Energy and Environmental Services, Inc.

2021 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. It changed its name to Enduro-Tech Energy Services, Inc. in 2020 ("*Enduro-Tech*"). The information presented in this Annual Report reflects the operations and activity of our subsidiary, Enduro-Tech, unless otherwise indicated.

Acquisitions in 2019 and 2020 significantly increased our operations. In May 2019, we acquired Patriot Chemicals & Services LLC ("*Patriot*") in a merger for 3.9 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. Effective February 1, 2020, we acquired Abilene Celex Services, LLC ("*Celex*"), a Texas-based oilfield chemical provider for $325,000. Effective January 1, 2021, we merged Celex into Patriot.

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, completion operations including hydraulic fracing and acid 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, 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. Production chemicals help eliminate scaling, corrosion, paraffin, and emulsion issues that can cause a reduction in produced fluids from the well. Patriot has facilities in

Southern Oklahoma, Northeastern Oklahoma, Abilene, Texas, and the Texas Panhandle (Canadian, 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 Chemicals*. Our frac additives are used within fracturing fluids to enhance initial production of the well. Our micro-emulsion surfactants reduce the interfacial tension between the frac fluids and the formation and improve overall efficiency and help reduce operating cost for the exploration company. Our non-emulsifiers and demulsifier products help eliminate and prevent emulsions and when used in combination with a polymer breaker, ensure the polymer emulsion separates, which helps the operator recover more of the frac fluid during the flowback process. The biocides we offer kill the bacteria in the frac water prior to injection. This ensures that the operator is not contaminating the well with bacteria during the frac process.

–*Acid Stimulation Chemicals.* Our acid additives are used during remedial cleanup and workovers on existing wells. Our acid inhibitors protect the metal from the acid in the well service company's equipment as well as the downhole equipment owned by the oil and gas operator. Acid stimulation is used to eliminate calcium carbonate scale build up in a well that is restricting the amount of fluids being produced. Our products include micro-emulsion surfactants, non-emulsifiers, clay stabilizers, liquid KCL substitute, anti-sludge agents, mutual solvents, silt suspenders, iron sequestrants, iron control, complete acid gel systems, xylene/acid emulsifiers, and HCl acid retarders.

– *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 easy to handle in weight and application. Solid chemicals eliminate liquid spills, which is better for the environment. They are higher in activity than liquid chemicals and dissolve at a slower rate, which offers prolonged treatment. Additionally, these solid chemicals are compatible with frac fluids and will not freeze in the winter, which eliminates the more expensive winterized version of a liquid chemical when temperatures fall below freezing. Our solid chemical applications can be batch treated down-hole or added to the fracing 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. To increase our capacity, we are gradually upgrading our production lines, but have been slowed by equipment procurement issues. 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.

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, turbibity, metals, chlorides and microbiology for inorganics. We also test asphaltenes, paraffins, density, viscosity, flash point, pour point and specific gravity. We have laboratories in: Ratliff City, Oklahoma, and Edmond, Oklahoma. We are in the process of closing our lab in Snyder, Texas, and will move the equipment to and open a lab in Chickasha, Oklahoma.

Trucking. We deliver most of our products and equipment with a fleet of Company-owned trucks. Our fleet currently consists of 19 trucks, including three semi-tractors for delivering products, six semi-tractors for treating wells, one F550 (medium duty), nine one ton trucks for on-location deliveries of products and supplies, two 54' box vans, two 48' flatbed trailers, one 54' curtain side trailer, one 52' walking floor trailer, ten flatbed utility trailers ranging from 18' to 32', and three gooseneck trailers for on-location deliveries. In addition to our in-house chemical deliveries, we formerly made third party deliveries of equipment and other products. We determined that these deliveries were not sufficiently profitable and, in the fourth quarter of 2021, ended all third-party deliveries.

Enzymes and Probiotics Products. We have several products ready for market that relate to our work with enzymes and probiotics. The COVID-19 labor shortages and limited research and development funds slowed our product rollouts in 2021, but we are market ready and anticipate an increase in sales with a dedicated sales representative and a heavier marketing and social media push.

- *Organic Fertilizer*. In 2018, we built a facility to produce a natural organic liquid fertilizer. 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. With supply disruptions doubling and tripling the price of conventional fertilizer, our product pricing is below the market for non-organic fertilizers. The price disparity has caught the attention of many farmers and our sales are rapidly increasing. In the first quarter 2022, our fertilizer sales were $87,903, up from $8,128 in the first quarter 2021.
- *Odor Elimination*. We have developed and are currently marketing WonderScent, an odor-elimination product for home and industrial use. This environmentally friendly product eliminates 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 product is a non-toxic and biodegradable liquid that combines microorganisms and a formulation of natural plant extracts. Home uses include the removal of pet odors, urine and bacteria smells in carpet, and foul garbage bins. Industrial applications could include chicken hatcheries, feed lots, sewage facilities 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.

