Energy and Environmental Services, Inc.

2019 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
- Our ability to grow through strategic acquisitions
- 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, organic fertilizers, and odor solutions. We are headquartered in Oklahoma City, 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.

Recent acquisitions have significantly increased our operations. In May 2019, we acquired Patriot Chemicals & Services LLC ("*Patriot*") in a merger for 2.9 million shares of our common stock, $165,000 in cash, and $165,000 in promissory notes. The Patriot merger significantly expanded our sales of chemicals used in oil and gas production. In August 2019, we acquired D.R. Graham Trucking, LLC ("*Graham Trucking*") to increase our oilfield delivery capacity. Effective February 1, 2020, we acquired Abilene Celex Services, LLC ("*Celex*"), a Texas-based oilfield chemical provider for $325,000. We estimate the Patriot and Graham Trucking added $3,553,100 to our 2019 revenues. Had we owned Patriot and Graham Trucking for the full twelve months of 2019, we estimate the pro forma addition to revenues would have been $5,040,100. We estimate Celex would have added about $700,000 on a pro forma basis for the full twelve months of 2019.

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 proprietary liquid and solid chemicals for use by oilfield well service companies. Our chemicals are used during drilling operations, including hydraulic fracking and stimulation, and during production to enhance oil and gas recovery from existing wells. 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.

– *Production Chemicals*. We offer production chemicals and well services primarily through Patriot and Celex. These chemical additives stimulate production from existing wells and maturing fields. Patriot has facilities in Southern Oklahoma, Northeastern Oklahoma, Southeast Kansas, and the Texas Panhandle (Canadian, Texas). Celex has a facility in Abilene, Texas. Our services include testing and analysis for specific chemical needs, product recommendations, product delivery and setup, inventory monitoring, truck treating, pipeline treating, gas gathering facility treating, water injection facilities, tank batteries, and saltwater flow line treating.

– *Frac & Stimulation Chemicals*. Our stimulation chemical additives are used within fracturing fluids to enhance acidizing and fracturing operations, reduce the interfacial tension, improve overall efficiency and reduce costs. Our non-emulsifiers eliminate and prevent emulsions. Our demulsifier chemistries, used in combination with a polymer breaker, ensure the polymer emulsion separates lowering the overall viscosity in preparation for cleaning the formation.

– *Liquid and Solid Forms*. Most of our chemicals are available in liquid and solid forms. Oilfield chemicals were most commonly offered in liquid form, but solid form chemicals have become more popular. We have a proprietary solid chemical technology that allows us to provide most of our liquid chemical products in solid form. Solid chemicals are easier to handle and dissolve at a slower rate, which offers prolonged treatment. 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.

– *Chemical Markets*. We produce and market our chemical products under our Enduro-Tech® name. We also provide custom chemical blending and private labeling for third party, downhole production chemical companies. 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 at lower production costs. 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. In 2018 and 2020, we upgraded our production lines, which will significantly increase our capacity. 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, wastewater (municipalities), refineries, and automotive fields. We have a two-truck fleet for pick up and deliveries.

Lab Services We provide chemical testing and analysis in our laboratories, including water analysis, oil analysis, and scaling tendency testing. Our regional lab is equipped with an ICP, HPLC, GC, LCMS and viscometer. We have the ability to do many arrays of laboratory testing. Our oilfield testing including oil, water and solids for organics and conductivity, hardness, turbidity, metals, chlorides and microbiology for inorganics. We also test asphaltenes, paraffins, density, viscosity, flash point, pour point and specific gravity. We have laboratories in:Snyder, Texas, Ratliff City, Oklahoma, and Edmond, Oklahoma.

Trucking Services. In August 2019, we purchased Graham Trucking to increase our delivery capacity. We currently have a fleet of six trucks, including three semi-tractor trailers, two 54' box vans, two 48' flatbed trailers, one 54' curtain side trailer, one 52' walking floor trailer, and three gooseneck trailers for on-location deliveries. In addition to our in-house chemical deliveries, we also make third party deliveries of equipment and other products. In 2019, trucking revenues were $130,000, of which in-house deliveries accounted for 14% and third-party deliveries accounted for 86%.

