Midwest Energy Emissions Corp.

Midwest Energy Emissions Corp. is organized under the laws of the State of Delaware.

MES, Inc.

MES, Inc. is incorporated in the State of North Dakota. MES, Inc. is a wholly owned subsidiary of Midwest Energy Emissions Corp. and is engaged in the business of developing and commercializing state of the art control technologies relating to the capture and control of mercury emissions from coal fired boilers in the United States and Canada.

ME2C Sponsor LLC and ME2C Acquisition Corp.

ME2C Sponsor LLC is a limited liability company formed in the State of Delaware and is a wholly owned subsidiary of Midwest Energy Emissions Corp. and owns 85% of ME2C Acquisition Corp. A decision was made in January 2023 to liquidate these entities. As such, as of December 31, 2022, the Company wrote off the assets for these entities and recorded a \$95,500 loss.

Note 2 - Liquidity and Financial Condition

Under ASC 205-40, *Presentation of Financial Statements—Going Concern*, the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial obligations as they become due within one year after the date that the financial statements are issued. As required by ASC 205-40, this evaluation shall initially not take into consideration the potential mitigating effects of plans that have not been fully implemented as of the date the financial statements are issued. The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), which contemplate continuation of the Company as a going concern and realization of assets and satisfaction of liabilities in the normal course of business and do not include any adjustments that might result from the outcome of any uncertainties related to our going concern assessment.

As reflected in the consolidated financial statements, the Company had approximately \$2.5 million in cash at September 30, 2023. In addition, the Company had cash provided by operating activities of \$0.8 million for the nine months ended September 30, 2023, had working capital of \$1.7 million and an accumulated deficit of \$71.7 million at September 30, 2023.

The accompanying condensed consolidated financial statements as of September 30, 2023 have been prepared assuming the Company will continue as a going concern. On October 28, 2022, the Company’s principal lender agreed to extend the maturity date of all of its existing secured and unsecured debt in the principal amount of \$10.9 million from October 31, 2022 to August 25, 2025 (see Note 7 - Related Party). As a result, such liabilities have been classified as long-term liabilities in the accompanying consolidated financial statements as of September 30, 2023. Based upon such extension of the maturity date of such secured and unsecured debt, the Company’s current cash position and revenues from operations, management believes substantial doubt regarding the Company’s ability to continue as a going concern has been mitigated. The Company believes it will have sufficient working capital to fund operations for at least the next twelve months from the date of issuance of these financial statements.

Note 3 - Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of Rule 8-03 of Regulation S-X promulgated by the United States Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, these financial statements do not include all of the information and footnotes required for complete financial statements and should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 filed on May 15, 2023, from which the accompanying condensed consolidated balance sheet dated December 31, 2022 was derived.

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In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly the financial position as of September 30, 2023, and results of operations, changes in stockholders' deficit and cash flows for all periods presented. The interim results presented are not necessarily indicative of results that can be expected for a full year.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Midwest Energy Emissions Corp. and its wholly-owned subsidiaries, MES, Inc. and ME2C Sponsor LLC, and ME2C Acquisition Corp. which is 85% owned by ME2C Sponsor LLC (collectively, the "Company"). Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, valuation of equity issuances and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The Company uses estimates in accounting for, among other items, profit share liability, revenue recognition, allowance for doubtful accounts, stock-based compensation, income tax provisions, excess and obsolete inventory reserve and impairment of intellectual property. Actual results could differ from those estimates.

Recoverability of Long-Lived and Intangible Assets

Long-lived assets and certain identifiable intangibles held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of the long-lived and/or intangible assets would be adjusted, based on estimates of future discounted cash flows. The Company evaluated the recoverability of the carrying value of the Company's property and equipment, right of use asset and intellectual property. No impairment charges were recognized for the three and nine months ended September 30, 2023 and 2022.

Fair Value of Financial Instruments

The fair value hierarchy has three levels based on the inputs used to determine fair value, which are as follows:

- *Level 1* — Unadjusted quoted prices available in active markets for the identical assets or liabilities at the measurement date.
- *Level 2* — Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- *Level 3* — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

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Cash and profit share liability were the only asset and liability measured at fair value on a recurring basis by the Company at September 30, 2023 and December 31, 2022. Cash is considered to be Level 1 and profit share liability is considered to be Level 3.

Financial instruments include cash, accounts receivable, accounts payable, and short-term debt. The carrying amounts of these financial instruments approximated fair value at September 30, 2023 and December 31, 2022 due to their short-term maturities.

The fair value of the notes payable at September 30, 2023 and December 31, 2022 approximated the carrying amount as the notes were recently issued at interest rates prevailing in the market and interest rates as of September 30, 2023 and December 31, 2022. The fair value of the notes payable was determined on a Level 2 measurement. Discounts on issued debt, as well as debt issuance costs, are amortized over the term of the individual notes.

The fair value of the profit share liability at September 30, 2023 and December 31, 2022 was calculated using a discounted cash flow model based on estimated future cash payments. The fair value of the profit share liability was determined on a Level 3 measurement. These values are determined using pricing models for which the assumptions utilized management's estimates.

The following tables present the Company's liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	Fair Value Measurement as of			
	September 30, 2023			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Profit share liability – related party (1)	\$ 4,251,705	\$ -	\$ -	\$ 4,251,705
Total Liabilities	\$ 4,251,705	\$ -	\$ -	\$ 4,251,705

	Fair Value Measurement as of			
	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Profit share liability – related party (1)	\$ 3,638,260	\$ -	\$ -	\$ 3,638,260
Total Liabilities	\$ 3,638,260	\$ -	\$ -	\$ 3,638,260

(1) See Note 7 - Related Party

Revenue Recognition

The Company records revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

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Revenue is recognized when the Company satisfies its performance obligation under the contract by transferring the promised product to its customer that obtains control of the product. A performance obligation is a promise in a contract to transfer a distinct product to a customer. Most of the Company's contracts have a single performance obligation, as the promise to transfer products or services is not separately identifiable from other promises in the contract and, therefore, not distinct.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. As such, revenue is recorded net of returns, allowances, customer discounts, and incentives. Sales and other taxes are excluded from revenues. Invoiced shipping and handling costs are included in revenue.

Disaggregation of Revenue

The Company generated revenue for the three and nine months ended September 30, 2023 and 2022 by (i) delivering product to its commercial customers, (ii) completing and commissioning equipment projects at commercial customer sites and (iii) performing demonstrations of its technology at customers with the intent of entering into long term supply agreements based on the performance of the Company's products during the demonstrations and (iv) licensing its technology to customers.

Revenue for product sales is recognized at the point of time in which the customer obtains control of the product, at the time title passes to the customer upon shipment or delivery of the product based on the applicable shipping terms.

Revenue for equipment sales is recognized upon commissioning and customer acceptance of the installed equipment per the terms of the purchase contract.

Revenue for demonstrations and consulting services is recognized when performance obligations contained in the contract have been completed, typically the completion of necessary field work and the delivery of any required analysis per the terms of the agreement.

The following table presents sales by operating segment disaggregated based on the type of product for the three and nine months ended September 30, 2023 and 2022. All sales were in the United States.

	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022
Product revenue	\$ 6,672,542	\$ 7,382,800
License revenue	52,500	52,530
Demonstrations & Consulting revenue	27,000	27,000
Equipment revenue	(4,786)	23,642
	<u>\$ 6,747,256</u>	<u>\$ 7,485,972</u>

	For the Nine months ended September 30, 2023	For the Nine months ended September 30, 2022
Product revenue	\$ 13,103,653	\$ 15,372,155
License revenue	671,250	285,938
Demonstrations & Consulting revenue	81,000	81,000
Equipment revenue	15,822	217,346
	<u>\$ 13,871,725</u>	<u>\$ 15,956,439</u>

Accounts receivable and allowance for doubtful accounts

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, a customer's payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection.

Management believed that the accounts receivable were fully collectable and no allowance for doubtful accounts was deemed to be required on its accounts receivable at September 30, 2023. The Company historically has not experienced significant uncollectible accounts receivable. As of September 30, 2023 and December 31, 2022, the Company's allowance for doubtful accounts was \$0.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes under FASB ASC 740, *Income Taxes*. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

FASB ASC 740 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. There were no unrecognized tax benefits as of September 30, 2023 and 2022. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position. The Company is no longer subject to tax examinations by tax authorities for the years prior to 2018.

