

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

**FORM 10-K**

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

For the fiscal year ended: **December 31, 2020**

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 75109**  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(614) 505-6115**

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.001 par value

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 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"/>	Non-accelerated	<input checked="" type="checkbox"/>
Accelerated filer	<input type="checkbox"/>	Smaller reporting issuer	<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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$9,760,000.

The number of shares outstanding of the Common Stock (\$.001 par value) of the Registrant as of the close of business on March 31, 2021 was 83,715,582.

DOCUMENTS INCORPORATED BY REFERENCE: Part III of this report incorporates by reference certain information from the registrant's definitive proxy statement for its 2021 Annual Meeting of Stockholders, which the registrant intends to file with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this report.

**MIDWEST ENERGY EMISSIONS CORP.  
TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I</b>	
<a href="#">Item 1. Business</a>	4
<a href="#">Item 1A. Risk Factors</a>	10
<a href="#">Item 1B. Unresolved Staff Comments</a>	17
<a href="#">Item 2. Properties</a>	17
<a href="#">Item 3. Legal Proceedings</a>	17
<a href="#">Item 4. Mine Safety Disclosures</a>	17
<b>PART II</b>	
<a href="#">Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	18
<a href="#">Item 6. Selected Financial Data</a>	19
<a href="#">Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	19
<a href="#">Item 7A. Quantitative and Qualitative Disclosures About Market Risk</a>	28
<a href="#">Item 8. Financial Statements and Supplementary Data</a>	29
<a href="#">Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	30
<a href="#">Item 9A. Controls and Procedures</a>	30
<a href="#">Item 9B. Other Information</a>	31
<b>PART III</b>	
<a href="#">Item 10. Directors, Executive Officers and Corporate Governance</a>	32
<a href="#">Item 11. Executive Compensation</a>	32
<a href="#">Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	32
<a href="#">Item 13. Certain Relationships and Related Transactions, and Director Independence</a>	32
<a href="#">Item 14. Principal Accountant Fees and Services</a>	32
<b>PART IV</b>	
<a href="#">Item 15. Exhibits and Financial Statement Schedules</a>	33
<a href="#">Item 16. Form 10-K Summary</a>	34
<a href="#">Signatures</a>	35

**TABLE OF DEFINED TERMS**

<b>TERM</b>	<b>DEFINITION</b>
BAC	Brominated Powdered Activated Carbon
EERC	Energy and Environmental Research Center
EGU	Electric Generating Unit
EPA	The U.S. Environmental Protection Agency
ESP	Electrostatic Precipitator
Hg	Mercury
IGCC	Integrated Gasification Combined Cycle
MATS	Mercury and Air Toxics Standards
ME <sub>2</sub> C Environmental	Midwest Energy Emissions Corp.
MW	Megawatt
OTCQB	OTCQB Venture Market
PAC	Powdered Activated Carbon
SCR	Selective Catalytic Reduction
SEC	U.S. Securities and Exchange Commission

## PART I

### Forward-Looking Statements

This Annual Report on Form 10-K 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. Forward-looking statements in this report are subject to risks and uncertainties that could cause actual events or results to differ materially from those expressed in or implied by the statements. These statements are based on information currently available to us and are subject to various risks, uncertainties, and other factors, including, but not limited to, those discussed herein under the caption “Risk Factors”. In addition, matters that may cause actual results to differ materially from those in the forward-looking statements include, among other factors, the gain or loss of a major customer, change in environmental regulations, disruption in supply of materials, capacity factor fluctuations of power plant operations and power demands, a significant change in general economic conditions in any of the regions where our customer utilities might experience significant changes in electric demand, a significant disruption in the supply of coal to our customer units, the loss of key management personnel, availability of capital and any major litigation regarding the Company.

Except as expressly required by the federal securities laws, we undertake no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, or changed circumstances or for any other reason. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those detailed in ME<sub>2</sub>C Environmental’s filings and with the Securities and Exchange Commission. See “Risk Factors” in Item 1A.

#### Item 1. Business.

As used in this Annual Report on Form 10-K, the terms “we”, “us”, “our”, “the Company”, “ME<sub>2</sub>C Environmental”, and “Midwest Energy Emissions Corp.” refer to Midwest Energy Emissions Corp. and our wholly owned subsidiary.

#### Background

Midwest Energy Emissions Corp., a Delaware corporation, is an environmental services and technologies company developing and delivering patented and proprietary solutions to the global power industry. 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.

Our principal place of business is located at 1810 Jester Drive, Corsicana, Texas 75109, which location we have maintained for manufacturing and distribution of our products since 2015. As of December 2019, we relocated our corporate headquarters to such address which corporate headquarters prior thereto were maintained at 670 D Enterprise Drive, Lewis Center, Ohio 43035. Our telephone number is (614) 505-6115. Our corporate website address is <http://www.me2cenvironmental.com>. Our common stock is quoted on the OTCQB under the symbol “MEEC”.

We were originally incorporated on July 19, 1983 in the State of Utah and subsequently domesticated as a Delaware corporation in February 2007. We changed our name to Midwest Energy Emissions Corp. in October 2011. ME<sub>2</sub>C Environmental is a trade name of Midwest Energy Emissions Corp.

Our wholly owned subsidiary, MES, Inc., was originally incorporated in December 2008 in the State of North Dakota.

On June 21, 2011, we completed a merger transaction (the “Merger”) whereby MES, Inc. (then called Midwest Energy Emissions Corp.) became our wholly owned subsidiary. As a result of the Merger, our business began to focus on the delivery of mercury capture technologies to power plants in North America, Europe and Asia.

Prior to relocating our corporate headquarters to Corsicana, Texas, we maintained our corporate headquarters in Lewis Center, Ohio from March 2015 to December 2019, and in Worthington, Ohio from November 2011 to March 2015.

We currently have 11 full-time employees. Our employees are not represented by labor unions. We believe that relations with our employees are good.

## **Regulations and Markets**

The markets for mercury removal from power plant emissions have largely been driven by federal regulations.

On December 21, 2011 the EPA issued its Mercury and Air Toxics Standards (“MATS”) for power plants in the U.S. The MATS rule is intended to reduce air emissions of heavy metals, including mercury (Hg), from all major U.S. power plants burning coal or oil, which are the leading source of non-natural mercury emissions in the U.S. Existing power plants were granted three years (plus a potential one-year extension in cases of hardship, ruled on by State EPA’s where the plant is domiciled) from April 16, 2012, to comply with the new emission limits. The MATS rule applies to Electric Generating Units (“EGUs”) that are larger than 25 megawatts (“MW”) that burn coal or oil for the purpose of generating electricity for sale and distribution through the national electric grid to the public. They include investor-owned units, as well as units owned by the Federal government, municipalities, and cooperatives that provide electricity for commercial, industrial, and residential uses.

At the time of MATS being promulgated, there were approximately 1,250 coal-fired EGU’s affected by this new rule. Since this time, many of such EGU’s have been shut down as a result of this regulation and due to competitive disadvantage to newer or gas-fired EGUs and renewable energy sources (e.g. wind, solar). We believe that at the end of 2020, there are approximately 350 coal-fired EGU’s remaining in the power market which make up the large mercury-emissions control market into which we sell.

The final MATS rule identifies two subcategories of coal-fired EGUs, four subcategories of oil-fired EGUs and a subcategory for units that combust gasified coal or solid oil (integrated gasification combine cycle [IGCC] units) based on the design, utilization, and/or location of the various types of boilers at different power stations. The rule includes emission standards and/or other requirements for each subcategory. The rule set nationwide emission limits estimated to reduce mercury emissions in coal-fired plants by about 90%.

In addition to the U.S. federal MATS rule, more than 20 states currently have regulations which limit mercury emissions which regulations are similar to or more restrictive than the MATS rule.

There are several choices of pollution control technologies available to reduce mercury emissions, but they do not all work consistently or cost-effectively for every plant design or for all of the various types of coal. The most common technology employed to reduce mercury emissions is a sorbent injection system which provides for the injection of powdered activated carbon (“PAC”) or brominated PAC (“BAC”) into the flue-gas of an EGU after the boiler itself but in front of the Electro-Static Precipitators (“ESP”). Such injections have proven effective with many coals, especially at reduction levels of 70% or less. At required mercury reduction levels above 80%, these injection systems require substantial injection rates which often have severe operational issues including over-loading the ESP and rendering the fly ash unfit for sale to concrete companies, and at times even causing combustion concerns with the fly ash itself.

Mercury is also removed as a co-benefit by special pollution control equipment installed to remove oxides of sulfur (“SO<sub>x</sub>”) and nitrogen (“NO<sub>x</sub>”). To achieve very high levels of SO<sub>x</sub> reduction, large, complex and expensive (capital costs in the hundreds of millions of dollars for a medium-sized EGU) systems called scrubbers can be installed in the plant exhaust system, typically just before the flue-gas goes up the stack for release. As a co-benefit to their primary mission, scrubbers have been shown to remove significant quantities of oxidized mercury. Mercury is typically found in two basic forms in coal: elemental and oxidized. The amount of each form varies in any given seam of coal and is affected by the other natural elements (such as chlorine) which might also be present in the coal. We believe about 30-40% of the mercury in the post-combustion flue-gas exists in the oxidized state for power plants burning low-rank coal and about 60-70% for power plants burning high-rank coals. Mercury is found in only trace amounts in coal making it difficult to remove from coal, or from the flue gas when combusted with the coal. It is in the burning of millions of tons of coal that these trace amounts become problematic, and why MATS was promulgated.

The other major pollution control system which contributes significantly to the co-benefits of mercury removal is a Selective Catalytic Reduction (“SCR”) system which can be installed to achieve high levels of removal of NO<sub>x</sub>. SCRs are also very large and expensive systems (costing hundreds of millions of dollars in capital costs to install on a medium-size EGU) that are typically installed just after the flue-gas exits from the unit boiler. As a co-benefit, SCRs have been shown to oxidize a considerable percentage of the elemental mercury in many types of coal. If the EGU then has a combination of an SCR and a scrubber, we estimate that the EGU might achieve an overall reduction of 80-85% of the mercury in power plants that burn high-rank coals. The exact level of mercury emission reductions depends on the designs of these systems, the types of coal being burned and the operations of the power plant.

We believe that the large majority of the coal-fired EGUs in the U.S. employ some sort of sorbent injection system to achieve the very low mercury emission levels required by the MATS rule. Either the sorbent injection system is the primary removal method or such a system is employed as a supplemental system to SCR/scrubber combinations to achieve the emission limits.

See “North American Markets for Our Technology” below for information on mercury control standards in Canada and “Other Markets for Our Technology” below for information on mercury control in Europe and Asia.

## **ME<sub>2</sub>C Environmental’s Technology**

### ***Background and Acquisition of Patent Rights***

We provide mercury capture solutions driven by our patented two-part Sorbent Enhancement Additive (SEA<sup>®</sup>) process using a powerful combination of science and engineering. We design systems and materials tailored and formulated specifically to each customer’s coal-fired units. Our mercury removal technologies and systems will achieve mercury removal levels which meet or exceed the MATS requirements with lower cost and plant systems impacts than typical PAC or BAC sorbent injection systems. Our products have been shown to be successful across a myriad of fuel and system types, tunable to any configuration, and environmentally friendly, allowing for the recycling of fly ash for beneficial use. Our SEA<sup>®</sup> technology was originally developed by the University of North Dakota’s Energy and Environmental Research Center (“EERC”). It was tested and refined on numerous operating coal-fired EGUs, with the founder of MES, Inc. participating with the EERC on these tests since 2008. The Energy and Environmental Research Center Foundation, a non-profit entity (“EERCF”), obtained patents on this technology.

On January 15, 2009, we entered into an “Exclusive Patent and Know-How License Agreement Including Transfer of Ownership” (the “License Agreement”) with the EERCF. Under the terms of the License Agreement, we were granted an exclusive license by EERCF with respect to this patented technology to develop, make, have made, use, sell, offer to sell, lease, and import the technology in any coal-fired combustion systems (power plant) worldwide and to develop and perform the technology in any coal-fired power plant in the world. Amendments No. 4 and No. 5 to the License Agreement were made effective as of December 16, 2013 and August 14, 2014, respectively, expanding the number of patents covered, eliminated certain contract provisions and compliance issues and restructured the fee payments and buyout provisions while granting EERCF equity in the Company. The License Agreement applied to various domestic and foreign patents and patent applications which formed the basis of our mercury control technology.

Under the terms of the License Agreement, we were required to pay EERCF monthly license maintenance fees and annual running royalties on operational systems of the Company, and we had the right to purchase the patent rights for a payment specified therein.

On April 24, 2017, we closed on the acquisition from EERCF of all such patent rights, including all patents and patents pending, domestic and foreign, relating to the foregoing technology. A total of 42 domestic and foreign patents and patent applications were included in the acquisition. In accordance with the terms of the License Agreement, the patent rights were acquired for the purchase price of (i) \$2,500,000 in cash, and (ii) 925,000 shares of common stock of which 628,998 shares were issued to EERCF and 296,002 were issued to the inventors who had been designated by EERCF. As a result of the acquisition of the patent rights, no additional monthly license maintenance fees and annual running royalties shall be due and owing to the EERCF following closing which fees and royalties have now been eliminated.

## **SEA<sup>®</sup> Technology**

Our SEA<sup>®</sup> technology provides total mercury control, providing solutions that are based on a thorough scientific understanding of actual and probable interactions involved in mercury capture in coal-fired flue gas. A complete understanding of the complexity of mercury–sorbent–flue gas interactions and chemisorption mechanisms allows for optimal control strategy and product formulation, resulting in effective mercury capture. Combined with a thorough proprietary audit of the plant and its configuration and instrumentation, we believe our complete science and engineering approach for mercury–sorbent–flue gas interactions are well-understood, highly predictive, and critical to delivering total mercury control.

The SEA<sup>®</sup> approach to mercury capture is specifically tailored for each application to match a customer’s coal type and boiler configuration for optimal results. Our two-pronged solution consists of a front end sorbent injected directly into the boiler in minimal amounts combined with a back end sorbent injection solution to insure maximum mercury capture. We believe our two-part process uses fewer raw materials than other mercury capture systems and causes less disruption to plant operations. We believe our sorbent line, which is designed to meet or exceed the mercury mitigation requirements of our customers, offers superior performance and the lowest possible feed rates when compared to other solutions on the market. Our processes also preserve fly ash which can be sold and recycled for beneficial use.

## **Customized Emissions Services**

In order to evaluate each customer’s needs, we finely tune the combustion chemistry using our technologies and specially formulated MEC products. In order to achieve optimal results, we bring mercury emission analytics to the field for our demonstrations as opposed to collecting samples for laboratory analysis, while our team analyzes the entire plant’s performance once compliance testing has begun. As a result, we are able to offer customers:

Assessment of existing systems and suggested improvements;

Assessment and guidance of mercury capture and emissions;

Optimal design of the injection strategy and appropriate equipment layout and installation;

Sorbent optimization using flow modeling for a customized, low-cost plan for each unit;

Emission testing for mercury and other trace metals with our mobile laboratory; and

Ongoing research toward improved technology for mercury capture and rapid-response scientific support for emission or combustion issues as operations and regulations change.

## **Intellectual Property**

We have a patent portfolio consisting of 42 active patents throughout the U.S., Canada, Europe and China and 20 patents pending applications. We believe that our patent position is strong in the U.S., Canada, and Europe.

## **Patent Enforcement**

We believe that a significant percentage of coal-fired power plants in the United States have adopted and are infringing upon our two-part Sorbent Enhancement Additive (SEA<sup>®</sup>) process for mercury removal from coal-fired power plants. Since 2018, we have engaged a Dallas-based intellectual property and business litigation firm to oversee and spearhead our efforts to protect our intellectual property.

Beginning in 2019, we began to actively enforce our patent rights against unauthorized use of our patented technologies (i.e. infringers). In July 2019, we initiated our first patent litigation against four major owners and/or operators of coal-fired power plants in the United States and certain of their affiliates, along with certain other third parties in which we have claimed infringement of our patents related to our two-part process for mercury removal from coal-fired power plants. We have entered into agreements with four of the major defendants. Such litigation is continuing against the other parties. See Part I, Item 3 Legal Proceedings.

In 2021 and beyond, we expect to pursue other infringers and have already communicated with some. Although additional litigation may be necessary to enforce our intellectual property rights, we view this as a last resort. Our goal and overall strategy is to convert infringers to our supply chain of sorbent products for mercury removal, or otherwise license our patents to them on a non-exclusive basis in connection with their respective coal-fired power plants.

## **North American Markets for Our Technologies**

North America is currently the largest market for our emissions technologies.

In the U.S. market, our success depends, in part, on the success of demonstrations performed with utility customers and the resulting contract awards to meet the MATS requirements in the long-term period and our operational performance with EGUs under contract.

In Canada, there is a Canada-wide Standard for Mercury Emissions among all the provinces which was initially implemented in 2010, with caps in mercury emissions for each of the provinces. We believe we have the most effective technology for the EGUs in Canada and a strong patent position there.

In 2010, we were awarded our first commercial contract to design, build and install our solution on two large (670MW each) coal units in the western part of the U.S. This was a multi-million dollar, three year renewable contract, which was awarded as a result of a competitive demonstration process. We invested more than \$1.4 million in the capital equipment for this project. Our systems out-performed the contract guarantees in all operational areas during startup and testing and went into commercial operation at the start of 2012. The system has successfully kept the plant in compliance since 2012.

At the present time, there are 14 EGUs in the U.S. that currently use our SEA<sup>®</sup> technologies. In Canada, there are 5 EGUs that have our systems installed and are used when necessary to comply with their annual emissions requirements in Canada. We expect to continue to conduct numerous demonstrations on prospective customer units throughout 2021 and thereafter.

#### **Other Markets for Our Emissions Technologies**

In March 2018, we entered into an agreement for a term of ten years with one of the Company's primary suppliers to commercialize our technology throughout Europe. Under the terms of the agreement, we had granted such supplier an exclusive, non-transferable license to make, use, sell and market the Company's technology during the term throughout Europe (which included Germany and Poland which currently have the largest coal fleets in Europe). Under the terms of the agreement, such supplier had the right to terminate at any time on no less than 30 days prior written notice. Pursuant to notice provided to us by such supplier on November 6, 2020, the supplier advised us that it had undertaken a review of its strategy in the mercury control market and had decided to terminate the agreement effective as of December 6, 2020. Prior to its termination, no revenues had been generated from such agreement. We intend to continue to pursue the European market although no assurance can be made that any such efforts will be successful. The European market is significant although not as large as the market in the U.S. We believe more coal-fired EGUs operate throughout Europe than in the U.S. but are generally smaller EGUs.