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

- *Fertilizer Blending Facility*. In 2018, we built a facility to produce a natural organic liquid fertilizer for Natures Formula. Bio-Sure Grow is an all-natural organic humus and manure extract that is put through a proprietary process to suspend the micro-nutrients, which becomes a natural quick response formulation of nitrogen, potassium and phosphorus. The product is OMRI-certified for organic farming. Our pilot tests generated solid production gains in a variety of crops, including cotton, alfalfa, corn and soybeans. The product pricing is competitive with non-organic fertilizers. We are market ready and anticipate an increase in sales this year.
- *Probiotic Feed Supplements for Livestock*. We have 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. An 8,000 head feedlot in Kansas is using BioBlend™ and has found that target weights are realized earlier, death rates are down, and the slaughterhouse is seeing a 4% increase in hanging weight. We believe these results will strengthen demand for the product.
- *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 environments where foul odors might exist. We are currently testing the product in livestock lagoons, livestock confinements, and other similar environments. We are also testing the products in the cannabis industry for

eliminating the smell during flowering stage of growth in grow facilities. We have put together a product that combines the carrier we use in the farrowing product coated with the odor elimination product for use in livestock stalls and trailers with positive feedback

- *Farrowing Product*. We have developed a neonatal farrowing aid, 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. The product 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 tests indicate that the product performs much better than comparable farrowing products. All ingredients are GRAS listed under 21 CFR Part 82. To develop demand, we have distributed the product to pork producing operations, and participants in show-pig arenas.

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

	Year Ended Dec. 31,			
	2018		**2019**	
Oilfield Chemicals				
• Patriot (5/16/19 – 12/31/19)	$ 3,526,567	49.0%	$ 3,464,500	40.5.0%
• Enduro-Tech® liquid	3,526,567	49.0%		
o Production			715,600	8.4%
o Frac			927,800	10.8%
• Enduro-Tech® solid	3,099,487	43.0%		
o Production			646,100	7.5%
o Frac			2,023,600	23.6%
Enduro-Bond® Coatings	570,125	7.9%	686,300	8.0%
Other	5,121	0.1%	102,900	1.2%
Total Sales	$ 7,201,300	100.0%	$8,566,800	100.0%

Our Business Strategy

The drop in oil and gas prices and attendant reduction in capital expenditures by exploration companies will likely soften demand for our frac and stimulation products. But we anticipate growth in other areas, such as our production chemicals marketed by Patriot and Celex and our Enduro-Bond protective coatings. The production chemicals are used to stimulate production in mature fields that will generally continue to produce regardless of price. Our Enduro-Bond protective coating product sales will benefit from our investment in a new oven, which will significantly expand our production. We have made capital investments at our Snyder, Texas facility, which is ready to blend chemicals and perform lab services. This location will enable us to serve our Abilene and Permian Basin customers more efficiently.

We will also push to increase market share in our Enduro-Tech Liquid and solid chemicals, which have production applications, and in our trucking segment. We have experienced solid demand from third party freight customers and anticipate making a capital investment in one or two additional semi-tractors and trailers to service this need. We will continue to seek growth opportunities through strategic mergers and acquisitions. Down markets can present buying opportunities, and we believe we may be able to gain market share at reasonable prices. . We anticipate increases in our farm and ranch segment as our our liquid organic fertilizers and organic feed supplements appear to be gaining market traction.

We strive to make innovative products that meet our customers' needs. We also believe that diversity in our product lines is important. Our belief in diversity is shown by microbial lines of products under development. In all these efforts, we adhere to certain core values: customer service to build loyalty, respect for our employees, integrity in our working relationships, accountability to our customers, shareholders, employees and community.

Our Facilities

We conduct our operations in twelve facilities in Oklahoma, Kansas and Texas. Our research and development lab and organic fertilizer plant is a 7,000 square foot building located at 6300 Boucher Drive, Edmond, Oklahoma. 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, and a 2-acre lot on Boucher Drive, Edmond, Oklahoma. We also own the land and building in Abilene, Texas that houses Celex. We lease our corporate office in a 1,900-square foot suite in the Oil Center at 2601 NW Expressway, Oklahoma City, Oklahoma, a 7,000 square foot building at 6388 Boucher Drive, Edmond, Oklahoma, where we cultivate the enzymes and probiotics used on our microbial product lines and ag products. Patriot leases four yards, which are located in Ratliff City, Oklahoma, Cleveland, Oklahoma, Canadian, Texas, Cherryvale, Kansas.

In 2018, we closed the Troup, Texas facility, and moved these operations to a leased 10,000 square foot building at 6388 Boucher Drive, Edmond, Oklahoma.

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 these sales is handled through an internal sales staff of five employees, who are located in Oklahoma and Texas. We market our production chemicals and services through Patriot and Celex with our staff of 24 employees located in Oklahoma, Texas, and Kansas. Our Enduro-Bond® protective coating product line is distributed through authorized manufacturer representatives 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 and Nevada).

In 2018, we entered into a toll manufacturing agreement with Natures Formula, under which we will produce products under the Natures Formula label. Our Bio-Sure Grow, the natural organic liquid fertilizer, is the first product to be produced and sold under this agreement. We believe we can duplicate existing products in Natures Formula's product line and add new products utilizing our facility and our enzyme and microbe capabilities. Natures Formula is a Texas-based producer and marketer of organic fertilizer and probiotic and health aids for horses and other livestock.

