Energy and Environmental Services, Inc.

2017 Annual Report

Disclosure Regarding Forward-Looking Statements and Cautionary Statements

This Annual Report contains forward-looking statements about our growth strategies, anticipated trends in our business and our future results of operations. In addition, the words "believe", "may", "could", "will", "when", "estimate", "continue", "anticipate", "intend", "expect" and similar expressions, as they relate to us, our business or our industry, are intended to identify forward-looking statements. These forward-looking statements are based largely on our expectations and are subject to a number of risks and uncertainties, many of which are beyond our control. Actual results could differ materially from these forward-looking statements as a result of, among other things:

- Our plans and objectives for future operations
- Existing cash flows being adequate to fund future operational needs
- Outcomes of future product development, the amount of research and development costs, and our success in commercialization plans and timing
- The competitive nature of our business and market conditions with respect to products and pricing
- Future plans related to budgets, capital requirements, market share growth, and anticipated capital projects and obligations
- Other assumptions described in this Annual Report underlying such forward-looking statements

Although we believe that the expectations included in these forward-looking statements are reasonable, these forward-looking statements are subject to certain events, risks, assumptions, and uncertainties, including those discussed below and in the "Risk Factors" section in our Annual Report. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

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BUSINESS AND PROPERTIES

Our Background

Energy and Environmental Services, Inc. ("*We*") manufacture specialized liquid and solid chemicals used primarily in the oil and gas industry and high-tech specialized protective coatings for oil and gas and other industrial applications. We also have products under development using enzyme technologies for animal feed supplements and odor solutions. We are headquartered in Edmond, Oklahoma.

In November 2016, we undertook a share exchange in which Melvin B. Smith, the principal and sole shareholder of Energy & Environmental Services, Inc., an Oklahoma corporation ("*EES*"), exchanged his shares for 32 million shares of EnerLabs, Inc., a Colorado corporation ("*Enerlabs*"). As a result, Smith owned approximately 66.7% of the outstanding Enerlabs shares, the former Enerlabs shareholders owned the balance, and EES became a wholly-owned subsidiary of Enerlabs. Enerlabs was originally incorporated in British Columbia, Canada, in 1989, domesticated in Delaware in 2001, and domesticated in Colorado in 2015. After the share exchange transaction, Enerlabs changed its name to Energy and Environmental Services, Inc. EES was incorporated in 1991. The information presented in this Annual Report reflects the operations and activity of EES unless otherwise indicated.

Our stock is traded in the OTC Markets Pink Open Market under the symbol EESE. We qualify through the Alternative Reporting Standard by making filings, including unaudited annual and quarterly, GAAP-based financial statements, publicly available through the OTC Disclosure & News Service.

Our Business Segments

Oilfield Chemicals. We offer a full line of hydraulic fracking additives and acid additives to oilfield well service companies. We also offer a complete line of wholesale products and services to downhole production chemical companies. Our chemicals include acid inhibitors, scale inhibitors, corrosion inhibitors, packer fluid inhibitors, paraffin dispersant compounds; H_2S scavengers, biocides, water treating compounds, demulsifiers, emulsion breakers, non-emulsifiers, frac foamers, clay stabilizers, liquid KCL substitute, cross linkers, wetting agents/surfactants, friction reducers, anti-sludge agents, mutual solvents, silt suspenders, iron sequestrants, iron control, complete acid gel systems, xylene/acid emulsifiers, and HCl acid retarders. We produce and market these products under our Enduro-Tech® name. Our wholesale products and services include custom chemical blending, toll blending, and private labeling.

We also offer a patent pending, proprietary solid chemical technology that allow us to provide most of our liquid chemical products in solid form. Solid chemicals offer the advantages of easier handling and extended protection due to a slow release and a higher rate of activity. Additionally, these solid chemicals are compatible with frac fluids and oppositely charged molecules found in downhole and other well site environments. Our solid chemical applications can be batch treated down-hole or added to frac stimulation processes. We sell our solid form chemicals under our Enduro-Tech® name and provide wholesale products and services including custom and toll blending, private labeling and pelletizing.

We provide chemical testing and analysis in our laboratory. We have a four-truck fleet for on-location deliveries. While most of our chemicals are sold to oilfield users, we also sell and service water treatment and other industrial users.

Powdered Coatings. Under the Enduro-Bond® trademark, we offer a process that applies a protective, anti-corrosion coating to metal products. The powdered coating is baked on in high-temperature ovens and produces a smooth 1- to 2-millimeter protective coating to all areas of metal parts without compromising threads or connective tolerances. Applied to ductile iron or carbon steel, the coating will enable these metals to perform like stainless steel in corrosive environments. The coating is also stable in high heat and protects against impact and abrasion. Our services include electrostatic coating, valve servicing, testing, disassembly and reassembly, and grit blasting. We market four product lines – Enduro-Bond, Enduro-Bond PLUS, Enduro-Bond DuraShield, and Enduro-Bond ULTRA-Shield – to end users in oil and gas, industrial, pharmaceutical manufacturing, pipeline transmission, waste water (municipalities), refineries, and automotive fields.

Products in Development – Enzymes and Probiotics. We have several products in development that relate to our work with enzymes and probiotics.

– *Hydrogen Sulfide Removal*. Hydrogen sulfide (H_2S) is a life-threatening, corrosive and flammable gas that may be encountered in the drilling for and production of oil and gas. The detection and monitoring of H_2S is essential for oil and gas operators. The gas's corrosive properties can require costly special production equipment, such as stainless steel tubing. We are working on an organic treatment system for the removal of H_2S in oil and gas production. Under our system, the H_2S bond is cleaved enzymatically allowing the operator to utilize a treatment system that is less expensive and non-toxic as compared to current industry removal methods. Our laboratory tests have shown that this compound can break-up and render the potentially fatal H_2S gas harmless. We are current conducting independent field trials.