The Company may be subject to potential examination by federal, state, and city taxing authorities in the areas of income taxes. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions, and compliance with federal, state, and city tax laws. Management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

Basic and Diluted Loss Per Common Share

Basic net loss per common share is calculated by dividing net loss by the weighted average number of shares outstanding during the period. Diluted loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding, after giving effect to all potentially dilutive common shares outstanding during the period. There were no dilutive potential common shares as of September 30, 2023, because the Company incurred net losses and basic and diluted losses per common share are the same. Based on a market price of \$0.24 per share on September 30, 2022, there are 3,659,814 dilutive stock options and no dilutive warrants for the three months ended September 30, 2022 as the Company reported net income for the period. There were no dilutive potential common shares for the nine months ended September 30, 2022, because the Company incurred a net loss and basic and diluted losses per common share are the same.

	September 30, 2023	September 30, 2022
Stock Options	17,191,722	19,108,576
Warrants	2,650,000	4,285,000
Total common stock equivalents excluded from basic and dilutive loss per share	<u>19,841,722</u>	<u>23,393,576</u>

**Three Months
Ended
September 30,
2022**

Weighted average common stock outstanding	89,871,132
Dilutive stock options (exercise price less than market price) at September 30, 2022	3,659,814
Total dilutive common stock equivalents outstanding	<u>93,530,946</u>

Concentration of Credit Risk

Financial instruments that subject the Company to credit risk consist of cash and equivalents on deposit with financial institutions and accounts receivable. The Company's cash as of September 30, 2023 and December 31, 2022 is maintained at high-quality financial institutions and has not incurred any losses to date.

Customer and Supplier Concentration

For the nine months ended September 30, 2023, three customers represented 27%, 23%, and 11% of the Company's revenues, and for the nine months ended September 30, 2022, four customers represented 19%, 15%, 13% and 12% of the Company's revenues.

At September 30, 2023, three customers represented 33%, 24% and 11% of the Company's accounts receivable, and at December 31, 2022, four customers represented 24%, 18%, 16% and 10% of the Company's accounts receivable.

For the nine months ended September 30, 2023, 90% of the Company's purchases related to three suppliers. For the nine months ended September 30, 2022, 84% of the Company's purchases related to three suppliers. At September 30, 2023 and 2022, 77% and 68% of the Company's accounts payable and accrued expenses related to two vendors, respectively. The Company believes there are numerous other suppliers that could be substituted should a supplier become unavailable or non-competitive.

Contingencies

Certain conditions may exist which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they arise from guarantees, in which case the guarantees would be disclosed.

Recently Issued Accounting Standards

Issued in June 2021, FASB Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments* adds to U.S. GAAP an impairment model known as the current expected credit loss (CECL) model, which is based on expected losses rather than incurred losses. This guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early application of the amendments is permitted. Effective January 1, 2023, the Company adopted ASU No. 2016-13. The adoption of ASU No. 2016-13 did not have a material effect on the accompanying consolidated financial statements.

Note 4 - Inventory

Inventory was comprised of the following at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Raw Materials	\$ 416,868	\$ 606,056
Spare Parts	17,912	90,374
Finished Goods	366,822	294,701
	<u>\$ 801,602</u>	<u>\$ 991,131</u>

Note 5 - Property and Equipment, Net

Property and equipment at September 30, 2023 and December 31, 2022 are as follows:

	September 30, 2023	December 31, 2022
Equipment & installation	\$ 1,097,879	\$ 1,095,140
Leasehold improvements	101,821	-
Trucking equipment	845,102	845,102
Office equipment, computer equipment and software	1,874	20,295
Total equipment	<u>2,046,676</u>	<u>1,960,537</u>
Less: accumulated depreciation	(2,034,504)	(1,939,652)
Construction in process	1,807,707	1,807,707
Property and equipment, net	<u>\$ 1,819,879</u>	<u>\$ 1,828,592</u>

The Company uses the straight-line method of depreciation over estimated useful lives of 2 to 5 years. During the three months ended September 30, 2023 and 2022 depreciation expense was \$10,369 and \$342, respectively. During the nine months ended September 30, 2023 and 2022 depreciation expense was \$11,454 and \$11,204, respectively.

Note 6 - Intellectual Property

License and patent costs capitalized as of September 30, 2023 and December 31, 2022 are as follows:

	September 30, 2023	December 31, 2022
Licenses and patents	\$ 3,068,995	\$ 3,068,995
Less: Accumulated amortization	(1,312,848)	(1,159,398)
Intellectual property, net	<u>\$ 1,756,147</u>	<u>\$ 1,909,597</u>

Amortization expense for the three months ended September 30, 2023 and 2022 was \$51,150 and \$51,150, respectively. Amortization expense for the nine months ended September 30, 2023 and 2022 was \$153,450 and \$153,450, respectively. Estimated annual amortization for each of the next five years is \$204,600.

Note 7 - Related Party*Secured Note Payable*

On November 29, 2016, pursuant to a restated financing agreement entered with AC Midwest Energy, LLC (“AC Midwest”) on November 1, 2016, the Company closed on a secured note with AC Midwest (the “AC Midwest Secured Note”), which was to mature on December 15, 2018. AC Midwest is wholly-owned by a stockholder of the Company. The AC Midwest Secured Note is guaranteed by MES, is non-convertible and bears interest at a rate of 15.0% per annum, payable quarterly in arrears on or before the last day of each fiscal quarter. On February 25, 2019, per Amendment No. 3 to the Amended and Restated Financing Agreement, AC Midwest extended the maturity date from December 15, 2018 to August 25, 2022.

On October 28, 2022, the Company, along with MES, and AC Midwest, executed Amendment No. 4 to the Amended and Restated Financing Agreement pursuant to which the maturity date of the AC Midwest Secured Note was extended to August 25, 2025. In addition, the interest rate on the remaining principal balance was reduced from 15.0% to 9.0% per annum. The Company has accounted for the extension as debt extinguishment with a related party. As such the Company recorded a capital contribution of \$54,983 for the year ended December 31, 2022 on this exchange which is related to the difference in fair value of the note on the date of the exchange.

As of both September 30, 2023 and December 31, 2022, total principal of \$271,686 was outstanding on this note. Interest expense for the three months ended September 30, 2023 and 2022 was \$10,775 and \$9,991 respectively. Interest expense for the nine months ended September 30, 2023 and 2022 was \$32,876 and \$30,481, respectively.

Amortized discount recorded as interest expense for the nine months ended September 30, 2023 and 2022 was \$14,587 and Nil, respectively. Amortized discount recorded as interest expense for the three months ended September 30, 2023 and 2022 was \$4,916 and Nil, respectively. As of September 30, 2023, the unamortized balance of the discount was \$37,136, which is being expensed over the life of the loan.

Unsecured Note Payable

The Company has the following unsecured note payable - related party outstanding as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Unsecured note payable	\$ 13,154,931	\$ 13,154,931
Less fair value adjustment on extinguishment, net of amortized discount of \$1,215,663 and \$230,868, respectively	(2,507,080)	(3,491,875)
Total unsecured note payable	10,647,851	9,663,056
Less current portion	-	-
Unsecured note payable, net of current portion	\$ 10,647,851	\$ 9,663,056

On November 29, 2016, pursuant to a restated financing agreement entered with AC Midwest on November 1, 2016, the Company closed on an unsecured note with AC Midwest (the “AC Midwest Subordinated Note, which was to mature on December 15, 2020. On February 25, 2019, the Company, entered into an Unsecured Note Financing Agreement (the “Unsecured Note Financing Agreement”) with AC Midwest, pursuant to which AC Midwest issued an unsecured note in the principal amount of \$13,154,931 (the “AC Midwest Unsecured Note”), which represented the outstanding principal and accrued and unpaid interest at closing.

The Company determined that the rate of interest on the AC Midwest Subordinated Note was a below market rate of interest and determined that a discount of \$6,916,687 should be recorded. This discount was based on an applicable market rate for unsecured debt for the Company of 21% and is being amortized as interest expense over the life of the loan.

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In accordance with the Unsecured Note Financing Agreement, AC Midwest shall be entitled to a profit participation preference equal to 1.0 times the original principal amount (the “Profit Share”).

The Profit Share is “non-recourse” and shall only be derived from and computed on the basis of, and paid from, Net Litigation Proceeds from claims relating to the Company’s intellectual property, Net Revenue Share and Adjusted Free Cash Flow (as such terms are defined in the Unsecured Note Financing Agreement), and Equity Offering Net Proceeds as described below.

On August 30, 2022, AC Midwest agreed to an extension of the maturity date of the AC Midwest Unsecured Note (and AC Midwest Secured Note) from August 25, 2022 to September 30, 2022. Such extension was expected to provide the Company sufficient time in which to conclude the process of negotiating certain changes and modifications to such financing arrangements. On September 28, 2022, AC Midwest agreed to an additional short-term extension of such maturity date from September 30, 2022 to October 31, 2022. The Company has accounted for the extension as debt extinguishment with a related party. As such the Company recorded a capital contribution of \$488,274 on this exchange which is related to the difference in fair value of the note on the date of the exchange.