In 2019, we entered into a two-year toll blending agreement with Houston-based OSP, which offers microbial identification, testing and mitigation for energy related, water management markets in Canada and the United States. We produce registered biocides at our plant in Edmond, Oklahoma. As an EPA-certified producer, we can manufacture registered biocides for sale to end users in multiple industries, including the oil and gas industry. By manufacturing the biocides, we can sell without resale mark-ups.

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. 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 expect to produce the probiotic livestock feed supplement for Natures Treat. We had research and development expenses of $161,961 in 2018 and expenses of $123,600 in 2019.

Major Customers

In 2019, we had six customers that accounted for 57.0% of our total net sales. In 2018, we had four customers that accounted for 59% 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.

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^{TM} 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

As of March 24, 2020, we employed 60 people on a full-time basis and four 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

Our business depends on domestic spending by the oil and gas industry, which suffered significant price volatility in 2019 and 2020. The volatility may continue; our business has been, and may in the future be, adversely affected by industry and financial market conditions that are beyond our control.

We depend on our customers' ability and willingness to make operating and capital expenditures to explore, develop and produce oil and gas in the United States. In March 2020, the market experienced a precipitous decline in oil prices in response to oil demand concerns due to the economic impacts of the COVID-19 virus and anticipated increases in supply from Russia and OPEC, particularly Saudi Arabia. Major declines in oil and gas prices have resulted in substantial declines in capital spending and drilling programs across the industry. As a result of the declines in oil and natural gas prices, many exploration and production companies have and are expected to substantially reduce drilling and completions programs, which will decrease demand for our products and services.

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, which is experiencing major decreases in oil and gas market prices. We face a very difficult operating environment in 2020. With exploration and production companies cutting back their drilling and completions plans, we anticipate less demand for our frac and stimulant chemicals. We hope that we can somewhat offset this decline with sales of production chemicals, which are designed to maximize recovery in mature fields that will generally continue to produce regardless of price. Nonetheless, an economic downturn in the oil and gas industry will have a material adverse impact on sales of our oilfield chemical and coatings products, which account for 98.2% of our revenues.

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. In 2017, we had revenues of $3,803,800 and an operating loss of $1,466,400. In 2018, our revenues improved to $7,201,300, which generated net operating income of $39,300. In 2019, while our revenues improved to $8,566,800, we suffered an operating loss of $414,400. Our cash and cash equivalents at December 31, 2017, 2018 and 2019, were $3,651,400, $2,332,000 and $1,600,600, respectively. Our current cash and cash equivalents, accounts receivable and inventory continue to provide some cushion to absorb future losses and cash demands. Still, we cannot maintain these trends indefinitely and need higher revenues, solid product margins, and lower general and administrative costs to strengthen profitability. If we do not sustain or increase profitability, our business will be adversely affected and our stock price will decline.

We are pursuing new product lines and services, 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 livestock probiotic feed supplements, organic liquid fertilizers and odor elimination products are all in the advanced development stage, but we have experienced difficulties in bringing these products to market. 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 27, 2020, was $0.09 per share with daily volume averaging 6,642 shares over the prior 30 days.

Fiscal Year 2019		High		Low
First Quarter	$	0.34	$	0.15
Second Quarter	$	0.29	$	0.12
Third Quarter	$	0.19	$	0.11
Fourth Quarter	$	0.19	$	0.09

Fiscal Year 2018		High		Low
First Quarter	$	0.59	$	0.31
Second Quarter	$	0.48	$	0.22
Third Quarter	$	0.37	$	0.20
Fourth Quarter	$	0.35	$	0.16

Holders. As of March 26, 2020, there were approximately 239 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. In the May 2019 Patriot merger, we issued 2.9 million shares of our common stock valued at $667,000. The issuance of an additional 2.0 million of shares is contingent on earn-out provisions, which we consider likely to occur. The contingent shares are valued at $460,000. The shares were issued in reliance on Federal and state exemptions afforded the private offerings of securities.

Securities Authorized for Issuance under Equity Compensation Plans. In 2018 and 2019, we awarded 625,000 and 640,997 shares of restricted stock, respectively, to employees, officers and outside directors under out Equity Incentive Plan. Other information concerning our equity compensation plans is incorporated by reference from information contained under the section "Equity Compensation Plans" in our Proxy Statement for the 2020 Annual Meeting of Shareholders.

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, 2019, our employees (excluding executive officers) held approximately 4,823,000 shares representing 9.2% of total outstanding shares.

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

Our sales revenues continued to climb in 2019 to $8,566,800 from $7,201,300 in 2018, which is an increase of $1,365,500 or 19.0%. Our oilfield chemical lines represent 90.0% of our sales revenue. Although oil prices stalled toward the end of 2019, as the industry anticipated excess supply, our chemical sales to the industry increased. We attribute the increase to our marketing efforts in the frac and stimulation products as well as production chemical lines. A more aggressive approach in pricing lead to increase in market share in the Permian basin and the Stack play in northern Oklahoma. Our margins improved in 2019, which was reflected in the lower proportionate cost of sales, which were 52.0% of sales ($3,776,800) in 2018 versus 34.0% of sales ($2,949,000) in 2019.

