MMEX Resources Corp
Form 10-Q
September 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2018

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

For the transition period from _______________ to _______________.

Commission file number: 000-55831

MMEX RESOURCES CORPORATION

(Exact name of Issuer as specified in its charter)

Nevada	**26-1749145**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3616 Far West Blvd. #117-321 **Austin, Texas 78731**	**855-880-0400**
(Address of principal executive offices, including zip code)	(Issuer's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	x

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

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of September 7, 2018 there were 2,602,022,596 shares of Class A common stock, $0.001 par value, issued and outstanding and 1,500,000,000 shares of Class B common stock, $0.001 par value, issued and outstanding.

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QUARTER ENDED JULY 31, 2018

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PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

The accompanying condensed consolidated financial statements of MMEX Resources Corporation and subsidiaries (the “Company”) are unaudited and have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial condition, results of operations, and cash flows of the Company for the interim periods presented.

Operating results and cash flows for any interim period are not necessarily indicative of the results that may be expected for other interim periods or the full fiscal year. These condensed consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K for the year ended April 30, 2018 filed with the Securities and Exchange Commission (“SEC”).

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MMEX RESOURCES CORPORATION

Condensed Consolidated Balance Sheets

	July 31, 2018 (Unaudited)	April 30, 2018
Assets		
Current assets:		
Cash	$ 18,297	$ 304,173
Prepaid expenses and other current assets	2,500	5,000
Total current assets	20,797	309,173
Property and equipment, net	300,698	301,269
Deposit	900	900
Total assets	$ 322,395	$ 611,342
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 783,250	$ 708,072
Accrued expenses	273,236	240,404
Accrued expenses – related party	34,133	31,633
Note payable, currently in default	75,001	75,001
Convertible notes payable, currently in default, net of discount of $0 and $0 at July 31, 2018 and April 30, 2018, respectively	75,000	75,000
Convertible notes payable, net of discount of $395,315 and $504,590 at July 31, 2018 and April 30, 2018, respectively	433,685	328,183
Derivative liabilities	882,135	996,603
Total current liabilities	2,556,440	2,454,896
Long-term liabilities:		
Convertible note payable, net of discount of $119,885 and $258,932 at July 31, 2018 and April 30, 2018, respectively	88,119	102,368
Total liabilities	2,644,559	2,557,264
Commitments and contingencies		
Stockholders' deficit:		
Common stock; $0.001 par value:		
	2,442,726	2,127,437

Class A: 12,000,000,000 shares authorized, 2,442,726,284 and 2,127,436,835 shares issued and outstanding at July 31, 2018 and April 30, 2018, respectively				
Class B: 2,000,000,000 shares authorized, 1,500,000,000 shares issued and outstanding at July 31, 2018 and April 30, 2018, respectively		1,500,000		1,500,000
Stock subscriptions receivable		(116,252)		-
Additional paid-in capital		29,892,555		29,494,058
Non-controlling interest		9,871		9,871
Accumulated (deficit)		(36,051,064)		(35,077,288)
Total stockholders' deficit		(2,322,164)		(1,945,922)
Total liabilities and stockholders' deficit	$	322,395	$	611,342

See accompanying notes to condensed consolidated financial statements.

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MMEX RESOURCES CORPORATION

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended July 31, 2018	2017
Revenues	$ -	$ -
Operating expenses:		
General and administrative expenses	400,248	338,130
Refinery start-up costs	161,832	333,111
Depreciation and amortization	571	290
Total operating expenses	562,651	671,531
Loss from operations	(562,651)	(671,531)
Other income (expense):		
Interest expense	(406,997)	(294,608)
Gain (loss) on derivative liabilities	(2,876)	4,466,683
Gain (loss) on extinguishment of liabilities	(1,252)	475,587
Total other income (expense)	(411,125)	4,647,662
Income (loss) before income taxes	(973,776)	3,976,131
Provision for income taxes	-	-
Net income (loss)	(973,776)	3,976,131
Non-controlling interest in loss of consolidated subsidiaries	-	346
Net income (loss) attributable to the Company	$ (973,776)	$ 3,976,477
Net income (loss) per common share - basic and diluted	$ (0.00)	$ 0.00
Weighted average number of common shares outstanding:		
Basic	2,283,246,011	1,324,731,007
Diluted	2,283,246,011	1,444,142,262

See accompanying notes to condensed consolidated financial statements.

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MMEX RESOURCES CORPORATION

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended July 31, 2018	2017
Cash flows from operating activities:		
Net income (loss) attributable to the Company	$ (973,776)	$ 3,976,477
Non-controlling interest in loss of consolidated subsidiaries	-	(346)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization expense	571	290
Stock-based compensation	38,026	227,125
Loss (gain) on derivative liabilities	2,876	(4,466,683)
Loss (gain) on extinguishment of liabilities	1,252	(475,587)
Amortization of debt discount	381,617	177,036
Convertible note payable issued for commitment fee	-	80,000
Decrease in prepaid expenses	2,500	-
Increase in deposits	-	(900)
Increase in liabilities:		
Accounts payable	75,178	112,772
Accrued expenses	43,380	37,562
Accrued expenses – related party	2,500	-
Net cash used in operating activities	(425,876)	(332,254)
Cash flows from investing activities:		
Purchase of property and equipment	-	(75,457)
Net cash used in investing activities	-	(75,457)
Cash flows from financing activities:		
Proceeds from convertible notes payable	140,000	398,750
Net cash provided by financing activities	140,000	398,750
Net decrease in cash	(285,876)	(8,961)
Cash at the beginning of the period	304,173	54,513
Cash at the end of the period	$ 18,297	$ 45,552
Supplemental disclosure:		
Interest paid	$ -	$ -
Income taxes paid	-	-
Non-cash investing and financing activities:		
Common stock issued in conversion of debt	553,256	-
Common stock issued for accrued expenses	5,000	4,400
Common stock issued for stock subscriptions receivable	116,252	-