- *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 using BioBlend™ 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.

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

	Year Ended Dec. 31,			
	2020		**2021**	
Oilfield Chemicals				
• Patriot	$4,361,300	51.0%	$5,444,800	39.7%
• Enduro-Tech® liquid				
o Production	$730,800	8.6%	$1,448,200	10.6%
o Frac	$1,534,600	18.0%	$3,900,200	28.4%
• Enduro-Tech® solid				
o Production	$497,200	5.8%	$830,000	6.0%
o Frac	$360,700	4.3%	$683,500	5.0%
Enduro-Bond® Coatings	$411,400	4.8%	$538,700	3.9%
Other*	$634,400	7.5%	$876,900	6.4%
Total Sales	$8,530,400	100.0%	$13,722,300	100.0%

* Other in 2020 included sales revenues from trucking ($297,200), laboratory testing services and rentals ($258,617), and agriculture products ($57,500). In 2021, Other included sales revenues from trucking ($184,353), laboratory testing services and rentals ($776,800), and agriculture products ($24,300).

Our Business Strategy

In 2020, the COVID-19 pandemic placed significant downward pressure on the global economy resulting in a dramatic drop in oil and gas demand and prices. In response, U.S. operators cut their 2020 capital expenditures resulting a major industry disruption. The decline in industry activity and production curtailment gradually reduced oil supply and eased pressure on the market. This and the easing of COVID-19 restrictions led to an increase in activity for the industry, as evidenced by a higher rig count and oil prices. The industry has seen a significant rebound since the emergence from the pandemic and, in early 2022, from Russia's invasion of Ukraine.

The industry rebound is reflected in our higher revenues for 2021, and we anticipate growth in our Enduro-Tech Liquid and solid frac and acid stimulation product lines in 2022. Our frac additives are used within fracturing fluids to enhance initial production of the well. We also anticipate growth out of Patriot chemicals and services. Many exploration companies are bringing wells back online with the increased oil prices. The production chemicals help eliminate scaling, corrosion, paraffin, and emulsion issues that can cause a reduction in produced fluids from the well. By using our products, the operator reduces well failures by keeping production online, which reduces well maintenance cost. Enduro-Bond protective coatings should see an increase as well, due to the rising oil prices. Our Enduro-Bond protective coating product sales will benefit from our investment in a new oven, which will significantly expanded our production capacity.

While the industry fundamentals appear very favorable for 2022, other factors could hamper our performance and that of the industry, such as the threats of inflation, labor shortages and product and equipment procurement. We are aware of these threats and are working to minimize any material effects on our business.

We anticipate increases in our farm and ranch segment as our liquid organic fertilizers and organic feed supplements appear to be gaining market traction. We will continue to seek growth opportunities through strategic mergers and acquisitions.

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 ten facilities in Oklahoma 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 land and building in Abilene, Texas, which is used for our production chemicals and services. We lease our corporate office in a 1,200-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, Ada, Oklahoma, and Canadian, Texas. In the third quarter of 2020, we closed the Cherryvale, Kansas facility and consolidated its operations into our Cleveland, Oklahoma yard.

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 two employees and three independent representatives, who are located in Oklahoma. We market our production chemicals and services through Patriot with our staff of 25 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).

Research and development of our organic fertilizer and probiotic livestock feed supplements is largely complete, and we intend to shift our focus to sales and marketing. We plan to hire a full-time sales representative for this purpose.

Research and Development

Our expertise for many years has been in the development of effective and innovative products. Our research and development apply to existing product lines and products under development. We had research and development expenses of $23,000 in 2020 and expenses of $21,989 in 2021.

Major Customers

In 2021, we had one customer that accounted for 35.0% of our total net sales. The same customer accounted for 17.7% of our total net sales in 2020. No other customer accounted for more than 10.0% of total net sales in 2021 or 2020.

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, Odor Knot and WonderScent. 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™ 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 30, 2022, we employed 52 people on a full-time basis and none 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 2020 and 2021. While oil and gas prices have since rebounded in mid-2021 and 2022 and industry activity has increased, there is no guaranty that higher prices and greater activity will continue.

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 increases in worldwide supply. Major declines in oil and gas prices resulted in substantial declines in capital spending and drilling programs across the industry. Demand has since returned, oil and gas prices have recovered, and industry activity has increased, although it is still below pre-COVID-19 levels. But we cannot assure you that current pricing will stabilize or current levels of industry activity will continue. Pricing may continue to be volatile, which will negatively impact our business and results of operations.