– *Livestock Feed Supplements*. EST has developed a proprietary blend of probiotic microorganisms and other organic ingredients that are combined to produce a fermented feed grade product to supplement the animal diet. We call our feed supplement BioBlend™. Modern animal feeds are generally composed of plant material, such as cereals and vegetable proteins, which cannot be fully digested and utilized. The microorganisms produce beneficial enzymes that increase the digestibility of these feeds, which improves feed-to-gain ratios for cattle, pigs, horses and other ruminant and monogastric animals. The probiotics can also enhance the biome in the animal's gut, which improves animal health. In our early tests, cattle have reached target weights in a significantly shorter amount of time, and with fewer health issues in comparison to control groups using currently accepted feeding regimens. Our supplement has also improved meat grade in cattle and milk quality in dairy cows. We recently began a trial with a land grant university to study the effectiveness of adding BioBlend™ to livestock feeding programs.

– *Odor Elimination*. We are developing a line of odor elimination products for home and industrial use. These "ecologically" compatible products eliminate odors by breaking the chemical bond at a molecular level that forms to create the malodors. The malodors are eliminated, not just masked or deodorized. The products are a non-toxic and biodegradable liquid that combines microorganisms and a formulation of natural plant extracts. Expected home uses include the removal of pet odors, urine and bacteria smells in carpet, and foul garbage bins.

Industrial applications could include sewage facilities, feed lots, locker rooms and other environment where foul odors might exist.

– *Farrowing Product*. We have developed a neonatal farrowing aid we call "Pigs-In-A-Blanket", which is a unique blend of natural minerals and healing salts. It interacts with the amniotic fluid and the skin of the neonatal piglets to ease the birth cycle, facilitate umbilical cord drying and healing, provide traction on the birthing mat, and speed the time from birth to suckling. When applied to the underside of the gilt or sow, it will assist in a more rapid and even colostrum/milk distribution. In birthing piglets, excess moisture in consort with pathogens and mold poses significant health risks, while ammonia, sulfide and putrefaction are some of the leading causes of respiratory and scours problems. Pigs-In-A-Blanket absorbs moisture, reduces the risk of pathogenic bacteria, provides a blanket of exothermic natural warming, and captures a variety of malic odors targeting ammonia/sulfur in pens and holding areas. Our initial tests indicate that Pigs-In-A-Blanket performs much better than comparable farrowing products. All ingredients are GRAS listed under 21 CFR Part 82.

Business Segments by Revenue. The following table shows the revenues attributable to each business segment:

	Year Ended Dec. 31, 2017	
Oilfield Chemicals		
• Enduro-Tech® liquid	$ 1,090,826	28.7%
• Enduro-Tech® solid	1,933,110	50.8%
Enduro-Bond® Coatings	501,143	13.2%
Other	278,721	7.3%
Total Sales	$3,803,800	100.0%

Our Business Strategy

We strive to make innovative products that meet our customers' needs. Our chemical product lines have long been the mainstay of our business and we intend to continue to develop those lines. We also believe that diversity in our product lines is important. We think that our Enduro-Bond® protective coating products have strong growth potential and have expanded our marketing efforts by adding manufacturer representatives to sell these products. We recently entered into a joint venture for the coating and distribution of oilfield pump barrels, which are are used in producing oil and gas wells.

Our belief in diversity is also shown by microbial lines of products under development. In all these efforts, we adhere to certain core values: respect for our employees, integrity in our working relationships, accountability to our customers, shareholders, employees and community, and service to attract and maintain loyal customers.

Our Facilities

We conduct our operations in eight facilities in Oklahoma and Texas. Our offices are located in a 16,000-square foot building at 6300 Boucher Drive, Edmond, Oklahoma, which is also where our primary research and development occurs. Our oilfield chemical plant is housed in a 27,500-square foot building located at 6701 Boucher Drive, Edmond, Oklahoma. Our

Enduro-Bond® coating operations are mostly done in a 30,000-square foot facility located at 1728 Frisco Avenue in Chickasha, Oklahoma. We own these buildings as well as an 80,000-square foot chemical warehouse in Snyder, Texas.

We lease a 9,000-square foot building in Troup, Texas, where we cultivate the enzymes and probiotics used on our microbial product lines. We anticipate closing the Troup facility in 2018 and moving operations to our Edmond, Oklahoma location. We lease an office and small laboratory in Midland, Texas, to service our Permian Basin customers. We also lease a 1,000-square foot warehouse at 7210 N. Santa Fe Avenue in Oklahoma City to manufacture Enduro-Bond® protective coatings products.

Our offices were formerly in a two-story office building located at 6300 Northwest Expressway, Oklahoma City, Oklahoma, which we sold in December 2017.

Marketing

We market our Enduro-Tech® chemical products on a pre-packaged basis to end users and also offer custom chemical blending, toll manufacturing and private label packaging. The bulk of our chemical sales is handled through an internal sales staff of five employees, who are located in Oklahoma and Texas. Our Enduro-Bond® protective coating product line is distributed through authorized manufacturer representatives with over 40 agents in 20 states: the Northeast region (Illinois, Indiana, Kentucky, West Virginia, Michigan, Ohio and Pennsylvania), the Southeast region (Mississippi, Louisiana and Arkansas), the South region (Oklahoma and Texas), the Southwest region (West Texas/Permian Basin and New Mexico), the Midwest region (Kansas, Colorado and Utah), and the Western region (Arizona, California, Nevada and Idaho).

Research and Development

Our expertise for many years has been in the development of effective and innovative products. Our research and development apply to existing product lines and products under development. We are presently conducting independent field trials of our H_2S removal system. If the field trials are successful, we anticipate that we can take the H_2S removal products to market in the third quarter of 2018. The odor removal products are ready to market, but we must determine the packaging, labeling, tradenames and manner of distribution, especially for retail sales. We believe the BioBlend™ supplement must be supported by independent scientific clinical trials for optimum market acceptance. We recently began a trial with a land grant university to analyze the supplement and measure its effectiveness. We had research and development expenses of $197,650 in 2016 and expenses of $178,829 in 2017.