Derivative liabilities for debt discount	127,295	478,750
Common stock issued for common stock payable	-	307,978
Settlement of convertible preferred stock and accrued interest for common stock	-	200,476
Common stock and additional paid-in capital for derivative liabilities in cashless exercise of warrants	-	1,906,006
Settlement of convertible notes payable and accrued interest for common stock	-	124,800

See accompanying notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

Three Months Ended July 31, 2018 (Unaudited)

NOTE 1 – BACKGROUND, ORGANIZATION AND BASIS OF PRESENTATION

MMEX Resources Corporation (the "Company" or "MMEX") is a company engaged in the exploration, extraction, refining and distribution of oil, gas, petroleum products and electric power. We plan to focus on the acquisition, development and financing of oil, gas, refining and electric power projects in Texas, Peru, and other countries in Latin America using the expertise of our principals to identify, finance and acquire these projects. The most significant focus of our current business plan is to build crude oil refining facilities in the Permian Basin in West Texas.

MMEX was formed as a Nevada corporation in 2005. The current management team led an acquisition of the Company (then named Management Energy, Inc.) through a reverse merger completed on September 23, 2010 and changed the Company's name to MMEX Mining Corporation on February 11, 2011 and to MMEX Resources Corporation on April 6, 2016

The accompanying condensed consolidated financial statements include the accounts of the following entities, all of which the Company maintains control through a majority ownership or through common ownership:

Name of Entity	%	Form of Entity	State of Incorporation	Relationship
MMEX Resources Corporation ("MMEX")	-	Corporation	Nevada	Parent
Pecos Refining & Transport, LLC	100%	Corporation	Texas	Subsidiary
Armadillo Holdings Group Corp. ("AHGC")	100%	Corporation	British Virgin Isles	Subsidiary
Armadillo Mining Corp. ("AMC")	98.6%	Corporation	British Virgin Isles	Subsidiary

As of April 13, 2016, the Company assigned AMC to an irrevocable trust (the "Trust"), whose beneficiaries are the existing shareholders of MMEX. The accounts of AMC are included in the consolidated financial statements due to the common ownership. AMC through the Trust controls the Hunza coal interest previously owned by MMEX.

All significant inter-company transactions have been eliminated in the preparation of the consolidated financial statements.

These financial statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of the information contained therein.

The Company has adopted a fiscal year end of April 30.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are described in our Annual Report on Form 10-K for the year ended April 30, 2018 filed with the SEC on July 23, 2018.

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its aforementioned subsidiaries and entities under common ownership. All significant intercompany accounts and transactions have been eliminated in consolidation. The ownership interests in subsidiaries that are held by owners other than the Company are recorded as non-controlling interest and reported in our consolidated balance sheets within stockholders' deficit. Losses attributed to the non-controlling interest and to the Company are reported separately in our consolidated statements of operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Derivative liabilities

In a series of subscription agreements, we have issued warrants in prior years that contain certain anti-dilution provisions that we have identified as derivatives. We have also identified the conversion feature of certain of our convertible notes payable as derivatives. We estimate the fair value of the derivatives using multinomial lattice models that value the derivative liabilities based on a probability weighted cash flow model using projections of the various potential outcomes. These estimates are based on multiple inputs, including the market price of our stock, interest rates, our stock price volatility and management's estimates of various potential equity financing transactions. These inputs are subject to significant changes from period to period and to management's judgment; therefore, the estimated fair value of the derivative liabilities will fluctuate from period to period, and the fluctuation may be material.

Property and equipment

Property and equipment is recorded at the lower of cost or estimated net recoverable amount, and is depreciated using the straight-line method over the estimated useful life of the related asset as follows:

Office furniture and equipment	10 years
Computer equipment and software	5 years

Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments will be capitalized. At the time of retirement or other disposition of equipment, the cost and accumulated depreciation will be removed from the accounts and the resulting gain or loss, if any, will be reflected in operations.

The Company will assess the recoverability of property and equipment by determining whether the depreciation and amortization of these assets over their remaining life can be recovered through projected undiscounted future cash flows. The amount of equipment impairment, if any, will be measured based on fair value and is charged to operations in the period in which such impairment is determined by management.

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Fair value of financial instruments

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures,* and ASC 825, *Financial Instruments,* the FASB establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement reaffirms that fair value is the relevant measurement attribute. The adoption of this standard did not have a material effect on the Company's financial statements as reflected herein. The carrying amounts of cash, accounts payable, accrued expenses and notes reported on the accompanying consolidated balance sheets are estimated by management to approximate fair value primarily due to the short-term nature of the instruments.

An entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value using a hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy prioritized the inputs into three levels that may be used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in markets that are not active.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Our derivative liabilities are measured at fair value on a recurring basis and estimated as follows:

July 31, 2018	**Total**	**Level 1**	**Level 2**	**Level 3**