The industries in which we operate are competitive and cyclical. The uncertainty stresses our ability to adjust prices as supply and demand fluctuate. While oil and gas prices have recently increased, resulting in higher demand for our products, our product costs have also increased, and in a highly competitive market, our ability to adjust prices is not fully elastic, making it difficult for us to maintain existing business and win new business.

We operate in highly competitive markets. Many of our competitors have substantially greater financial and technical resources than we do. Additionally, new competitors may enter our markets. In addition, the markets are cyclical and downturned sharply in 2020 before increasing in late 2021 and 2022. To weather the cyclical downturn, we increased sales efforts and took a more competitive pricing approach to try to maintain existing accounts, add new accounts and gain market share. The downside of our pricing strategy is narrower margins. As the industry recovers, demand returns and prices increase, we may not be able to adjust our pricing quickly enough to restore the margins needed for profitable operations. The continuation of weak product margins will adversely affect our working capital and financial condition.

The COVID-19 pandemic has had, and is likely to continue to have, a material adverse effect on our financial condition, results of operations and cash flows.

The COVID-19 pandemic in the United States and globally, together with significant volatility in commodity prices, adversely affected and may continue to adversely affect, both the price of and demand for crude oil and the continuity of our business operations. In 2020, oil demand significantly deteriorated because of the COVID-19 pandemic and the preventative measures taken to mitigate its spread. The reduction in oil prices and the ongoing effects of the global COVID-19 pandemic resulted in numerous bankruptcies and consolidations of petroleum exploration and production companies and oilfield services companies and a significant decline in demand and prices for oilfield services during 2020. In response, we took, and, despite the recent increases in oil and gas prices, are continuing to take, steps to reduce costs, including reductions in capital expenditures, workforce adjustments and ongoing cost savings initiatives.

The COVID-19 pandemic and its related effects continue to evolve. While the spread has diminished in the U.S. and federal and state governments have begun to relax restrictions, the ultimate extent of the impact of the COVID-19 pandemic on our business will depend on future developments designed to stop its spread or address its effects and duration. The pandemic has and will effect commodity prices and the economy generally. Any extended period of depressed commodity prices or general economic disruption would adversely affect our business, financial condition and results of operations.

Increased labor costs and labor shortages could hurt our business, financial condition and results of operations.

We depend upon a pool of available skilled employees to operate and maintain our business. The demand for skilled workers is high and the supply is limited, and a shortage in the labor pool or other general inflationary pressures or changes in applicable laws and regulations could make it more difficult for us to attract and retain personnel and could require us to enhance our wage and benefits packages, which would increase our operating costs.

We are exposed to counterparty credit risk. Nonpayment by our customers could adversely impact our operations, cash flows and financial condition.

The reduction in oil prices and the ongoing effects of the global COVID-19 pandemic resulted in numerous bankruptcies and consolidations of petroleum exploration and production companies and oilfield services companies and a significant decline in demand and prices for oilfield services during 2020. Many companies have not recovered from the industry downturn and operate with reduced liquidity. Reduced liquidity may make it more difficult for them to meet their obligations to us, which subjects us to heightened risks of loss resulting from nonpayment. If any of our customers were to enter into bankruptcy, we could lose all or a portion of the amounts owed to us by such customer. These factors, combined with volatile prices of oil and natural gas, may precipitate a continued economic slowdown within the industry.

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, including one customer that accounted for 35% and 18% of our total net sales in 2021 and 2020, respectively. 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 and equipment, 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 and equipment needed to blend and produce for our oilfield chemicals and Enduro-Bond® protective coatings products. Those suppliers are subject to a variety of operational and commercial constraints that can adversely impact our supply. With the disruption of global supply chains due to COVID-19 and now the Ukrainian war, we have experienced some difficulties in obtaining materials and equipment. If we were to lose suppliers for key materials and equipment, we might have difficulty procuring equivalent materials or replacement equipment at reasonable costs, 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 have increased significantly with the industry rebound, 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.

Increasing attention and regulation relating to environmental, social and governance matters will impact our business.

Increasing attention to climate change, increasing societal expectations on companies to address climate change, and potential consumer use of substitutes for fossil-fuel energy commodities may result in increased costs and reduced demand for hydrocarbon products and our products and services. The threat of climate change has and will result in legislation, regulations or other regulatory initiatives that impose more stringent oil and gas sector standards and increase compliance costs for us and other industry participants. The SEC recently imposed new reporting standards for the release of greenhouse gas emissions. These and similar regulatory requirements will reduce our profits and may reduce demand for hydrocarbon products and the services related to those products, which would negatively impact on our business.