Major Customers

In 2016, we had two customers that accounted for 49% of our total net sales. In 2017, we had four customers that accounted for 50% of our total net sales.

Trademarks and Patents

We have obtained trademark registrations for Enduro-Tech®, Enduro-Bond® and Bio-Blend®. We also have trademark registrations for Molecule Design, TherMel-Kem, TMB-2, Terra Secure, and Odor Knot. Our customers' recognition and association of our brands and trademarks with quality are important elements of our operating strategy.

We have patent applications pending for our solid chemical well treatment product and continuation patents for enzyme assisted treatment and thermal solar assisted treatment. We have a provisional patent for coating products and a provisional patent for a system to efficiently delivery high pour point chemicals to oil well formations. We have two patents pending in Mexico for our solid chemical well treatments and enzyme assisted well treatments.

Environmental, Health and Safety Matters

Our operations are subject to extensive federal, state and local laws and regulations relating to the protection of the environment and human health and to safety, including those pertaining to chemical manufacture and distribution, waste generation, storage and disposal, the health of our employees and the safety of our facilities. Applicable environmental laws include the Federal Clean Air Act, the Water Pollution Control Act (also known as the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, and the Toxic Substances Control Act. We are subject to the Occupational Safety and Health Act ("*OSHA*"), and comparable state statutes, the purpose of which are to protect the health and safety of workers. We also are subject to OSHA Process Safety Management regulations, which are designed to prevent or minimize the consequences of catastrophic releases of toxic, reactive, flammable or explosive chemicals. We also are subject to EPA Chemical Accident Prevention Provisions, known as the Risk Management Plan requirements, which are designed to prevent the accidental release of toxic, reactive, flammable or explosive materials.

Our Bio-Blend™ animal feed supplement is subject to regulation by the Federal Food and Drug Administration ("*FDA*"), which is the primary Federal regulatory agency responsible for ensuring the safety of animal feed. The FDA manages this responsibility under its Animal Feed Safety System, which cover all stages of feed production and use. Typical feed ingredients, such as forages, grains, most minerals and vitamins, and the probiotic microorganisms and other organic ingredients that we make, are generally recognized as safe as sources of nutrients and do not require premarket approval.

Governmental authorities have the power to enforce compliance with their regulations, and violators may be subject to civil, criminal and administrative penalties, injunctions or both. Our facilities are inspected periodically, and we may be subject to further regulatory inspections, future requests for investigation or assertions of liability relating to OSHA and other regulatory compliance. We devote significant financial resources to ensure compliance with safety and environmental laws. See "*Risk Factors*".

Competition

Our bulk Enduro-Tech® oilfield chemical products face strong competition from other suppliers, many of whom have substantially greater financial and other resources than we do. To the extent we are engaged in private labelling or toll manufacturing, our operations will experience indirect competition from the competitors of our customers, since we rely on our customers to market and sell finished goods that incorporate our components or products. Our Enduro-Bond® protective coating products materials compete in a more limited market, but still face substantial competition including competition from the manufacturers of stainless steel products, the use of which are prevalent in corrosive environments. Transportation costs especially impact our Enduro-Bond® lines, since we are often coating metal items that are large and heavy and expensive to transport. Based on our experience developing products for a variety of customers, we believe that potential customers will continue to be product-specific in nature, with the decision for each product being driven primarily by the performance needs of the application and, secondarily, by cost considerations.

Legal Proceedings

We are not party to any material legal or administrative proceedings.

Employees

We employ 22 people on a full-time basis and two people on a part-time basis. We also use temporary workers on an "as needed" basis. None of our employees are covered under collective bargaining contracts, and we believe our employee relationships are good.

RISK FACTORS

Risks Relating Generally to Our Operations and Industry

The industries in which we operate are competitive. This competition may affect our market share or prevent us from raising prices as our costs increase, making it difficult for us to maintain existing business and win new business.

We operate in competitive markets. Many of our competitors have substantially greater financial and technical resources than we do. Additionally, new competitors may enter our markets. We may be required to reduce prices if our competitors reduce prices, or due to any other downward pressure on prices for our products and services, which could have an adverse effect on us. With the volatility in the oil and gas industry, our customers have requested price decreases and maintaining or raising prices has been difficult over the past several years and may continue in the near future. Competition in our Enduro-Tech® and Enduro-Bond® lines is based on several factors, including price, freight economics, product quality and technical support. If we are unable to compete successfully, our financial condition and results of operations could be adversely affected.

The industries that we compete in are subject to economic downturns.

While we market our products in other industries, the bulk of our sales is in the oil and gas industry. An economic downturn in the oil and gas industry in 2015 hurt our sales and future downturns could have a material adverse impact on sales of our Enduro-Tech® and Enduro-Bond® products.

A significant portion of our revenue and operating income are concentrated in a relatively small number of customers.

We derive a significant portion of our revenues and operating income from sales of products to a relatively small number of customers. As a result, the loss of one or more of these customers, or a material reduction of demand from any of those customers, could adversely affect our revenues and operating income.

We are dependent on a limited number of suppliers for certain key materials, the loss of any one of which could have a material adverse effect on our financial condition and results of operations.

We depend on a limited number of suppliers for certain key materials needed for our Enduro-Bond® protective coatings products. Those suppliers are subject to a variety of operational and commercial constraints that can adversely impact our supply. If we were to lose suppliers for key materials, we might have difficulty securing a replacement supplier at reasonable cost, and no assurance can be given that such loss would not have a material adverse effect on our financial condition and results of operations.

Increases in the price of our primary raw materials may decrease our profitability and adversely affect our liquidity, cash flow, financial condition and results of operations.