In May 2017, the European Union and seven of its member states ratified the Minamata Convention on Mercury, which triggered its entry into force with implementation starting in 2021. The Minamata Convention on Mercury is a global treaty to protect human health and the environment from the adverse effects of mercury. This Convention was a result of three years of meeting and negotiating, after which the text of the Convention was approved by delegates representing approximately 140 countries in January 2013 in Geneva and adopted and signed later that year in October 2013 by approximately 125 countries at a diplomatic conference held in Japan. It is expected that over the next few decades, this international agreement will enhance the reduction of mercury pollution from the targeted activities responsible for the major release of mercury to the environment.



In addition, in July 2017, the European Union, through the European Commission, adopted certain BREF standards for large coal-fired electric generating units. The BREFs are a series of reference documents covering certain industrial activities and provide descriptions of a range of industrial processes and their respective operating conditions and emission rates. Member states are required to take these documents into account when determining best available techniques. As a result of the EU's adoption of these BREF conclusions, specific emissions limits are currently being developed.

With regard to business opportunities in China and other Asian countries, there currently exists no specific mandate for mercury capture that requires specific control technology. Nevertheless, we are optimistic of the prospects for mercury emissions regulations in China and Southeast Asia in the coming years, and because we have very broad patent rights in China, this has the potential to become a large business opportunity for us in future years. It is estimated that China represents 47% of the world's coal power usage compared to the United States which represents 14%\*. We are hopeful that as a result of the Minamata Convention, China as well as other countries will follow the U.S. in regulating mercury emissions.

\*Source: Carbon Brief, "Mapped: The World's Coal Power Plants", Simon Evans and Rosamund Pearce. May 6, 2018.

### **Additional Business Opportunities**

In October 2019, we entered into a license and development agreement with a nonrelated third party entity located in Alabama pursuant to which the parties have been developing a plan to commercialize and market certain technology owned by such entity related to the removal of mercury from air and water emissions generated by coal burning power plants. Although no assurance can be given, we are optimistic that this arrangement will lead to a new revenue stream for us in the future.

During the first quarter of 2021, we announced that we are in the process of developing a proprietary methane gas emissions control technology which we believe can be adopted within the oil and gas industry. Methane is emitted from oil and gas operations worldwide and is believed to be a contributor to global warming. Methane is considered a greenhouse gas, like carbon dioxide. While we have not established a timeline for the introduction of our technology, we hope to be able to commercialize our efforts in 2022 and thereafter.

In addition, 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. Currently, most of the demand for REEs in the United States is purchased from China. REEs are commonly used today in automobile catalysts and petroleum refining catalysts, televisions, magnets, batteries and medical devices. Our new technologies are under development in conjunction with our collaboration with the Alabama third party entity mentioned above and its affiliates. Such technologies focus on improving the cost of extracting rare earth minerals along with improving the environmental footprint of extracting those rare earth elements from their solvent state. While there is no established timeline for the introduction of these technologies after further testing is performed, we hope that if such further testing is successful, these technologies can be commercialized in 2022 and thereafter.

### **Raw Materials**

We buy all the raw materials needed to implement our technologies and provide uniquely formulated products for effective mercury removal. Material components of our proprietary SEA<sup>®</sup> technology are readily available from numerous sources in the market. Suppliers of our raw materials include large companies that have provided materials for decades and have an international presence. When we use PAC as one component of our sorbent material, we buy it in the market from large activated carbon manufacturers. We believe that we have excellent relationships with our current suppliers. If any of our suppliers should become unavailable to us for any reason, there are a number of other suppliers that we believe can be contracted with expeditiously to supply the raw materials that we need, ensuring a continued supply of our products to our customers.

## Competition

Our major competitors in the U.S. and Canada include companies such as Advanced Emissions Solutions, Inc., Albemarle Corporation, Cabot Corporation, Calgon Carbon Corporation, Carbonxt, Inc., Environmental Energy Services Inc. and Nalco Company. These companies employ large sales staff and are well positioned in the market. However, in head-to-head tests with competitor products our SEA<sup>®</sup> technology has consistently performed better in mercury removal, at lower projected costs. We believe that our SEA<sup>®</sup> technology is superior to offerings of our competitors and, with our highly experienced staff, we have shown that we can compete effectively in these markets.

## Seasonality

The power market has changed over recent years with the introduction of more renewable energy, the low price of natural gas and the declining industrial demand for continuous power resulting in a greater proportional residential load demand. With this shift in demand and load, we have experienced some seasonal declines in the winter months due to our current customer concentration in the Southwestern United States, where many of our customers decrease capacity in such winter months.

## Backlog

We do not consider backlog to be a significant indicator of the level of future sales activity. In general, we do not manufacture our products against a backlog of orders. Production and inventory levels are based on the level of incoming orders as well as projections of future demand. Therefore, we believe that backlog information is not material to understanding our overall business and is not a reliable indicator of our ability to achieve any particular level of revenue or financial performance.

## Available Information

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. The SEC maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). Our SEC filings are also available on our website at [www.me2cenvironmental.com](http://www.me2cenvironmental.com). Information on or connected to our website is neither part of, nor incorporated by reference into, this Form 10-K or any other report filed with or furnished to the SEC.

## Item 1A. Risk Factors.

*In your evaluation of the Company and our business, you should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this report and the other documents we file with the SEC. The following factors describe the risks and uncertainties that we consider significant to the operation of our business, but should not be considered a complete listing of all potential risks and uncertainties that could adversely affect our operating results, financial position or liquidity. Additionally, our business is subject to the same general risks and uncertainties that affect many other companies, such as but not limited to the overall economic conditions, changes in laws or accounting rules, fluctuations in interest and exchange rates or other disruptions of expected economic and business conditions.*

### **Risks Related to our Business**

**Demand for our services and products is largely driven by coal consumption by North American electricity power generating plants. Any significant changes that diminish the use of coal as a primary fuel source for electricity production may adversely affect our business.**

North American coal-fired electricity generating units comprise the basis of the market for our services and products. Regulations mandating or incentivizing the purchase of power from renewable energy sources (e.g. wind, solar, hydroelectric, geothermal) and/or the phasing out of coal-fired power plants could lessen the demand for electricity from such plants and overall reduce the number of coal-fired electricity generating units and the amount of coal burned, thereby decreasing the demand for our services and products which could adversely affect our business. The phasing out of coal-fired plants has already had a negative effect on our results of operations. Continued promulgation of these regulations in North America is affected by, among other things, politics, perceived environmental impact, and public favor.

**Our business focus has predominately been mercury removal from power plant emissions, which is driven primarily by regulation. Any significant changes in mercury emission regulation could have a major impact on the Company.**

Our business focus has predominately been mercury reduction in flue gas emissions from large coal-fired utility and industrial boilers. This market is primarily based on air pollution control regulations and enforcement of those regulations. Any significant change in these regulations would have a dramatic effect on the Company, especially in North America (and primarily the United States) which is currently the largest market for our technology. Specifically, on December 16, 2011, the EPA published the Mercury and Air Toxics Standards (MATS), which sets forth federal mercury emission levels. 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.

The MATS regulation has been subject to legal challenge since being enacted. In June 2015, the U.S. Supreme Court 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. On remand, following the Supreme Court’s instructions to consider costs, the EPA in April 2016 issued a final supplemental finding reaffirming the MATS rule on the ground that it is supported by the cost analysis the Supreme Court required. That supplemental finding remains under review by the D.C. Circuit. In April 2017, the EPA asked the court to place that litigation in abeyance, stating that the Agency then under the Trump Administration was reviewing the supplemental finding to determine whether it should be reconsidered in whole or in part. The court granted EPA’s abeyance request which has remained in place. In April 2020, the EPA concluded that the 2016 supplemental finding was flawed in part due to its reliance on co-benefits to justify MATS and withdrew EPA’s 2016 “appropriate-and-necessary” determination as erroneous, but left the 2011 MATS rule in place pursuant to D.C. Circuit case law holding that a source category may only be removed from the list of categories to be regulated through a rigorous delisting process that cannot currently be satisfied by EPA. 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 “appropriate and necessary” determination, for conformity with Biden Administration environmental policy. Nevertheless, legal challenges may continue with respect to the MATS regulation which could extend uncertainty over the status of MATS for a number of years. Investors should note that any changes to the MATS rule could have a negative impact on our business.

**The risks associated with technological change may make the Company’s products and services less marketable.**

The market into which we sell our products and services is characterized by periodic technological change as well as evolving industry standards and regulations. The nature of such market will require that we continually improve and/or modify the performance, features, and reliability of our products and services, particularly in response to possible competitive offerings. Unless we are able to enhance, improve and/or modify existing products in a timely manner or to develop and introduce new products that incorporate new technologies or conform with evolving industry standards and regulations, our products and services may be rendered less marketable.

**Our industry is highly competitive. If we are unable to compete effectively with competitors having greater resources than we do, our financial results could be adversely affected.**

Our major competitors in the U.S. and Canada include companies such as Advanced Emissions Solutions, Inc., Albemarle Corporation, Cabot Corporation, Calgon Carbon Corporation, Carbonxt, Inc., Environmental Energy Services Inc. and Nalco Company. These companies employ large sales staff and are well positioned in the market. Our ability to compete successfully depends in part upon our ability to offer superior technology, including a superior team of sales and technical staff. If we are unable to maintain our competitive position, we could lose market share to our competitors which is likely to adversely impact our financial results.

**We may not be able to successfully protect our intellectual property rights.**

We own a number of significant patents, and patents pending covering the U.S., Canada, Europe and China for our technology. Certain critical technology related to our systems and products is protected by trade secret laws and confidentiality and licensing agreements. There can be no assurance that outstanding patents will not be challenged or circumvented by competitors, or that such other protection provided by trade secret laws and confidentiality and licensing agreement will prove adequate. We cannot assure you that we will have adequate remedies against contractual counterparties for disclosure of our trade secrets or violation of ME<sub>2</sub>C Environmental's intellectual property rights. As a result, we may not be able to successfully defend our patents or protect proprietary aspects of our technology.

**We may not be successful in patent litigation.**

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<sup>®</sup>) process for mercury removal from coal-fired power plants. Investors should note that patent litigation, like most types of commercial litigation, can be expensive, time-consuming and unpredictable. Although we already entered into agreements with each of the four major utility defendants in this litigation, such action will continue with respect to the other defendants still involved. There is no assurance that the continuing litigation with the remaining defendants, or any future patent litigation which the Company may commence, will be successful. In addition, in an infringement proceeding, a court may decide that one or more of our patents are not valid or enforceable, or a court may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in any litigation could put one or more of our patents at risk of being invalidated, held unenforceable or interpreted narrowly and could put our patent applications at risk of not issuing. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from our business.

**We depend on third-party suppliers for materials needed to implement our emissions technologies.**

We buy all the raw materials needed to implement our technologies and provide uniquely formulated products for effective mercury removal from third-party suppliers. Suppliers of our raw materials include large companies that have provided materials for decades and have an international presence. When we use PAC as one component of our sorbent material, we buy it in the market from large activated carbon manufacturers. We believe that we have excellent relationships with our current suppliers. If any of our suppliers should become unavailable to us for any reason, there are a number of other suppliers that we believe can be contracted with expeditiously to supply the raw materials that we need, ensuring a continued supply of our products to our customers. However, the possibility exists that we may not be able to secure such arrangements on terms acceptable to the Company which could negatively impact our business.

**We are dependent on key customers. A significant adverse change in such relationships could adversely impact our results of operations and financial condition.**

Our customers are concentrated, so the loss of one or more key customers or a material reduction in business performed for them could cause us to experience a decline in net sales, which could adversely affect our financial results. In addition, there can be no assurance that such customers will not experience financial difficulties or other problems which could delay such customers in paying for product and services on a timely basis or at all. Any problems with such customers can be expected to have an adverse impact on our results of operations and financial condition.

**We rely on a small number of key employees. The loss of more than one of these employees could disrupt our operations and future growth.**

We have a limited number of employees and we depend on the continued services and performance of our key personnel. The loss of more than one member of this team could disrupt our operations and negatively impact our projected future growth. In addition, as we continue to grow, we cannot guarantee we will continue to attract and retain the personnel we need to maintain our competitive position.

**Our lack of diversification increases the risk of an investment in the Company.**

Our business lacks significant diversification and is dependent on the success of our mercury emission control technologies. As a result, we are impacted more acutely by factors affecting our industry or the regions in which we operate than we would if our business were more diversified, enhancing our risk profile.

**Low gas prices could negatively impact our results of operations; mild weather could also have corresponding effects on the demand for coal.**

Our mercury-emissions control technologies are used by coal-fired power plants primarily in the United States. At such times that gas prices remain low for an extended period of time or drop substantially, power suppliers will likely rely more upon gas-fired units rather than coal plants in meeting their power needs. Gas prices can be very volatile and are influenced by numerous factors beyond our control. For example, market prices for natural gas have recently been low which has caused, and will likely continue to cause, a weaker demand for our products until such time that such prices increase. In addition, mild winter months in the U.S. will also result in less of a power demand which will also be expected to negatively impact our operations.

**Our insurance coverage may not be adequate to protect us from all business risks.**

We may be subject, in the ordinary course of business, to claims resulting from products liability, employment-related actions, class action lawsuits, accidents, acts of God and other actions against us. Additionally, our insurance coverage may be insufficient to cover all existing and future claims against us. We may be compelled to expend significant time and resources defending any such claims, and a loss that is uninsured or which exceeds policy limits may require us to pay substantial amounts, which could adversely affect our financial condition and operating results.

**Litigation resulting from disputes with customers may result in substantial costs, liabilities and loss of revenues.**

From time to time, we may be faced with disputes with our customers over the provisions of supply contracts relating to, among other things, pricing, quality, quantity and the existence of specified conditions beyond our or our customers' control that impact performance obligations under the particular contract. In the event such disputes occur, we may not be able to resolve those disputes in a satisfactory manner which could have a material adverse effect on our business, financial condition and results of operations.

**Revenues are generated under contracts that must be renegotiated periodically.**

Substantially all of our revenues are generated under contracts which expire periodically or which must be frequently renegotiated, extended or replaced. Whether these contracts are renegotiated, extended or replaced is often subject to factors that may be beyond our control, including an extremely competitive marketplace for the services we offer. We cannot assure you that the costs and pricing of our services can remain competitive in the marketplace or that we will be successful in renegotiating our contracts.

**Business interruptions, including any interruptions resulting from COVID-19, could significantly disrupt our operations and could have a material adverse impact on us.**

The ongoing coronavirus outbreak which began in China at the beginning of 2020 has impacted various businesses throughout the world, including travel restrictions and the extended shutdown of certain businesses in impacted geographic regions. If the coronavirus situation does not improve during 2021 or should worsen, we may experience disruptions to our business including, but not limited to, the availability of raw materials, equipment, to our workforce, or to our business relationships with other third parties. Also, it may hamper our efforts to comply with our filing obligations with the Securities and Exchange Commission. The extent to which the coronavirus impacts our operations in other areas or those of our third-party partners will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the coronavirus and the actions to contain the coronavirus or treat its impact, among others. Any such disruptions or losses we incur could have a material adverse effect on our financial results and our ability to conduct business as expected.

**Delays in enactment of foreign regulations could restrict our ability to reach our strategic growth targets in Europe and Asia.**

Our strategic growth initiatives are reliant upon more restrictive environmental regulations being enacted for the purpose of mercury control from power plant emissions in Europe and in China and other Asian countries. In May 2017, the European Union and seven of its member states ratified the Minamata Convention on Mercury, which triggered its entry into force with implementation starting in 2021. The Minamata Convention on Mercury is a global treaty to protect human health and the environment from the adverse effects of mercury. With regard to business opportunities in China and other Asian countries, there currently exists no specific mandate for mercury capture that requires specific control technology, such as we offer. China is the largest producer and consumer of coal in the world. Nevertheless, we are hopeful that as a result of the Minamata Convention, China as well as other countries will follow the U.S. in regulating mercury emissions. If stricter regulations are delayed or are not enacted, our sales growth targets in Europe and Asia could be adversely affected.

**Maintaining and improving our financial controls may divert management’s attention and increase costs.**

We are subject to the requirements of the Securities Exchange Act of 1934, including the requirements of the Sarbanes-Oxley Act of 2002. The requirements of these rules and regulations have increased in recent years, causing an increase in legal and financial compliance costs, and make some activities more difficult, time-consuming or costly and may also place undue strain on our personnel, systems and resources. Such rules and regulations require, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. This can be difficult to do. In this regard, our management concluded our internal control over financial reporting was not effective as of December 31, 2020. While certain remedial actions have been completed, we continue to actively plan for and implement additional control procedures to improve our overall control environment and expect these efforts to continue throughout 2021 and beyond. As a result of this and similar activities, management’s attention may be diverted from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations.

**Our board of directors concluded in 2020 that we needed to restate previously issued financial statements as a result of a change in accounting for a certain debt restructuring.**

On April 13, 2020, our board of directors of the Company (which currently acts as our audit committee) concluded, after consultation with management and the Company’s financial consulting firm, that our previously issued unaudited financial statements for the periods ended March 31, 2019, June 30, 2019 and September 30, 2019, included in the Company’s Quarterly Reports of Form 10-Q for the periods ended March 31, 2019, June 30, 2019 and September 30, 2019, respectively, should no longer be relied upon as a result of the change in accounting for a certain debt restructuring. We concluded that a gain on debt restructuring recognized during the first quarter of 2019 should have been accounted for as a capital transaction. Specifically, on February 25, 2019, we entered into an Unsecured Note Financing Agreement with AC Midwest Energy LLC (“AC Midwest”), pursuant to which AC Midwest exchanged a previously issued subordinated unsecured note in the principal amount of \$13,000,000, together with all accrued and unpaid interest thereon, for a new unsecured note in the principal amount of \$13,154,931. We recorded a gain of \$3,412,402 on this exchange which we concluded in April 2020 should have been recorded as an equity transaction capital contribution. The adjustments resulting therefrom, which are non-cash in nature, increased additional paid-in capital and increased our previously reported net loss, but had no impact on previously reported cash, working capital, total assets, total liabilities and revenues. Nevertheless, such restatement may have caused, or could in the future cause, investors in our securities to lose confidence in our financial statements and management which could result in a decrease in our stock price and negative sentiment in the investment community.

**Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.**

Liquidity, i.e., ready access to funds, is essential to our business. Our access to external sources of financing could be impaired by factors that are specific to us or others that may be outside of our control. As a result, such liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

**Possible inability of the Company to continue as a going concern.**

The accompanying consolidated financial statements as of December 31, 2020 have been prepared assuming the Company will continue as a going concern. As reflected in the consolidated financial statements, the Company had an accumulated deficit of \$63 million and a negative working capital of \$984,112 at December 31, 2020. Additionally, the Company had a net loss in the amount of \$5.8 million and cash used by operating activities of \$1.2 million for the year ended December 31, 2020. These factors raise substantial doubt about the Company's ability to continue as a going concern for the next twelve months from the issuance of these consolidated financial statements within the Company's Annual Report on Form 10-K. Although we anticipate continued significant revenues for products used in MATS compliance activities and from licensing of our technologies, no assurances can be given that the Company can obtain sufficient working capital through these activities and additional financing may be needed to meet its obligations. In February 2020, we closed on a one-year secured loan with a bank in the principal amount of \$200,000 and in April 2020, we received loan proceeds in the amount of \$299,300 pursuant to the Paycheck Protection Program under the CARES Act which was enacted on March 27, 2020 as a result of the COVID-19 pandemic. Such PPP loan was forgiven in January 2021 and the one-year secured loan was repaid in full in February 2021. In February 2021, the Company received second draw loan proceeds in the amount of \$299,380 pursuant to the Paycheck Protection Program. In January and February 2021, certain warrant holders exercised warrants for cash and the Company received proceeds of approximately \$246,808. Also, in January and February 2021, the Company substantially reduced the aggregate principal amount outstanding on various debt obligations. In this regard, \$940,000 of the outstanding principal amount of convertible promissory notes issued in 2013 was converted to common stock, leaving \$50,000 remaining outstanding on such notes issued in 2013. In February and March 2021, the Company eliminated \$860,000 of outstanding convertible notes issued in 2018 by force converting all of such notes based on the terms thereof. Nevertheless, the Company may need to raise additional equity or debt financing. While the Company believes in its ability to raise additional funds, no assurances can be given that the Company can maintain sufficient working capital through these efforts, or that the continued implementation of its business plan will generate sufficient revenues in the future to sustain ongoing operations.

The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

***Risks Related to our Common Stock***

**Current stockholders may suffer dilution.**

In recent prior years, we have raised funds through the sale of convertible notes and restricted stock to qualified investors, and have under certain circumstances issued warrants to investors and options to employees and others. As of December 31, 2020, we have 78,096,326 shares of common stock outstanding of a total of 150,000,000 shares authorized by the Company. Approximately 109,199,230 shares of common stock are outstanding on a fully diluted basis as of December 31, 2020, taking into account shares issuable upon conversion of outstanding notes, and exercise of outstanding warrants and options. Any such conversion and/or exercise of such securities will have a dilutive effect on existing stockholders. In this regard, investors should note that multiple issuances of common stock were made in the first quarter of 2021, due to such conversions and exercises, along with other matters. In addition, if we were to raise additional funds through further issuances of equity or convertible debt securities in the future, our stockholders would suffer additional dilution.

**We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.**

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. In addition, until such time that the AC Midwest Energy, LLC promissory notes are paid in full, we are not permitted to issue any dividends. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in its value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

**If our internal control over financial reporting is found not to be effective or if we make disclosure of existing or potential significant deficiencies or material weaknesses in those controls, investors could lose confidence in our financial reports, and our stock price may be adversely affected.**

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to include an internal control report with our Annual Report on Form 10-K. That report must include management's assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. We evaluate our existing internal control over financial reporting based on the framework issued in 2013 by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. During the course of our ongoing evaluation of the internal controls, we may identify areas requiring improvement, and may have to design enhanced processes and controls to address issues identified through this review. Remedying any deficiencies, significant deficiencies or material weaknesses that we identify may require us to incur significant costs and expend significant time and management resources. Based on such evaluation, our management concluded our internal control over financial reporting was not effective as of December 31, 2020. The ineffectiveness of our internal control over financial reporting was due to the following material weaknesses which are indicative of many small companies: (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. While certain remedial actions have been completed, we continue to actively plan for and implement additional control procedures to improve our overall control environment and expect these efforts to continue throughout 2021 and beyond.

Nevertheless, we cannot assure you that any of the measures we implement to remedy any such deficiencies will effectively mitigate or remedy such deficiencies. Due to the nature of the remediation process, the need to have sufficient resources (cash or otherwise) to devote to such efforts, and the need to allow adequate time after implementation to evaluate and test the effectiveness of the controls, no assurance can be given as to the timing of achievement of remediation. Investors could lose confidence in our financial reports, and our stock price may be adversely affected, if our internal controls over financial reporting continue to be found not to be effective by management or if we make disclosure of existing or potential significant deficiencies or material weaknesses in those controls in the future, investors could lose confidence in our financial reports and our stock price may be adversely affected.

**The trading price of our common stock may be volatile.**

The trading price of our shares has, from time to time, fluctuated widely and in the future may be subject to similar fluctuations. The trading price may be affected by a number of factors including the risk factors set forth in this report as well as our operating results, financial condition, announcements of innovations or new products by us or our competitors, general conditions in the market place, and other events or factors. Although we believe a number of registered broker dealers currently make a market in our common stock, we cannot assure you that any of these firms will continue to serve as market makers or have the financial capability to stabilize or support our common stock. A reduction in the number of market makers or the financial capability of any of these market makers could also result in a decrease in the trading volume of and price of our shares. In recent years, broad stock market indices in general have experienced substantial price fluctuations. Such broad market fluctuations may adversely affect the future trading price of our common stock.

**The trading market for securities quoted on the OTCQB is less liquid.**

Our common stock currently trades on the OTCQB. The trading market for securities of companies quoted on the OTCQB or other quotation systems is substantially less liquid than the average trading market for companies listed on a national securities exchange. The quotation of our shares on the OTCQB or other quotation system may result in a less liquid market available for existing and potential shareholders to trade shares of our common stock, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

**Potential future sales pursuant to Rule 144.**

Many of the shares of our common stock presently held by management and others are "restricted securities" as that term is defined in Rule 144, promulgated under the Securities Act of 1933, as amended. Under Rule 144, a person (or persons whose shares are aggregated) who has satisfied a certain holding period, may, under certain circumstances sell such shares or a portion of such shares. Such holding periods have already been satisfied in many instances. Therefore, actual sales or the prospect of sales of such shares under Rule 144 in the future may depress the prices of the Company's securities.



**Our common stock may be characterized as a “penny stock” under applicable SEC regulations.**

Our common stock may be characterized as “penny stock” under SEC regulations. As such, broker-dealers dealing in our common stock may be subject to the disclosure rules for transactions involving penny stocks, which generally require that, prior to a purchase, the broker-dealer has approved the proposed purchaser’s account for transactions in penny stocks and has received from the purchaser an agreement to the transaction setting forth the identity and quantity of the common stock to be purchased. In order to approve a person’s account for transactions in penny stocks, the broker-dealer must obtain from the person information concerning the person’s financial situation, investment experience and investment objectives, and reasonably determine that transactions in penny stocks are suitable for the person. These additional burdens imposed upon broker-dealers may discourage them from effecting transactions in our common stock, which could make it difficult for an investor to sell his, her or its shares at any given time.

Except as required by the Federal Securities Law, the Company does not undertake any obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this report or for any other reason.

**Item 1B. Unresolved Staff Comments.**

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. Properties.**

We lease a warehouse in Corsicana, Texas consisting of 20,000 square feet which we use for manufacturing and distribution of our products. As of December 2020, we relocated our corporate headquarters to such location which corporate headquarters prior thereto were maintained in Lewis Center, Ohio. Such lease in Corsicana, Texas expires March 31, 2024. We also previously leased approximately 500 square feet of office space in Grand Forks, North Dakota which was primarily used for research and development activities. Such lease which expired August 31, 2020 was not renewed by us, and our research and development activities are now performed by us elsewhere.

**Item 3. Legal Proceedings.**

On July 17, 2019, we initiated patent litigation against certain defendants in the U.S. District Court for the District of Delaware for infringement of United States Patent Nos. 10,343,114 (the “‘114 Patent”) and 8,168,147 (the “‘147 Patent”) owned by the Company. These patents relate to our two-part Sorbent Enhancement Additive (SEA<sup>®</sup>) 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 the Company’s ‘114 Patent and ‘147 Patent and seeks a permanent injunction from further acts of infringement and monetary damages.

During 2020, each of the four major utility defendants in the above action filed petitions for Inter Partes Review (IPR) with the United States Patent and Trademark Office (USPTO), 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 IPR with the USPTO. 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<sup>®</sup>) 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 will continue with respect to the other defendants still involved.

Other than the foregoing, there are no material pending legal proceedings to which we are a party or to which any of our property is subject, nor are there any such proceedings known to be contemplated by governmental authorities. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market**

Our shares of common stock are quoted on the OTCQB operated by OTC Markets Group Inc. under the symbol “MEEC”. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

**Recent Sales of Unregistered Securities**

None.

**Share Repurchase Program**

We purchased no equity securities during year ended December 31, 2020 and have no program in place at the present time to buy any equity securities in the future.

**Holders**

As of March 31, 2021, there were 429 stockholders of record of our common stock. This does not reflect persons or entities that hold their stock in nominee or “street name”. The approximate number of beneficial stockholders is estimated to be 4,800.

**Dividends**

We have not declared any cash dividends to date and have no current plan to do so in the foreseeable future. In addition, until such time that the AC Midwest Energy, LLC promissory notes are paid in full, we are not permitted to issue any dividends.

**Transfer Agent**

The Transfer Agent and Registrar for the Company’s common stock is Transfer Online, Inc., 512 SE Salmon Street, Portland, Oregon 97214.

**Equity Compensation Plan Information**

[Table of Contents](#)

The following table shows information, as of December 31, 2020, with respect to each equity compensation plan under which the Company’s common stock is authorized for issuance:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	(a)	(b)	(c)
Equity compensation plans approved by security holders, terminated	4,925,000	\$ 0.75	-
Equity compensation plans approved by security holders	11,293,326	\$ 0.39	705,174
<b>Total</b>	<b>16,218,326</b>	<b>\$ 0.50</b>	<b>705,174</b>

**Item 6. Selected Financial Data.**

Not applicable as a smaller reporting company.

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with consolidated financial statements and the related notes that appear elsewhere within this report. Certain statements we make under this Item 7 constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. See “Forward-Looking Statements” in “Part I” preceding “Item 1 - Business.” You should consider our forward-looking statements in light of the risks discussed under the heading “Risk Factors” in Item 1A above, as well as our consolidated financial statements, related notes and other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission.

**Background**

Midwest Energy Emissions Corp. (the “Company”, “we”, “us” and “our”) is an environmental services and technologies company developing and delivering patented and proprietary solutions to the global power industry. 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 facility. 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 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. On remand, following the Supreme Court’s instructions to consider costs, the EPA in April 2016 issued a final supplemental finding reaffirming the MATS rule on the ground that it is supported by the cost analysis the Supreme Court required. That supplemental finding remains under review by the D.C. Circuit. In April 2017, the EPA asked the court to place that litigation in abeyance, stating that the Agency then under the Trump Administration was reviewing the supplemental finding to determine whether it should be reconsidered in whole or in part. The court granted EPA’s abeyance request which has remained in place. In April 2020, the EPA concluded that the 2016 supplemental finding was flawed in part due to its reliance on co-benefits to justify MATS and withdrew EPA’s 2016 “appropriate-and-necessary” determination as erroneous, but left the 2011 MATS rule in place pursuant to D.C. Circuit case law holding that a source category may only be removed from the list of categories to be regulated through a rigorous delisting process that cannot currently be satisfied by EPA. 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 “appropriate and necessary” determination, for conformity with Biden Administration environmental policy. Nevertheless, legal challenges may continue with respect to the MATS regulation which could extend uncertainty over the status of MATS for a number of years. Investors should note that any changes to the MATS rule could have a negative impact on our business.

## Executive Overview

We remain focused on positioning the Company for short and long-term growth. During 2018, we focused 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.

In the United States, 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. In this regard, during the first quarter of 2021, we announced that we had secured supply contract extensions with two long-term customers.

In Europe, we had been working to penetrate this market through our licensing agreement entered into in March 2018 with one of our primary suppliers. Such arrangement has been terminated effective as of December 6, 2020. We intend to continue to pursue the European market when certain new regulations are expected to take effect in 2021 and 2022 although no assurance can be made that any such efforts will be successful.

On February 25, 2019, we were able to complete the restructuring of our unsecured and secured debt obligations held by AC Midwest Energy LLC extending the maturity dates of these debts until 2022 and eliminating quarterly principal payment requirements. This restructuring reflects the commitment of our financial partner in our efforts to attract new business, manage our present customers and monetize our patent portfolio.

From June through October 2019, we raised \$2,600,000 in a private placement offering of 12.0% unsecured convertible promissory notes and warrants sold and issued to certain accredited investors.

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<sup>®</sup>) process for mercury removal from coal-fired power plants.

In October 2019, we entered into a license and development agreement with a nonrelated third party entity located in Alabama pursuant to which the parties have agreed to work together to develop a plan to commercialize and market certain technology owned by such entity related to the removal of mercury from air and water emissions generated by coal burning 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 IPR 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 the Company's two-part Sorbent Enhancement Additive (SEA<sup>®</sup>) 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.

During the first quarter of 2021, we eliminated \$1,850,000 of convertible notes through conversions to shares of common stock.

During the first quarter of 2021, we announced that we are in the process of developing a proprietary methane gas emissions control technology which we believe can be adopted within the oil and gas industry. While we have not established a timeline for the introduction of our methane gas emissions control technology, we hope to be able to commercialize our efforts in 2022 and thereafter.

In addition, 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. Our new technologies are under development in conjunction with our collaboration with the Alabama third party entity mentioned above and its affiliates. Such technologies focus on improving the cost of extracting rare earth minerals along with improving the environmental footprint of extracting those rare earth elements from their solvent state. While there is no established timeline for the introduction of these technologies after further testing is performed, we hope that if such further testing is successful, these technologies can be commercialized in 2022 and thereafter.

Although we face a host of challenges and risks, we are optimistic about our future and expect our business to grow substantially.

It should be noted that our operations may be affected by the ongoing coronavirus outbreak which began in China at the beginning of 2020 which has impacted various businesses throughout the world, including travel restrictions and the extended shutdown of certain businesses in impacted geographic regions. If the coronavirus situation does not improve during 2021 or should worsen, we may experience disruptions to our business including, but not limited to, the availability of raw materials, equipment, to our workforce, or to our business relationships with other third parties.

#### **Restatement of Previously Issued Financial Statements (Unaudited)**

On April 13, 2020, our board of directors of the Company (which currently acts as our audit committee) concluded, after consultation with management and the Company's recently retained financial consulting firm, that our previously issued unaudited financial statements for the periods ended March 31, 2019, June 30, 2019 and September 30, 2019, included in the Company's Quarterly Reports of Form 10-Q for the periods ended March 31, 2019, June 30, 2019 and September 30, 2019, respectively, should no longer be relied upon as a result of the change in accounting for a certain debt restructuring.

Specifically, on February 25, 2019, the Company entered into an Unsecured Note Financing Agreement with AC Midwest Energy LLC ("AC Midwest"), pursuant to which AC Midwest exchanged a previously issued subordinated unsecured note in the principal amount of \$13,000,000, together with all accrued and unpaid interest thereon, for a new unsecured note in the principal amount of \$13,154,931 (the "New AC Midwest Unsecured Note"). We recorded a gain of \$3,412,402 on this exchange which is primarily related to the difference in fair value of the notes on the date of the exchange, which we recently concluded should have been recorded as an equity transaction capital contribution.

Since the New AC Midwest Unsecured Note was held by a related party, the gain should have been recorded as a capital transaction under ASC 470-50-40. The profit-sharing portion also should have been bifurcated from the loan and shown separately on the Consolidated Balance Sheets of the financial statements. Such changes, including necessary adjustments for the periods ended March 31, 2019, June 30, 2019 and September 30, 2019, have been reflected in the audited consolidated financial statements and notes included in this Annual Report on Form 10-K. The adjustments, which are non-cash in nature, increase additional paid-in capital and increase our previously reported net loss, but has no impact on previously reported cash, working capital, total assets, total liabilities and revenues. For further information including the impact of these adjustments, please see Notes 9 and 15 to the audited consolidated financial statements included in this Annual Report on Form 10-K.

#### **Results of Operations**

*Sales* - We generated revenues of approximately \$8,158,000 and \$11,417,000 for the years ended December 31, 2020 and 2019, respectively. Such revenues were primarily derived from sorbent product sales which were approximately \$7,420,000 and \$11,045,000 for the years ended December 31, 2020 and 2019, respectively. The decrease is primarily due to decreased generation in the coal fired power sector principally due to renewables and low natural gas prices.

#### **Costs and Expenses**

*Costs of sales* were approximately \$5,440,000 and \$8,335,000 for the year ended December 31, 2020 and 2019, respectively. The decrease is primarily attributable to decreased sales.

*Selling, general and administrative expenses* were approximately \$5,936,000 and \$6,429,000 for the years ended December 31, 2020 and 2019, respectively. The decrease is primarily attributed to less travel due to COVID-19 and less business development and outside consulting expenses.

*Total costs and expenses* were approximately \$13,974,000 and \$17,500,000 during the years ended December 31, 2020 and 2019, respectively. The decrease is primarily attributable to the decrease in cost of sales.

[Table of Contents](#)

Interest expense and letter of credit fees for the years ended December 2020 and 2019 is as follows:

	Year Ended	
	December 31,	
	2020	2019
	(In thousands)	
Interest expense on notes payable	\$ 562	\$ 537
Amortization of discount of notes payable	1,974	1,752
Amortization of debt issuance costs	122	102
	<u>\$ 2,658</u>	<u>\$ 2,391</u>

(Gain) Loss on change in fair value of profit share liability (relating to the restructured unsecured debt obligation held by AC Midwest Energy LLC) were approximately a gain of \$24,000 and a loss of \$374,000 for the years ended December 31, 2020 and 2019, respectively. The change is primarily attributed to the change in the fair value of the profit share liability.

**Net Income (Loss)**

For the years ended December 31, 2020 and 2019, we had a net loss of approximately \$5,826,000 and \$6,097,000, respectively. The change in net loss is primarily due to the decrease in revenue offset by a decrease in cost of sales and a decrease in selling, general and administrative expenses.

**Liquidity and Capital Resources**

We had approximately \$591,000 in cash on our balance sheet at December 31, 2020. Total current assets were \$2,375,000, and total current liabilities were \$3,359,000 at December 31, 2020, resulting in a working capital deficit of approximately \$984,000. Our accumulated deficit was \$63.5 million at December 31, 2020. Additionally, we had a net loss in the amount of approximately \$5,826,000 and cash used by operating activities of approximately \$1,239,000 for the year ended December 31, 2020.

During 2018, we restructured convertible notes totaling \$560,000 into new loans that mature in 2023. In February 2019, we completed the restructuring of our unsecured and secured debt obligations held by a principal shareholder, extending the maturity dates of these debts and the remaining convertible notes until 2022 and eliminating quarterly principal payment requirements. From June through October 2019, we sold \$2,600,000 new convertible notes which mature in 2024 to investors. In February 2020, we closed on a one-year secured loan with a bank in the principal amount of \$200,000, and in April 2020, we received loan proceeds in the amount of \$299,300 (the "PPP Loan") pursuant to the Paycheck Protection Program under the CARES Act which was enacted on March 27, 2020 as a result of the COVID-19 pandemic. The principal and accrued interest under the PPP Loan is forgivable after eight weeks if we use the PPP Loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and otherwise complies with the PPP requirements. In order to obtain forgiveness of the PPP Loan, we must submit a request and provide satisfactory documentation regarding our compliance with applicable requirements. Such PPP loan was forgiven in January 2021 and the one-year secured loan was repaid in full in February 2021.