We realized net income from operations of $39,300 in 2018 versus net loss from operations of $(414,400) for 2019. Net income in 2018 was $127,700 versus a net loss of $(347,400) for 2019. The net loss in 2019 was caused by increase in general and administrative expenses of $2,448,900, which was partially offset by the increase in gross profit of $2,193,300. The net income per share was $0.00 in 2018 compared to $(0.01) in 2019.

Our general and administrative expense increased from $3,110,000 in 2018 to $5,558,900 a change of $2,448,900. The majority of the increase is from the purchase of Patriot and Graham during 2019, which increased salaries and wages by $1,679,300 and insurance by $104,800 along with other general and administrative expenses. 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.

Liquidity and Capital Resources

Our primary source of capital historically 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 last couple of years. At December 31, 2019, we had working capital of $4,460,400 versus $4,988,100 for 2018. Cash used in operating activities during 2019 was $590,700 versus $813,200 used in 2018. The negative cash flow was primarily due to increases in our inventory ($518,200) and a reductions of payables ($343,400). We invested $799,700 in 2019 in our property and equipment, most of which paid for the new large capacity, 35-foot pipe coating oven at Enduro-Bond and new equipment for Enduro-Tech solid chemical production.

We had bank borrowing of $1,789,300 during 2019 and repaid $933,600 of bank and vehicle financing.

Outlook

We are entering a very trying time, not only in the oil and gas industry, but in the broader economy. In March 2020, the market experienced a precipitous decline in oil prices in response to oil demand concerns due to the economic impacts of the COVID-19 virus and anticipated increases in supply from Russia and OPEC, particularly Saudi Arabia. During 2019, WTI crude oil price averaged approximately $56.05 per barrel. As of March 25, 2020, the WTI crude oil price closed at $24.49. While the impact of this oil price decline has yet to be felt in demand for our services, we expect that our customers will reduce activity during this period of commodity price weakness and may also seek price reductions for our services.

Despite these developments, we have shown recent sales success in the Mid-Con and Permian Basin regions through implementation of a more focused sales approach. The sales group is in the process of transitioning the sales strategy to a full-service business model. This focus on product sales, coupled with team support, has allowed us to surpass sales goals in the short term and provide additional services not previously offered.

These services include more detailed lab data and product overviews from the technical team, a manageable fleet of ISO containers to move large product volumes with an in-house trucking division to support them, and the addition of personnel to our sales teams. These additions include sales support for the Permian Basin, and for the Mid-Con areas.

During 2019, Patriot opened a new yard in Canadian, Texas, and we completed our manufacturing upgrades to our Snyder, Texas facility. These moves enable us to better serve our existing customers and to reach new customers with an expanded marketing footprint. Patriot is also developing synergies with Enduro-Tech® and Enduro-Bond products to further increase sales.

We anticipate increases in coating sales in 2020. We installed a new 35-foot oven, in our Chickasha, Oklahoma coating facility, which we expect to be operational by the second quarter 2020. This oven should give us the capacity to coat larger volumes of pipe, which will allow us the better meet the demand for coated pipe.

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 17, 2020, and is available on our website at https://eesokc.com/investors/.

Leslie G. Pettitt, P.C.

Certified Public Accountant

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March 24, 2020

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, 2019 and 2018 and the related consolidated statements of income for years ended December 31, 2019 and 2018, consolidated statements of equity for the years ended December 31, 2019 and 2018, and the consolidated statements of changes in cash flows for the years ended December 31, 2019 and 2018, 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, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,600,600	$ 2,332,000
Accounts receivable - trade	1,688,100	1,061,100
Current portion of notes receivable	-	143,300
Inventory	2,671,700	1,629,600
Deferred tax assets	473,600	341,600
Prepaid expenses and other current asset	230,000	125,800
Total current assets	6,664,000	5,633,400
Property, plant and equipment (net of accumulated depreciation of $2,096,600 and $1,623,300 at December 31, 2019 and 2018, respectively)	4,987,200	3,204,600
Notes receivable	116,100	453,900
Equity investments	33,100	27,300
Goodwill	867,400	130,000
Total assets	$ 12,667,800	$ 9,449,200
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 524,000	$ 240,700
Other current liabilities	175,000	65,000
Short-term notes payable	942,800	65,600
Notes payable - related parties	163,800	-
Deferred tax liabilities	154,300	79,500
Current portion of long-term debt	202,700	43,600
Current portion of financial lease obligations	48,300	-
Other taxes	(7,300)	78,700
Total current liabilities	2,203,600	573,100
Long-term notes - less current portion	664,700	123,700
Financial lease obligations - less current portion	103,900	-
Stockholders' Equity		
Preferred stock, $0.00001 par value, 20,000,000 shares authorized, no shares issued and outstanding December 31, 2019 and 2018, respectively	-	-
Common stock, $0.00001 par value, 100,000,000 shares authorized 52,226,974 and 47,727,644 shares issued and outstanding at December 31, 2019 and 2018, respectively	500	500
Additional paid in capital	1,887,300	596,700
Retained earnings	7,807,800	8,155,200
Total Stockholder's Equity	9,695,600	8,752,400
Total Liabilities and Stockholders' Equity	$ 12,667,800	$ 9,449,200

See Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	December 31, 2019	December 31, 2018
Sales revenues	$ 8,566,800	$ 7,201,300
Cost of goods sold	2,949,000	3,776,800
Gross profit	5,617,800	3,424,500
Operating expenses		
Selling general and administrative expenses	5,558,900	3,110,000
Depreciation and amortization	473,300	275,200
Total operating expenses	6,032,200	3,385,200
Income (loss) from operations	(414,400)	39,300
Other income (expense)		
Other revenues	119,600	81,500
Interest and finance costs	(109,800)	(10,000)
Income (loss) from operations before income tax	(404,600)	110,800
Benefit from income tax		
Current income tax benefit	20,300	-
Deferred income tax benefit	36,900	16,900
	57,200	16,900
Net income (loss)	$ (347,400)	$ 127,700
Earnings (loss) per share	$ (0.01)	$ 0.00
Weighted average shares outstanding	50,402,021	47,736,206

See Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2018

	Common Stock		Preferred Stock		Additional Paid-In	Retained	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Equity
Balance, December 31, 2017	47,727,644	$ 500	-	$ -	$ 490,500	$ 8,027,500	$ 8,518,500
Stock based compensation	625,000	-	-	-	106,200	-	106,200
Net (loss)	-	-	-	-	-	127,700	127,700
Balance, December 31, 2018	48,352,644	500	-	-	596,700	8,155,200	8,752,400
Stock issued for acquisition	2,900,000	-	-	-	1,127,000	-	1,127,000
Forfeiture of stock compensation	(166,667)	-	-	-	(28,300)	-	(28,300)
Stock based compensation	1,140,997	-	-	-	191,900	-	191,900
Net income	-	-	-	-	-	(347,400)	(347,400)
Balance, December 31, 2019	52,226,974	$ 500	-	$ -	$ 1,887,300	$ 7,807,800	$ 9,695,600

See Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 30, 2019 AND 2018

	December 31, 2019	December 31, 2018
Cash flows from operating activities		
Net income (loss)	$ (347,400)	$ 127,700
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	473,300	275,200
Stock based compensation	76,900	34,000
Earnings from equity method investment	(5,800)	(9,100)
Net changes in current assets and liabilites		
Accounts Receivable	86,100	(1,069,900)
Inventory	(518,200)	(484,500)
Deferred tax assets	(132,000)	178,600
Prepaid expenses and other current assets	86,600	1,100
Accounts payable	(343,400)	(46,900)
Other current liabilities	44,400	103,900
Other taxes	(86,000)	76,700
Deferred taxes	74,800	-
Net cash used in operations	(590,700)	(813,200)
Cash flows from investing activities		
Purchases of property, plant and equipment	(799,700)	(402,900)
Notes receivable	(128,900)	-
Investment in merger	(53,000)	-
Investment in equity method investment	-	(15,000)
Net cash used in investing activities	(981,600)	(417,900)
Cash flows from financing activities		
Payments on notes payable	(933,600)	(63,300)
Advances on notes payable	1,789,300	-
Payments on lease obligations	(14,800)	-
Buy back of stock	-	(25,000)
Net cash provided by (used in) financing activities	840,900	(88,300)
Net decrease in cash	(731,400)	(1,319,400)
Cash and cash equivalents, beginning of period	2,332,000	3,651,400
Cash and cash equivalents, end of period	$ 1,600,600	$ 2,332,000
Supplemental disclosures of cash flow informations:		
Cash paid during the year for:		
Interst	$ 109,800	$ 10,000
Taxes	$ -	$ -

See Accountants' Compilation Report

ENERGY & ENVIRONMENTAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

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.

On May 16, 2019, the Company completed the acquisition of Patriot Chemicals & Services, LLC ("Patriot") which became a wholly owned subsidiary of the Company on that date. See note 3 for complete details of the acquisition of Patriot.

On August 13, 2019, the Company completed the acquisition of D. R. Graham Trucking, LLC ("Graham") which became a wholly owned subsidiary of the Company on that date. See note 3 for complete details of the acquisition of Graham.