The prices we pay for raw materials in our businesses may increase significantly, and we may not always be able to pass those increases through to our customers fully and timely. In the future, we may be unable to pass on increases in our raw material costs, and raw material price increases may erode the profitability of our products by reducing our gross profit. Price increases for raw materials may also increase our working capital needs, which could adversely affect our liquidity and cash flow. For these reasons, we cannot assure you that raw material cost increases in our businesses would not have a material adverse effect on our financial condition and results of operations.

We are subject to extensive health and safety and environmental laws and regulations and may incur costs that have a material adverse effect on our financial condition because of violations of or liabilities under such regulations.

Like other companies involved in chemical manufacturing, our operations and properties are subject to extensive and stringent Federal, state and local health and safety and environmental regulations, including those concerning, among other things:

- The safety of our machinery and workplaces
- Employee training and compliance programs
- The marketing, sale, use and registration of our chemical products
- The treatment, storage and disposal of waste by-products
- The emission of substances into the air
- Other matters relating to environmental protection and various health and safety matters

The OSHA, EPA and other Federal and state agencies may promulgate regulations that could have a material adverse impact on our operations. These health and safety and environmental regulations may require permits for certain types of operations, require the installation of expensive equipment, place restrictions upon operations or impose substantial liability for operating activities. We expend substantial funds to comply with governmental regulations. We have incurred, and expect to continue to incur, significant costs to comply with environmental and health and safety laws or to address liabilities for our facilities. Federal and state governmental authorities may seek fines and penalties, as well as injunctive relief, for violation of the various laws and governmental regulations, and could, among other things, impose liability on us for a failure to comply.

Our use of hazardous materials exposes us to potential liabilities.

Our manufacturing and distribution of chemical products involves the controlled use of hazardous materials. Our operations, therefore, are subject to various associated risks, including chemical spills, discharges or releases of toxic or hazardous substances or gases, fires, mechanical failure, storage facility leaks and similar events. Our suppliers are subject to similar risks that may adversely impact the availability of raw materials. While we adapt our manufacturing and distribution processes to the environmental control standards of regulatory authorities, we cannot completely eliminate the risk of accidental contamination or injury from hazardous or regulated materials, including injury of our employees, individuals who handle our products or goods treated with our products, or others who claim to have been exposed to our products, nor can we completely eliminate the unanticipated interruption or suspension of operations at our facilities due to such events. We may be held liable for significant damages or fines in the event of contamination or injury, and such assessed damages or fines could have a material adverse effect on our financial performance and results of operations.

Risks Specific to Us

We have incurred significant losses in the past. If we incur significant losses in the future, we will experience negative cash flow which may hamper current operations and prevent us from sustaining or expanding our business.

We have been in existence for over 25 years and have relied, historically, upon cash from operations to fund all the cash requirements of our business. However, we incurred significant losses in 2015 and 2016 when oil prices dropped and industry activity slowed. In 2015, we had losses of $1,971,200 on revenues of $7,399,700. In 2016, we had losses of $2,098,000 on revenues of $1,967,300. The 2016 drop in revenues was particularly harmful. Our revenues have since improved and the extent of our losses has slowed. For the year ended December 31, 2017, we had revenues of $3,803,800 and an operating loss of $1,466,400. At December 31, 2017, we had cash and cash equivalents of $3,651,400, which provides some cushion to absorb future losses. Still, we cannot continue to incur losses indefinitely and need stronger revenues to restore profitability. While we are working to reduce expense and increase sales, no assurance can be provided that we will return to extended periods of profitability. If we do not achieve, sustain or increase profitability, our business will be adversely affected and our stock price will decline.

We are pursuing new product lines, which will take time and money to determine their value. Whether these new products will return our investment is uncertain.

We are pursuing new product lines with enzyme and probiotics work. Our products for H_2S removal, odor elimination and livestock feed are all in the development stage. There is no guarantee that these new product lines will be successful in the marketplace. We use our best efforts to research and forecast future profitability of any new product line, however, any new endeavor has underlying risks that known and unknown. The success of any new product is also dependent on product performance, customer demand, market stability, existing barriers to entry, and other factors of product introduction.

The market for our shares is limited and inefficient. Our shareholders face the risks of illiquidity and price volatility.

Our shares trade in the OTC Markets Pink Open Market, which is an electronic dealer network for companies adhering to its alternative reporting standard. Under this standard, we are not required to provide audited financial statements and the level of disclosure is less than that required of a company registered under the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), or whose shares trade on exchanges, such as the New York Stock Exchange or NASDAQ. Due to its lower reporting standards, this market is more speculative and lacks the volumes and efficiencies of the exchanges. In addition, we are subject to the penny stock rules of the Securities and Exchange Commission ("*SEC*"), which place further limitations on the trading of our shares. The trading volume in our shares is limited, and we do not anticipate an active trading market for our shares until and unless we become a reporting company under the Exchange Act. You may be unable to sell your shares when you wish to sell them or at a price that you consider attractive or satisfactory. The lack of an active market may also adversely affect our ability to raise capital by selling securities, or impair our ability to make acquisitions using our shares as consideration.

Dependence on Key Personnel

Our success is dependent on the services of key members of our senior management. The loss of one or more of these individuals could have a material adverse effect on our operations and business prospects. Furthermore, we must continue to hire highly qualified individuals, including financial, sales and operations personnel. There can be no assurance that we will be able to attract and retain qualified personnel.

MARKET FOR OUR COMMON STOCK, RELATED SHAREHOLDER MATTERS AND OUR PURCHASES OF EQUITY SECURITIES

Market Information. Our common stock is quoted on the OTC Markets Pink Open Market under the symbol "EESE".

The following table sets forth the high and low bid quotations per share of our common stock as reported on by OTC Markets for the periods indicated. The high and low bid quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The closing price at March 29, 2018, was $.40 per share with daily volume averaging 4,685 over the prior 30 days.