Nevertheless, the accompanying consolidated financial statements as of December 31, 2020 have been prepared assuming we will continue as a going concern. As reflected in the consolidated financial statements, we had an accumulated deficit of \$63.5 million and a negative working capital of \$984,000 at December 31, 2020. Additionally, we had a net loss in the amount of \$5.8 million and cash used by operating activities of \$1.2 million for the year ended December 31, 2020. These factors raise substantial doubt about our ability to continue as a going concern for the next twelve months from the issuance of this Annual Report on Form 10-K. Although we anticipate continued significant revenues for products to be used in MATS compliance activities and from licensing of our technologies, no assurances can be given that we can obtain sufficient working capital through these activities and additional financing may be needed to meet its obligations. In February 2021, the Company received second draw loan proceeds in the amount of \$299,380 pursuant to the Paycheck Protection Program. In January and February 2021, certain warrant holders exercised warrants for cash and the Company received proceeds of approximately \$246,808. Also, in January and February 2021, the Company substantially reduced the aggregate principal amount outstanding on various debt obligations. In this regard, \$940,000 of the outstanding principal amount of convertible promissory notes issued in 2013 was converted to common stock, leaving \$50,000 remaining outstanding on such notes issued in 2013. In February and March 2021, the Company eliminated \$860,000 of outstanding convertible notes issued in 2018 by force converting all of such notes based on the terms thereof. Nevertheless, the Company may need to raise additional equity or debt financing. While we believe in our ability to raise additional funds, no assurances can be given that we can maintain sufficient working capital through these efforts, or that the continued implementation of our business plan will generate sufficient revenues in the future to sustain ongoing operations.

## Table of Contents

*Total assets* were approximately \$7,376,000 at December 31, 2020 versus approximately \$9,273,000 at December 31, 2019. The change in total assets is primarily attributable to the decrease in cash.

*Total liabilities* were approximately \$20,580,000 at December 31, 2020 versus approximately \$18,147,000 at December 31, 2019. The increase in liabilities is primarily due to an increase in debt.

*Operating activities* used approximately \$1,239,000 and \$1,577,000 of cash during the years ended December 31, 2020 and 2019, respectively. The decrease in cash used in operating activities is primarily due to a decrease in net loss.

*Investing activities* provided \$42,500 during the year ended December 31, 2020 and \$30,000 during the year ended December 31, 2019. The increase in cash provided by investing activities is due the increase in cash received from the sale of equipment.

*Financing activities* provided approximately \$288,000 during the year ended December 31, 2020 and \$2,461,000 during the year ended December 31, 2019, respectively. In 2020, the Company obtained \$499,000 in notes payable and repaid \$165,000 of notes payable as compared to raising \$2,600,000 in unsecured convertible debt and repaying \$139,000 on notes payable in 2019.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, and results of operations, liquidity or capital expenditures.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial conditions and results of operation are based upon the accompanying consolidated financial statements which have been prepared in accordance with the generally accepted accounting principles in the U.S. The preparation of the consolidated financial statements requires that we make estimates and assumptions that affect the amounts reported in assets, liabilities, revenues and expenses. Management evaluates on an on-going basis our estimates with respect to the valuation allowances for accounts receivable, income taxes, accrued expenses and equity instrument valuation, for example. We base these estimates on various assumptions and experience that we believe to be reasonable. The following critical accounting policies are those that are important to the presentation of our financial condition and results of operations. These policies require management's most difficult, complex, or subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

The following critical accounting policies affect our more significant estimates used in the preparation of our consolidated financial statements. In particular, our most critical accounting policies relate to the recognition of revenue, and the valuation of our stock-based compensation.

#### *Inventory*

Inventories are stated at the lower of cost (first-in, first-out basis) or net realizable value. Inventories are periodically evaluated to identify obsolete or otherwise impaired products and are written off when management determines usage is not probable. The Company estimates the balance of excess and obsolete inventory by analyzing inventory by age using last used and original purchase date and existing sales pipeline for which the inventory could be used. In the past the Company has experienced a minimal valuation allowance on its inventory.

## [Table of Contents](#)

### *Property and Equipment*

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For consolidated financial statement purposes, equipment is recorded at cost and depreciated using the straight-line method over their estimated useful lives of 2 to 5 years. Leasehold improvements are recorded at cost and depreciated using the straight-line method over the life of the lease.

Expenditures for repairs and maintenance which do not materially extend the useful lives of property and equipment are charged to operations. Management reviews the carrying value of its property and equipment for impairment on an annual basis.

### *Intellectual Property*

Intellectual property is recorded at cost and amortized over its estimated useful life of 15 years. Management reviews intellectual property for impairment when events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. In the event that impairment indicators exist, a further analysis is performed and if the sum of the expected undiscounted future cash flows resulting from the use of the asset or asset group is less than the carrying amount of the asset or asset group, an impairment loss equal to the excess of the asset or asset group's carrying value over its fair value is recorded. Management considers historical experience and all available information at the time the estimates of future cash flows are made, however, the actual cash values that could be realized may differ from those that are estimated.

### *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 equipment. No impairment charges were recognized for the years ended December 31, 2020 and 2019, respectively.

### *Leases*

In February 2016, the FASB issued new guidance which requires lessees to recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The accounting standard, effective January 1, 2019, requires virtually all leases to be recognized on the Balance Sheet. Effective January 1, 2019, we adopted the standard using the modified retrospective method, under which we elected the package of practical expedients and transition provisions allowing us to bring our existing operating leases onto the Consolidated Balance Sheet without adjusting comparative periods, but recognizing a cumulative-effect adjustment to the opening balance of accumulated deficit on January 1, 2019. Under the guidance, we have also elected not to separate lease and non-lease components in recognition of the lease-related assets and liabilities, as well as the related lease expense.

We have operating leases for office space in two multitenant facilities, which are not recorded as assets and liabilities as those leases do not have terms greater than 12 months. We have an operating leases for a multi-purpose facility and bulk trailers used in operations which is recorded as an asset and liability as the lease has a terms greater than 12 months. Lease-related assets, or right-of-use assets, are recognized at the lease commencement date at amounts equal to the respective lease liabilities, adjusted for prepaid lease payments, initial direct costs, and lease incentives received. Lease-related liabilities are recognized at the present value of the remaining contractual fixed lease payments, discounted using our incremental borrowing rate. Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred.

Upon adoption of the new lease accounting standard on January 1, 2019, we recorded \$1,339,569 of right of use assets and \$1,417,435 of lease-related liabilities, with the difference charged to accumulated deficit at that date.



### *Stock-Based Compensation*

The Company accounts for stock-based compensation awards in accordance with the provisions of ASC 718, *Compensation-Stock Compensation*, which requires equity-based compensation, be reflected in the consolidated financial statements over the period of service which is typically the vesting period based on the estimated fair value of the awards.

### *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.

### *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.

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. The adoption of this standard did not have a material impact on the Company's financial statements.

## [Table of Contents](#)

### *Disaggregation of Revenue*

The Company generated revenue for the years ended December 31, 2020 and 2019 by (i) delivering product to its commercial customers, (ii) completing and commissioning equipment projects at commercial customer sites, (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.

### *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 December 31, 2020. 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 subject to income tax examinations by major taxing authorities since inception.

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. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

The Company is no longer subject to tax examinations by tax authorities for years prior to 2017.

### *Recently Adopted Accounting Standards*

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." Under ASU 2016-02, lessees will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, "Revenue from Contracts with Customers." ASU 2016-02 became effective for us on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) - Targeted Improvements," which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB also issued ASU 2018-20, "Leases (Topic 842) - Narrow-Scope Improvements for Lessors," which provides for certain policy elections and changes lessor accounting for sales and similar taxes and certain lessor costs. As of January 1, 2019, the Company adopted ASU 2016-02 and has recorded a right-of-use asset and lease liability on the balance sheet for its operating leases. We elected to apply certain practical expedients provided under ASU 2016-02 whereby we will not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. The Company did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). The Company accounted for lease and non-lease components separately because such amounts are readily determinable under our lease contracts and because we expect this election will result in a lower impact on our balance sheet.

## [Table of Contents](#)

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings.

The guidance in ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and the guidance is to be applied using a full or modified retrospective approach. The Company early adopted ASU 2017-11 and changed its method of accounting for certain warrants that were initially recorded as liabilities during the year ended December 31, 2014 on a full retrospective basis. The adoption of ASU 2017-11 did not have a material impact on its consolidated financial statements.

Effective January 1, 2020, the Company adopted ASU No. 2018-07, *Compensation — Stock Compensation (Topic 718)*. ASU 2018-07 is intended to reduce cost and complexity and to improve financial reporting for nonemployee share based payments. Prior to the issuance of this guidance, the accounting requirements for nonemployee and employee share-based payment transactions were significantly different. ASU 2018-07 expands the scope of Topic 718, *Compensation — Stock Compensation* (which only included share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees is substantially aligned. This ASU supersedes Subtopic 505-50, *Equity — Equity-Based Payments to Nonemployees*. The adoption of ASU 2018-07 did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2020, the Company adopted ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in ASU 2018-13 modify the disclosure requirements associated with fair value measurements based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The adoption of ASU 2018-13 did not have a material impact on the Company's consolidated financial statements.

### *Recently Issued Accounting Standards*

In December 2019, the FASB issued authoritative guidance intended to simplify the accounting for income taxes (ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"). This guidance eliminates certain exceptions to the general approach to the income tax accounting model and adds new guidance to reduce the complexity in accounting for income taxes. This guidance is effective for annual periods after December 15, 2020, including interim periods within those annual periods. The Company is currently evaluating the potential impact of this guidance on its consolidated financial statements.

Management does not believe that any recently issued, but not yet effective accounting pronouncements, when adopted, will have a material effect on the accompanying consolidated financial statements.

**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 Income to Adjusted EBITDA for the years ended December 31, 2020 and 2019, respectively:

	<b>Year Ended</b>	
	<b>12/31/2020</b>	<b>12/31/2019</b>
	(In thousands)	
Net loss	\$ (5,826)	\$ (6,097)
Non-GAAP adjustments:		
Depreciation and amortization	713	929
Interest and letter of credit fees	2,658	2,391
Income taxes	10	14
Stock based compensation	<u>1,710</u>	<u>1,810</u>
Adjusted EBITDA	<u>\$ (735)</u>	<u>\$ (953)</u>

**Item 7A. 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 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARY**

Index to Financial Information  
Years Ended December 31, 2020 and 2019

	<u>Page</u>
Consolidated Financial Statements	
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-1
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-3
<a href="#">Consolidated Balance Sheets</a>	F-4
<a href="#">Consolidated Statements of Operations</a>	F-5
<a href="#">Consolidated Statements of Stockholders' Deficit</a>	F-6
<a href="#">Consolidated Statements of Cash Flows</a>	F-7
<a href="#">Notes to Consolidated Financial Statements</a>	F-8

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Midwest Energy Emissions Corp.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Midwest Energy Emissions Corp. and Subsidiary (the "Company") as of December 31, 2020, and the related consolidated statements of operations, stockholders' deficit and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in the financial statements, the Company has incurred substantial net losses in recent years, has negative working capital and has an accumulated deficit at December 31, 2020 and is dependent on debt and equity financing to fund its operations, all of which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are disclosed in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

**Valuation of Profit Share Liability – Refer to Notes 2 and 9 to the financial statements**

*Critical Audit Matter Description*

In connection with the Unsecured Note disclosed in Note 9 to the financial statements, the Company shall pay the principal outstanding, as well as a profit participation preference (the “profit share liability”). The Company calculates the fair value of the profit share liability every quarter utilizing management estimates. The fair value of the profit share liability is calculated using a discounted cash flow model based on estimated future cash payments. The fair value of the profit share liability is determined on a Level 3 measurement. The fair value of the profit share liability fluctuates over time based on management estimates. As of December 31, 2020, the fair value of the profit share liability was approximately \$2.3 million.

Inherent in the valuation of Level 3 financial instruments are certain significant judgments and estimates related to forecasted cash flows. Changes in these assumptions can significantly impact the valuation of the profit share liability, and the gain or loss on the change in fair value that is recorded. This required a high degree of auditor judgment and an increased extent of effort, when performing audit procedures to evaluate the reasonableness of management’s forecasted cash flows. Accordingly, we believe that auditing the fair value of the profit share liability is a critical audit matter.

*How the Critical Audit Matter Was Addressed in the Audit*

The primary procedures we performed to address this critical audit matter included:

- Obtaining an understanding of the Company’s process to determine the fair value of the profit share liability;
- Obtaining and reading the Unsecured Note Agreement and evaluated management’s assessment of the terms which included an analysis of valuation of the profit share liability;
- Evaluating the reasonableness of management’s sales, costs and expenses forecast by comparing the forecast to historical sales and cost and expense data, historical profit margins and trends;
- Utilizing our valuation professionals to assist in (i) assessing the appropriateness of the valuation methodology and (ii) evaluating the reasonableness of the discount rate;
- Performing sensitivity analyses to evaluate the impact that changes in the significant assumptions would have on the fair value of the profit share liability;
- Testing the mathematical accuracy of the profit share liability calculation.

The outcome of the audit procedures resulted in determining that the fair value of the profit share liability recorded by management is reasonable.

/s/ Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

We have served as the Company's auditor since 2020.

Saddle Brook, New Jersey  
April 5, 2021

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Board of Directors of  
Midwest Energy Emissions Corp.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Midwest Energy Emissions Corp. (the “Company”) as of December 31, 2019, the related consolidated statements of operations, stockholders’ deficit and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

**Explanatory Paragraph – Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 3, the Company has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Adoption of New Accounting Standards**

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of ASU No. 2016-02, Leases (Topic 842), as amended, effective January 1, 2019, using the modified retrospective approach.

**Restatement of Previously Issued Unaudited Financial Statements**

As discussed in Note 15 to the financial statements, the Company concluded that a gain on debt restructuring recognized during the first quarter of 2019 should have been accounted for as a capital transaction. The effect of restatement, which resulted in a reduction in net gain and no effect on ending equity, on the specific items presented in the Company’s historical unaudited interim condensed consolidated financial statements previously included in the Company’s Quarterly Reports on Form 10-Q have been restated within these financial statements for the periods ended March 31, 2019, June 30, 2019 and September 30, 2019; as further described in Note 15.

**Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Marcum LLP

Marcum LLP

We served as the Company’s auditor from 2018 to 2020.  
Houston, Texas  
May 14, 2020



**MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2020 AND 2019**

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 591,019	\$ 1,499,287
Accounts receivable	1,116,082	1,222,874
Inventory	560,127	513,498
Prepaid expenses and other assets	107,443	316,199
<b>Total current assets</b>	<u>2,374,671</u>	<u>3,551,858</u>
Property and equipment, net	1,887,029	2,082,343
Right of use asset	795,869	1,106,575
Intellectual property	2,318,796	2,532,462
<b>Total assets</b>	<u>\$ 7,376,365</u>	<u>\$ 9,273,238</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses (related party of \$168,750 and \$43,750)	\$ 1,611,956	\$ 1,676,757
Current portion of equipment notes payable	29,255	53,304
Current portion of operating lease liability	407,975	383,307
Current portion of note payable	34,661	-
Current portion of convertible notes payable, net of discount and issuance costs	-	990,000
Accrued interest	259,230	226,065
Customer credits	167,000	167,000
Accrued salaries	848,706	357,095
<b>Total current liabilities</b>	<u>3,358,783</u>	<u>3,853,528</u>
Equipment notes payable, less current portion	789	22,386
Operating lease liability	394,625	807,409
Note payable	299,300	-
Convertible notes payable, net of discount and issuance costs	4,055,122	2,951,137
Profit share liability – related party	2,305,308	2,328,845
Secured note payable – related party	271,686	271,686
Unsecured note payable, net of discount and issuance costs – related party	9,894,284	7,911,898
<b>Total liabilities</b>	<u>20,579,897</u>	<u>18,146,889</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 11)</b>		
<b>Stockholders' deficit</b>		
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; 78,096,326 and 76,747,750 shares issued and outstanding as of December 31, 2020 and 2019, respectively	78,096	76,748
Additional paid-in capital	50,202,478	48,708,085
Accumulated deficit	(63,484,106)	(57,658,484)
<b>Total stockholders' deficit</b>	<u>(13,203,532)</u>	<u>(8,873,651)</u>
<b>Total liabilities and stockholders' deficit</b>	<u>\$ 7,376,365</u>	<u>\$ 9,273,238</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARY**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<b>For the Year Ended December 31, 2020</b>	<b>For the Year Ended December 31, 2019</b>
<b>Revenues</b>	\$ 8,158,448	\$ 11,417,027
<b>Costs and expenses:</b>		
Cost of sales	5,440,395	8,335,436
Selling, general and administrative expenses (related party of \$175,275 and \$329,729)	5,935,517	6,428,580
Interest expense & letter of credit fees (related party of \$2,023,818 and \$2,061,954)	2,657,554	2,391,395
(Gain) Loss on change in fair value of profit share liability	(23,537)	374,462
Gain on sale of equipment	(35,859)	(29,560)
<b>Total costs and expenses</b>	<u>13,974,070</u>	<u>17,500,313</u>
<b>Net loss before provision for income taxes</b>	(5,815,622)	(6,083,286)
<b>Provision for income taxes</b>	<u>(10,000)</u>	<u>(14,000)</u>
<b>Net loss</b>	<u>\$ (5,825,622)</u>	<u>\$ (6,097,286)</u>
<b>Net loss per common share-basic and diluted:</b>	\$ (0.07)	\$ (0.08)
<b>Weighted average common shares outstanding</b>	77,818,780	76,534,957

*The accompanying notes are an integral part of these consolidated financial statements.*

**MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated (Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>			
<b>Balance - December 31, 2018</b>	76,246,113	\$ 76,246	\$ 42,785,990	\$ (51,483,332)	\$ (8,621,096)
Cumulative effect of change in accounting principle related to accounting for leases	-	-	-	(77,866)	(77,866)
Issuance of warrants, recorded as discount on convertible notes payable	-	-	485,640	-	485,640
Issuance of stock options	-	-	898,207	-	898,207
Extension of certain stock option expiration	-	-	745,989	-	745,989
Stock issued per resignation agreements	464,517	465	118,075	-	118,540
Stock issued upon cashless warrant exercise	37,120	37	(37)	-	-
Stock warrants issued for prepaid services	-	-	243,294	-	243,294
Stock options issued for prepaid services	-	-	18,723	-	18,723
Capital contribution related to debt restructuring Note 8	-	-	3,412,204	-	3,412,204
Net loss	-	-	-	(6,097,286)	(6,097,286)
<b>Balance - December 31, 2019</b>	<u>76,747,750</u>	<u>\$ 76,748</u>	<u>\$ 48,708,085</u>	<u>\$ (57,658,484)</u>	<u>\$ (8,873,651)</u>
Stock issued for prepaid services	1,000,000	1,000	199,000	-	200,000
Cashless exercise of stock options/warrants	48,576	48	(48)	-	-
Issuance of stock options	-	-	1,163,168	-	1,163,168
Modification of stock warrant	-	-	30,573	-	30,573
Stock issued for consulting services	300,000	300	101,700	-	102,000
Net loss	-	-	-	(5,825,622)	(5,825,622)
<b>Balance - December 31, 2020</b>	<u>78,096,326</u>	<u>\$ 78,096</u>	<u>\$ 50,202,478</u>	<u>\$ (63,484,106)</u>	<u>\$ (13,203,532)</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<b>For the Year Ended December 31, 2020</b>	<b>For the Year Ended December 31, 2019</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (5,825,622)	\$ (6,097,286)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Stock-based compensation	1,710,226	1,810,267
Amortization of discount on notes payable	1,974,080	1,752,639
Amortization of debt issuance costs	122,291	101,852
Amortization of right to use assets	310,706	378,261
Amortization of customer acquisition costs	-	34,467
Amortization of patent rights	213,666	201,200
Depreciation expense	188,675	314,908
(Gain) Loss on change in fair value of profit share	(23,537)	374,462
Gain on sale of equipment	(35,859)	(29,560)
<b>Changes in operating assets and liabilities</b>		
Decrease in accounts receivable	106,792	419,252
Increase in inventory	(46,629)	(4,082)
(Increase) Decrease in prepaid expenses and other assets	(5,730)	34,915
Decrease in accounts payable and accrued liabilities	(64,802)	(426,638)
Increase (Decrease) in accrued salaries	491,610	(198,782)
Increase in accrued interest	33,164	129,163
Decrease in operating lease liability	(388,116)	(371,986)
<b>Net cash used in operating activities</b>	<u>(1,239,085)</u>	<u>(1,576,948)</u>
<b>Cash flows from investing activities</b>		
Cash received from sale of equipment	42,500	30,000
<b>Net cash provided by investing activities</b>	<u>42,500</u>	<u>30,000</u>
<b>Cash flows from financing activities</b>		
Payments of notes payable	(165,339)	-
Proceeds from the issuance of notes payable	499,300	-
Payments on secured promissory note	-	(46,682)
Payments of equipment notes payable	(45,646)	(91,960)
Proceeds from the issuance of convertible promissory notes and related warrants	-	2,600,000
<b>Net cash provided by financing activities</b>	<u>288,315</u>	<u>2,461,358</u>
Net increase (decrease) in cash and cash equivalents	(908,268)	914,410
Cash and cash equivalents - beginning of year	1,499,287	584,877
<b>Cash and cash equivalents - end of year</b>	<u>\$ 591,019</u>	<u>\$ 1,499,287</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 534,960	\$ -
Income taxes	\$ -	\$ 14,000
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS</b>		
Cumulative effect on accumulated deficit of lease accounting change	\$ -	\$ 77,866
Discount on convertible promissory notes payable	\$ -	\$ 485,640
Net adjustment for extension of lease	\$ -	\$ 145,267
Stock Issued for consulting services	\$ 102,000	\$ -
Stock issued for prepaid services	\$ 200,000	\$ -
Stock warrants issued for prepaid services	\$ -	\$ 243,294
Stock options issued for prepaid services	\$ -	\$ 18,723
Capital contribution	\$ -	\$ (3,412,204)

*The accompanying notes are an integral part of these consolidated financial statements.*

**MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

***Note 1 - Organization***

*Midwest Energy Emissions Corp.*

Midwest Energy Emissions Corp. (the “Company”) is organized under the laws of the State of Delaware with 150,000,000 authorized shares of common stock, par value \$.001 per share and 2,000,000 authorized shares of preferred stock, par value \$0.001 per share.

*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.

***Note 2 - Summary of Significant Accounting Policies***

*Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with the Generally Accepted Accounting Principles in the United States of America (“GAAP”).

*Principles of Consolidation*

The consolidated financial statements include the accounts of Midwest Energy Emissions Corp. and its wholly-owned subsidiary, MES, Inc. Intercompany balances and transactions have been eliminated in consolidation.

*Restatement of previously issued financial statements*

On April 13, 2020, the Company concluded that a gain on debt restructuring recognized during the first quarter of 2019 (relating to the New AC Midwest Unsecured Note) should have been accounted for as a capital transaction. Since the New AC Midwest Unsecured Note was held by a related party, the gain should have been recorded as a capital transaction under ASC 470-50-40. The profit-sharing portion also should have been bifurcated from the loan and shown separately on the unaudited condensed consolidated balance sheets of the financial statements for the quarters ended March 31 2019, June 30, 2019 and September 30, 2019. For more information please see Note 15.

*Use of Estimates*

The preparation of 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 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, revenue recognition, profit share liability, allowance for doubtful accounts, stock-based compensation, income tax provision, excess and obsolete inventory reserve and impairment of intellectual property. Actual results could differ from those estimates.

*Cash*

Cash and cash equivalents include all highly liquid monetary instruments with original maturities of three months or less when purchased. These investments are carried at cost, which approximates fair value. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash deposits. The Company maintains its cash in institutions insured by the Federal Deposit Insurance Corporation (“FDIC”). At times, the Company’s cash and cash equivalent balances may be uninsured or in amounts that exceed the FDIC insurance limits. The Company has not experienced any losses on such accounts. At December 31, 2020 and 2019, the Company had no cash equivalents.

As of December 31, 2020, approximately \$91,000 of cash exceeded the FDIC insurance limits.

[Table of Contents](#)

*Accounts Receivable*

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At December 31, 2020 and 2019, the allowance for doubtful accounts was zero.

*Inventory*

Inventories are stated at the lower of cost (first-in, first-out basis) or net realizable value. Inventories are periodically evaluated to identify obsolete or otherwise impaired products and are written off when management determines usage is not probable. The Company estimates the balance of excess and obsolete inventory by analyzing inventory by age using last used and original purchase date and existing sales pipeline for which the inventory could be used. As of December 31, 2020 and 2019, the Company has no valuation allowance.

*Property and Equipment*

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For consolidated financial statement purposes, equipment is recorded at cost and depreciated using the straight-line method over their estimated useful lives of 2 to 5 years. Leasehold improvements are recorded at cost and depreciated using the straight-line method over the lesser of their estimated useful lives or the remaining term of the lease.

Expenditures for repairs and maintenance which do not materially extend the useful lives of property and equipment are charged to operations. Management reviews the carrying value of its property and equipment for impairment on an annual basis.

*Intellectual Property*

Intellectual property is recorded at cost and amortized over its estimated useful life of 15 years. Management reviews intellectual property for impairment when events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. In the event that impairment indicators exist, a further analysis is performed and if the sum of the expected undiscounted future cash flows resulting from the use of the asset or asset group is less than the carrying amount of the asset or asset group, an impairment loss equal to the excess of the asset or asset group's carrying value over its fair value is recorded. Management considers historical experience and all available information at the time the estimates of future cash flows are made, however, the actual cash values that could be realized may differ from those that are estimated.

*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 equipment. No impairment charges were recognized for the years ended December 31, 2020 and 2019, respectively.

*Leases*

In February 2016, the FASB issued new guidance which requires lessees to recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The accounting standard, effective January 1, 2019, requires virtually all leases to be recognized on the Balance Sheet. Effective January 1, 2019, we adopted the standard using the modified retrospective method, under which we elected the package of practical expedients and transition provisions allowing us to bring our existing operating leases onto the Consolidated Balance Sheet without adjusting comparative periods, but recognizing a cumulative-effect adjustment to the opening balance of accumulated deficit on January 1, 2019. Under the guidance, we have also elected not to separate lease and non-lease components in recognition of the lease-related assets and liabilities, as well as the related lease expense.

We have operating leases for office space in two multi-tenant facilities, which are not recorded as assets and liabilities as those leases do not have terms greater than 12 months. We have an operating leases for a multi-purpose facility and bulk trailers used in operations which is recorded as an asset and liability as the lease has a terms greater than 12 months. Lease-related assets, or right-of-use assets, are recognized at the lease commencement date at amounts equal to the respective lease liabilities, adjusted for prepaid lease payments, initial direct costs, and lease incentives received. Lease-related liabilities are recognized at the present value of the remaining contractual fixed lease payments, discounted using our incremental borrowing rate. Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred.

Upon adoption of the standard on January 1, 2019, we recorded \$1,339,569 of right of use assets and \$1,417,435 of lease-related liabilities, with the difference charged to accumulated deficit at that date.

*Stock-Based Compensation*

The Company accounts for stock-based compensation awards in accordance with the provisions of Accounting Standards Codification (“ASC”) 718, *Compensation-Stock Compensation*, which requires equity-based compensation, be reflected in the consolidated financial statements over the period of service which is typically the vesting period based on the estimated fair value of the awards.

*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.

Cash was the only asset measured at fair value on a recurring basis by the Company at December 31, 2020 and 2019 and is considered to be Level 1.

Financial instruments include cash, accounts receivable, accounts payable, customer credits and short-term debt. The carrying amounts of these financial instruments approximated fair value at December 31, 2020 and 2019 due to their short-term maturities.

The fair value of the promissory notes payable at December 31, 2020 and 2019 approximated the carrying amount as the notes were recently issued at interest rates prevailing in the market and interest rates have not significantly changed as of December 31, 2020 and 2019. The fair value of the promissory 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 promissory notes.

[Table of Contents](#)

The fair value of the profit share liability at December 31, 2020 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 assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	Fair Value Measurement as of December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash	\$ 591,019	\$ 591,019	\$ -	\$ -
Total Assets	\$ 591,019	\$ 591,019	\$ -	\$ -
Liabilities:				
Promissory notes	\$ 14,585,097	\$ -	\$ 14,585,097	\$ -
Profit share liability	2,305,308	-	-	2,305,308
Total Liabilities	\$ 16,890,405	\$ -	\$ 14,585,097	\$ 2,305,308

	Fair Value Measurement as of December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash	\$ 1,499,287	\$ 1,499,287	\$ -	\$ -
Total Assets	\$ 1,499,287	\$ 1,499,287	\$ -	\$ -
Liabilities:				
Promissory notes	\$ 12,200,411	\$ -	\$ 12,200,411	\$ -
Profit share liability	2,328,845	-	-	2,328,845
Total Liabilities	\$ 14,529,256	\$ -	\$ 12,200,411	\$ 2,328,845

*Foreign Currency Translation*

The Company's functional currency is the United States Dollar (the "U.S. Dollar"). The Company engages in foreign currency denominated transactions with customers that operate in functional currencies other than the U.S. Dollar. Assets and liabilities denominated in foreign currencies are translated into U.S. Dollar amounts at the period-end exchange rates. Sales and purchases and income and expense transactions that are denominated in foreign currencies are translated into U.S. Dollar amounts at the prevailing rates of exchange on the transaction date. Adjustments arising from foreign currency transactions are reflected in the statement of operations. For the years ended December 31, 2020 and 2019, there were no material foreign exchange gains or losses recognized by the Company in its statements of operations.

*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.

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.



[Table of Contents](#)

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. The adoption of this standard did not have a material impact on the Company's financial statements.

*Disaggregation of Revenue*

The Company generated revenue for the years ended December 31, 2020 and 2019 by (i) delivering product to its commercial customers, (ii) completing and commissioning equipment projects at commercial customer sites, (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 licensing is recognized at the point of time in which the customer obtains the license. Lump sum payments made pursuant to agreements in which the primary consideration is a license to the company's technology is accounted for as license revenue. Certain arrangements provide for repayment of license fees in the event the company enters into a supply agreement that results in a specified amount of sales. Nothing is recognized for this contingency.

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 and geographic region for the years ended December 31, 2020, and 2019.

	Year ended December 31, 2020			Year ended December 31, 2019		
	United States	International	Total	United States	International	Total
Product revenue	\$ 7,306,382	\$ 113,600	\$ 7,419,982	\$ 10,746,715	\$ 297,840	\$ 11,044,555
License revenue	545,547	-	545,547	-	-	-
Demonstrations & Consulting revenue	148,553	-	148,553	183,448	95,543	278,991
Equipment revenue	38,000	6,366	44,366	93,481	-	93,481
	<u>\$ 8,038,482</u>	<u>\$ 119,966</u>	<u>\$ 8,158,448</u>	<u>\$ 11,023,644</u>	<u>\$ 393,383</u>	<u>\$ 11,417,027</u>

*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.

[Table of Contents](#)

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 December 31, 2020. 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 subject to income tax examinations by major taxing authorities since inception.

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. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

The Company is no longer subject to tax examinations by tax authorities for years prior to 2017.

*Basic and Diluted Loss Per Common Share*

Basic net loss per common share is computed using the weighted average number of common shares outstanding. Diluted loss per share reflects the potential dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. For the years ended December 31, 2020 and 2019 basic and diluted earnings per share approximated each other. There were no dilutive potential common shares as of December 31, 2020 and 2019, because the Company incurred net losses and basic and diluted losses per common share are the same. The following common stock equivalents were excluded from the computation of diluted net loss per share of common stock because they were anti-dilutive. The exercise of these common stock equivalents would dilute earnings per share if the Company becomes profitable in the future.

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Stock Options	16,093,326	12,553,326
Warrants	5,595,378	5,690,378
Convertible debt	9,414,200	9,351,400
Total common stock equivalents excluded from diluted net loss per share	<u>31,102,904</u>	<u>27,595,104</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 December 31, 2020 is maintained at high-quality financial institutions and has not incurred any losses to date.

*Customer and Supplier Concentration*

For each of the years ended December 31, 2020 and 2019, 100% of the Company's revenue related to thirteen and eleven customers, respectively. At December 31, 2020 and 2019, 100% of the Company's accounts receivable related to nine and eight customers, respectively.

For each of the years ended December 31, 2020 and 2019, 88% and 91% of the Company's purchases related to two suppliers, respectively. At December 31, 2020 and 2019, 45% and 74% of the Company's accounts payable and accrued expenses related to two vendors. The Company believes there are numerous other suppliers that could be substituted should the 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.

## [Table of Contents](#)

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 Adopted Accounting Standards*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under ASU 2016-02, lessees will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, "Revenue from Contracts with Customers." ASU 2016-02 became effective for us on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) - Targeted Improvements," which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB also issued ASU 2018-20, "Leases (Topic 842) - Narrow-Scope Improvements for Lessors," which provides for certain policy elections and changes lessor accounting for sales and similar taxes and certain lessor costs. As of January 1, 2019, the Company adopted ASU 2016-02 and has recorded a right-of-use asset and lease liability on the balance sheet for its operating leases. We elected to apply certain practical expedients provided under ASU 2016-02 whereby we will not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. The Company did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). The Company accounted for lease and non-lease components separately because such amounts are readily determinable under our lease contracts and because we expect this election will result in a lower impact on our balance sheet.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815)*: (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings.

The guidance in ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and the guidance is to be applied using a full or modified retrospective approach. The Company early adopted ASU 2017-11 and changed its method of accounting for certain warrants that were initially recorded as liabilities during the year ended December 31, 2014 on a full retrospective basis. The adoption of ASU 2017-11 did not have a material impact on the Company's consolidated financial statements.

## [Table of Contents](#)

Effective January 1, 2020, the Company adopted ASU No. 2018-07, *Compensation — Stock Compensation (Topic 718)*. ASU 2018-07 is intended to reduce cost and complexity and to improve financial reporting for nonemployee share based payments. Prior to the issuance of this guidance, the accounting requirements for nonemployee and employee share-based payment transactions were significantly different. ASU 2018-07 expands the scope of Topic 718, *Compensation — Stock Compensation* (which only included share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees is substantially aligned. This ASU supersedes Subtopic 505-50, *Equity — Equity-Based Payments to Nonemployees*. The adoption of ASU 2018-07 did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2020, the Company adopted ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in ASU 2018-13 modify the disclosure requirements associated with fair value measurements based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The adoption of ASU 2018-13 did not have a material impact on the Company's consolidated financial statements.

### *Recently Issued Accounting Standards*

In December 2019, the FASB issued authoritative guidance intended to simplify the accounting for income taxes (ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"). This guidance eliminates certain exceptions to the general approach to the income tax accounting model and adds new guidance to reduce the complexity in accounting for income taxes. This guidance is effective for annual periods after December 15, 2020, including interim periods within those annual periods. The Company is currently evaluating the potential impact of this guidance on its consolidated financial statements.

Management does not believe that any recently issued, but not yet effective accounting pronouncements, when adopted, will have a material effect on the accompanying consolidated financial statements.

### **Note 3 – Going Concern 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. Management has assessed the Company's ability to continue as a going concern in accordance with the requirement of ASC 205-40.

The accompanying consolidated financial statements as of December 31, 2020 have been prepared assuming the Company will continue as a going concern. As reflected in the consolidated financial statements, the Company had an accumulated deficit of \$63 million and a negative working capital of \$984,112 at December 31, 2020. Additionally, the Company had a net loss in the amount of \$5.8 million and cash used by operating activities of \$1.2 million for the year ended December 31, 2020. These factors raise substantial doubt about the Company's ability to continue as a going concern for the next twelve months from the issuance of these consolidated financial statements within the Company's Annual Report on Form 10-K. Although we anticipate continued significant revenues for products used in MATS compliance activities and from licensing of our technologies, no assurances can be given that the Company can obtain sufficient working capital through these activities and additional financing may be needed to meet its obligations. In February 2021, the Company received second draw loan proceeds in the amount of \$299,380 pursuant to the Paycheck Protection Program under the Cares Act which was enacted on March 27, 2020 as a result of the COVID-19 pandemic. In January and February 2021, certain warrant holders exercised warrants for cash and the Company received proceeds of approximately \$246,808. Also, in January and February 2021, the Company substantially reduced the aggregate principal amount outstanding on various debt obligations. In this regard, \$940,000 of the outstanding principal amount of convertible promissory notes issued in 2013 was converted to common stock, leaving \$50,000 remaining outstanding on such notes issued in 2013. In March 2021, the Company eliminated \$860,000 of outstanding convertible notes issued in 2018 by force converting all of such notes based on the terms thereof. Nevertheless, the Company may need to raise additional equity or debt financing. While the Company believes in its ability to raise additional funds, no assurances can be given that the Company can maintain sufficient working capital through these efforts, or that the continued implementation of its business plan will generate sufficient revenues in the future to sustain ongoing operations.