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. Between 2017 and 2019, we were able to double our revenues from $3,803,800 to $8,566,800. During those years, however, we incurred aggregate net operating losses of $(1,841,500). In the 2020 industry downturn, we had revenues of $8,530,400 and an operating loss of $(2,234,500). Our cash and cash equivalents have declined from $3,651,400 at December 31, 2017, to $739,400 at December 31, 2021. 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.

Our current and future indebtedness could adversely affect our financial condition.

We need to make sufficient and effective capital expenditures to expand our business operations. We have historically funded our capital expenditures with cash flows from operating activities and existing cash balances. In recent years, we have increasingly used secured bank borrowings to fund our capital expenditures and acquisitions. As of December 31, 2021, we had $2,805,500 million outstanding under our secured loan facilities and financial leases. Our secured borrowings have important consequences for our future operations, including that:

- Financial covenants contained in the loan documents may require us to meet or maintain certain financial tests, which may affect our flexibility in planning for, and reacting to, changes in our industry, such as being able to take advantage of acquisition opportunities when they arise;
- Our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes may be limited;
- We may be competitively disadvantaged to our competitors that are less leveraged or have greater access to capital resources; and
- We may be more vulnerable to adverse economic and industry conditions.

Under our secured loan facilities and financial leases, we may have significant principal payments due at specified future dates under the loan and lease documents. Our ability to meet the obligations will depend upon future performance, which in turn is subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. Our business may not continue to generate sufficient cash flow from operations to repay our indebtedness. If we are unable to generate sufficient cash flow from operations, we may be required to sell assets or to refinance all or a portion of such indebtedness at higher rates.

Our assets require capital for maintenance, upgrades and refurbishment, and we may require capital expenditures for new equipment.

Our equipment requires periodic capital investment in maintenance, upgrades and refurbishment to maintain its competitiveness. The costs of components and labor have increased in the past and may increase in the future with increases in demand, which will require us to incur additional costs to upgrade any equipment we may acquire in the future. Any maintenance, upgrade or refurbishment project for our assets could increase our indebtedness or reduce cash available for other opportunities. If we are unable to fund such projects, we may have less equipment available for service or our equipment may reduce our productivity. Additionally, competition or advances in technology within our industry may require us to update our products and services. Such demands on our capital or reductions in demand and the increase in cost to maintain labor necessary for such maintenance and improvement, in each case, could have a material adverse effect on our business, financial condition and results of operations.

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 30, 2022, was $0.14 per share with daily volume averaging 12,942 shares over the prior 30 days.

Fiscal Year 2021		**High**		**Low**
First Quarter	$	.43	$	.05
Second Quarter	$	.10	$	.08
Third Quarter	$	.10	$	.08
Fourth Quarter	$	.12	$	.07

Fiscal Year 2020		**High**		**Low**
First Quarter	$	0.16	$	0.07
Second Quarter	$	0.08	$	0.05
Third Quarter	$	0.10	$	0.04
Fourth Quarter	$	0.06	$	0.04

Holders. As of March 30, 2022, there were approximately 238 shareholders of record of our common shares. As such date, we had 53,859,393 shares outstanding.

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 for 2020 and 2021. Patriot met the earnout contingency for 2020 and we issued an additional 1.0 million shares in November 2020. It did not meet the 2021 earnout contingency. The contingent shares were 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 2020 and 2021, we awarded 606,753 and 395,000 shares of restricted stock, respectively, to employees, officers and outside directors under our Equity Incentive Plan ("*Plan*"). The Plan was approved by our shareholders in 2018 and the first grants of restricted stock were made in 2020. The Plan reserves for issuance 5.0 million shares less share awards granted. No options or similar awards have been granted under the Plan. Other information concerning grants under the Plan is contained under the sections "*Stock Ownership of Management and Certain Shareholders – Corporate Governance – Outside Director Compensation*" and "- *Executive Compensation – Summary Compensation Table*".

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. Note 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. Note 3 to our Financial Statements covers our acquisition of Celex in February 2020.

Results of Operations

We operate in a highly cyclical industry. It largely depends on the current and anticipated levels of new well completion, which in turn are heavily influenced by global supply and demand for oil and the domestic supply and demand for natural gas. Such supply and demand are subject to large, rapid fluctuations, such as those experienced in 2020 industry downturn. Despite the downturn, we were able to sustain our sales revenues, which were $8,530,400 in 2020. As the industry rebounded in 2021, we increased our sales revenues by 60.8% or $5,191,900 to $13,722,300. We attribute the increase to our marketing efforts in the frac and stimulation products as well as production chemical lines, which combined represent approximately 90% of our sales revenue. To weather the cyclical downturn, we increased sales efforts and took a more competitive pricing approach to try to maintain existing accounts, add new accounts and gain market share. We continued this strategy in 2021. The downside of our pricing strategy is narrower margins, which we have been willing to incur in the short-term for expected long-term gain. Our margins slipped in 2021 from 64.3% of sales ($5,486,400) in 2020 to 52.1% of sales ($13,722,300) in 2021.