Fiscal Year 2017	High	Low
First Quarter	$ 1.50	$ 0.60
Second Quarter	$ 1.35	$ 0.40
Third Quarter	$ 1.00	$ 0.40
Fourth Quarter	$ 0.70	$ 0.39

Fiscal Year 2016		High		Low
First Quarter	$	0.19	$	0.02
Second Quarter	$	0.05	$	0.02
Third Quarter	$	0.07	$	0.02
Fourth Quarter	$	0.83	$	0.03

Holders. As of December 31, 2017, there were approximately 209 shareholders of record of our common shares.

Dividend Policy. We have not paid any dividends on our common shares and do not anticipate that dividends will be paid at any time in the immediate future.

Recent Sales of Unregistered Securities. The following is a list of our shares of common stock issued by us for cash or as stock compensation to consultants during the period from January 1, 2016 through December 31, 2017, which were not registered under the Securities Act:

Name of Purchaser	Issue Date	Shares	Consideration
George Shaw	10/21/16	3,803,955	$649,906(1)
Scott Shaw	10/21/16	71,218	$12,168(1)
Vicki Webb	10/21/16	255,287	$43,616(1)
At Gas Gathering Systems, Inc.	10/21/16	1,300	Debt assumption(2)
Energas Corp.	10/21/16	1,000	Debt assumption(2)
Melvin Smith Rev. Trust	11/03/16	32,000,000	Share exchange(3)

(1) These shares were issued in settlement of debt owed to the purchaser.

(2) These purchasers received shares in exchange for assuming debt owed by us.

(3) These shares were issued in exchange for the Trust's shares of Energy & Environmental Services, Inc. See "*Business and Properties – Our Background*".

Our Purchases of Common Stock. In December 2017, we offered a stock buyback program to our employees excluding the executive officers. The program provided our employees with liquidity that was otherwise unavailable in the market. Under the program, employees could elect to sell up to 10,000 shares at $.50 per share. The program ended at year end. We purchased a total 220,000 shares for $110,000 ($.50 per share). As of December 31, 2017, our employees (excluding executive officers) held 12,683,780 shares.

Securities Authorized for Issuance under Equity Compensation Plans. We have no outstanding securities convertible into or exchangeable for, or options, warrants or other rights to acquire, shares of our common or preferred stock. We are proposing a 2018 equity compensation plan, upon which shareholders will vote at our 2018 Annual Meeting.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion is intended to assist in understanding our financial condition and results of operations. Our Financial Statements and Notes thereto contain detailed information that should be referred to in conjunction with the following discussion. See "*Financial Statements*".

Summary of Significant Accounting Policies

Our financial statements reflect the selection and application of accounting policies that require us to make significant estimates and assumptions. The Footnote 1 to our Financial Statements describe some of the more critical judgment areas in the application of accounting policies that currently affect our financial condition and results of operations.

Results of Operations

We realized a net operating loss of $(1,466,400) in 2017 versus a net operating loss of $(3,258,500) for 2016. The total net loss in 2017 was $(2,385,600) versus a net loss of $(2,098,000) for 2016. The net loss in 2017 was increased generally by a write-down of obsolete inventory of $(743,000) and a loss on the sale of our office building of $(241,200). The net operating loss in 2016 was partially offset by a deferred tax benefit of $1,120,400. The net loss per share was $(0.05) in 2017 compared to $(0.04) in 2016.

Our sales revenues rebounded in 2017 to $3,803,800 from $1,967,300 in 2016. Sales in 2016 and 2015 were much below previously levels and reflected the industry slow-down after the dramatic drop in oil prices in 2015. Oil prices showed modest gains in 2017 and industry activity increased, which buoyed our sales. Increased industry activity also supported higher margins in 2017, which lowered cost of sales. Our cost of sales in 2017 were $971,900 versus $1,083,000 in 2016.

Our general and administrative expense increased slightly from $3,771,500 in 2016 to $3,956,700 in 2017. We anticipate that general and administrative expense may increase slightly as revenues increase. In light of cost-cutting measures, we do not expect that general and administrative expense will increase proportionately with growth in revenue. The impairment charge against assets $(743,000) and loss on the sale of our office building of $(241,200) were non-recurring charges. The impairment charge the resulted from our attempt to manufacture oilfield valves that we had coated. Our entry into the market began as oil prices dropped and industry activity waned. We were competing against well-established companies, including companies using our coatings, which hurt customer relations. As a result, we were unable to sell the valves we had made and the inventory became obsolete. The other significant non-operating loss ($(241,200)) arose from sale of our former office building. We bought the building in 2015, but the building was much larger than our needs, and we determined that we did not want to manage the property for tenants in addition to managing our core business. We sold the building in December 2017 for $1,325,000 less closing costs of $16,300.

Liquidity and Capital Resources

Our primary source of capital has been cash flow from operations. We have had limited borrowings in recent years and have not sold shares to generate capital. Our balance sheet remains strong, despite the losses incurred in the current pricing environment. At December 31, 2017, we had working capital of $5,467,900 versus $6,237,000 for 2016. Cash used in operating activities during 2017 was $105,300, which was a marked improvement from cash of $1,192,700 used in 2016. Our 2017 cash was aided by $1,260,500 realized from the sale of our office building. We realized a net increase in cash of $971,700 in 2017, which was a marked improvement over a net decrease of $(1,139,400) in 2016.

We have one note payable of $230,600 at December 31, 2017, which is the purchase mortgage on a Chickasha property. If we were to need additional funds, alternative capital resources are readily available to us, including bank borrowings.

Outlook

We have a strong balance sheet with $3,651,400 of cash and cash equivalents and working capital of $5,467,900 at December 31, 2017. Our 2017 revenues showed a strong increase. We believe our revenues will continue to increase. With improving margins, we expect a return to profitability in 2018. Our chemical sales should grow as the oil and gas industry gradually recovers. We expect growth in our coating product sales with the Vortex joint venture coming on line. Our enzyme and probiotics products are nearing final stages of development, and we expect several products to reach market later this year. The success of these products will diversify and smooth our revenue stream.