On October 28, 2022, the Company, along with MES, and AC Midwest, executed Amendment No. 1 to Unsecured Note Financing Agreement (“Amendment No. 1”) pursuant to which the maturity date of the AC Midwest Unsecured Note was extended to August 25, 2025. In addition, the parties agreed that the Profit Share be increased by \$4,500,000 from \$13,154,931 (representing 1.0 times the original principal amount) to \$17,654,931. The Company has accounted for the extension as debt extinguishment with a related party. As such the Company recorded a capital contribution of \$3,234,469 on this exchange which is related to the difference in fair value of the note on the date of the exchange.

Amortized discount recorded as interest expense for the three months ended September 30, 2023 and 2022 was \$331,872 and Nil, respectively. Amortized discount recorded as interest expense for the nine months ended September 30, 2023 and 2022 was \$984,795 and Nil respectively. As of September 30, 2023, the unamortized balance of the discount was \$2,507,080 which is being expensed over the life of the loan.

Principal Payments and the Profit Share

In connection with the AC Midwest Unsecured Note the Company shall pay the principal outstanding, as well as the Profit Share, in an amount equal to 60.0% of Net Litigation Proceeds until such time as any litigation funder has been paid in full and, thereafter, in an amount equal to 75.0% of such Net Litigation Proceeds until the Unsecured Note and Profit Share have been paid in full. In addition, and within 30 days following the end of each fiscal quarter, the Company shall pay the principal outstanding and Profit Share in an aggregate amount equal to the Net Revenue Share (which means 60.0% of Net Licensing Revenue (as defined) from licensing the Company’s intellectual property) plus Adjusted Free Cash Flow until the Unsecured Note and Profit Share have been paid in full, provided, however, that such payments shall exclude the first \$3,500,000 of Net Licensing Revenue and Adjusted Free Cash Flow achieved commencing with the fiscal quarter ending March 31, 2019. In addition, and pursuant to Amendment No. 1, the Company shall pay the principal outstanding and Profit Share in an aggregate amount equal to 75.0% of any Equity Offering Net Proceeds (as defined) until the Unsecured Note and Profit Share have been paid in full. Any remaining principal balance due on the Unsecured Note shall be due and payable in full on the maturity date. The Profit Share, however, if not paid in full on or before the maturity date, shall remain subject to Unsecured Note Financing Agreement until full and final payment.

The Company is utilizing the methodology behind the ASC 815, *Derivatives and Hedging* and ASC 480, *Distinguishing Liabilities from Equity* to determine how to account for the profit-sharing portion of the note payable. Although the transaction is not indexed to MEEC’s common stock the profit sharing has the characteristics of a freestanding financial instrument because the profit sharing is not callable by the lender, it will be paid out past the maturity of the Unsecured Note Payable and, the fair value will fluctuate over time based on payment predictions. The Profit Share was determined to have a fair value of \$1,954,383 upon grant. The discounted cash flow model assumptions used at September, 2023 to calculate the Profit Share liability included: quarterly cash flows ranging from \$100,000 to \$350,000 from early 2024 to late 2041 and an annual market interest rate of 21%. The profit share liability will be marked to market every quarter utilizing management’s estimates.

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The following are the changes in the profit share liability (the only Level 3 financial instrument) during the nine months ended September 30, 2023 and 2022:

Profit Share as of January 1, 2023	\$	3,638,260
Addition		-
Loss on change in fair value of profit share		613,445
Profit Share as of September 30, 2023	\$	<u>4,251,705</u>
Profit Share as of January 1, 2022	\$	2,836,743
Addition		-
Loss on change in fair value of profit share		476,153
Profit Share as of September 30, 2022	\$	<u>3,312,896</u>

Debt Repayment and Exchange Agreement

On June 1, 2021, the Company, along with MES, entered into a Debt Repayment and Exchange Agreement with AC Midwest, which was expected to repay all existing secured and unsecured debt obligations presently held by AC Midwest (the "Debt Repayment Agreement").

Pursuant to the Debt Repayment Agreement, the Company was at closing to repay the principal balance outstanding on the AC Midwest Secured Note in cash, together with any other amounts due and owing under such note and repay the outstanding debt under the AC Midwest Unsecured Note by paying and issuing a combination of cash and shares of common stock which AC Midwest had agreed to accept in full and complete repayment of the obligations thereunder.

At closing, and with regard to the AC Midwest Unsecured Note, the Company was to pay AC Midwest \$6,577,465 in cash representing 50.0% of the aggregate outstanding principal balance of such note, and issue shares of common stock to AC Midwest in exchange for the remaining 50.0% of the aggregate outstanding principal balance at an exchange price equal to 100% of the offering price of common stock in the Qualifying Offering (as defined below). With regard to the Profit Share, at closing the Company was to pay AC Midwest \$2,305,308 in cash representing the Profit Share Valuation, and issue shares of common stock for \$4,026,568 representing the Adjusted Profit Share Valuation (as such terms are defined in the Debt Repayment Agreement) at the same exchange price indicated above. The Company agreed to provide certain registration rights with respect to the shares issued thereunder.

The closing was subject to various conditions including but not limited to the completion of an offering of equity securities resulting in net proceeds of at least \$12.0 million by December 31, 2021, which was extended to June 30, 2022 (the "Qualifying Offering"). Such closing conditions were not met by June 30, 2022.

On October 28, 2022, the parties entered into a Termination Agreement pursuant to which the parties agreed to terminate the Debt Repayment Agreement with immediate effect and that none of the parties shall have any further responsibility or liability thereunder.

Short term debt

On June 13, 2022, the Company entered into a promissory note in the amount of \$250,000 with the Company's Chairman of the Board of Directors. The note bears interest at 6% and is due on the earlier of 90 days or the Company having cash of \$1,200,000. The note was repaid in full in 2022. Interest expense for the year ended December 31, 2022 was \$4,937.

Related Party Transactions

Kaye Cooper Kay & Rosenberg, LLP provides certain legal services to the Company and was paid \$100,467 and \$160,417 for the three months ended September 30, 2023 and 2022, respectively, and was paid \$292,219 and \$286,105 for the nine months ended September 30, 2023 and 2022, respectively, for legal services rendered and disbursement incurred. David M. Kaye, a Director of the Company, is a partner of the law firm. At September 30, 2023 and December 31, 2022, Nil and \$25,000, respectively, was owed to the firm for services rendered.

In September 2022, the Company acquired a pickup truck from the Company's then Chief Financial Officer for the purchase price of \$10,727 which the parties determined to be its fair market value.

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On January 31, 2023, the Company entered into a License and Supply Agreement with Dakin Holdings Ltd., a company incorporated in Barbados (“Dakin”), effective as of January 1, 2023, pursuant to which Dakin has granted to the Company (i) a limited license to manufacture and produce for Dakin products comprising certain intellectual property owned by Dakin (the “Dakin IP”), and (ii) an exclusive license to commercialize the Dakin IP in the United States. In addition, the Company shall pay Dakin a license fee of \$12,500 per month for a three-year period commencing as of the effective date and pay Dakin a royalty on all sales in the United States of the products comprising the Dakin IP made by the Company. Dakin is a company owned and controlled by the Company’s Chief Executive Officer and President. As of September 30, 2023, license fees of \$112,500 were owed to Dakin.

Note 8 - Operating Leases

On July 1, 2015, the Company entered into a five-year lease for warehouse space in Corsicana, Texas. Rent is \$3,750 monthly throughout the term of the lease. The Company is also responsible for the pro rata share of the projected monthly expenses for the property taxes. The current pro rata share is \$882. The lease was extended on June 1, 2019 for five years. The Company recorded a right of use asset and an operating lease liability of \$145,267. This amount represents the difference between the value from the remaining lease and the extended lease.

For the nine months ended September 30, 2023 and the year ended December 31, 2022, the Company recorded an operating lease right of use asset and liabilities as follows:

	September 30, 2023	December 31, 2022
Right of use asset - operating lease	\$ 21,140	\$ 51,563
Current portion of operating lease liability	22,176	43,262
Operating lease liability	-	11,289

Future remaining minimum lease payments under these non-cancelable leases are as follows:

For the twelve months ended September 30,

2023	\$ 11,250
2024	11,250
Total	22,500
Less discount	(324)
Total lease liabilities	22,176
Less current portion	(22,176)
Operating lease obligation, net of current portion	\$ -

The weighted average remaining lease term for operating leases is 0.50 years and the weighted average discount rate used in calculating the operating lease asset and liability is 5.0%. For the nine months ended September 30, 2023, payments on lease obligations were \$33,750 and amortization on the right of use assets was \$30,423.