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"), EcoZyme System Technologies, LLC ("EST"), Graham, and Patriot. 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, EST, Patriot since May 16, 2019 (the date of acquisition), and Graham since August 13, 2019 (the date of acquisition). 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. Currently $809,500 of certificates of deposits are being used as collateral for the Company's line of credit and are therefore restricted in use.

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
Trucks	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.

Stock-based compensation - The Company accounts for stock-based compensation under the provisions of the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") — 718 Compensation — Stock Compensation. The guidance under ASC 718 requires companies to estimate the fair value of the stock-based compensation awards on the date of grant for employees and directors and record expense over the related service periods, which are generally the vesting period of the equity awards. Awards for consultants are accounted for under ASC 505-50 — Equity Based Payments to Non-Employees. Compensation expense is recognized over the period during which services are rendered by such consultants and non-employees until completed. At the end of each financial reporting period prior to completion of the service, the fair value of these awards is remeasured using the then-current fair value of the Company's common stock and updated assumption inputs in the Black-Scholes-Merton option-pricing model ("BSM").

The Company estimates the fair value of stock-based option awards to its employees and directors using the BSM. The BSM requires the input of subjective assumptions, including the expected stock price volatility, the calculation of expected term, forfeitures and the fair value of the underlying common stock on the date of grant, among other inputs. The risk-free interest rate was determined from the implied yields for zero-coupon U.S. government issues with a remaining term approximating the expected life of the options or warrants. Dividends on common stock are assumed to be zero for the BSM valuation of the stock options. The expected term of stock options granted is based on vesting periods and the contractual life of the options. Expected volatilities are based on comparable companies' historical volatility, which management believes represents the most accurate basis for estimating expected future volatility under the current conditions. The Company accounts for forfeitures as they occur.

The value of the shares of the Company's common stock underlying its stock-based awards is determined by using the closing stock price on the date of grant for the fair value of the common stock.

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, 2019.

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 401(k) retirement plans in two subsidiaries EES and EMC.

For the years ended December 31, 2019 and 2018, there was no pension cost charged to the statements of income under the plans.

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 December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes," which removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocations and calculating income taxes in interim periods. This ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. This guidance is effective for annual periods beginning after December 15, 2020, with early adoption permitted, including adoption in any interim period. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period. The amendments in this ASU that are related to separate financial statements of legal entities that are not subject to tax should be applied on a retrospective basis for all periods presented. The amendments in this ASU that are related to changes in ownership of foreign equity method investments or foreign subsidiaries should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The amendments in this ASU that are related to franchise taxes that are partially based on income should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. All other amendments under this ASU should be applied on a prospective basis. The Company is in the process of assessing the impact, if any, that this ASU is expected to have on the Company’s results of operations, financial condition and/or financial statement disclosures.

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. BUSINESS COMBINATIONS

On May 16, 2019, the Company completed its acquisition of 100% of Patriot. The Company issued 2,900,000 shares of its restricted common stock valued at $667,000, 2,000,000 of shares of its restricted common stock, contingent on earn-out provisions which the Company considers likely to occur, valued at $460,000, cash of $165,000, and notes payable of $165,000 along with the assumption of debt and other liabilities of $1,984,00 for a total purchase consideration of $3,441,000.

Patriot markets chemicals used in oil and gas drilling and production, including chemicals manufactured by the Company. Patriot has two locations in Oklahoma and one in Kansas. The Company had sales to Patriot of $747,000 during 2018.

The acquisition was accounted for as a purchase transaction. As required by the applicable guidance in effect at the time of the acquisition, the Company valued all assets and liabilities acquired at their fair values on the date of acquisition. The Company used independent valuation sources in determining these fair values. Accordingly, the assets and liabilities of the acquired entity were recorded at their estimated fair values at the date of the acquisition. The Company is currently completing its review of the valuation methods and procedures that were used therefore the purchase price allocation is preliminary. The following table presents the preliminary allocation of the purchase price to the assets acquired and liabilities assumed, based on their estimated fair values.

		Patriot
Cash and cash equivalents	$	137,100
Accounts Receivable		700,300
Inventories		523,900
Prepaid and other current		104,200
Total current assets		1,465,500
Property and Equipment		554,000
Vehicles		691,100
Net assets		2,710,600
Purchase consideration		3,441,000
Goodwill	$	730,400

The fair value of the consideration paid by the Company was in excess of the net assets acquired, resulting in goodwill. Upon the determination that the Company was going to recognize goodwill, the Company reassessed its valuation assumptions utilized as part of the acquisition accounting. No adjustments to the acquisition accounting valuations were identified as a result of management's reassessment. The goodwill is included in the balance sheet as of December 31, 2019.

There are $3,464,500 of revenues and $338,500 of net income from Patriot included in the consolidated financial statements for the period from May 16, 2019, to December 31, 2019.