The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

**Note 4 - Inventory**

Inventory was comprised of the following at December 31, 2020 and 2019:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Raw Materials	\$ 169,803	\$ 223,790
Work in Process	-	43,814
Spare Parts	23,432	27,632
Finished goods	366,892	218,262
	<u>\$ 560,127</u>	<u>\$ 513,498</u>

**Note 5 - Property and Equipment, Net**

Property and equipment at December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Equipment & Installation	\$ 1,965,659	\$ 1,965,659
Trucking equipment	834,375	922,441
Computer equipment and software	67,126	67,126
Office equipment	27,155	27,155
Total equipment	2,894,315	2,982,381
Less: accumulated depreciation	(2,814,993)	(2,707,745)
Construction in process	1,807,707	1,807,707
Property and equipment, net	<u>\$ 1,887,029</u>	<u>\$ 2,082,343</u>

The Company uses the straight-line method of depreciation over 2 to 5 years. During the years ended December 31, 2020 and 2019 depreciation expense was \$188,675, and \$314,908, respectively.

**Note 6 – Intellectual Property**

On January 15, 2009, the Company entered into an “Exclusive Patent and Know-How License Agreement Including Transfer of Ownership” with the Energy and Environmental Research Center Foundation, a non-profit entity (“EERCF”). Under the terms of the Agreement, the Company has been granted an exclusive license by EERCF for the technology to develop, make, have made, use, sell, offer to sell, lease, and import the technology in any coal-fired combustion systems (power plant) worldwide and to develop and perform the technology in any coal-fired power plant in the world.

On April 24, 2017, the Company closed on the acquisition of all patent rights from EERCF including all patents and patents pending, domestic and foreign, relating to the foregoing technology. A total of 42 domestic and foreign patents and patent applications were included in the acquisition. In accordance with the terms of the License Agreement, the patent rights were acquired for the purchase price of (i) \$2,500,000 in cash, and (ii) 925,000 shares of common stock of which 628,998 shares were issued to EERCF and 296,002 were issued to the inventors who had been designated by EERCF. The shares issued were valued at \$518,000 (\$0.56 per share), representing the value as of the closing date.

License and patent costs capitalized as of December 31, 2020 and 2019 are as follows:

	<b>December 31 2020</b>	<b>December 31 2019</b>
Patents	\$ 3,068,995	\$ 3,068,995
Less: Accumulated amortization	(750,199)	(536,533)
License, net	<u>\$ 2,318,796</u>	<u>\$ 2,532,462</u>

Amortization expense for the years ended December 31, 2020 and 2019 was \$213,666 and \$201,200, respectively. Estimated annual amortization for each of the next five years is \$204,600.

**Note 7 –Notes Payable**

On February 25, 2020, and pursuant to a Business Loan Agreement entered into with a banking institution, the Company’s wholly owned subsidiary, MES, Inc. closed on a one-year secured loan in the principal amount of \$200,000 bearing interest at 8.75% per annum. Principal and interest is to be paid in equal monthly installments until the loan is paid in full on February 26, 2021. The note is secured by substantially all of the assets of MES, Inc. During the year ended December 31, 2020 the Company repaid \$165,339 of principal and \$9,428 of interest. In February 2021, the loan was repaid in full. See Note 16.

On April 14, 2020, the Company received loan proceeds in the amount of \$299,300 from First International Bank & Trust pursuant to the Paycheck Protection Program (the “PPP Loan”) under the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”), which was enacted on March 27, 2020. The PPP Loan, which is in the form of a Note dated April 14, 2020, matures on April 14, 2022 and bears interest at a rate of 1.0% per annum, with one interest payment on April 14, 2021 and one principal and interest payment on maturity. The principal and accrued interest under the PPP Loan is forgivable after eight or twenty-four weeks if the Company uses the PPP Loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and otherwise complies with the PPP requirements. In order to obtain forgiveness of the PPP Loan, the Company must submit a request and provide satisfactory documentation regarding its compliance with applicable requirements. In January 2021, the PPP Loan was forgiven. See Note 16.

**Note 8 –Convertible Notes Payable**

The Company has the following convertible notes payable outstanding as of December 31, 2020 and 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Secured convertible promissory notes which mature upon the retirement of the New AC Midwest Secured Debt (see Note 9) bear interest at 10% per annum, and are convertible into shares of common stock at \$0.50 per share, and are secured by the assets of the Company.	\$ 990,000	\$ 990,000
Unsecured convertible promissory notes which mature beginning on June 15, 2023 through October 31, 2023, bear interest at 12% per annum, and are convertible into shares of common stock at \$0.50 per share.	860,000	860,000
Unsecured convertible promissory notes which mature beginning on June 18, 2024 through October 23, 2024, bear interest at 12% per annum, and are convertible into shares of common stock at \$0.50 per share.	<u>2,600,000</u>	<u>2,600,000</u>
Total convertible notes payable before discount	4,450,000	4,450,000
Less unamortized discounts and debt issuance costs	<u>(394,878)</u>	<u>(508,863)</u>
Total convertible notes payable	4,055,122	3,941,137
Less current portion	<u>-</u>	<u>(990,000)</u>
Convertible notes payable, net of current portion	<u>\$ 4,055,122</u>	<u>\$ 2,951,137</u>

As of December 31, 2020, remaining scheduled principal payments due on convertible notes payable are as follows:

<b>Twelve months ended December 31,</b>	
2021	\$ -
2022	990,000
2023	860,000
2024	<u>2,600,000</u>
	<u>\$ 4,450,000</u>

As of December 31, 2020, the remaining future amortization of discounts are as follows:

<b>Twelve months ended December 31,</b>		<b>Discounts</b>
2021	\$	114,334
2022		114,334
2023		105,477
2024		60,733
	<u>\$</u>	<u>394,878</u>

From July 30, 2013 through December 24, 2013, the Company sold convertible notes and warrants to unaffiliated accredited investors totaling \$1,902,500. The notes bear interest at 10% per annum, are secured by the Company's assets, and are convertible into one share of common stock, par value \$0.001 per share, with the initial conversion ratio equal to \$0.50 per share. The notes had an initial term of three years, but the maturity of the notes was extended during 2014 to match the retirement of the New AC Midwest Secured Debt. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. Interest expense for the years ended December 31, 2020 and 2019, was \$99,000 and \$99,000, respectively. A discount on the notes payable of \$841,342 was recorded based on the value of the warrants issued using a Black-Scholes options pricing model and was amortized over the initial five year life of the notes. Amortized interest expense for the years ended December 31, 2020 and 2019 on this discount was \$0. As of December 31, 2020 and 2019, total principal of \$990,000, was outstanding on these notes. See Note 16 for information on the conversion of \$940,000 of the principal of these notes which have been converted into shares of common stock.

On June 15, 2018, the Company issued 2018 Unsecured Convertible Notes (the "2018 Unsecured Notes") totaling \$560,000 and warrants to certain holders of the 2013 Notes in exchange for their secured 2013 Notes (see description above of the private placement offering commenced during the second quarter of 2018). The 2018 Unsecured Notes have a term of five years, bear interest at 12% per annum, and are convertible into one share of common stock, par value \$0.001 per share, with the initial conversion ratio equal to \$0.50 per share. For each dollar exchanged, the investor received a warrant to purchase one share of common stock of the Company at an exercise price of \$0.70 per share. The 2018 Unsecured Notes may be converted at any time and from time to time in whole or in part prior to the maturity date thereof. Loss on this debt exchange was \$44,036. A discount on the notes payable of \$89,500 was recorded based on the value of the fair value of the note and warrants exchanged. The included warrants were valued using a Black-Scholes options pricing model. From August 31, 2018 through October 30, 2018, the Company issued additional 2018 Notes totaling \$300,000 and warrants to unaffiliated accredited investors. A discount on the notes payable of \$40,350 was recorded based on the fair value of the warrants issued with this note using a Black-Scholes options pricing model. Amortized interest expense for the years ended December 31, 2020 and 2019 on these discounts was \$16,176 and \$24,323, respectively. Interest expense for the years ended December 31, 2020 and 2019, was \$103,200 and \$202,200, respectively. As of December 31, 2020 and 2019, total principal of \$860,000 was outstanding on the 2018 Unsecured Notes. The significant assumptions utilized for these Black-Scholes calculations consist of an expected life of equal to the expiration term of the option, historical volatility of 100% respectively, and a risk free interest rate of 3%. See Note 16 for information on the forced conversion of all of the outstanding principal of the 2018 Unsecured Notes.

From June 18, 2019 through October 23, 2019, the Company sold 2019 Unsecured Convertible Notes (the "2019 Unsecured Notes") totaling \$2,600,000 and warrants to unaffiliated accredited investors. The 2019 Unsecured Notes bear interest at 12% per annum, and are convertible into one share of common stock, par value \$0.001 per share, with the initial conversion ratio equal to \$0.50 per share. The 2019 Unsecured Notes have a term of five years. Interest expense for the years ended December 31, 2020 and 2019 was \$312,000 and \$124,600, respectively. A discount on the notes payable of \$488,245 was recorded based on the relative fair value of the warrants issued using a Black-Scholes options pricing model and was amortized over the initial five year life of the notes. Amortized interest expense for the years ended December 31, 2020 and 2019 on this discount was \$97,809 and \$37,737, respectively. As of December 31, 2020 and 2019, total principal of \$2,600,000 was outstanding on the 2019 Unsecured Notes.

#### ***Note 9 - Related Party***

##### *Secured Note Payable*

On November 29, 2016, pursuant to a new restated financing agreement entered with AC Midwest Energy, LLC ("AC Midwest") on November 1, 2016, the Company closed on a new secured note with AC Midwest (the "New AC Midwest Secured Note") in the original principal amount of \$9,646,686, which was to mature on December 15, 2018. The New 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. The New AC Midwest Secured Note is secured by all of the assets of the Company. Interest expense for the years ended December 31, 2020 and 2019 was \$41,432 and \$40,753, respectively. On February 25, 2019, per Amendment No. 3 to the Amended and Restate Financing Agreement, AC Midwest agreed to waive compliance with a certain financial covenant of the Restated Financing Agreement and strike this covenant in its entirety as of the effective date of the amendment. Also, pursuant to Amendment No. 3, the parties agreed that the maturity date for the remaining principal balance due under the AC Midwest Secured Note would be extended from December 15, 2018 to August 25, 2022. The amendment was accounted for as an extinguishment in accordance with ASC 470-50 with no gain or loss recorded. As of December 31, 2020 and 2019, total principal of \$271,686 was outstanding on this note.

*Unsecured Note Payable*

The Company has the following unsecured note payable - related party outstanding as of December 31, 2020 and 2019:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Unsecured Note Payable	\$ 13,154,931	\$ 13,154,931
Less unamortized discounts and debt issuance costs	<u>(3,260,647)</u>	<u>(5,243,033)</u>
Total unsecured notes payable	9,894,284	7,911,898
Less current portion	<u>-</u>	<u>-</u>
Unsecured notes payable, net of current portion	<u>\$ 9,894,284</u>	<u>\$ 7,911,898</u>

On November 29, 2016, pursuant to a new 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") in the principal amount of \$13,000,000, 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 "New AC Midwest Unsecured Note"), which represented the outstanding principal and accrued and unpaid interest at closing.

In accordance with ASC 470-60-15-5, since the present value of the cash flows under the new debt instrument was at least ten percent different from the present value of the remaining cash flows under the terms of the original debt instrument, the Company accounted for the amendment to note as a debt extinguishment. Accordingly, the Company wrote off the remaining debt discount on the original Debentures of \$1,070,819. Since the amendment was with a related party defined in ASC 470-50-40-2 the Company recorded a Capital contribution of \$3,412,204 on this exchange which is primarily related to the difference in fair value of the note on the date of the exchange. 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 is based on an applicable market rate for unsecured debt for the Company of 21% and will be amortized as interest expense over the life of the loan. Amortized discount recorded as interest expense for the years ended December 31, 2020 and 2019 was \$1,860,096 and \$1,763,024, respectively. As of December 31, 2020 and 2019, the unamortized balance of the discount was \$3,260,647 and \$5,243,033, respectively.

The New AC Midwest Unsecured Note, which has been issued in exchange for the AC Midwest Subordinated Note which has now been cancelled, will mature on August 25, 2022 (the "Maturity Date"). It bears a zero cash interest rate.

AC Midwest shall be entitled to a profit participation preference equal to 1.0 times the original principal amount (the "Profit Share"). If the original principal amount had been paid in full on or prior to August 25, 2020, AC Midwest would have been entitled to a profit participation preference equal to 0.5 times the original principal amount.

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).



[Table of Contents](#)

*The Profit Share*

In connection with the New 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. 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 in ASC 815 and ASC 480 to determine how to account for the profit-sharing portion of the note payable. Although the transaction is not indexed to MEEC's stock the profit sharing seems like a freestanding financial instrument because the profit sharing is not callable by the lender, it will be paid out past the maturity of the 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 December 31, 2020 to calculate the Profit Share liability included: estimated term of sixteen years with between \$100,000 to \$350,000 paid quarterly after the first three years, and an annual market interest rate of 21%. The profit share liability will be marked to market every quarter utilizing management's estimates.

The following are the changes in the profit share liabilities during the years ended December 31, 2020 and 2019.

Profit Share as of January 1, 2020	\$ 2,328,845
Addition	-
Gain on change in fair value of profit share	(23,537)
Profit Share as of December 31, 2020	<u>\$ 2,305,308</u>
Profit Share as of January 1, 2019	\$ -
Addition	1,954,383
Loss on change in fair value of profit share	374,462
Profit Share as of December 31, 2019	<u>\$ 2,328,845</u>

*Related Party Transactions*

Kaye Cooper Kay & Rosenberg, LLP provides certain legal services to the Company and was paid \$175,275 and \$329,729 in 2020 and 2019, respectively, for legal services rendered and disbursements incurred. David M. Kaye, a Director and Secretary of the Company, is a partner of the law firm. At December 31, 2020 and 2019, \$168,750 and \$43,750, respectively, was owed to the firm for services rendered.

**Note 10 - Operating Leases**

In 2016, the Company entered into a six-year agreement to lease trailers used in the delivery of its products. Monthly payments currently total \$32,820.

On January 27, 2015, the Company entered into a lease for office space in Lewis Center, Ohio, commencing February 1, 2015 which lease as amended expired in February 2020. The lease provides for the option to extend the lease for up to five additional years. Monthly rent is \$1,575 through February 2020. The Company did not renew this lease.

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.

On September 1, 2019, the Company entered into a one-year lease for office space in Grand Forks, North Dakota. Monthly rent is \$590 a month through August 2020. This lease was not renewed and the Company vacated the space.

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

**For the twelve months ended December 31**

2021	\$ 438,840
2022	351,100
2023	45,000
2024	11,250
Total	<u>846,190</u>
Less discount	(43,590)
Total lease liabilities	<u>802,600</u>
Less current portion	(407,975)
Operating lease obligation, net of current portion	<u>\$ 394,625</u>

[Table of Contents](#)

The weighted average remaining lease term for operating leases is 2 years and the weighted average discount rate used in calculating the operating lease asset and liability is 5%. For the year ended December 31, 2020, payments on lease obligations were \$438,840 and amortization on the right of use assets was \$310,706.

For the year ended December 31, 2020, 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:

	<b>Year Ended December 31, 2020</b>
Operating lease cost	\$ 363,100
Short-term lease cost (1)	7,080
Total lease cost	<u>\$ 370,180</u>

(1) Short-term lease costs includes any lease with a term of less than 12 months

**Note 11 – Commitments and Contingencies**

*Fixed Price Contract*

The Company's multi-year contracts with its commercial customers contain fixed prices for product. These contracts expire through 2020 and 2025 and expose the Company to the potential risks associated with rising material costs during that same period. Revenue reported during interim periods were recorded based on the facts and circumstances at the time and any differences noted when the final revenue is determined is considered to be a change in estimate for the 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 United States Patent Nos. 10,343,114 (the "'114 Patent") and 8,168,147 (the "'147 Patent") owned by the Company. These patents relate to the Company's two-part Sorbent Enhancement Additive (SEA<sup>®</sup>) 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 the Company's '114 Patent and '147 Patent and seeks a permanent injunction from further acts of infringement and monetary damages.

During 2020, each of the four major utility defendants in the above action filed petitions for Inter Partes Review (IPR) with the United States Patent and Trademark Office (USPTO), 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 IPR with the USPTO. 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<sup>®</sup>) process) for use in connection with such parties' coal-fired power plants.

The above described proceedings will continue with respect to the other parties involved.

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 12 - Stock Based Compensation**

Common Stock

As of January 1, 2020, and pursuant to an advisory agreement dated as of November 20, 2019 and effective as of January 1, 2020 for a term of one year with a nonaffiliated third party, the Company issued 1,000,000 shares of common stock of the Company to such third party as and for the entire compensation to be paid for all services to be rendered during the term. These shares of common stock were valued at \$200,000 in accordance with FASB ASC Topic 718. The fair value of the shares was amortized to selling, general and administrative expenses within the Company's condensed consolidated statements of operations during 2020.

On October 5, 2020, the Company issued 300,000 shares of common stock of the Company to a nonaffiliated third-party pursuant to a consulting agreement entered into on October 1, 2020. The value of the stock award was \$102,000 and was charged to selling, general and administrative expenses in the statement of operations.

Stock Options

The Company accounts for stock-based compensation awards in accordance with the provisions of ASC 718, which addresses the accounting for employee stock options which requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the consolidated financial statements over the vesting period based on the estimated fair value of the awards.

A summary of stock option activity for the years ended December 31, 2020 and 2019 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
December 31, 2018	9,161,510	\$ 1.15	2.00	\$ -
Grants	4,700,000	0.27	5.00	-
Expirations	(1,308,184)	0.27	-	-
December 31, 2019	12,553,326	\$ 0.55	4.02	\$ 927
Grants	4,425,000	\$ 0.38	4.73	\$ -
Exercised	(1,500)	0.17	-	-
Expirations	(758,500)	0.68	-	-
December 31, 2020	16,218,326	\$ 0.50	3.57	\$ 3,588,631
Options exercisable at:				
December 31, 2019	12,563,326	\$ 0.55	4.02	\$ 927
December 31, 2020	16,093,326	\$ 0.50	3.56	\$ 3,532,381

The Company utilized the Black-Scholes options pricing model to value its options granted. The assumptions used for options granted during the years ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Exercise price	\$0.19 - \$0.58	\$0.25-\$0.27
Expected dividends	0%	0%
Expected volatility	84% - 103%	100% - 109%
Risk free interest rate	0.30 - 0.37%	1.73 - 3%
Expected life	4.12-5 years	5 years

On May 14, 2019, Frederick Van Zijl resigned as a director of the Company. In connection with such resignation, the Company has agreed to issue, and Mr. Van Zijl has agreed to accept, an aggregate of 235,184 shares of common stock of the Company in full and complete payment for service on the Board since his appointment in October 2018. Compensation of \$63,500 based on the market price of the shares on the date of issuance was included in selling, general and administrative expenses within the Company's consolidated statements of operations.