MANAGEMENT AND OWNERSHIP OF THE COMPANY

The information relating to Directors and Executive Officers; Corporate Governance, Executive Compensation, Stock Ownership of Management and Certain Shareholders, and Related Transactions is presented in our proxy statement, which is being mailed to shareholders on or about April 20, 2018, and is available on our website at https://eesokc.com/investors/.

ENERGY AND ENVIRONMENTAL SERVICES, INC.

FINANCIAL STATEMENTS

December 31, 2017 and 2016

Together with Accountant's Compilation Report

C O N T E N T S

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March 28, 2018

Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
Board of Directors:

Management is responsible for the accompanying financial statements of Energy and Environmental , Inc., which comprise the consolidated balance sheets as of December 31, 2017 and 2016 and the related consolidated statements of income for the years ended December 31, 2017 and 2016 and the consolidated statements of changes in cash flows for the years ended December 31, 2017 and 2016, in accordance with principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Leslie G. Pettitt, PC

ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,651,400	$ 2,679,700
Accounts receivable - trade	588,400	380,500
Accounts receivable - other	27,400	30,900
Inventory	1,145,100	1,720,700
Deferred tax assets	558,500	1,762,400
Prepaid expenses	27,300	-
Total current assets	5,998,100	6,574,200
Property, plant and equipment (net of accumulated depreciation of $1,339,600 and $1,265,500 at December 31, 2017 and 2016, respectively)	3,085,300	4,815,000
Equity investments	3,200	-
Goodwill	130,000	149,900
Total assets	$ 9,216,600	$ 11,539,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 287,600	$ 1,500
Payroll liabilities	35,100	44,400
Stock repurchase payable	25,000	-
Deferred tax liabilities	117,800	215,500
Current portion of long-term debt	62,700	75,000
Other taxes	2,000	800
Total current liabilities	530,200	337,200
Long-Term Notes - less current portion	167,900	254,100
Stockholders' Equity		
Preferred stock, $0.0001 par value, 20,000,000 shares authorized, no shares issued and outstanding December 31, 2017 and 2016, respectively	-	-
Common stock, $0.00001 par value, 100,000,000 shares authorized 47,727,644 and 47,947,644 shares issued and outstanding at December 31, 2017 and 2016, respectively	500	500
Additional paid in capital	490,500	485,000
Retained earnings	8,027,500	10,462,300
Total Stockholder's Equity	8,518,500	10,947,800
Total Liabilities and Stockholders' Equity	$ 9,216,600	$ 11,539,100

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ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	December 31, 2017	December 31, 2016
Sales revenues	$ 3,803,800	$ 1,967,300
Cost of goods sold	971,900	1,083,000
Gross profit	2,831,900	884,300
Operating expenses		
Selling general and administrative expenses	3,956,800	3,771,500
Depreciation and amortization	341,500	371,300
Total operating expenses	4,298,300	4,142,800
(Loss) from operations	(1,466,400)	(3,258,500)
Other income (expense)		
Other revenues	80,200	43,800
Impairment of assets	(743,000)	-
Loss on sale of assets	(241,200)	-
Interest and finance costs	(15,400)	(3,700)
(Loss) from operations before income tax	(2,385,800)	(3,218,400)
Benefit (provision) for income tax		
Current income tax benefit	436,600	1,185,400
Deferred income tax provision	(485,600)	(65,000)
	(49,000)	1,120,400
Net (loss)	$ (2,434,800)	$ (2,098,000)
Earnings per share	$ (0.05)	$ (0.04)
Weighted average shares outstanding	47,941,014	47,947,644

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ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Common Stock		Preferred Stock		Additional Paid-In	Retained
	Shares	Amount	Shares	Amount	Capital	Earnings
Balance, December 31, 2015	47,947,644	$ 500	-	$ -	$ 47,500	$ 12,560,300
Contribution of net assets	-	-	-	-	437,500	-
Net (loss)	-	-	-	-	-	(2,098,000)
Balance, December 31, 2016	47,947,644	500	-	-	485,000	10,462,300
Contribution of net assets	-	-	-	-	115,500	-
Buy back of stock	(220,000)	-	-	-	(110,000)	-
Net (loss)	-	-	-	-	-	(2,434,800)
Balance, December 31, 2017	47,727,644	$ 500	-	$ -	$ 490,500	$ 8,027,500

ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	December 31, 2017	December 31, 2016
Cash flows from operating activities		
Net loss	$ (2,434,800)	$ (2,098,000)
Adjustments to reconcile net (loss) to net cash provided by operating activities		
Depreciation and amortization	341,500	371,300
Write off of bad debts	127,600	-
Inventory impairment	723,100	-
Goodwill impairment	19,900	-
Loss on sale of assets	241,200	-
Earnings from equity method investment	(1,200)	-
Net changes in current assets and liabilites		
Accounts Receivable	(335,500)	520,000
Accounts receivable - related parties	-	(150,500)
Accounts receivable - other	3,500	(400)
Inventory	(147,500)	664,800
Deferred tax assets	1,203,900	(505,000)
Prepaid expenses	(27,300)	-
Accounts payable	286,100	(83,200)
Payroll liabilities	(9,300)	23,300
Other taxes	1,200	-
Deferred taxes	(97,700)	65,000
Net cash (used in)/provided by operations	(105,300)	(1,192,700)
Cash flows from investing activities		
Sale of property, plant and equipment	1,382,800	-
Purchases of property, plant and equipment	(120,300)	(44,600)
Investment in equity method investment	(2,000)	-
Net cash (used in) investing activities	1,260,500	(44,600)
Cash flows from financing activities		
Payments on notes payable	(98,500)	(18,300)
Buy back of stock	(85,000)	-
Contribution of net assets by shareholder	-	116,200
Net cash provided by financing activities	(183,500)	97,900
Net increase/(decrease) in cash	971,700	(1,139,400)

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	2017	2016
Cash and cash equivalents, beginning of year	2,679,700	3,819,100
Cash and cash equivalents, end of year	$ 3,651,400	$ 2,679,700
Supplemental disclosures of cash flow informations:		
Cash paid during the year for:		
Interest	$ 15,400	$ 3,700
Taxes	$ -	$ -

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ENERGY & ENVIRONMENTAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

1. NATURE OF OPERATIONS

Energy and Environmental Services, Inc. (the "Company") was originally incorporated as Energas Resources, Inc in 1989 in British Columbia, Canada as a public company listed on the Vancouver Stock Exchange. In 2001, the Company registered as a Delaware corporation becoming a United States domestic corporation. In 2002, its registration statement filed with the Securities and Exchange Commission became effective and its stock was traded on the Over the Counter Bulletin Board market. On November 1, 2011, the Company voluntarily delisted from the Over the Counter Bulletin Board market and qualified its shares to trade on the OTC pink current information market.