On August 13, 2019, the Company completed its acquisition of 100% of Graham. The Company paid cash of $15,000 along with the assumption of debt and other liabilities of $69,900 for a total purchase consideration of $84,900.

Graham is an over-the-road trucking company. Graham provides trucking services to the Company as well as to outside third parties. The Graham had sales to the Company of $37,800 during 2018.

The acquisition was accounted for as a purchase transaction. As required by the applicable guidance in effect at the time of the acquisition, the Company valued all assets and liabilities acquired at their fair values on the date of acquisition. The Company used independent valuation sources in determining these fair values. Accordingly, the assets and liabilities of the acquired entity were recorded at their estimated fair values at the date of the acquisition. The Company is currently completing its review of the valuation methods and procedures that were used therefore the purchase price allocation is preliminary. The following table presents the preliminary allocation of the purchase price to the assets acquired and liabilities assumed, based on their estimated fair values.

		Graham
Cash and cash equivalents	$	21,100
Accounts receivable		12,800
Total current assets		33,900
Vehicles		44,100

Net Assets		78,000
Purchase consideration		84,900
Excess of purchase consideration over net assets (Goodwill)	$	6,900

The fair value of the consideration paid by the Company was in excess of the net assets acquired, resulting in goodwill. Upon the determination that the Company was going to recognize goodwill, the Company reassessed its valuation assumptions utilized as part of the acquisition accounting. No adjustments to the acquisition accounting valuations were identified as a result of management's reassessment. The goodwill is included in the balance sheet as of December 31, 2019.

There are $88,600 of revenues and $31,100 of net loss from Graham included in the consolidated financial statements for the period from August 13, 2019, to December 31, 2019.

Pro-forma financial information

The unaudited pro forma results presented below include the effects of the Company's May 16, 2019 acquisition of Patriot and the August 13, 2019 acquisition of Graham as if the acquisitions and merger had been consummated as of January 1, 2018. The pro-forma earnings/(loss) for the twelve months ended December 31, 2019 and 2018, include the additional depreciation and amortization resulting from the adjustments to the value of property and equipment and intangible assets resulting from purchase accounting and a reduction in the interest expense between the companies. However, the pro forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisitions and merger been consummated as of January 1, 2018.

	Years Ended December 31,			
	2019		2018	
Revenues	$	11,023,900	$	11,536,500
Earnings from continuing operations	$	45,700	$	49,700
Basic and diluted (loss)/earnings from continuing operations per share	$	0.00	$	0.00

4. RELATED PARTY TRANSACTIONS

In 2019 and 2018, the Company paid $18,900 and $19,100 as sales commissions to a distributor partially owned and controlled by a director of the Company. During the same period, the distributor purchased $49,500 and $76,900 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.

5. INVENTORIES

ASC 330-10-35, "Adjustments to Lower of Cost or Market", requires the Company 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, 2019 and 2018, inventories consisted of the following:

	December 31, 2019	December 31, 2018
At cost:		
Raw materials	$ 1,963,600	$ 1,463,400
Blends	33,800	33,800
Finished goods	674,300	132,400
	$ 2,671,800	$ 1,629,600

6. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2019 and 2018, property, plant and equipment, stated at cost less accumulated depreciation, consisted of the following:

	December 31, 2019	December 31, 2018
Buildings	$ 1,930,000	1,930,000
Improvements	1,149,700	1,066,300
Equipment	2,140,400	1,002,600
Vehicles and transportation equipment	1,449,200	437,600
Furniture and fixtures	278,800	275,500
Software and closing costs	135,700	115,900
	7,083,800	4,827,900
Less: Accumulated depreciation	(2,096,600)	(1,623,300)
	$ 4,987,200	$ 3,204,600

7. SHORT-TERM NOTES PAYABLE

	December 31, 2019	December 31, 2018
Bank loan dated August 29, 2019 due August 29, 2020 with an interest rate of 3.9%	$ 198,000	$ 65,600
Bank loan dated February 7, 2019 due February 7, 2020 with a variable interest rate	42,200	-
Bank loan dated June 4, 2019 due June 10, 2020 with an interest rate of 4.0%	227,200	-
Bank loan dated June 10, 2019 due June 10, 2020 with an interest rate of 7.0%	475,400	-
	942,800	65,600

Certificates of Deposit in the amount of $809,500 are collateral on the Company's lines of credit included in short-term notes payable.