We realized net losses from operations of $(2,108,200) in 2020 and $(954,900) for 2021. The net loss after tax in 2020 was $(1,742,100) versus net income after tax of $825,600 for 2021.

Our earnings before depreciation and amortization, interest expense, and provision (benefit) for income taxes ("*EBITDA*") were $(1,386,200) for 2020 compared to $1,619,500 for 2021. The lower net loss and higher EBITDA for 2021 result from improved sales revenues and improved costs controls during the period as well as the forgiveness of a paycheck protection program ("*PPM*") loan of $1,567,000. The results, however, reflect an industry that is still below pre-COVID-19 levels. The net loss per share was $(0.03) in 2020 compared to net income per share of $0.02 in 2021.

Total operating expenses grew by $427,600 or 6.2% from $6,885,400 in 2020 to $7,313,000 in 2021. While we have experience some increase in payroll expense in 2021, selling, general and administrative expense declined as a percentage of revenue from 80.7% in 2020 to 53.3% in 2021. The substantial decline reflects the cost-cutting measures we implemented in 2020 and 2021. With those measures in place, we expect that future selling, general and administrative expense will resemble the 2021 results.

Liquidity and Capital Resources

Our primary source of capital historically has been cash flow from operations, although borrowings have increased with the Patriot acquisition in 2019 and in debt consolidation. Our balance sheet remains relatively strong, despite the losses incurred in last couple of years. As of December 31, 2021, we had working capital of $4,750,500 versus $4,881,300 for December 31, 2020. Cash used in operating activities during 2021 was $939,800 versus $802,800 in 2020. The 2021 negative cash flow was primarily due to the forgiveness of a PPM loan ($1,567,000), increases in accounts receivable ($779,600) and inventory ($972,700, which were partially offset by increases in payables ($1,518,700). We had a net investment in property, plant and equipment in 2021 of $1,010,700 compared to a net investment of $709,900 in 2021, which included $421,100 in our property and equipment and $325,000 in the Celex merger.

We had secured borrowings of $2,805,500 during 2021 and repaid $783,100 of bank and vehicle financing. The level of borrowing was up from $2,773,500 during 2020.

Outlook

After unprecedented demand disruptions and volatility in 2020, the oil and gas industry appears to be making a resurgence in 2021. We are hopeful that this upward trend continues. We anticipate improvement in our results of operations, and we believe capital expenditures by exploration companies will likely continue to strengthen in 2022. These developments could lead to increased sales and improved margins for our oil and gas products and services. We are fortunate to have survived the devastating effects of the COVID-19 pandemic. We are still determining the impact it has had on the oil and natural gas industry, and the negative effects on our business, cash flows, liquidity, financial condition, and results of operations. We remain committed to increasing efficiency, controlling expenses, and creating value for our shareholders.

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March 25, 2022

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, 2021 and 2020 and the related consolidated statements of income for years ended December 31, 2021 and 2020, the consolidated statements of equity for the years ended December 31, 2021 and 2020, and the consolidated statements of changes in cash flows for the years ended December 31, 2021 and 2020, 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

	December 31, 2021	December 31, 2020
ENERGY AND ENVIRONMENTAL SERVICES, INC.		
CONSOLIDATED BALANCE SHEETS		
ASSETS		
Current assets		
Cash and cash equivalents	$ 739,400	$ 1,736,900
Accounts receivable - trade (net of reserve for bad debts of $60,700 and $60,700 as of December 31, 2021 and 2020, respectively)	2,205,900	1,426,300
Inventory	3,963,100	2,990,400
Deferred tax assets	1,430,500	1,105,000
Prepaid expenses and other current asset	370,700	179,400
Total current assets	8,709,600	7,438,000
Property, plant and equipment (net of accumulated depreciation of $3,381,900 and $2,781,800 at December 31, 2021 and 2020, respectively)	5,436,900	5,139,900
Notes receivable	93,400	93,400
Equity investments	49,900	27,500
Goodwill	886,100	893,000
Total assets	$ 15,175,900	$ 13,591,800
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 2,475,600	$ 956,900
Other current liabilities	72,800	366,600
Short-term notes payable	420,300	475,000
Notes payable - related parties	127,000	142,100
Deferred tax liabilities	415,400	293,300
Current portion of long-term debt	235,400	225,900
Current portion of financial lease obligations	169,900	68,300
Other taxes	42,700	28,600
Total current liabilities	3,959,100	2,556,700
Long-term notes - less current portion	2,236,400	2,849,200
Financial lease obligations - less current portion	160,800	203,300
Stockholders' Equity		
Preferred stock, $0.00001 par value, 20,000,000 shares authorized, no shares issued and outstanding December 30, 2021 and 2020, respectively	-	-
Common stock, $0.00001 par value, 100,000,000 shares authorized 53,859,893 and 53,575,727 shares issued and outstanding at December 31, 2021 and 2020, respectively	500	500
Additional paid in capital	1,927,800	1,916,400
Retained earnings	6,891,300	6,065,700
Total Stockholder's Equity	8,819,600	7,982,600
Total Liabilities and Stockholders' Equity	$ 15,175,900	$ 13,591,800

See Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Sales revenues	$ 13,722,300	$ 8,530,400
Cost of goods sold	6,576,800	3,044,000
Gross profit	7,145,500	5,486,400
Operating expenses		
Selling general and administrative expenses	7,313,000	6,885,400
Depreciation and amortization	787,400	709,200
Total operating expenses	8,100,400	7,594,600
Loss from operations	(954,900)	(2,108,200)
Other income (expense)		
Payroll protection loan forgivness	1,567,000	-
Other revenues	146,300	14,300
Gain(loss) on sale of assets	73,700	(1,500)
Interest and finance costs	(209,900)	(139,100)
Income (loss) from operations before income tax	622,200	(2,234,500)
Benefit from income tax		
Current income tax benefit	-	465,900
Deferred income tax benefit	203,400	26,500
	203,400	492,400
Net income (loss)	$ 825,600	$ (1,742,100)
Income (loss) per share	$ 0.02	$ (0.03)
Weighted average shares outstanding	53,553,422	52,691,548

See Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Common Stock		Preferred Stock		Additional Paid-In	Retained	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Equity
Balance, December 31, 2019	52,226,974	$ 500	-	$ -	$ 1,887,300	$ 7,807,800	$ 9,695,600
Stock issued for acquisition	1,000,000	-	-	-	-	-	-
Forfeiture of stock compensation	(258,000)	-	-	-	(28,500)	-	(28,500)
Stock based compensation	606,753	-	-	-	57,600	-	57,600
Net loss	-	-	-	-	-	(1,742,100)	(1,742,100)
Balance, December 31, 2020	53,575,727	500	-	-	$ 1,916,400	$ 6,065,700	$ 7,982,600
Stock based compensation	395,000				33,900		33,900
Forfeiture of stock compensation	(110,834)				(22,500)		(22,500)
Net loss						825,600	825,600
Balance, December 31, 2021	53,859,893	$ 500	-	$ -	$ 1,927,800	$ 6,891,300	$ 8,819,600

See Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash flows from operating activities		
Net income (loss)	$ 825,600	$ (1,742,100)
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	787,400	709,200
Allowance for bad debts	-	60,700
Gain on sale of assets	(73,700)	-
Payroll protection loan forgivness	(1,567,000)	-
Stock based compensation	62,900	50,700
Loss (earnings) from equity method investment	(15,500)	5,600
Net changes in current assets and liabilites		
Accounts Receivable	(779,600)	201,100
Inventory	(972,700)	(285,000)
Deferred tax assets	(325,500)	(631,400)
Prepaid expenses and other current assets	(242,800)	29,000
Accounts payable	1,518,700	432,900
Other current liabilities	(293,800)	191,600
Other taxes	14,100	35,900
Deferred taxes	122,100	139,000
Net cash used in operations	(939,800)	(802,800)
Cash flows from investing activities		
Sale of property, plant and equipment	86,000	13,500
Purchases of property, plant and equipment	(1,096,700)	(421,100)
Notes receivable	-	22,700
Investment in merger	-	(325,000)
Net cash used in investing activities	(1,010,700)	(709,900)
Cash flows from financing activities		
Payments on notes payable	(783,100)	(1,055,300)
Advances on notes payable	1,677,000	2,773,500
Payments on lease obligations	(340,100)	(69,200)
Advance on lease obligations	399,200	-
Net cash provided by financing activities	953,000	1,649,000
Net (decrease) increase in cash	(997,500)	136,300
Cash and cash equivalents, beginning of period	1,736,900	1,600,600
Cash and cash equivalents, end of period	$ 739,400	$ 1,736,900
Supplemental disclosures of cash flow informations:		
Cash paid during the year for:		
Interst	$ 209,900	$ 139,100
Taxes	$ -	$ -

See Accountants' Compilation Report

ENERGY & ENVIRONMENTAL SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021 AND 2020

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.

On February 1, 2020, the Company completed the acquisition of Abilene Celex Services, LLC ("Celex") which became a wholly owned subsidiary of the Company on that date. See note 3 for complete details of the acquisition of Celex. Effective January 1, 2021, Celex merged with and into Patriot.