On January 25, 2012, the name of the Company was changed to Enerlabs, Inc. On March 23, 2015, the Company redomiciled the company from Delaware and registered as a Colorado corporation. On October 24, 2016, the Company signed a share exchange with Melvin Smith, the sole shareholder of Energy & Environmental Services, Inc. ("EES"), in which Smith exchanged his EES shares for 32 million shares of the Company. EES became the operating subsidiary of Enerlabs. On December 5, 2016, the name of the Company was changed to Energy and Environmental Services, Inc.

For accounting purposes, the share exchange has been accounted for as a reverse acquisition under the purchase method. Accordingly, the Company and its subsidiary, EES, are treated as the continuing entity for accounting purposes. For comparative purposes, the common shares outstanding reported in the related financial statements have been retroactively applied to January 1, 2015, and consistently applied throughout all periods, to present the recapitalization and the related stock split.

The Company, headquartered in Oklahoma City, manufactures specialized liquid and solid chemicals used primarily in the oil and gas industry and high-tech specialized protective coatings for oil and gas and other industrial applications. It also has products under development using enzyme technologies for animal feed supplements and odor solutions. The Company's operations are maintained and occur through its wholly-owned subsidiaries: EES, Enduro-Bond Manufacturing Company, LLC ("EMC"), and EcoZyme System Technologies, LLC ("EST"). These subsidiaries were formed in the state of Oklahoma.

On October 21, 2016, the Company sold all of the outstanding shares, and associated debts, of its subsidiaries AT Gas Gathering Systems, Inc., Energas Corp. and Energas Pipeline, Inc. to George G. Shaw, former majority shareholder of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, EES, EMC and EST. All significant inter-company items have been eliminated in consolidation.

Use of estimates in the preparation of financial statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Cash and Cash Equivalents – The Company considers all highly liquid debt instruments purchased with a maturity period of three months or less to be cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheets for cash and cash equivalents approximate their fair value.

Accounts Receivable – Management periodically assesses the collectability of the Company's accounts receivable and notes receivable. Accounts determined to be uncollectible are charged to operations when that determination is made.

Inventories – Inventories are stated at the lower of cost or market. Cost is determined using the weighted average method.

Cost of inventories comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs of conversion of inventories include fixed and variable production overheads, taking into account the stage of completion.

Intangible Assets and Amortization – Intangible assets represent software and closing costs acquired by the Company and are stated at cost less amortization and impairment, if any. Amortization of software and closing costs is calculated on the straight-line method, based on the period over which the software is licenses or the length of the note from closing on the building.

Goodwill - Goodwill represents the excess of cost over fair value of assets acquired. Goodwill is not subject to amortization but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired, as required by ASC Topic 350, "Intangibles - Goodwill and Other".

Revenue recognition - Revenue from the sale of goods and services is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed and services have been rendered.

Long-lived assets - The Company reviews its long-lived assets for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using estimated undiscounted net cash flows to be generated by the asset.

Property, Plant and Equipment - Equipment is recorded at cost and depreciated on the straight-line basis over the following periods:

Computer equipment	3-5 years
Truck	5 years
Office equipment	5-7 years
Buildings and improvements	7-39 years

Earnings per share - Basic net income (loss) per common share is computed by dividing net earnings (loss) applicable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net earnings (loss) per common share is determined using the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options. In periods where losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents, because their exclusion would be anti-dilutive.

Concentration of credit risk – The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk.

Trade receivables consist of uncollateralized customer obligations due under normal trade terms. Management believes all trade receivables to be fully collectible at December 31, 2017 and 2016.

Financial Instruments – The carrying value of current assets and liabilities reasonably approximates their fair value due to their short maturity periods.

Income taxes - The Company uses the asset/liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company's policy is to classify the penalties and interest associated with uncertain tax positions, if required, as a component of its income tax provision.

Retirement Benefit Costs – The Company maintains defined contribution 410(k) retirement plans in two subsidiaries EES and EMC.

For the years ended December 31, 2017 and 2016, the Company's pension cost charged to the statements of income under the plans amounted to none and $8,700, respectively.

Reclassifications – Certain prior period amounts have been reclassified to conform to current period presentation.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to recognize all leases, including operating leases, on the balance sheet as a lease asset or lease liability, unless the lease is a short-term lease. ASU 2016-02 also requires additional disclosures regarding leasing arrangements. ASU 2016-02 is effective for interim periods and fiscal years beginning after December 15, 2018, and early application is permitted. The adoption of ASU 2016-02 is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04, Intangibles – Goodwill and Other. ASU 2017-04 simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendment should be applied on a prospective basis. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-02, Income Statement - Reporting Comprehensive Income, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220), which amended its standard on comprehensive income to provide an option for an entity to reclassify the stranded tax effects of the Act that was passed in December of 2017 from accumulated other comprehensive income (AOCI) directly to retained earnings. The stranded tax effects result from the remeasurement of deferred tax assets and liabilities which were originally recorded in comprehensive income but whose remeasurement is reflected in the income statement. This is a one-time amendment applicable only to the changes resulting from the Act. The standard will be effective for us on January 1, 2019, and may be reflected retroactively to any period in which the impacts of the Act are recognized. The standard permits early adoption for any financial statements that have not been released as of the date of the revised standard. The overall financial impact of adopting this standard is unknown at this time.