8. LONG-TERM NOTES - LESS CURRENT PORTION

	December 31, 2019	December 31, 2018
Bank loan dated October 30, 2013 due October 30, 2023 with an interest rate of 4.25%	$ -	$ 166,900
Vehicle loan dated March 14, 2017 due March 28, 2022 with an interest rate of 0.00%	32,900	-
Vehicle loan dated May 15, 2017 due May 14, 2022 with an interest rate of 6.94%	25,600	-
Vehicle loan dated July 31, 2017 due July 31, 2022 with an interest rate of 7.64%	26,400	-
Vehicle loan dated July 31, 2017 due July 31, 2022 with an interest rate of 7.64%	33,200	-
Vehicle loan dated July 31, 2017 due July 31, 2022 with an interest rate of 7.64%	26,400	-
Vehicle loan dated August 24, 2017 due September 8, 2022 with an interest rate of 4.49%	33,600	-
Vehicle loan dated September 8, 2017 due September 23, 2022 with an interest rate of 4.84%	33,600	-
Vehicle loan dated September 28, 2017 due October 12, 2022 with an interest rate of 4.84%	35,400	-
Vehicle loan dated October 11, 2017 due October 25, 2022 with an interest rate of 4.49%	26,600	-
Vehicle loan dated March 11, 2019 due March 25, 2024 with an interest rate of 9.99%	31,400	-
Equipment loan dated February 28, 2018, due February 28, 2021 with an interest rate of 11.336%	9,800	-
Bank loan dated June 10, 2019 due June 10, 2022 with an interest rate of 7.00%	63,600	-
Bank loan dated August 12, 2019 due April 12, 2025 with an interest rate of 6.5%	467,000	-
Equipment loan dated November 7, 2019, due November 30, 2024 with an interest rate of 13.26%	21,900	
Bank loan dated August 29, 2013 due September 1, 2018 with an interest rate of 4.25%	-	400
	867,400	167,300
Less current portion of notes payable	(202,700)	(43,600)
	$ 664,700	$ 123,700

9. SHARE-BASED PAYMENT AWARDS

The Company's board of directors and shareholders approved the EES 2018 Equity Incentive Plan in June 2018 (the "2018 Plan"), which authorized the issuance of up to 5,000,000 shares of the Company's common stock. There were 3,400,6700 shares available for future issuance under the 2018 Plan as of December 31, 2019.

Restricted Stock Awards	Number of Shares
Unvested as of December 31, 2018	425,002
Issued	1,140,997
Vested	(453,831)
Forfeited/Cancelled	(166,667)
Unvested as of September 30, 2019	945,501

The weighted average grant date value of the restricted stock award issued was $0.17 and $0.17 during the period ended December 31, 2019 and 2018, respectively. The fair value of the restricted stock awards vested during the year ended December 31, 2019 and 2018 was $61,100 and $34,000, respectively.

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, 2019 and 2018:

	2019	**2018**
Basic and Diluted (loss) per share computation		
Numerator:		
Net (loss)	$ (347,400)	$ (129,200)
Denominator:		
Weighted average common shares outstanding	50,402,021	47,736,206
Basic income per share	$ (0.01)	$ 0.00

11. 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,	
	2019	2018
Computed at the federal statutory rate	$ (8,500)	$ 30,400
State tax (benefit) at statutory rates	(2,400)	8,700
Use of prior year net operating losses and return adjustments	-	600
Depreciation differences	(9,400)	(22,800)
Income tax (Benefit)	$ (20,300)	$ 16,900

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

	As of December 31,	
	2019	2018
Deferred tax assets – Net Operating Loss Carryforwards	$ 473,600	$ 341,600
Deferred tax liabilities – depreciation and amortization	$ (154,300)	$ (78,700)

The Company is subject to examination in the U.S. federal and state tax jurisdictions for the 2016 to 2019 tax years. There are no 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 or carried forward 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.

12. FINANCIAL LEASES

	December 31, 2019	December 31, 2018
Vehicle leases with terms of 30 to 36 months	$ 152,200	-
Less current portion	(48,300)	-
	$ 103,900	-

13. OPERATING LEASES

The Company leases an office and warehouse in Cleveland, Oklahoma for $2,000 per month expiring in February 2023. The Company leases an office and warehouse in Canadian, Texas, for $650 per month expiring in September 2022. The Company also leases various office and warehouse space under month to month leases. Total rent expense for the years ended December 31, 2019 and 2018, was $55,900 and $86,500, respectively. Future minimum lease payments over the next five years are as follows:

2020	31,800

2021	31,800
2022	29,850
2023	4,000
	$97,450

14. COMMITMENTS

On February 1, 2020, the Company acquired Abilene Celex Services, LLC, a Texas-based oilfield chemical provider. EES bought all the membership interests for $325,000.

15. 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.

16. SUBSEQUENT EVENTS

In March 2020, crude oil prices declined significantly in response to worldwide oil demand concerns due to the economic impacts of COVID-19, which has also negatively impacted numerous other industries, domestic and international. These trends, including a potential economic downturn, and any potential resulting direct and indirect negative impact to the Company, cannot be determined, but could be expected to have a material prospective impact to the Company's operations, cash flows and liquidity.