For the nine months ended September 30, 2023 and 2022, the Company’s lease cost consists of the following components, each of which is included in costs and expenses within the Company’s consolidated statements of operations:

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Operating lease costs	\$ 32,678	\$ 283,074

Note 9 - Commitments and Contingencies

Fixed Price Contract

The Company's multi-year contracts with its commercial customers contain fixed prices for product. These contracts expire between 2023 and 2025 and expose the Company to the potential risks associated with rising material costs during that same period.

Legal proceedings

On July 17, 2019, the Company initiated patent litigation against certain defendants in the U.S. District Court for the District of Delaware for infringement of certain United States patents owned by the Company. These patents relate to the Company's two-part Sorbent Enhancement Additive (SEA[®]) process for mercury removal from coal-fired power plants. Named as defendants in the lawsuit are (i) Vistra Energy Corp., AEP Generation Resources Inc., NRG Energy, Inc., Talen Energy Corporation, and certain of their respective affiliated entities, all of which are owners and/or operators of coal-fired power plants in the United States, and (ii) Arthur J. Gallagher & Co., DTE REF Holdings, LLC, CERT Coal Holdings LLC, Chem-Mod LLC, and certain of their respective affiliated entities, and additional named and unnamed defendants, all of which operate or are involved in operations of coal facilities in the United States. In the lawsuit, the Company alleges that each of the defendants has willfully infringed certain of the Company's patents and seeks unspecified damages, attorneys' fees, costs and injunctive relief.

During 2020, each of the four major utility defendants in the above action filed petitions for Inter Partes Review with the United States Patent and Trademark Office, seeking to invalidate certain claims to the patents which are subject to the litigation.

Between July 2020 and January 2021, we entered into agreements with each of the four major utility defendants in such action which included certain monetary arrangements and pursuant to which we have dismissed all claims brought against each of them and their affiliates, and such parties have withdrawn from petitions for Inter Partes Review with the United States Patent and Trademark Office. Such agreements entered into with such parties provide each of them and their affiliates with a non-exclusive license to certain Company patents (related to the Company's two-part Sorbent Enhancement Additive (SEA[®]) process) for use in connection with such parties' coal-fired power plants.

The above-described proceedings are continuing with respect to the other parties involved. On May 20, 2021, a U.S. District Court Magistrate Judge issued a report and recommendation that the above action should be permitted to proceed against 16 refined coal defendants named in the action directly involved in the refined coal program and operations, and be dismissed against 12 other defendants, primarily affiliated entities of the refined coal operators. Such report was issued in connection with certain motions to dismiss filed by the refined coal defendants. In September 2021, the Company received approval from the District Judge of the U.S. District Court in Delaware of the adoption of this report and recommendation of the Magistrate Judge to allow the Company to proceed with litigation claims against certain refined coal entities.

As a result of an application made by the Company to the Court in March 2022 to add additional parties to the action (all affiliated entities of the already named defendants), there are now 24 refined coal defendants named in the action. In connection with such application, the District Court Magistrate Judge ruled in April 2022 that certain parties could be added but denied the application with respect to certain others. The fact discovery portion of the litigation has concluded. A jury trial date has been scheduled for November 2023.

Except for the foregoing disclosures, the Company is not presently aware of any other material pending legal proceedings to which the Company is a party or of which any of its property is the subject.

Litigation, including patent litigation, is inherently subject to uncertainties. As such, there can be no assurance that the Company will be successful in litigating and/or settling any of these claims.

Note 10 - Stock Based Compensation

Stock Based Compensation

Stock based compensation consists of the amortization of common stock, stock options and warrants issued to employees, directors and consultants. For the three months ended September 30, 2023 and 2022, stock based compensation expense amounted to \$102,465 and \$83,126, respectively. For the nine months ended September 30, 2023 and 2022, stock-based compensation expense amounted to \$390,089 and \$533,409, respectively. Such expense is classified in selling, general and administrative expenses.

Common Stock

On May 31, 2022, and pursuant to a consulting agreement dated May 31, 2022 with a nonaffiliated third party, the Company issued 500,000 shares of common stock to such party as part of its compensation thereunder. These shares of common stock were valued at \$160,000 in accordance with FASB ASC Topic 718. The fair value of the shares is being amortized to selling, general and administrative expenses within the Company's consolidated statements of operations over 12 months.

On May 31, 2022, the Company issued a total of 250,000 shares of common stock to two Directors. These shares of common stock were valued at \$55,000 in accordance with FASB ASC Topic 718. The fair value of the shares was expensed in full on the issuance date.

On November 8, 2022, the Company issued a total of 3,000,000 shares of common stock to the Chief Executive Officer. These shares of common stock were valued at \$960,000 in accordance with FASB ASC Topic 718. The fair value of the shares will be amortized as expense over the vesting period. The expense for the nine months ended September 30, 2023 and 2022 was \$364,000 and Nil respectively.

Stock Options

On January 24, 2022, the Company extended the expiration dates of certain fully expensed previously granted nonqualified stock options (which were due to expire in February 2022) which were granted to five individuals to acquire an aggregate of 700,000 shares of the Company's common stock under the Company's 2014 Equity Incentive Plan and the 2017 Equity Incentive Plan (the "2017 Plan"). Such extended options are exercisable at prices ranging from \$1.15 to \$1.20 per share, representing the original fair market value of the common stock on the dates of grant as determined under the applicable Equity Plan. The options are fully vested and exercisable and will now expire five years from their original expiration dates. Based on a Black-Scholes valuation model, these modified options were valued at \$138,623, in accordance with FASB ASC Topic 718, which was expensed on the amendment date in selling, general and administrative expenses within the Company's condensed consolidated statements of operations.

On February 2, 2022, the Company issued 5,181 shares of common stock to a certain option holder upon the cashless exercise of options to purchase an aggregate of 9,750 shares of common stock at exercise prices ranging from \$0.20 to \$0.33 per share based upon a market price of \$0.54 per share as determined under the terms of the options.

On May 31, 2022, the Company granted nonqualified stock options to the following executive officers: John Pavlish (Senior Vice President and Chief Technology Officer) and James Trettel (Vice President of Operations) – nonqualified stock options to each acquire 500,000 shares of the Company's common stock; and Jami Satterthwaite (then Chief Financial Officer) – nonqualified stock options to acquire 100,000 shares of the Company's common stock. On such date, two other employees were also granted nonqualified stock options to each acquire 50,000 shares of the Company's common stock. All of such options were granted under the 2017 Plan and are exercisable at \$0.21 per share, representing the fair market value of the common stock on the date of grant as determined under the 2017 Plan. The options are fully vested and exercisable and expire five years from their issuance date. Based on a Black-Scholes valuation model, these options were valued at \$143,745, in accordance with FASB ASC Topic 718, which was expensed on the issuance date in selling, general and administrative expenses within the Company's consolidated statements of operations. The valuation assumptions included an expected duration of 2.5 years, volatility of 96.83%, discount rate of 2.62% and dividends of \$0.

On February 1, 2023, the Company issued (i) 850,000 shares of common stock to the Company's Chairman of the Board upon a cash exercise of options to purchase an aggregate of 850,000 shares of common stock at exercise prices ranging from \$0.19 to \$0.27 per share or \$209,500 in the aggregate, (ii) 110,000 shares of common stock to the Company's Chief Executive Officer upon a cashless exercise of an option to purchase 250,000 shares of common stock at an exercise price of \$0.28 per share based upon a market price of \$0.50 per share as determined under the terms of the option, and (iii) 155,000 shares of common stock to a director of the Company upon a cashless exercise of an option to purchase 250,000 shares of common stock at an exercise price of \$0.19 per share based upon a market price of \$0.50 per share as determined under the terms of the option.

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On February 20, 2023, the Company issued 17,858 shares of common stock to the Company's Senior Vice President and Chief Technology Officer upon a cashless exercise of an option to purchase 50,000 shares of common stock at an exercise price of \$0.27 per share based upon a market price of \$0.42 per share as determined under the terms of the option.

Between February 21, 2023 and February 23, 2023, the Company issued an aggregate of 29,022 shares of common stock to three employees and one former employee upon a cashless exercise of options to purchase an aggregate of 80,000 shares of common stock at an exercise price of \$0.27 per share based upon market prices ranging from \$0.42 to \$0.43 per share as determined under the terms of the options.

