ENERGY AND ENVIRONMENTAL SERVICES, INC.

FINANCIAL STATEMENTS

Together With Accountant's Compilation Report

C O N T E N T S

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Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
Board of Directors:

Management is responsible for the accompanying financial statements of Energy and Environmental Services, Inc., which comprise the consolidated balance sheets as of June 30, 2018 and December 31, 2017 and the related consolidated statements of income for three and six months ended June 30, 2018 and 2017 and the consolidated statements of changes in cash flows for the six months ended June 30, 2018 and 2017, 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

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,908,300	$ 3,651,400
Accounts receivable - trade	1,408,700	588,400
Accounts receivable - other	26,600	27,400
Inventory	1,567,100	1,145,100
Deferred tax assets	336,700	558,500
Prepaid expenses	50,100	27,300
Total current assets	6,297,500	5,998,100
Property, plant and equipment (net of accumulated depreciation of $1,476,900 and $1,265,500 at June 30, 2018 and December 31, 2017, respectively)	3,139,200	3,085,300
Equity investments	23,600	3,200
Goodwill	130,000	130,000
Total assets	$ 9,590,300	$ 9,216,600
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 431,300	$ 287,600
Other current liabilities	79,900	35,100
Stock repurchase payable	-	25,000
Deferred tax liabilities	117,800	117,800
Current portion of long-term debt	40,100	62,700
Other taxes	172,100	2,000
Total current liabilities	841,200	530,200
Long-Term Notes - less current portion	151,300	167,900
Stockholders' Equity		
Preferred stock, $0.00001 par value, 20,000,000 shares authorized, no shares issued and outstanding June 30, 2018 and December 31, 2017, respectively	-	-
Common stock, $0.00001 par value, 100,000,000 shares authorized 47,727,644 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	500	500
Additional paid in capital	490,500	490,500
Retained earnings	8,106,800	8,027,500
Total Stockholder's Equity	8,597,800	8,518,500
Total Liabilities and Stockholders' Equity	$ 9,590,300	$ 9,216,600

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ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Sales revenues	$ 2,013,500	$ 906,900	$ 3,598,100	$ 1,662,100
Cost of goods sold	965,700	207,300	1,773,100	378,000
Gross profit	1,047,800	699,600	1,825,000	1,284,100
Operating expenses				
Selling general and administrative expenses	908,100	1,110,300	1,676,300	1,993,600
Depreciation and amortization	68,700	10,200	137,300	157,700
Total operating expenses	976,800	1,120,500	1,813,600	2,151,300
Income (loss) from operations	71,000	(420,900)	11,400	(867,200)
Other income (expense)				
Other revenues	28,100	7,300	72,900	8,100
Interest and finance costs	(2,300)	-	(5,000)	-
Income (loss) from operations before income tax	96,800	(413,600)	79,300	(859,100)
Benefit (provision) for income tax				
Current income tax provision	(23,200)	-	(23,200)	-
Deferred income tax benefit	23,200	-	23,200	-
	-	-	-	-
Net income (loss)	$ 96,800	$ (413,600)	$ 79,300	$ (859,100)
Earnings per share	$ -	$ (0.01)	$ -	$ (0.02)
Weighted average shares outstanding	47,727,644	47,947,644	47,727,644	47,947,644

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ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
Cash flows from operating activities		
Net income (loss)	$ 79,300	$ (859,100)
Adjustments to reconcile net (loss) to net cash provided by operating activities		
Depreciation and amortization	137,300	157,700
Earnings from equity method investment	(5,400)	-
Net changes in current assets and liabilites		
Accounts Receivable	(820,300)	(209,300)
Accounts receivable - other	800	(3,700)
Inventory	(422,000)	(27,700)
Deferred tax assets	221,800	120,100
Prepaid expenses	(22,800)	-
Accounts payable	143,700	83,900
Other current liabilities	11,300	4,500
Other taxes	170,100	400
Net cash (used in)/provided by operations	(506,200)	(733,200)
Cash flows from investing activities		
Purchases of property, plant and equipment	(157,700)	(48,400)
Investment in equity method investment	(15,000)	-
Net cash (used in) investing activities	(172,700)	(48,400)
Cash flows from financing activities		
Payments on notes payable	(39,200)	(39,000)
Buy back of stock	(25,000)	-
Net cash (used in)/provided by financing activities	(64,200)	(39,000)
Net increase/(decrease) in cash	(743,100)	(820,600)
Cash and cash equivalents, beginning of period	3,651,400	2,679,700
Cash and cash equivalents, end of period	$ 2,908,300	$ 1,859,100

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ENERGY & ENVIRONMENTAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

1. NATURE OF OPERATIONS

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.

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 June 30, 2018.

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.

The Company had no pension costs charged to the statements of income for the three and six months ended June 30, 2018 and 2017, respectively.

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

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (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 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.

In June 2018, the FASB issued ASU 2018-07, which simplifies the accounting for nonemployee share-based payment transactions. The ASU will be effective for the Company for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Company does not expect that the adoption of this ASU will have a significant impact on its consolidated financial statements.

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

During the six months ended June 30, 2018 and 2017, the Company paid $8,200, and $11,700, respectively, as sales commissions to a distributor partially owned and controlled by a director of the Company. During the same period, the distributor purchased $33,500 and $54,300, respectively, 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.

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 June 30, 2018 and December 31, 2017, inventories consisted of the following:

		June 30, 2018		December 31, 2017
At cost:				
Raw materials	$	721,100	$	766,500
Blends		36,700		37,100
Finished goods		809,300		341,500
	$	1,567,100	$	1,145,100

5. PROPERTY, PLANT AND EQUIPMENT

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

		June 30, 2018		December 31, 2017
Buildings	$	1,933,500	$	1,930,000
Improvements		1,055,400		1,030,600
Equipment		849,200		734,000
Vehicles and transportation equipment		400,400		365,400
Furniture and fixtures		275,400		275,500
Software and closing costs		102,200		89,500
		4,616,100		4,425,000
Less: Accumulated depreciation		(1,476,900)		(1,339,700)
	$	3,139,200	$	3,085,300

6. Long-Term Notes - Less Current Portion

		June 30, 2018		December 31, 2017
Bank loan dated August 29, 2013 due September 1, 2018 with an interest rate of 4.25%	$	6,700	$	28,600
Bank loan dated October 30, 2013, due October 30, 2023 with an interest rate of 4.25%		184,700		202,000
		191,400		230,600
Less current portion of notes payable		(40,100)		(62,700)
	$	151,300	$	167,900

7. 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 three months ended June 30, 2018 and 2017:

	2018	2017
Basic and Diluted (loss) per share computation		
Numerator:		
Net income (loss)	$ 96,800	$ (413,600)
Denominator:		
Weighted average common shares outstanding	47,727,644	47,947,644
Basic income (loss) per share	$ 0.00	$ (0.01)

The following reconciles the components of the EPS computation for the six months ended June 30, 2018 and 2017:

	2018	2017
Basic and Diluted (loss) per share computation		
Numerator:		
Net income (loss)	$ 79,300	$ (859,100)
Denominator:		
Weighted average common shares outstanding	47,727,644	47,947,644
Basic income (loss) per share	$ 0.00	$ (0.02)

8. 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 $36,400. Total rent expense for the six months ended June 30, 2018 and 2017, was $53,400 and $30,200 respectively.

9. 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.