Other recently issued accounting pronouncements did not or are not believed by management to have a material impact on the Company's present or future financial statements.

3. RELATED PARTY TRANSACTIONS

In 2017, the Company paid $11,600 as sales commissions to a distributor partially owned and controlled by a director of the Company. During the same period, the distributor purchased $29,000 of coatings products from the Company for resale. The sales commissions and resale discounts were comparable to commissions paid and discounts afforded to third party distributors.

The sole shareholder of EES at September 30, 2016, contributed the net assets of P&M, LLC, Enduro and Chem, LLC, MJN, LLC, LVS, LLC to EES on September 30, 2016. As per guidance the book value net assets of the entities as of the date of contribution was recorded in EES with an offset to contributed capital.

On September 30, 2016, the sole shareholder of EMC transferred 100% of the outstanding capital to EES. As per guidance, due to common control of both entities EMC was consolidated into the Company at book value as of the date of contribution with the offset to contributed capital.

During the year ended December 31, 2016, the Company paid $288,200 to related parties for rent and lease payments. In 2016, the related party contributed the properties to the Company and the rents ceased.

4. INVENTORIES

ASC 330-10-35, "Adjustments to Lower of Cost or Market", requires us to reduce the carrying value of inventory when there is evidence that the utility of goods will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels or other causes.

As of December 31, 2017 and 2016, inventories consisted of the following:

	December 31, 2017	December 31, 2016
At cost:		
Raw materials	$ 766,500	$ 1,471,300
Blends	37,100	39,200
Finished goods	341,500	210,200
	$ 1,145,100	$ 1,720,700

During the year ended December 31, 2017, the Company impaired inventory in the amount $723,100 that was obsolete or no longer marketable.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, stated at cost less accumulated depreciation, consisted of the following:

	December 31, 2017	December 31, 2016
Buildings	$ 1,930,000	$ 3,214,500
Improvements	1,030,600	1,361,000
Equipment	734,000	639,200
Vehicles and transportation equipment	365,400	517,000
Furniture and fixtures	275,500	262,400

Software and closing costs	89,500	90,200
	4,425,000	6,084,300
Less: Accumulated depreciation	(1,339,700)	(1,269,300)
	$ 3,085,300	$ 4,815,000

6. LONG-TERM NOTES - LESS CURRENT PORTION

	December 31, 2017	December 31, 2016
Bank loan dated October 30, 2013 due October 30, 2023 with an interest rate of 4.25%	$ 28,600	$ 255,000
Bank loan dated August 29, 2013, due September 1, 2018 with an interest rate of 4.25%	202,000	74,100
	230,600	329,100
Less current portion of notes payable	(62,700)	(75,000)
	$ 167,900	$ 254,100

7. SALE OF BUILDING

In December 2017, the Company completed the sale of the Oklahoma City office building for $1,325,000 less closing costs of $16,300. A loss of $278,500 is included in the income statements for the year ended December 31, 2017.

8. SHARE REPURCHASE

In December 2017, the Company repurchased 220,000 shares of the Company's common stock at $0.50 per share for a total purchase amount of $110,000. As of December 31, 2017, $25,000 of the total purchase had not yet been made and is included in Stock Repurchase Payable in the financial statements.

9. INCOME TAXES

The Company records income taxes using the liability method. Under this method, deferred tax assets and liabilities are computed for the expected future impact of temporary differences between the financial statement and income tax bases of assets and liabilities using current income tax rates and for the expected future tax benefit to be derived from tax loss and tax credit carryforwards. ASC 740 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Tax positions must meet a "more-likely-than-not" recognition threshold before a benefit is recognized in the financial statements.

A reconciliation of the provision (benefit) for income taxes with the amounts determined by applying the U.S. federal income tax rate to income before income taxes is as follows:

	Year Ended December 31, 2017	2016
Computed at the federal statutory rate of 34%	$ (371,100)	$ (1,094,000)
State tax (benefit) at statutory rates	(65,500)	(193,100)
Use of prior year net operating losses and return adjustments	485,300	-

Depreciation differences	(97,700)	101,700
Income tax (Benefit)	$ (49,000)	$ (1,185,400)

Significant components of the Company's deferred tax assets and liabilities are as follows:

	As of December 31,	
	2017	2016
Deferred tax assets – Net Operating Loss Carryforwards	$ 558,500	$ -
Deferred tax liabilities – depreciation and amortization	$ (117,800)	$ (215,500)

The Company is subject to examination in the U.S. federal and state tax jurisdiction of the 2014 to 2017 tax years. There are not current examinations of the Company's prior tax returns. The penalty and interest charges on the delinquent returns is estimated to be minimal due to net operating losses incurred in each year of operations.

No penalty and interest on any tax positions have been computed and the Company does not anticipate there will be a charge in the uncertain tax position in the next 12 months.

10. EARNINGS PER SHARE

Accounting guidance requires a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations.

The following reconciles the components of the EPS computation for the years ended December 31, 2017 and 2016:

	2017	2016
Basic and Diluted (loss) per share computation		
Numerator:		
Net loss	$ (2,385,800)	$ (2,098,000)
Denominator:		
Weighted average common shares outstanding	47,941,014	47,947,644
Basic (loss) per share	$ (0.05)	$ (0.04)

11. LEASES

The Company leases office and warehouse space under leases expiring during 2018. The future lease payments required under the lease in the next year are $63,845. Total rent expense for the years ended December 31, 2017 and 2016, was $59,174 and $229,555, respectively.

12. CONTINGENCIES

In the normal course of its operations, the Company may, from time to time, be named in legal actions seeking monetary damages. While the outcome of these matters cannot be estimated with certainty, management does not expect, based upon consultation with legal counsel, that they will have a material effect on the Company's business or financial condition or results of operations.