## Table of Contents

On June 4, 2019, Allan T. Grantham resigned as a director of the Company. In connection with such resignation, the Company has agreed to issue, and Mr. Grantham has agreed to accept, an aggregate of 229,333 shares of common stock of the Company in full and complete payment for service on the Board for 2018 and 2019. Compensation of \$55,040 based on the market price of the shares on the date of issuance was included in selling, general and administrative expenses within the Company's consolidated statements of operations.

On June 28, 2019, the Company granted nonqualified stock options to acquire an aggregate of 4,600,000 shares of the Company's common stock under the Company's 2017 Equity Plan to certain executive officers, employees and others. The options granted are exercisable at \$0.27 per share, representing the fair market value of the common stock on the date of grant as determined under the 2017 Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$898,207 in accordance with FASB ASC Topic 718 which was included in selling, general and administrative expenses within the Company's consolidated statements of operations.

Also on June 28, 2019, the Company extended the expiration dates of previously granted nonqualified stock options to acquire an aggregate of 4,675,000 shares of the Company's common stock under the Company's 2014 Equity Plan to certain executive officers, employees and others. The extended options are exercisable from \$0.42 to \$1.36 per share, representing the original fair market value of the common stock on the date of grant as determined under the 2014 Equity Plan. The options are fully vested and exercisable and will now expire five years from the date of the extension. Based on a Black-Scholes valuation model, the stock option modification was valued at \$745,989 in accordance with FASB ASC Topic 718 which was included in selling, general and administrative expenses within the Company's consolidated statements of operations.

On December 20, 2019, the Company granted nonqualified stock options to acquire an aggregate of 100,000 shares of the Company's common stock under the Company's 2017 Equity Plan. The options were granted as compensation for a one year consulting agreement. The options granted are exercisable at \$0.25 per share, representing the fair market value of the common stock on the date of grant as determined under the 2017 Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$18,723 in accordance with FASB ASC Topic 718. The fair value of the option will be amortized to selling, general and administrative expenses within the Company's consolidated statements of operations over one year.

On June 15, 2020, the Company granted nonqualified stock options to acquire an aggregate of 250,000 shares of the Company's common stock under the Company's 2017 Equity Incentive Plan (the "2017 Plan") to an employee. The options granted are exercisable at \$0.19 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 options are fully vested and exercisable as of the date of grant and fifty percent of the options vest on April 1, 2021. The options will expire five years from the date of grant. Based on a Black-Scholes valuation model, these options were valued at \$37,882 in accordance with FASB ASC Topic 718 which will be expensed over the vesting period in selling, general and administrative expenses within the Company's consolidated statements of operations.

On July 8, 2020, the Board of Directors of the Company approved an amendment to the 2017 Plan to increase the maximum number of shares of common stock that may be issued under the 2017 Plan from 8,000,000 to 12,000,000 shares. On the same date, the Company granted nonqualified stock options to the following executive officers to each acquire 500,000 shares of the Company's common stock: Richard MacPherson (President and Chief Executive Officer), John Pavlish (Senior Vice President and Chief Technology Officer) and James Trettel (Vice President of Operations); and, also granted nonqualified stock options to the following persons to each acquire 250,000 shares of the Company's common stock: Christopher Greenberg (Chairman of the Board) and David M. Kaye (director). All of such options were granted under the 2017 Plan and are exercisable at \$0.19 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 as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$246,965 in accordance with FASB ASC Topic 718 which was expensed on the grant date in selling, general and administrative expenses within the Company's consolidated statements of operations.

On December 14, 2020, the Company granted nonqualified stock options to the following executive officers to each acquire 500,000 shares of the Company's common stock: Richard MacPherson (President and Chief Executive Officer), John Pavlish (Senior Vice President and Chief Technology Officer) and James Trettel (Vice President of Operations); and, also granted nonqualified stock options to the following persons to each acquire 250,000 shares of the Company's common stock: Christopher Greenberg (Chairman of the Board) and David M. Kaye (director); and, also granted nonqualified stock options to the following persons to acquire 125,000 and 50,000, respectively, shares of the Company's common stock: Jami Satterthwaite and Stacey Hyatt. All of such options were granted under the 2017 Plan and are exercisable at \$0.58 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 as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$884,264 in accordance with FASB ASC Topic 718 which was expensed on the grant date in selling, general and administrative expenses within the Company's consolidated statements of operations.

In December 2020, the Company issued 1,082 shares of common stock to a certain option holder upon the cashless exercise of an option to purchase 1,500 shares of common stock at an exercise price of \$0.17 per share based upon a market value of \$0.61 per share as determined under the terms of the option.

### **Note 13 - Warrants**

Sold and issued warrants are subject to the provisions of FASB ASC 815-10, the Company utilized a Black-Scholes options pricing model to value the warrants sold and issued. 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.

[Table of Contents](#)

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, 2018	4,105,398	\$ 0.59	1.79	\$ -
Grants	3,600,000	0.70	5.00	-
Expirations	(2,015,020)	0.69	-	-
December 31, 2019	5,690,378	\$ 0.63	3.72	\$ -
Grants	-	-	-	-
Exercised	(95,000)	0.35	-	-
December 31, 2020	5,595,378	\$ 0.63	2.85	\$ 314,260
Warrants exercisable at:				
December 31, 2019	5,690,378	\$ 0.63	3.72	\$ -
December 31, 2020	5,595,378	\$ 0.63	2.85	\$ 314,260

The following table summarizes information about common stock warrants outstanding at December 31, 2020:

Outstanding				Exercisable		
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$ 0.70	4,460,000	3.44	\$ 0.70	4,460,000	\$ 0.70	
0.45	150,000	2.92	0.45	150,000	0.45	
0.35	985,378	0.13	0.35	985,378	0.35	
\$ 0.35-0.70	5,595,378	2.85	\$ 0.63	5,595,378	\$ 0.63	

\* 110,000 warrants exercisable at \$0.35 contain dilution protections that increase the number of shares purchasable at exercise upon the issuance of securities at a price below the current exercise price.

The Company utilized the Black-Scholes options pricing model. The assumptions used for warrants granted during the year ended December 31, 2019 are as follows. There were no warrants granted during the year ended December 31, 2020.

	December 31, 2019
Exercise price	\$ 0.70
Expected dividends	0%
Expected volatility	100% - 112%
Risk free interest rate	1.58% - 3%
Expected life	5 years

On August 12, 2019, the Company issued 37,210 shares of common stock upon the cashless exercise of warrants to purchase 167,039 shares of common stock for \$0.35 per share based on a market value of \$0.45 per share as determined under the terms of the warrant.

[Table of Contents](#)

From June through October 2019, the Company issued unsecured convertible notes and five-year warrants to unaffiliated accredited investors totaling \$2,600,000. The notes are convertible into shares of common stock, with the initial conversion ratio equal to \$0.50 per share. The investors received warrants to purchase a total of 2,600,000 shares of common stock with an exercise price of \$0.70 per share. These securities were sold in reliance upon the exemption provided by Section 4(a)(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. Using a Black-Scholes Valuation model these warrants had a value of \$525,142 which was recorded as a discount on the notes payable and will be amortized over the life of the associated notes payable.

On October 23, 2019, and pursuant to an advisory agreement executed on that date for a term of one year with an unaffiliated third party, the Company granted such unaffiliated third party a vested three-year warrant to purchase 1,000,000 shares of common stock with an exercise price of \$0.70 per share, exercisable on a cash basis only. Such warrants were issued as and for the entire compensation to paid to the advisor for all services to be rendered during the term. Based on a Black-Scholes valuation model, these options were valued at \$243,294 in accordance with FASB ASC Topic 718. The fair value of the option will be amortized to selling, general and administrative expenses within the Company's consolidated statements of operations over one year.

On October 1, 2020, the Company extended the expiration date of a previously issued warrant to acquire 150,000 shares of common stock of the Company at an exercise price of \$0.45 per share. Such warrant was issued to a nonaffiliated third-party providing investor relations consulting services to the Company. The warrant will now expire November 30, 2023. Based on a Black-Scholes valuation model, the warrant modification was valued at \$30,573 in accordance with FASB ASC Topic 718 which was included in selling, general and administrative expenses within the Company's consolidated statements of operations.

On December 14, 2020, the Company issued 47,494 shares of common stock to a certain warrant holder upon the cashless exercise of a warrant to purchase 95,000 shares of common stock at an exercise price of \$0.35 per share based upon a market value of \$0.6999 per share as determined under the terms of the warrant.

**Note 14 - Income Taxes**

Below is breakdown of the income tax provisions for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Federal		
Current	\$ -	\$ -
Deferred	(1,833,000)	(1,278,000)
State and local		
Current	10,000	14,000
Deferred	(251,000)	(196,000)
Change in valuation allowance	2,084,000	1,474,000
Income tax provision	<u>\$ 10,000</u>	<u>\$ 14,000</u>

The expected tax expense (benefit) based on the statutory rate is reconciled with actual tax expense benefit as follows:

	<u>For the Year Ended December 31, 2020</u>	<u>For the Year Ended December 31, 2019</u>
U.S. federal statutory rate	21.0%	21.0%
State taxes	4.3%	4.3%
Other permanent and prior period adjustments	10.6%	(1.4)%
Valuation allowance	(36.1)%	(24.2)%
Income tax provision	<u>(0.2)%</u>	<u>(0.3)%</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows at December 31:

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 7,189,000	\$ 5,456,000
Stock based compensation	1,518,000	1,285,000
Other	212,000	81,000
Total deferred tax assets	<u>8,919,000</u>	<u>6,822,000</u>
Deferred tax liabilities:		
Property and equipment	(48,000)	(57,000)
Other	(67,000)	(44,000)
Total deferred tax liabilities	<u>(115,000)</u>	<u>(101,000)</u>
Valuation Allowance	<u>(8,804,000)</u>	<u>(6,721,000)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The Company has U.S. federal net operating loss carryovers (“NOLs”) of approximately \$33,366,000 and \$22,640,000 at December 31, 2020 and 2019, respectively, available to offset taxable net income in a given year. The Company has state net operating loss carryovers (“NOLs”) of \$4,188,000 and \$3,531,815 at December 31, 2020 and 2019, respectively. If not used, these NOLs may be subject to limitation under Internal Revenue Code Section 382 should there be a greater than 50% ownership change as determined under the regulations. The Company plans on undertaking a detailed analysis of any historical and/or current Section 382 ownership changes that may limit the utilization of the net operating loss carryovers.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act (“*CARES Act*”) was signed into law in March 2020. The CARES Act lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 (“*2017 Tax Act*”). Corporate taxpayers may carryback net operating losses (“*NOLs*”) originating between 2018 and 2020 for up to five years, which was not previously allowed under the 2017 Tax Act. The CARES Act also eliminates the 80% of taxable income limitations by allowing corporate entities to fully utilize NOL carryforwards to offset taxable income in 2018, 2019 or 2020. Taxpayers may generally deduct interest up to the sum of 50% of adjusted taxable income plus business interest income (30% limit under the 2017 Tax Act) for 2019 and 2020. The CARES Act allows taxpayers with alternative minimum tax credits to claim a refund in 2020 for the entire amount of the credits instead of recovering the credits through refunds over a period of years, as originally enacted by the 2017 Tax Act. In addition, the CARES Act raises the corporate charitable deduction limit to 25% of taxable income and makes qualified improvement property generally eligible for 15-year cost-recovery and 100% bonus depreciation.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon future generation for taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. After consideration of all the information available, Management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance. For the years ended December 31, 2020 and 2019, the change in the valuation allowance was \$2,084,000 and \$1,474,000, respectively.

The Company evaluated the provisions of ASC 740-10 related to the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. ASC 740-10 prescribes a comprehensive model for how a company should recognize, present, and disclose uncertain positions that the Company has taken or expects to take in its 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. Differences between tax positions taken or expected to be taken in a tax return and the net benefit recognized and measured pursuant to the interpretation are referred to as “unrecognized benefits.” A liability is recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for unrecognized tax benefit because it represents an enterprise’s potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of ASC 740-10.

If applicable, interest costs related to the unrecognized tax benefits are required to be calculated and would be classified as “Other expenses – Interest” in the statement of operations. Penalties would be recognized as a component of “General and administrative.”

No interest or penalties on unpaid tax were recorded during the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, no liability for unrecognized tax benefits was required to be reported. The Company does not expect any significant changes in its unrecognized tax benefits in the next year.

***Note 15 - Restatement of previously issued financial statements (unaudited)***

On April 13, 2020, the Company concluded that a gain on debt restructuring recognized during the first quarter of 2019 (relating to the New AC Midwest Unsecured Note) should have been accounted for as a capital transaction. Since the New AC Midwest Unsecured Note was held by a related party, the gain should have been recorded as a capital transaction under ASC 470-50-40. The profit-sharing portion also should have been bifurcated from the loan and shown separately on the Condensed Consolidated Balance Sheets of the financial statements. See Note 9.

[Table of Contents](#)

The following tables summarize the effects of the restatements on the specific items presented in the Company's historical unaudited interim condensed consolidated financial statements previously included in the Company's Quarterly Reports on Form 10-Q as of and for the three month period ended March 31, 2019:

**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>MARCH 31, 2019</b>		
	<b>As previously reported</b>	<b>Adjustment</b>	<b>As restated</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>			
Profit Share liability	\$ -	\$ 1,991,940	\$ 1,991,940
Unsecured note payable, net of discount and issuance costs	8,403,968	(1,981,568)	6,422,400
<b>Total liabilities</b>	<b>14,801,425</b>	<b>10,372</b>	<b>14,811,797</b>
<b>Stockholders' deficit</b>			
Additional paid-in capital	42,785,990	3,412,204	46,198,194
Accumulated deficit	(49,197,401)	(3,422,576)	(52,619,977)
<b>Total stockholders' deficit</b>	<b>(6,335,165)</b>	<b>(10,372)</b>	<b>(6,345,537)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 8,466,260</b>	<b>\$ -</b>	<b>\$ 8,466,260</b>



MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES

FOR THE THREE MONTHS ENDED MARCH  
31, 2019

	<u>As previously reported</u>	<u>Adjustment</u>	<u>As restated</u>
Interest expense & letter of credit fees	\$ 529,193	\$ (27,185)	\$ 502,008
Loss on change in fair value of profit share	-	37,557	37,557
Gain on debt restructuring	(3,412,204)	3,412,204	-
<b>Total costs and expenses</b>	<u>423,524</u>	<u>3,422,576</u>	<u>3,846,100</u>
<b>Net income (loss)</b>	<u>\$ 2,363,797</u>	<u>\$ (3,422,576)</u>	<u>\$ (1,058,779)</u>
<b>Net loss per common share - basic and diluted:</b>	<u>\$ 0.03</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH  
31, 2019

	<u>As previously reported</u>	<u>Adjustment</u>	<u>As restated</u>
<b>Cash flows from operating activities</b>			
Net income (loss)	\$ 2,363,797	\$ (3,422,576)	\$ (1,058,779)
<b>Adjustments to reconcile net loss to net cash</b>			
Amortization of discount of notes payable	303,697	(27,185)	276,512
Loss on change in fair value of profit share	-	37,557	37,557
Gain on debt restructuring	(3,412,204)	3,412,204	-
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 68,245</u>	<u>\$ -</u>	<u>\$ 68,245</u>

[Table of Contents](#)

The following tables summarize the effects of the restatements on the specific items presented in the Company's historical unaudited interim condensed consolidated financial statements previously included in the Company's Quarterly Reports on Form 10-Q as of and for the three and six month periods ended June 30, 2019:

**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>JUNE 30, 2019</b>		
	<u>As previously reported</u>	<u>Adjustment</u>	<u>As restated</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>			
Profit Share liability	\$ -	\$ 2,097,655	\$ 2,097,655
Secured note payable	271,686	-	271,686
Unsecured note payable, net of discount and issuance costs	9,095,119	(2,179,831)	6,915,288
<b>Total liabilities</b>	<u>16,654,136</u>	<u>(82,176)</u>	<u>16,571,960</u>
<b>Stockholders' deficit</b>			
Additional paid-in capital	44,745,926	3,412,204	48,158,130
Accumulated deficit	(52,036,522)	(3,330,028)	(55,366,550)
<b>Total stockholders' deficit</b>	<u>(7,213,886)</u>	<u>82,176</u>	<u>(7,131,710)</u>
<b>Total liabilities and stockholders' deficit</b>	<u>\$ 9,440,250</u>	<u>\$ -</u>	<u>\$ 9,440,250</u>

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>FOR THE THREE MONTHS ENDED JUNE 30, 2019</b>			<b>FOR THE SIX MONTHS ENDED JUNE 30, 2019</b>		
	<u>As previously reported</u>	<u>Adjustment</u>	<u>As restated</u>	<u>As previously reported</u>	<u>Adjustment</u>	<u>As restated</u>
Interest expense & letter of credit fees	\$ 763,873	\$ (198,263)	\$ 565,610	\$ 1,293,067	\$ (225,448)	\$ 1,067,619
Loss on change in fair value of profit share	-	105,715	105,715	-	143,272	143,272
(Gain)/Loss on debt restructuring	-	-	-	(3,412,204)	3,412,204	-
<b>Total costs and expenses</b>	<u>5,348,871</u>	<u>(92,548)</u>	<u>5,256,323</u>	<u>5,772,394</u>	<u>3,330,028</u>	<u>9,102,422</u>
<b>Net loss</b>	<u>\$ (2,839,121)</u>	<u>\$ 92,548</u>	<u>\$ (2,746,573)</u>	<u>\$ (475,324)</u>	<u>\$ (3,330,028)</u>	<u>\$ (3,805,352)</u>
<b>Net loss per common share - basic and diluted:</b>	<u>\$ (0.04)</u>	<u>\$ (0.00)</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30,  
2019

	As previously reported	Adjustment	As restated
<b>Cash flows from operating activities</b>			
Net loss	\$ (475,324)	\$ (3,330,028)	\$ (3,805,352)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Amortization of discount of notes payable	938,532	(225,448)	713,084
Loss on change in fair value of profit share	-	143,272	143,272
Gain on debt restructuring	(3,412,204)	3,412,204	-
<b>Net cash used in operating activities</b>	<b>\$ (506,674)</b>	<b>\$ -</b>	<b>\$ (506,674)</b>

The following tables summarize the effects of the restatements on the specific items presented in the Company's historical unaudited interim condensed consolidated financial statements previously included in the Company's Quarterly Reports on Form 10-Q as of and for the three and nine month periods ended September 30, 2019:

CONDENSED CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2019

	As previously reported	Adjustment	As restated
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>			
<b>Current liabilities</b>			
Profit Share liability	\$ -	\$ 2,210,230	\$ 2,210,230
Unsecured note payable, net of discount and issuance costs	9,752,882	(2,339,289)	7,413,593
<b>Total liabilities</b>	<b>17,177,693</b>	<b>(129,059)</b>	<b>17,048,634</b>
<b>Stockholders' deficit</b>			
Additional paid-in capital	44,882,209	3,412,204	48,294,413
Accumulated deficit	(52,887,063)	(3,283,145)	(56,170,208)
<b>Total stockholders' deficit</b>	<b>(7,928,107)</b>	<b>129,059</b>	<b>(7,799,048)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 9,249,586</b>	<b>\$ -</b>	<b>\$ 9,249,586</b>