On March 8, 2023, and pursuant to an advisor agreement dated March 1, 2023 with a nonaffiliated third party, the Company granted a nonqualified stock option under the 2017 Plan to such third party to acquire 125,000 shares of the Company's common stock at an exercise price of \$0.40 per share, representing the fair market value of the common stock on the date of grant as determined under the 2017 Plan. Fifty percent of the option shall vest and become exercisable on September 1, 2023 and the remaining fifty percent shall vest and become exercisable on March 1, 2024. The option will expire five years after the date of grant. Based on a Black-Scholes valuation model, these options were valued at \$30,933, in accordance with FASB ASC Topic 718. The fair value of the shares was being amortized to selling, general and administrative expenses within the Company's condensed consolidated statements of operations over twelve months. The valuation assumptions included an expected duration of 2.9 years, volatility of 98%, discount rate of 4.71% and dividends of \$0. On September 30, 2023, the advisor agreement was terminated resulting in 50.0% of the option remaining unvested and unexercisable.

On April 4, 2023, and pursuant to a consulting agreement effective April 1, 2023 with a nonaffiliated third party, the Company granted a nonqualified stock option under the 2017 Plan to such third party to acquire 250,000 shares of the Company's common stock at an exercise price of \$0.39 per share, representing the fair market value of the common stock on the date of grant as determined under the 2017 Plan. Fifty percent of the option shall vest and become exercisable on October 1, 2023 and the remaining fifty percent shall vest and become exercisable on April 1, 2024. The option will expire five years after the date of grant. Based on a Black-Scholes valuation model, these options were valued at \$59,690, in accordance with FASB ASC Topic 718. The fair value of the shares was being amortized to selling, general and administrative expenses within the Company's condensed consolidated statements of operations over twelve months. The valuation assumptions included an expected duration of 2.9 years, volatility of 98%, discount rate of 3.60% and dividends of \$0. On August 28, 2023, the consulting agreement was terminated resulting in the option remaining unvested and being deemed terminated.

On May 26, 2023, a new director was appointed to the Board of Directors and was granted a nonqualified stock option to acquire 125,000 shares of the Company's common stock exercisable at \$0.41 per share, representing the fair market value of the common stock as of the date of grant. Fifty percent of the option shall vest and become exercisable on November 26, 2023 and the remaining fifty percent shall vest and become exercisable on May 26, 2024. The option will expire five years after the date of grant. Based on a Black-Scholes valuation model, these options were valued at \$30,527, in accordance with FASB ASC Topic 718. The fair value of the shares is being amortized to selling, general and administrative expenses within the Company's condensed consolidated statements of operations over twelve months. The valuation assumptions included an expected duration of 2.88 years, volatility of 97%, discount rate of 4.23% and dividends of \$0.

On June 5, 2023, the Company issued 1,629 shares of common stock to the Company's Senior Vice President and Chief Technology Officer upon a cashless exercise of an option to purchase 6,875 shares of common stock at an exercise price of \$0.29 per share based upon a market price of \$0.38 per share as determined under the terms of the option.

On June 6, 2023, the Company issued an aggregate of 3,426 shares of common stock to an employee upon a cashless exercise of options to purchase an aggregate of 7,655 shares of common stock at exercise prices ranging from \$0.17 to \$0.29 per share based upon a market price of \$0.38 per share as determined under the terms of the options.

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On June 7, 2023, the Company issued 1,352 shares of common stock to a director upon a cashless exercise of an option to purchase 6,250 shares of common stock at an exercise price of \$0.29 per share based upon a market price of \$0.37 per share as determined under the terms of the option.

On June 28, 2023, the Company issued (i) 5,213 shares of common stock to the Company's Chief Executive Officer upon a cashless exercise of options to purchase an aggregate of 24,687 shares of common stock at exercise prices ranging from \$0.21 to \$0.29 per share based upon a market price of \$0.30 per shares as determined under the terms of the options, (ii) 4,125 shares of common stock to the Company's Senior Vice President and Chief Technology Officer upon a cashless exercise of an option to purchase 13,750 shares of common stock at an exercise price of \$0.21 per share based upon a market price of \$0.30 per share as determined under the terms of the option, and (iii) 1,875 shares of common stock to a director upon a cashless exercise of an option to purchase 6,250 shares of common stock at an exercise price of \$0.21 per share based upon a market price of \$0.30 per share as determined under the terms of the option.

On July 3, 2023, the Board of Directors of the Company approved and adopted the Company's Amended and Restated 2014 Equity Incentive Plan (the "2014 Plan") and the Company's Amended and Restated 2017 Equity Incentive Plan (the "2017 Plan") which amended the Company's previously adopted 2014 Equity Incentive Plan and 2017 Equity Incentive Plan. Such amendments were made in accordance with the requirements of the TSX Venture Exchange. The 2014 Plan was first approved by the Board on January 10, 2014. The 2017 Plan replaced the 2014 Plan, which was terminated by the Board on April 28, 2017. As a result of such termination, no additional awards may be granted under the 2014 Plan but previously granted awards shall remain outstanding in accordance with their terms and conditions. There are 4,775,000 options and no other types of award outstanding under the 2014 Plan. The 2017 Plan was adopted by the Board on February 9, 2017. As amended by the Board on July 3, 2023, the maximum number of shares of common stock that may be issued under the 2017 Plan after July 3, 2023 is 14,078,459, and to the extent any award (or portion thereof) outstanding under the 2014 Plan expires, terminates or is cancelled, surrendered or forfeited for any reason on or after July 3, 2023, the shares of common stock subject to such award (or portion thereof) shall be added to and increase the foregoing limit, to a maximum of 4,775,000 additional shares of common stock.

On July 28, 2023, the Company issued (i) 8,007 shares of common stock to the Company's Chief Executive Officer upon a cashless exercise of an option to purchase 16,458 shares of common stock, (ii) 6,690 shares of common stock to the Company's Senior Vice President and Chief Technology Officer upon a cashless exercise of an option to purchase 13,750 shares of common stock, and (iii) 3,041 shares of common stock to a director upon a cashless exercise of an option to purchase 6,250 shares of common stock. All of such options had an exercise price of \$0.17 per share and such share issuances were based upon a volume weighted average price ("VWAP") of \$0.3311 per share as determined under the terms of the options.

On September 29, 2023, the Company issued (i) 5,555 shares of common stock to the Company's Chief Executive Officer upon a cashless exercise of an option to purchase 16,458 shares of common stock, (ii) 4,641 shares of common stock to the Company's Senior Vice President and Chief Technology Officer upon a cashless exercise of an option to purchase 13,750 shares of common stock, (iii) 2,109 shares of common stock to a director upon a cashless exercise of an option to purchase 6,250 shares of common stock, and (iv) 1,033 shares of common stock to an employee upon a cashless exercise of an option to purchase 3,062 shares of common stock. All of such options had an exercise price of \$0.26 per share and such share issuances were based upon a VWAP of \$0.3925 per share as determined under the terms of the options.

A summary of stock option activity is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
December 31, 2022	18,876,912	\$ 0.50	2.31	246,666
Grants	500,000	0.40		
Expirations	(563,745)	0.33		
Exercised	(1,621,445)	0.25		
September 30, 2023	<u>17,191,722</u>	<u>\$ 0.53</u>	<u>1.71</u>	<u>1,067,214</u>
Options exercisable at:				
September 30, 2023	17,129,222	0.53	1.71	1,067,214

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The aggregate intrinsic value in the table above represents the total intrinsic value, based on the Company's closing stock price of \$0.39 as of September 29, 2023 (the last trading day of the month of September 2023), which would have been received by the option holders had all option holders exercised their options as of that date.

Stock options exercised during the nine months ended September 30, 2023 include 850,000 that were exercised for cash and 771,445 which were a cashless exercise.

Note 11 - Warrants

The Company utilized a Black-Scholes options pricing model to value warrants at the issuance date. This model requires the input of highly subjective assumptions such as the expected stock price volatility and the expected period until the warrants are exercised. When calculating the value of warrants issued, the Company uses a volatility factor, a risk-free interest rate and the life of the warrant for the exercise period.

No warrants were exercised during the nine months ended September 30, 2023 and 2022.

The following is a summary of the Company's warrant activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
December 31, 2022	3,285,000	\$ 0.70	0.62	\$ -
Grants	-	-	-	-
Expirations	(635,000)	(0.70)	-	-
Exercised	-	-	-	-
September 30, 2023	<u>2,650,000</u>	<u>\$ 0.70</u>	<u>0.82</u>	<u>\$ -</u>
Warrants exercisable at:				
September 30, 2023	2,650,000	\$ 0.70	0.82	\$ -

The following table summarizes information about common stock warrants outstanding at September 30, 2023:

Outstanding and Exercisable				
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	
\$ 0.70	2,650,000	0.82	\$	0.70
<u>\$ 0.70</u>	<u>2,650,000</u>	<u>0.82</u>	<u>\$</u>	<u>0.70</u>

Note 12 - Subsequent Events

On October 30, 2023, the Company issued 1,450 shares of common stock to an employee upon a cashless exercise of an option to purchase 3,062 shares of common stock at any exercise price of \$0.20 per share based upon a VWAP of \$0.3799 per share as determined under the term of the option.