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 The Company's operations are maintained and occur through its wholly-owned subsidiaries: Enduro-Tech Energy Services, Inc. (formerly Energy and Environmental Services, Inc.) ("Enduro-Tech"), Enduro-Bond Manufacturing Company, LLC ("EMC"), EcoZyme System Technologies, LLC ("EST"), Patriot and Celex. Enduro-Tech, EMC, EST, and Patriot 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, Enduro-Tech, EMC, EST, Patriot and Celex since February 1, 2020 (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 $300,000 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 has established a reserve for doubtful accounts of $60,700 based on trade receivables that may not be fully collectible at December 31, 2021.

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 Enduro-Tech and EMC.

For the year ended December 31, 2021 and 2020, there was pension cost charged to the statements of income under the plans of $51,100 and $35,400, respectively.

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

New Accounting Pronouncements

There were updates recently issued, most of which represent technical corrections to the accounting literature or application to specific industries or transactions that are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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 February 1, 2020, the Company completed its acquisition of 100% of Celex. The Company paid cash of $325,000.

Celex markets chemicals used in oil and gas drilling and production, including chemicals manufactured by the Company. Celex is located in the Permian Basis in Texas. The Company had sales to Celex of $15,700 in January 2020.

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 following table presents the allocation of the purchase price to the assets acquired and liabilities assumed, based on their estimated fair values.

		Celex
Inventory	$	33,700
Total current assets		33,700
Buildings and land		96,800
Equipment		51,800
Vehicles		117,100
Net Assets		299,400
Purchase consideration		325,000
Excess of purchase consideration over net assets (Goodwill)	$	25,600

Pro-forma financial information

The unaudited pro forma results presented below include the effects of the Company's February 1, 2020 acquisition of Celex as if the acquisition had been consummated as of January 1, 2020. The pro-forma earnings/(loss) for years ended December 31, 2021 and 2020, 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, 2020.

	Year Ended December 31,			
		2021		2020
Revenues	$	13,722,300	$	8,554,700
Earnings (loss) from continuing operations	$	825,600	$	(2,216,800)
Basic and diluted earnings(loss) from continuing operations per share	$	0.02	$	(0.04)

4. RELATED PARTY TRANSACTIONS

In 2021 and 2020, the Company paid $13,700 and $8,800 as sales commissions to a distributor partially owned and controlled by a director of the Company. During the same period, the distributor purchased $52,900 and $38,300 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, 2021 and December 31, 2020, inventories consisted of the following:

	December 31, 2021	December 31, 2020
At cost:		
Raw materials	$ 3,579,600	$ 2,285,300
Finished goods	383,500	705,100
	$ 3,963,100	$ 2,990,400

6. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2021 and December 31. 2020, property, plant and equipment, stated at cost less accumulated depreciation, consisted of the following:

	December 31, 2021	December 31, 2020
Buildings	$ 2,026,700	: 2,026,800
Improvements	1,230,700	1,195,500
Equipment	2,842,800	2,545,000
Vehicles and transportation equipment	2,306,400	1,757,300
Furniture and fixtures	269,100	254,000
Software and closing costs	143,100	143,100
	8,818,800	7,921,700
Less: Accumulated depreciation	(3,381,900)	(2,781,800)
	$ 5,436,900	$ 5,139,900

7. SHORT-TERM NOTES PAYABLE

	December 31, 2021	December 31, 2020
Bank loan dated June 10, 2020 due June 10, 2022 with an interest rate of 4.75%	420,300	475,000
	420,300	475,000

8. LONG-TERM NOTES - LESS CURRENT PORTION

	December 31, 2021	December 31, 2020
Vehicle loan dated March 14, 2017 due March 28, 2022 with an interest rate of 0.00%	-	20,700
Vehicle loan dated May 15, 2017 due May 14, 2022 with an interest rate of 6.94%	6,800	17,500
Vehicle loan dated July 31, 2017 due July 31, 2022 with an interest rate of 7.64%	11,500	23,900
Vehicle loan dated August 24, 2017 due September 8, 2022 with an interest rate of 4.49%	11,900	24,100
Vehicle loan dated September 8, 2017 due September 23, 2022 with an interest rate of 4.84%	11,900	24,000
Vehicle loan dated September 28, 2017 due October 12, 2022 with an interest rate of 4.84%	-	25,600
Vehicle loan dated October 11, 2017 due October 25, 2022 with an interest rate of 4.49%	10,000	19,300
Vehicle loan dated March 11, 2019 due March 25, 2024 with an interest rate of 9.99%	-	26,700
Equipment loan dated February 28, 2018, due February 28, 2021 with an interest rate of 11.336%	-	2,100
Bank loan dated June 10, 2019 due June 10, 2022 with an interest rate of 7.00%	20,500	45,900
Bank loan dated August 12, 2019 due April 12, 2025 with an interest rate of 6.5%	690,400	690,500
Equipment loan dated November 7, 2019, due November 30, 2024 with an interest rate of 13.26%	13,500	17,800
Bank loan dated 8/27/20, due December 27, 2025 with an interest rate of 6.0%	1,324,200	1,350,000
Vehicle loan dated September 25, 2021, due September 25, 2026 with an interest rate of 4.5%	63,800	-
Vehicle loan dated September 25, 2021, due September 25, 2026 with an interest rate of 4.5%	54,100	-
Vehicle loan dated September 25, 2021, due September 25, 2026 with an interest rate of 4.5%	52,900	-
Vehicle loan dated October 29, 2021, due October 29, 2026 with an interest rate of 4.54%	65,900	-
Vehicle loan dated December 10, 2021, due December 10, 2026 with an interest rate of 4.54%	67,600	-