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019			FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019		
	As previously reported	Adjustment	As restated	As previously reported	Adjustment	As restated
	Interest expense & letter of credit fees	\$ 782,695	\$ (159,458)	\$ 623,237	\$ 2,075,761	\$ (384,906)
Loss on change in fair value of profit share	-	112,575	112,575	-	255,847	255,847
(Gain)/Loss on debt restructuring	-	-	-	(3,412,204)	3,412,204	-
<b>Total costs and expenses</b>	<u>4,446,648</u>	<u>(46,883)</u>	<u>4,399,765</u>	<u>10,219,042</u>	<u>3,283,145</u>	<u>13,502,187</u>
<b>Net loss</b>	<u>\$ (850,541)</u>	<u>\$ 46,883</u>	<u>\$ (803,658)</u>	<u>\$ (1,325,865)</u>	<u>\$ (3,283,145)</u>	<u>\$ (4,609,010)</u>
<b>Net loss per common share-basic and diluted:</b>	\$ (0.01)	\$ -	\$ (0.01)	\$ (0.02)	\$ (0.04)	\$ (0.06)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019		
	As previously reported	Adjustment	As restated
<b>Cash flows from operating activities</b>			
Net loss	\$ (1,325,865)	\$ (3,283,145)	\$ (4,609,010)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Amortization of discount of notes payable	1,585,686	(384,906)	1,200,780
Loss on change in fair value of profit share	-	255,847	255,847
Gain on debt restructuring	(3,412,204)	3,412,204	-
<b>Net cash used in operating activities</b>	<u>\$ (1,304,626)</u>	<u>\$ -</u>	<u>\$ (1,304,626)</u>

**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT  
FOR THE MONTHS ENDED MARCH 31, 2019, THE SIX MONTHS ENDED JUNE 30, 2019 AND  
THE NINE MONTHS ENDED SEPTEMBER 30, 2019  
(Restated)**

	Common Stock		Additional Paid-in Capital	Accumulated (Deficit)	Total
	Shares	Par Value			
<b>Balance - January 1, 2019</b>	76,246,113	\$ 76,246	\$ 42,785,990	\$ (51,483,332)	\$ (8,621,096)
Cumulative effect of change in accounting principle related to accounting for leases	-	-	-	(77,866)	(77,866)
Capital contribution	-	-	3,412,204	-	3,412,204
Net income	-	-	-	(1,058,779)	(1,058,779)
<b>Balance - March 31, 2019</b>	<u>76,246,113</u>	<u>\$ 76,246</u>	<u>\$ 46,198,194</u>	<u>\$ (52,619,977)</u>	<u>\$ (6,345,537)</u>
Stock issued per resignation agreements	464,517	464	118,076	-	118,540
Issuance of stock options	-	-	898,207	-	898,207
Extension of certain stock option expiration	-	-	745,989	-	745,989
Issuance of warrants, recorded as discount on convertible notes payable	-	-	197,664	-	197,664
Net loss	-	-	-	(2,746,573)	(2,746,573)
<b>Balance - June 30, 2019</b>	<u>76,710,630</u>	<u>\$ 76,710</u>	<u>\$ 48,158,130</u>	<u>\$ (55,366,550)</u>	<u>\$ (7,131,710)</u>
Stock issued upon cashless warrant exercise	37,120	37	(37)	-	-
Issuance of warrants, recorded as discount on convertible notes payable	-	-	136,320	-	136,320
Net loss	-	-	-	(803,658)	(803,658)
<b>Balance - September 30, 2019</b>	<u>76,747,750</u>	<u>\$ 76,747</u>	<u>\$ 48,294,413</u>	<u>\$ (56,170,208)</u>	<u>\$ (7,799,048)</u>

**Note 16 – Subsequent Events**

See Note 11 for information on the agreements entered into between July 2020 and January 2021 with each of the four major utility defendants in the patent litigation commenced in 2019, two of which agreements were entered into in January 2021 and which provide such defendants and their affiliated entities a non-exclusive license to certain Company patents (related to the Company's two-part Sorbent Enhancement Additive (SEA<sup>®</sup>) process) for use in connection with such parties' coal-fired power plants.

See Note 7 for information on loan proceeds in the amount of \$299,300 which the Company received on April 14, 2020 from First International Bank & Trust pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), which was enacted on March 27, 2020. Such loan was forgiven in January 2021 pursuant to the applicable PPP requirements.

From January 27, 2021 to January 31, 2021, the Company issued 494,400 shares of common stock to certain holders of convertible promissory notes issued in 2013, 2018 and 2019 as payment for accrued interest due on January 1, 2021 in the aggregate amount of \$247,200, based upon a rate of \$0.50 per share.

From February 8, 2021 to February 15, 2021, the Company issued 1,880,000 shares of common stock to certain holders of convertible promissory notes issued in 2013 for the conversion of the outstanding principal of such notes in the aggregate amount of \$940,000, based upon a conversion rate of \$0.50 per share.

From January 23, 2021 to February 16, 2021, the Company issued 705,166 shares of common stock to certain warrant holders upon the cash exercise of warrants to purchase an aggregate of 705,166 shares of common stock at an exercise price of \$0.35 per share or \$246,808 in the aggregate.

On February 17, 2021, the Company issued 97,675 shares of common stock to a certain warrant holder upon the cashless exercise of a warrant to purchase 150,000 shares of common stock at an exercise price of \$0.45 per share based upon a market value of \$1.29 per share as determined under the terms of the warrant.

On March 8, 2021, the Company issued an aggregate of 97,015 shares of common stock to certain warrant holders upon the cashless exercise of warrants to purchase an aggregate of 175,000 shares of common stock at an exercise price of \$0.70 per share based upon market values from \$1.44 to \$1.63 per share as determined under the terms of the warrants.

From February 26, 2021 to March 8, 2021, the Company issued 790,000 shares of common stock to certain holders of convertible promissory notes issued in 2018 and 2019 for the conversion of the outstanding principal of such notes in the aggregate amount of \$395,000, based upon a conversion rate of \$0.50 per share.

On March 17, 2021, as a result of the election by the Company to force convert all of the outstanding principal of certain convertible promissory notes issued in 2018 if the closing price of the Company's common stock exceeds \$1.00 per share for 10 consecutive trading days, the Company issued 1,030,000 shares of common stock to such holders for the conversion of the remaining outstanding principal of such notes in the aggregate amount of \$515,000, based upon a conversion rate of \$0.50 per share.

On March 23, 2021, and pursuant to a consulting agreement dated November 1, 2020, as amended on March 19, 2021, with a nonaffiliated third party, the Company issued 500,000 shares of common stock to such party as part of its compensation thereunder.

On March 30, 2021, and pursuant to a business development agreement dated March 30, 2021 with a nonaffiliated third party, the Company issued 25,000 shares of common stock to such party for its compensation thereunder.

See Note 7 for information on a one-year secured loan in the principal amount of \$200,000 which the Company received on February 25, 2020. Such loan was repaid in full in February 2021.

In February 2021, the Company received second draw loan proceeds in the amount of \$299,380 from First International Bank & Trust pursuant to the Paycheck Protection Program (the "Second PPP Loan") under the CARES Act. The Second PPP Loan is in the form of a Note dated February 2, 2021, matures on April 14, 2026 and bears interest at a rate of 1.0% per annum, with one interest payment on February 2, 2022, 47 monthly consecutive principal and interest payments of \$6,366.89 each, beginning March 2, 2022, and one final principal and interest payment of \$6,366.92 on February 2, 2026. The principal and accrued interest under the Second PPP Loan is forgivable after eight or twenty-four weeks if the Company uses the Second PPP Loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and otherwise complies with the PPP requirements.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

***Report of Disclosure Controls and Procedures***

Regulations under the Exchange Act require public companies to maintain “disclosure controls and procedures,” which are defined as controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including the principal executive officer and principal financial officer (who is the same person), we have evaluated the effectiveness, the design and operations of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the principal executive officer and principal financial officer determined that as of December 31, 2020, the Company’s disclosure controls and procedures were ineffective as a result of material weaknesses in our internal control over financial reporting.

***Management’s Annual Report on Internal Control over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, the Company conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 (COSO).

Our internal control over financial reporting is a process designed 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 in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Despite these controls, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Furthermore, smaller reporting companies, like us, face additional limitations. Smaller reporting companies employ fewer individuals and can find it difficult to employ resources for complicated transactions and effective risk management. Additionally, smaller reporting companies tend to utilize general accounting software packages that lack a rigorous set of software controls.

Our management, including our Chief Executive Officer and Principal Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the criteria established in “Internal Control - Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, our management concluded our internal control over financial reporting was not effective as of December 31, 2020. The ineffectiveness of our internal control over financial reporting was due to the following material weaknesses which are indicative of many small companies: (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.

[Table of Contents](#)

This annual report does not include an attestation report of our registered public accounting firm regarding our internal controls over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to Section 404(c) of the Sarbanes-Oxley Act that permit us to provide only management's report in this annual report.

Despite the existence of the material weaknesses above, we believe that our consolidated financial statements contained in this Form 10-K 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***

Except as discussed below, 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 fourth quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Material Weaknesses***

In connection with our annual audit for the year ended December 31, 2020, management determined that controls as described above constitute material weaknesses in disclosure controls and procedures and internal control over financial reporting. As a result, it was determined that control deficiencies that constitutes material weaknesses in the design and operation of our internal control over financial reporting was present. Management believes that these material weaknesses did not have an effect on our financial results. However, management believes that the lack of these items results in ineffective internal controls, which could result in a material misstatement in our financial statements in future periods.

Due to our size and nature, segregation of duties within our internal control system may not always be possible or economically feasible. Likewise, we may not be able to engage sufficient resources to enable us to have adequate staff and supervision within our accounting function, including technical accounting.

***Remediation***

Certain actions have been taken to address certain aspects of the material weaknesses disclosed above. As of January 1, 2020, we replaced our previous accounting software with a more efficient software package to manage our business activities and accounting needs. Although we no longer have a full-time CFO, during the fourth quarter of 2019 we hired a new full-time Controller at our Corsicana, Texas location, closed our Lewis Center, Ohio office and moved our corporate headquarters to our Corsicana, Texas address which has allowed us to consolidate our manufacturing and distribution activities, bookkeeping and accounting at one location. As of October 21, 2020, our Controller was appointed and promoted to Chief Accounting Officer and Principal Accounting Officer of the Company. Also, in the fourth quarter of 2019, we hired a financial consulting firm to assist us in bookkeeping and preparing financial statements for our SEC filings, assist us in evaluating our internal controls over financial reporting and assist us in other related matters.

Although we believe that these efforts effectively strengthen our disclosure controls and procedures as well as our internal control over financial reporting, our management team intends to continue to actively plan for and implement additional control procedures to improve our overall control environment and expect these efforts to continue throughout 2021 and beyond. Due to the nature of the remediation process, the need to have sufficient resources (cash or otherwise) to devote to such efforts, and the need to allow adequate time after implementation to evaluate and test the effectiveness of the controls, no assurance can be given as to the timing of achievement of remediation.

**Item 9B. Other Information.**

**None.**



**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by this Item 10 is hereby incorporated by reference to our definitive proxy statement for the 2021 Annual Meeting of Stockholders which we intend to file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report.

**Item 11. Executive Compensation.**

The information required by this Item 11 is hereby incorporated by reference to our definitive proxy statement for the 2021 Annual Meeting of Stockholders which we intend to file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this Item 12 is hereby incorporated by reference to our definitive proxy statement for the 2021 Annual Meeting of Stockholders which we intend to file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this Item 13 is hereby incorporated by reference to our definitive proxy statement for the 2021 Annual Meeting of Stockholders which we intend to file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report.

**Item 14. Principal Accounting Fees and Services.**

The information required by this Item 14 is hereby incorporated by reference to our definitive proxy statement for the 2021 Annual Meeting of Stockholders which we intend to file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

(a) The financial statements identified below and required by Part II, Item 8 of this Form 10-K are set forth above.

**(1) Financial Statements**

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheet as of December 31, 2020 and 2019  
Consolidated Statements of Operations for Years Ended December 31, 2020 and 2019  
Consolidated Statements of Stockholders' Deficit for Years Ended December 31, 2020 and 2019  
Consolidated Statements of Cash Flows for Years Ended December 31, 2020 and 2019  
Notes to Consolidated Financial Statements

**(2) Financial Statement Schedules**

All other schedules have been omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto.

**(3) Exhibits**

<b>Exhibit</b>	<b>Description</b>	<b>Filed Herewith</b>	<b>Form</b>	<b>Incorporated by Reference Filing Date</b>
<a href="#">3.1</a>	<a href="#">Certificate of Incorporation and amendments thereto through November 25, 2014</a>		10-K	03/20/2015
<a href="#">3.2</a>	<a href="#">Amended and Restated By-laws</a>		8-K	10/16/2014
<a href="#">4.1</a>	<a href="#">Description of Securities</a>		10-K	05/14/2020
<a href="#">10.1</a>	<a href="#">Closing Agreement by and among Midwest Energy Emissions Corp., MES, Inc. and Energy &amp; Environmental Research Center Foundation effective as of April 21, 2017</a>		10-Q	08/21/2017
<a href="#">10.2</a>	<a href="#">Assignment of Patents by and between Energy &amp; Environmental Research Center Foundation and Midwest Energy Emissions Corp. dated April 24, 2017</a>		10-Q	08/21/2017
<a href="#">10.3</a>	<a href="#">Amended and Restated Employment Letter Agreement between Richard MacPherson and Midwest Energy Emissions Corp. dated January 29, 2019</a>		10-K	04/11/2019
<a href="#">10.4</a>	<a href="#">Employment Agreement between John Pavlish and Midwest Energy Emissions Corp. dated November 16, 2014</a>		8-K	11/20/2014
<a href="#">10.5</a>	<a href="#">Midwest Energy Emissions Corp. 2014 Equity Incentive Plan as amended</a>		10-K	03/30/2016
<a href="#">10.6</a>	<a href="#">Form of Option Award Agreement (2014 Equity Incentive Plan)</a>		8-K	02/05/2014
<a href="#">10.7</a>	<a href="#">Security Agreement by and between Midwest Energy Emissions Corp., MES, Inc. and AC Midwest Energy, LLC dated as of August 14, 2014</a>		8-K	08/15/2014
<a href="#">10.8</a>	<a href="#">Intercreditor Agreement by and between Midwest Energy Emissions Corp., the Holders of 2013 Secured Notes and AC Midwest Energy, LLC dated as of August 14, 2014</a>		8-K	08/15/2014
<a href="#">10.9</a>	<a href="#">Form of Allonge to each of the 2013 Secured Notes dated as of August 14, 2014</a>		8-K	08/15/2014
<a href="#">10.10</a>	<a href="#">2013 Noteholder Modification Agreement between Midwest Energy Emissions Corp. and each of the investors listed therein dated as of February 16, 2016</a>		8-K	02/22/2016
<a href="#">10.11</a>	<a href="#">Amended and Restated Financing Agreement among Midwest Energy Emissions Corp., MES, Inc. and AC Midwest Energy LLC dated as of November 1, 2016</a>		8-K	11/03/2016
<a href="#">10.12</a>	<a href="#">Amendment No. 1 to Amended and Restated Financing Agreement among Midwest Energy Emissions Corp., MES, Inc. and AC Midwest Energy LLC dated as of June 14, 2018</a>		8-K	06/20/2018
<a href="#">10.13</a>	<a href="#">Amendment No. 2 to Amended and Restated Financing Agreement among Midwest Energy Emissions Corp., MES, Inc. and AC Midwest Energy LLC dated as of September 12, 2018</a>		10-Q	11/13/2018
<a href="#">10.14</a>	<a href="#">Amendment No. 3 to Amended and Restated Financing Agreement among Midwest Energy Emissions Corp., MES, Inc. and AC Midwest Energy LLC dated as of February 25, 2019</a>		8-K	03/01/2019
<a href="#">10.15</a>	<a href="#">Senior Secured Note dated November 29, 2016</a>		8-K	12/02/2016
<a href="#">10.16</a>	<a href="#">Unsecured Note Financing Agreement among Midwest Energy Emissions Corp., MES, Inc. and AC Midwest Energy LLC dated as of February 25, 2019</a>		8-K	03/01/2019
<a href="#">10.17</a>	<a href="#">Unsecured Note dated February 25, 2019</a>		8-K	03/01/2019
<a href="#">10.18</a>	<a href="#">Form of 2019-Unsecured Convertible Promissory Notes</a>		10-Q	08/14/2019
<a href="#">10.19</a>	<a href="#">Midwest Energy Emissions Corp. 2017 Equity Incentive Plan</a>		8-K	02/14/2017
<a href="#">10.20</a>	<a href="#">Form of Option Award Agreement (2017 Equity Incentive Plan)</a>		10-K	04/17/2018
<a href="#">14.1</a>	<a href="#">Code of Ethics</a>		10-K	03/20/2015
<a href="#">21.1</a>	<a href="#">Subsidiaries of the registrant</a>		10-K	04/11/2019
<a href="#">31.1</a>	<a href="#">Certification by Principal Executive Officer and Principal Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act</a>	<input checked="" type="checkbox"/>		
<a href="#">32.1</a>	<a href="#">Certification by Principal Executive Officer and 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</a>	<input checked="" type="checkbox"/>		
101.INS	XBRL Instance Document			
101.SCH	XBRL Taxonomy Extension Schema Document			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			

**Item 16. Form 10-K Summary.**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.**

Date: April 5, 2021

By: /s/ Richard MacPherson  
Richard MacPherson  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Richard MacPherson</u> Richard MacPherson	President, Chief Executive Officer and Director (Principal Executive Officer and Principal Financial Officer)	April 5, 2021
<u>/s/ Jami L. Satterthwaite</u> Jami L. Satterthwaite	Chief Accounting Officer (Principal Accounting Officer)	April 5, 2021
<u>/s/ Christopher Greenberg</u> Christopher Greenberg	Chairman of the Board and Director	April 5, 2021
<u>/s/ David M. Kaye</u> David M. Kaye	Secretary and Director	April 5, 2021

I, Richard MacPherson, certify that:

1. I have reviewed this annual report on Form 10-K of Midwest Energy Emissions Corp.;
2. Based on my knowledge, this report does not contain any untrue statement 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 consolidated 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 subsidiaries, 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 consolidated 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; and
  - 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 reasonably 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: April 5, 2021

By: /s/ Richard MacPherson

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

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350**

In connection with the Annual Report of Midwest Energy Emissions Corp. (the "Corporation") on Form 10-K for period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 and the Sarbanes-Oxley Act of 2002:

- (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 Corporation.

Dated: April 5, 2021

By: /s/ Richard MacPherson

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

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.