On October 31, 2023, the Company issued (i) 8,346 shares of common stock to the Company's Chief Executive Officer upon a cashless exercise of an option to purchase 16,458 shares of common stock, (ii) 6,973 shares of common stock to the Company's Senior Vice President and Chief Technology Officer upon a cashless exercise of an option to purchase 13,750 shares of common stock, and (iii) 3,169 shares of common stock to a director upon a cashless exercise of an option to purchase 6,250 shares of common stock. All of such options had an exercise price of \$0.20 per share and such share issuances were based upon a VWAP of \$0.4058 per share as determined under the terms of the options.

On November 9, 2023, the Company entered into a confidential binding term sheet with Arthur J. Gallagher & Co., and various of its affiliated entities (collectively "AJG"), and DTE Energy Resources LLC and various of its affiliated entities (collectively "DTE"), to resolve the ongoing patent litigation which was initiated in July 2019 by the Company against such parties and others in the U.S. District Court for the District of Delaware. Pursuant to the term sheet, the Company, on the one hand, and AJG and DTE, on the other, have dismissed with prejudice all claims and counterclaims asserted between the parties in the action. The financial aspects of the term sheet remain confidential pursuant to its terms. Such term sheet does not affect any other claim brought against any other remaining party. In connection therewith, the Court has ordered that the trial as to the claims against the remaining defendants (the CERT defendants), which was scheduled to begin Monday, November 13, 2023, be rescheduled for a later date via a further order of the Court.

In addition, effective November 9, 2023, Alistar Enterprises, LLC ("Alistar"), one of the remaining CERT defendants, entered into a settlement agreement with the Company which provided that all claims and counterclaims asserted in the action between the Company and Alistar be dismissed with prejudice. The financial terms of such settlement remain confidential.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes that appear elsewhere within this report. Certain statements we make under this Item 2 constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. See “Forward-Looking Statements” in “Part I” preceding “Item 1 – Financial Statements.” You should consider our forward-looking statements in light of the risks discussed under the heading “Risk Factors” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2022, as well as our unaudited condensed consolidated financial statements, related notes and other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission.

Overview

We are an environmental services and technologies company developing and delivering patented and proprietary solutions to the global power industry, specializing in mercury emissions removal technologies. We provide mercury capture solutions driven by our patented two-part Sorbent Enhancement Additive (“SEA”) technology. Our leading-edge services have been shown to achieve mercury emissions removal at a significantly lower cost and with less operational impact to coal-fired power plants than currently used methods, while maintaining and/or increasing power plant output and preserving the marketability of byproducts for beneficial use.

North America is currently the largest market for our technology. The U.S. EPA MATS (Mercury and Air Toxics Standards) rule requires that all coal and oil-fired power plants in the U.S., larger than 25MWs, must limit mercury in its emissions to below certain specified levels, according to the type of coal burned. Power plants were required to begin complying with MATS on April 16, 2015, unless they were granted a one-year extension to begin to comply. MATS, along with many state and provincial regulations, form the basis for mercury emission capture at coal fired plants across North America. Under the MATS regulation, Electric Generating Units (“EGUs”) are required to remove about 90% of the mercury from their emissions. We believe that we continue to meet the requirements of the industry as a whole and our technologies have been shown to achieve mercury removal levels compliant with all state, provincial and federal regulations at a lower cost and with less plant impact than our competition.

As is typical in this market, we are paid by the EGU based on how much of our material is injected to achieve the needed level of mercury removal. Our current clients pay us as material is delivered to their facilities. Clients will use our material whenever their EGUs operate, although EGUs are not always in operation. EGUs typically may not be in operation due to maintenance reasons or when the price of power in the market is less than their cost to produce power. Thus, our revenues from EGU clients will not typically be a consistent stream but will fluctuate, especially seasonally as the market demand for power fluctuates.

The MATS regulation has been subject to legal challenge since being enacted. In June 2015, the U.S. Supreme Court, in *Michigan v. EPA*, held that the EPA unreasonably failed to consider costs in determining whether it is “appropriate and necessary” to regulate hazardous air pollutants, including mercury, from power plants, but left the rule in place. In April 2016, the EPA issued a supplemental finding in response to the *Michigan* decision and found that, after consideration of costs, it remained appropriate and necessary to regulate such emissions from coal- and oil-fired power plants. In May 2020, the EPA, then under the Trump Administration, reversed the determination, finding that, after weighing the costs of compliance against certain benefits of the regulation, the 2016 supplemental finding was erroneous but left the MATS rule in place. Upon taking office, the Biden Administration in January 2021 directed the EPA to review the previous Administration’s actions on various environmental matters including the withdrawal of the May 2020 “appropriate and necessary” determination, for conformity with Biden Administration environmental policy. On February 9, 2022, the EPA proposed to revoke the May 2020 finding and reaffirm the EPA’s 2016 finding. On February 15, 2023, the EPA reaffirmed that it remains appropriate and necessary to regulate hazardous air pollutants, including mercury, from power plants after considering cost, and revoked the May 2020 finding. Nevertheless, legal challenges may continue in the future with respect to the MATS regulation.

We remain focused on positioning the Company for short and long-term growth, including focusing on execution at our customer sites and on continual operation improvement. We continue to make refinements to all of our key products, as we continue to focus on the customer and its operations. As part of our overall strategy, we have a number of initiatives which we believe will be able to drive our short and long-term growth.

We continue to seek new utility customers for our technology in order for them to meet the MATS requirements as well as maintaining our contractual arrangements with our current customers. We also seek license agreements with utilities while allowing them to use our SEA® technologies without our supply of products. During 2021 and 2022, we have announced various supply contract extensions, new supply business and license agreements. We expect additional supply business and license agreements during the latter part of 2023 and thereafter, including converting certain licensees to supply customers.

On October 28, 2022, we executed Amendment No. 1 to Unsecured Note Financing Agreement with AC Midwest Energy LLC (“AC Midwest”) pursuant to which the maturity date of the Unsecured Note held by AC Midwest in the principal amount of \$13.2 million (the “Unsecured Note”) was extended to August 25, 2025. The Unsecured Note, which was issued on February 25, 2019 pursuant to an Unsecured Note Financing Agreement entered into on such date, was scheduled to mature on August 25, 2022. It bears a zero cash interest rate. AC Midwest shall also be entitled to a profit participation preference (the “Profit Share”), which is “non-recourse” and shall only be derived from and computed on the basis of, and paid from, Net Litigation Proceeds from claims relating to our intellectual property, Net Revenue Share, Adjusted Free Cash Flow and Equity Offering Net Proceeds (as such terms are defined in the Unsecured Note Financing Agreement, as amended). Pursuant to Amendment No. 1 to Unsecured Note Financing Agreement executed on October 28, 2022, the Profit Share was increased by \$4,500,000 from \$13,154,931 (representing 1.0 times the original principal amount) to \$17,654,931.

In addition, there remains outstanding to AC Midwest a principal balance of approximately \$272,000 due under a secured note issued on November 29, 2016, in the original principal amount of approximately \$9.6 million which also had a maturity date of August 25, 2022 (the “Secured Note”). On October 28, 2022, the maturity date of the Secured Note was also extended to August 25, 2025. In addition, the interest rate on the remaining principal balance was reduced from 15.0% to 9.0% per annum.

In June 2021, we announced that we had entered into a Debt Repayment and Exchange Agreement (the “Debt Repayment Agreement”) with AC Midwest which was expected to repay all existing secured and unsecured debt obligations held by AC Midwest. Pursuant to such agreement, we were to repay the existing \$272,000 principal amount outstanding under the Secured Note in cash as well as the existing \$13.2 million principal amount outstanding under the Unsecured Note held by AC Midwest through a combination of cash and stock. The non-recourse profit share under the Unsecured Note was to have been satisfied through a combination of cash and stock. The closing was subject to various conditions including but not limited to the completion of an offering of equity securities resulting in net proceeds of at least \$12.0 million by December 31, 2021, which was extended to June 30, 2022. Such closing conditions were not met by June 30, 2022. On October 28, 2022, the parties agreed to terminate the Debt Repayment Agreement with immediate effect pursuant to which none of the parties shall have any further responsibility or liability thereunder.