Vehicle loan dated December 23, 2021, due December 23, 2026 with an interest rate of 4.54%	66,800	-
Payroll protection program loan dated April 12, 2020 due April 12, 2022 with an interest rate of 1%	-	787,000
Payroll protection program loan dated April 6, 2021 due April 6, 2023 with an interest rate of 1%	-	-
	2,471,800	3,075,100
Less current portion of notes payable	(235,400)	(225,900)
	$ 2,236,400	$ 2,849,200

On April 14, 2020, the Company received a $787,000 loan under the U.S. Small Business Administration's Paycheck Protection Program (the "PPP"), which was authorized under the Coronavirus Aid, Relief, and Economic Security Act. On June 23, 2021, the Company's application for loan forgiveness was approved, the $787,000 forgiveness is included in other income in the Consolidated Income Statements for the year ended December 31, 2021.

On April 6, 2021, the Company received a second PPP in the amount of $787,000. The PPP is designed to assist qualified small businesses with employee payroll costs and rent and mortgage obligations. A borrower may qualify for loan forgiveness subject to certain requirements, including the retention of employees and the application of 75% or more of the loan proceeds to payroll costs within the covered period. On January 4, 2022, the Company's application for loan forgiveness was approved, the $787,000 forgiveness is included in other income in the Consolidated Income Statements for the year ended December 31, 2021.

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 2,767,751 shares available for future issuance under the 2018 Plan as of December 31, 2021.

Restricted Stock Awards	Number of Shares
Unvested as of December 31, 2020	756,916
Issued	395,000
Vested	(386,415)
Forfeited/Cancelled	(110,834)
Unvested as of March 31, 2020	654,667

The weighted average grant date value of the restricted stock award issued was $0.086 and $0.09 during the period ended December 31, 2021 and 2020, respectively. The fair value of the restricted stock awards vested during the year ended December 31, 2021 and 2020 was $62,900 and $81,700, 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 year ended December 31, 2021 and 2020:

		2021		2020
Basic and Diluted (loss) per share computation				
Numerator:				
Net income (loss)	$	825,600	$	(2,240,400)
Denominator:				
Weighted average common shares outstanding		53,553,422		52,691,548
Basic income per share	$	0.02	$	(0.03)

11. FINANCIAL LEASES

		December 31, 2021		December 31, 2020
Vehicle leases with terms of 30 to 36 months	$	330,700	$	271,600
Less current portion		(169,900)		(68,300)
	$	160,800	$	203,300

12. 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 leases an office in Oklahoma City, Oklahoma, for $2,722 per month expiring in March 2022. The Company leases and office and warehouse in Ada, Oklahoma for $2,000 per month expiring in August 2026. The Company also leases various office and warehouse space under month to month leases. Total rent expense for the years ended December 31, 2021 and 2020, were $135,200 and $115,600, respectively. Future minimum lease payments over the next five years are as follows:

2022	62,000
2023	28,000
2024	24,000
2025	24,000
2026	16,000
	$154,000

13. 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,	
	2021	**2020**
Computed at the federal statutory rate	$ 130,600	$ (470,500)
State tax (benefit) at statutory rates	37,300	(134,400)
Use of prior year net operating losses and return adjustments	133,100	-
Payroll protection loan forgiveness	(423,100)	
Depreciation differences	122,100	112,500
Income tax (Benefit)	$ -	$ (492,400)

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

	As of December 31,	
	2020	**2019**
Deferred tax assets – Net Operating Loss Carryforwards	$ 1,430,500	$ 473,600
Deferred tax liabilities – depreciation and amortization	$ (415,400)	$ (154,300)

The Company is subject to examination in the U.S. federal and state tax jurisdictions for the 2017 to 2020 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.

14. 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.