In July 2019, we announced that we had initiated patent litigation against defendants in the U.S. District Court for the District of Delaware for infringement of certain patents which relate to our two-part Sorbent Enhancement Additive (SEA®) process for mercury removal from coal-fired power plants. Between July 2020 and January 2021, we entered into agreements with each of the four major utility defendants in the patent litigation commenced in 2019 which agreements included certain monetary arrangements and pursuant to which we have dismissed all claims brought against each of them and their affiliates, and such parties have withdrawn from petitions for Inter Partes Review with the U.S. Patent and Trademark Office. Such agreements entered into with such parties provide each of them and their affiliates with a non-exclusive license to certain Company patents (related to our two-part Sorbent Enhancement Additive (SEA®) process) for use in connection with such parties’ coal-fired power plants. One of the agreements has facilitated an ongoing business relationship with that party. The above-described proceedings are continuing with respect to the other parties involved. In May 2021, a U.S. District Court Magistrate Judge issued a report and recommendation that such litigation should be permitted to proceed against 16 refined coal defendants named in the action directly involved in the refined coal program and operations, and be dismissed against 12 other defendants, primarily affiliated entities of the refined coal operators. In September 2021, such report and recommendation was approved by the District Judge for the United States District Court for the District of Delaware which will allow us to proceed against certain refined coal entities named in the lawsuit. As a result of an application made by the Company to the Court in March 2022 to add additional parties to the action (all affiliated entities of the already named defendants), there are now 24 refined coal defendants named in the action. In connection with such application, the District Court Magistrate Judge ruled in April 2022 that certain parties could be added but denied the application with respect to certain others. The fact discovery portion of the litigation has concluded. A jury trial date was scheduled for November 13, 2023.

On November 9, 2023, the Company entered into a confidential binding term sheet with Arthur J. Gallagher & Co., and various of its affiliated entities (collectively “AJG”), and DTE Energy Resources LLC and various of its affiliated entities (collectively “DTE”), to resolve the ongoing patent litigation which was initiated in July 2019 by the Company against such parties and others in the U.S. District Court for the District of Delaware. Pursuant to the term sheet, the Company, on the one hand, and AJG and DTE, on the other, have dismissed with prejudice all claims and counterclaims asserted between the parties in the action. The financial aspects of the term sheet remain confidential pursuant to its terms. Such term sheet does not affect any other claim brought against any other remaining party. In connection therewith, the Court has ordered that the trial as to the claims against the remaining defendants (the CERT defendants), which was scheduled to begin Monday, November 13, 2023, be rescheduled for a later date via a further order of the Court.

In addition, effective November 9, 2023, Alistar Enterprises, LLC (“Alistar”), one of the remaining CERT defendants, entered into a settlement agreement with the Company which provided that all claims and counterclaims asserted in the action between the Company and Alistar be dismissed with prejudice. The financial terms of such settlement remain confidential.

During the first quarter of 2021, we announced new technologies under development intended to improve the processing of rare earth elements (REEs) in North America. Such technologies were under development in conjunction with our collaboration with an Alabama third party entity and its affiliates and pursuant to a license and development agreement entered into in October 2019. In October 2022, such license and development agreement expired and has not been extended or renewed. Prior to expiration, such technologies were being evaluated and tested but had not yet been commercialized. We plan to evaluate and test other related technologies for the extracting of REEs from their solvent state which we have developed and do not involve any of the technologies subject to the expired license and development agreement. In tandem with our efforts in REEs, we have been exploring remediation technologies for wastewater and coal ash from coal-fired power plants, as well as water treatment. We believe the market for water treatment is large and significantly growing both in the United States and abroad. This expansion in water treatment and wastewater remediation will allow us to support the growing needs of the energy sector, as well as provide vital technologies for considerable environmental concerns. There can be no assurance that we will be successful in the development of these technologies.

On April 20, 2023, we received conditional approval to list our shares of common stock on the TSX Venture Exchange (the “TSX-V”). The listing was subject to our fulfilling certain requirements of the TSX-V in accordance with the terms of the conditional approval letter. On July 6, 2023, the Company received final approval from the TSX-V. The Company’s shares commenced trading on the TSX-V on July 10, 2023 under the symbol “MEEC”. The Company is listed as a Tier 1 Industrial, Technology, or Life Sciences Issuer.

Results of Operations

Revenues

We generated revenues of approximately \$6,747,000 and \$7,486,000 for the three months ended September 30, 2023 and 2022, respectively, and approximately \$13,872,000 and \$15,956,000 for the nine months ended September 30, 2023 and 2022, respectively. Such revenues were primarily derived from sorbent product sales which were approximately \$6,700,000 and \$7,383,000 for the three months ended September 30, 2023 and 2022, respectively and approximately \$13,104,000 and \$15,372,000 for the nine months ended September 30, 2023 and 2022, respectively. The decrease in revenues from prior year periods is primarily due to the decreased supply demands from our customer base in the first nine months of 2023 along with the closure of one of our customer’s power plants which occurred at the end of 2022, offset by an increase in licensing revenues for the nine months ended September 30, 2023.

Licensing revenues were approximately \$52,500 and \$52,500 for the three months ended September 30, 2023 and 2022, respectively and approximately \$671,000 and \$286,000 for the nine months ended September 30, 2023 and 2022, respectively. Such increase in licensing revenues for the nine months ended September 30, 2023 is primarily due to licensing revenues received from a new license agreement entered into in December 2022.

Equipment sales and other revenues for the three months ended September 30, 2023 and 2022 were approximately \$(4,800) and \$23,600, respectively and approximately \$15,800 and \$217,300 for the nine months ended September 30, 2023 and 2022, respectively. This decrease was primarily due to decreased equipment rental revenues in the first nine months of 2023 compared to the prior year period.

Costs and Expenses

Total costs and expenses were approximately \$7,575,000 and \$6,917,000 during the three months ended September 30, 2023 and 2022, respectively and approximately \$16,911,000 and \$16,892,000 during the nine months ended September 30, 2023 and 2022, respectively. The increase in total costs and expenses for the three and nine months ended September 30, 2023 is primarily attributable to an increase in legal fees from the patent litigation, offset by a decrease in cost of sales.

Cost of sales were approximately \$4,472,000 and \$5,105,000 for the three months ended September 30, 2023, and 2022, respectively, and approximately \$9,118,000 and \$10,810,000 during the nine months ended September 30, 2023 and 2022, respectively. This decrease in cost of sales of approximately \$633,000 and \$1,692,000 for the three and nine months ended September 30, 2023, is primarily attributable to the decrease in product sorbent sales in the first three quarters of 2023 compared to the prior year periods.

Selling, general and administrative expenses were approximately \$2,459,000 and \$1,325,000 for the three months ended September 30, 2023 and 2022, respectively. Such an increase was primarily due to an increase in legal fees from patent litigation. Selling, general and administrative expenses were approximately \$6,160,000 and \$4,286,000 for the nine months ended September 30, 2023, and 2022, respectively. Such an increase was primarily due to an increase in legal fees from patent litigation.

Interest expense related to the financing of capital was approximately \$343,000 and \$318,000 for the three months ended September 30, 2023 and 2022, respectively and \$1,017,000 and \$1,320,000 for the nine months ended September 30, 2023 and 2022. The breakdown of interest expense for the three and nine months ended September 30, 2023 and 2022 is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
	(In thousands)		(In thousands)	
Interest expense on notes payable	\$ 6	\$ 15	\$ 18	\$ 37
Amortization of discount of notes payable	337	285	999	1,204
Amortization of debt issuance costs	-	18	-	79
	<u>\$ 343</u>	<u>\$ 318</u>	<u>\$ 1,017</u>	<u>\$ 1,320</u>

Loss on change in fair value of profit share liability was approximately \$300,000 and \$169,000 for the three months ended September 30, 2023 and 2022, respectively and \$613,000 and \$476,000 for the nine months ended September 30, 2023 and 2022, respectively. The change is primarily attributed to an increase in the amount of the profit share. There were no significant changes to the underlying model during the three and nine months ended September 30, 2023.

Net Loss

For the three months ended September 30, 2023, we had a net loss of approximately \$828,000 compared to a net income of approximately \$569,000 for the three months ended September 30, 2022. For the nine months ended September 30, 2023, we had a net loss of approximately \$3,039,000 compared to a net loss of approximately \$935,000 for the nine months ended September 30, 2022. Such change was primarily due to the decrease in revenues for the three and nine months ended September 30, 2023, the increase in selling, general and administrative expenses (substantially due to a significant increase in legal fees from the patent litigation) and an increase in the change in value of the profit share liability, offset by a decrease in interest expense for the nine months ended September 30, 2023.

Liquidity and Capital Resources

We had approximately \$2,497,000 in cash on our balance sheet at September 30, 2023 compared to approximately \$1,504,000 at December 31, 2022. Total current assets were approximately \$6,074,000 and total current liabilities were approximately \$4,404,000 at September 30, 2023, resulting in working capital of approximately \$1,670,000. This compares to total current assets of approximately \$5,540,000 and total current liabilities of approximately \$3,225,000 at December 31, 2022, resulting in working capital of approximately \$2,315,000. Our accumulated deficit was approximately \$71.7 million at September 30, 2023 compared to \$68.7 million at December 31, 2022. Additionally, we had a net loss in the amount of approximately \$3,039,000 and cash provided by operating activities of approximately \$786,000 for the nine months ended September 30, 2023.

The accompanying condensed consolidated financial statements as of September 30, 2023 have been prepared assuming the Company will continue as a going concern. As reflected in the condensed consolidated financial statements, we had approximately \$2.5 million in cash at September 30, 2023. In addition, we had cash provided by operating activities of approximately \$0.8 million for the nine months ended September 30, 2023, had working capital of \$1.7 million and an accumulated deficit of \$71.7 million at September 30, 2023. On October 28, 2022, our principal lender agreed to extend the maturity date of all of its existing secured and unsecured debt in the principal amount of \$10.9 million from October 31, 2022 to August 25, 2025. As a result, such liabilities have been classified as long-term liabilities in the accompanying condensed consolidated financial statements. Based upon such extension of the maturity date of such secured and unsecured debt, our current cash position and our revenue from operations, management believes substantial doubt regarding the Company's ability to continue as a going concern has been mitigated. We believe we will have sufficient working capital to fund operations for at least the next twelve months from the date of issuance of these financial statements.

Total Assets

Total assets were approximately \$9,682,000 at September 30, 2023 versus approximately \$9,340,000 at December 31, 2022. The change in total assets is primarily attributable to a decrease in accounts receivable offset by an increase in cash.

Total Liabilities

Total liabilities were approximately \$19,538,000 at September 30, 2023 versus approximately \$16,757,000 at December 31, 2022. The increase is primarily attributable to an increase in the outstanding debt as a result of the amortization of discount and issuance costs and an increase in the fair value of the profit share liability.

Operating Activities

Net cash provided by operating activities consists of net loss, adjusted by certain non-cash items, and changes in operating assets and liabilities.

Net cash provided by operating activities was approximately \$786,000 for the nine months ended September 30, 2023 compared to net cash used in operating activities of approximately \$368,000 for the nine months ended September 30, 2022.

Investing Activities

There was \$3,000 net cash used in investing activities for the nine months ended September 30, 2023 compared to net cash used in investing activities of approximately \$11,000 for the nine months ended September 30, 2022 due to the purchase of property and equipment.

Financing Activities

Net cash provided from financing activities was approximately \$210,000 for the nine months ended September 30, 2023 compared to approximately \$247,000 provided by financing activities for the nine months ended September 30, 2022. During the nine months ended September 30, 2023, we received approximately \$210,000 from the exercise of stock options compared to \$0 in the prior year. During the nine months ended September 30, 2022, we received a \$250,000 short term loan from a related party.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimated are discussed in our Annual Report on Form 10-K for the year ended December 31, 2022, and there have been no material changes to such policies or estimates during the nine months ended September 30, 2023.

Non-GAAP Financial Measures**Adjusted EBITDA**

To supplement our consolidated financial statements presented in accordance with GAAP and to provide investors with additional information regarding our financial results, we consider and are including herein Adjusted EBITDA, a Non-GAAP financial measure. We view Adjusted EBITDA as an operating performance measure and, as such, we believe that the GAAP financial measure most directly comparable to it is net income (loss). We define Adjusted EBITDA as net income adjusted for interest and financing fees, income taxes, depreciation, amortization, stock based compensation, and other non-cash income and expenses. We believe that Adjusted EBITDA provides us an important measure of operating performance because it allows management, investors, debtholders and others to evaluate and compare ongoing operating results from period to period by removing the impact of our asset base, any asset disposals or impairments, stock based compensation and other non-cash income and expense items associated with our reliance on issuing equity-linked debt securities to fund our working capital.

Our use of Adjusted EBITDA has limitations as an analytical tool, and this measure should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP, as the excluded items may have significant effects on our operating results and financial condition. Additionally, our measure of Adjusted EBITDA may differ from other companies' measure of Adjusted EBITDA. When evaluating our performance, Adjusted EBITDA should be considered with other financial performance measures, including various cash flow metrics, net income and other GAAP results. In the future, we may disclose different non-GAAP financial measures in order to help our investors and others more meaningfully evaluate and compare our future results of operations to our previously reported results of operations.

The following table shows our reconciliation of net loss to adjusted EBITDA for the three and nine months ended September 30, 2023 and 2022, respectively:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(In thousands)		(In thousands)	
Net loss	\$ (828)	\$ 569	\$ (3,039)	\$ (935)
Non-GAAP adjustments:				
Depreciation and amortization	72	131	195	446
Interest	344	318	1,019	1,320
Change in fair value of profit share	300	169	613	476
Income taxes	-	-	-	-
Stock based compensation	70	83	390	533
Adjusted EBITDA	<u>\$ (42)</u>	<u>\$ 1,270</u>	<u>\$ (822)</u>	<u>\$ 1,840</u>

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive officer and principal financial officer concluded, as of the end of the period covered by this report, that the Company's disclosure controls and procedures were not effective as a result of material weaknesses in our internal control over financial reporting. The ineffectiveness of our disclosure controls and procedures was due to the following material weaknesses in our internal control over financial reporting: (i) lack of a sufficient complement of personnel commensurate with the Company's reporting requirements; and (ii) insufficient written documentation or training of our internal control policies and procedures which provide staff with guidance or framework for accounting and disclosing financial transactions.

Despite the existence of the material weaknesses above, we believe that the consolidated financial statements contained in this Form 10-Q fairly present our financial position, results of operations and cash flows as of and for the periods presented in all material respects.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15 (f) under the Exchange Act) during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 9 “Commitments and Contingencies” to our unaudited condensed consolidated financial statements included in Part I, Item 1 of this report for a summary of our legal proceedings, which is incorporated by reference herein.

Item 1A. Risk Factors.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On July 28, 2023, the Company issued (i) 8,007 shares of common stock to the Company’s Chief Executive Officer upon a cashless exercise of an option to purchase 16,458 shares of common stock, (ii) 6,690 shares of common stock to the Company’s Senior Vice President and Chief Technology Officer upon a cashless exercise of an option to purchase 13,750 shares of common stock, and (iii) 3,041 shares of common stock to a director upon a cashless exercise of an option to purchase 6,250 shares of common stock. All of such options had an exercise price of \$0.17 per share and such share issuances were based upon a volume weighted average price (“VWAP”) of \$0.3311 per share as determined under the terms of the options.

On September 29, 2023, the Company issued (i) 5,555 shares of common stock to the Company’s Chief Executive Officer upon a cashless exercise of an option to purchase 16,458 shares of common stock, (ii) 4,641 shares of common stock to the Company’s Senior Vice President and Chief Technology Officer upon a cashless exercise of an option to purchase 13,750 shares of common stock, (iii) 2,109 shares of common stock to a director upon a cashless exercise of an option to purchase 6,250 shares of common stock, and (iv) 1,033 shares of common stock to an employee upon a cashless exercise of an option to purchase 3,062 shares of common stock. All of such options had an exercise price of \$0.26 per share and such share issuances were based upon a VWAP of \$0.3925 per share as determined under the terms of the options.

The foregoing securities were issued in reliance upon the exemption from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the “1933 Act”), and where applicable, under Section 3(a)(9) of the 1933 Act.

Item 3. Default Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
31.1*	Certification by Principal Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act
31.2*	Certification by Principal Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act
32.1*	Certification by Principal Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code
32.2*	Certification by Principal Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MIDWEST ENERGY EMISSIONS CORP.

Dated: November 20, 2023

By: /s/ Richard MacPherson
Richard MacPherson
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 20, 2023

By: /s/ Fiona Fitzmaurice
Fiona Fitzmaurice
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Richard MacPherson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Midwest Energy Emissions Corp.;
2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 20, 2023

By: /s/ Richard MacPherson
Richard MacPherson,
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Fiona Fitzmaurice, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Midwest Energy Emissions Corp.;
2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 20, 2023

By: /s/ Fiona Fitzmaurice
Fiona Fitzmaurice
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Midwest Energy Emissions Corp. (the "Company") on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission (the "Report"), the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of the undersigned's knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 20, 2023

By: /s/ Richard MacPherson

Richard MacPherson,
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Midwest Energy Emissions Corp. (the “Company”) on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission (the “Report”), the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of the undersigned’s knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 20, 2023

By: /s/ Fiona Fitzmaurice
Fiona Fitzmaurice
Chief Financial Officer
(Principal Financial Officer)