Energy and Environmental Services, Inc.

2022 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*") 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. 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.

We conduct our operations through wholly-owned subsidiaries: Enduro-Tech Energy Services, Inc. ("*Enduro-Tech*"), Enduro-Bond Manufacturing Company, LLC ("*EMC*"), EcoZyme System Technologies, LLC ("*EST*"), and Patriot Chemicals & Services, LLC ("*Patriot*"). Enduro-Tech, EMC, EST, and Patriot were formed in the state of Oklahoma.

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 have closed our lab in Snyder, Texas, and have opened 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 32 trucks, including four semi-tractors for delivering products, six semi-tractors and one F550 (medium duty)for treating wells, one F550 (medium duty) nine one ton trucks, and eleven three quarter 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 that relate to our work with enzymes and probiotics.

- *Organic Fertilizer*. We make an all-natural organic humus and manure extract, which is OMRI-certified for organic farming. Our tests generated solid production gains in a variety of crops, including cotton, alfalfa, corn and soybeans. With the price of conventional fertilizer at historically high levels, 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 increased from 2021 levels. In the first six months of 2022, our fertilizer sales were $346,800. We unfortunately encountered a microbial contamination issue, which has shut down production. We are continuing to investigate the cause of the contamination and to restore production.
- *Odor Elimination*. We have developed and began marketing in 2022 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. We are marketing for home use in over 50 retail outlets. We are also pushing industrial applications, which could include chicken hatcheries, feed lots, sewage facilities and other environments where foul odors might exist. Our WonderScent sales in 2022 were $3,000 and we expect higher sales in 2023.
- *Probiotic Feed Supplements for Livestock*. We have developed BioBlend™, 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. 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 tests, cattle have reached target weights in a significantly shorter amount of time, and with fewer health issues in comparison to control groups using currently accepted feeding regimens. Our supplement has also improved meat grade in cattle and milk quality in dairy cows. We believe these results could build demand for the product, but we have yet to develop material sales.

- *Farrowing Product*. We have developed a neonatal farrowing aid called Pigs in Z Blanket, which is a unique blend of natural minerals and healing salts. 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, but have yet to develop material sales.
- *Distribution Agreement w/ Locus*. In October 2022, we became a distributor for Locus Agricultural Solutions, LLC products in Oklahoma, Arkansas, Louisiana and northern Texas and the Texas panhandle. Locus uses probiotics to make crop-specific, microbial applications that improve crop yield, sequester carbon and enhance soil health. Locus's work is related to our probiotic work and we believe the relationship will generate symbiotic opportunities. We intend to focus on regional row crops, alfalfa, and native grasses.

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

	Year Ended Dec. 31,			
	2021		2022	
Oilfield Chemicals				
• Patriot	$5,444,800	39.7%	$8,060,000	40.0%
• Enduro-Tech® liquid				
o Production	$1,448,200	10.6%	$811,000	4.3%
o Frac	$3,900,200	28.4%	$8,246,500	41.0%
• Enduro-Tech® solid				
o Production	$830,000	6.0%	$699,500	3.5%
o Frac	$683,500	5.0%	$603,700	3.0%
Enduro-Bond® Coatings	$538,700	3.9%	$593,700	2.9%
Enzymes and Probiotics Products	*	*	$350,500	1.7%
Other*	$876,900	6.4%	$717,000	3.6%
Total Sales	$13,722,300	100.0%	$20,081,900	100.0%

* Other in 2021 included sales revenues from trucking ($184,353), laboratory testing services and rentals ($776,800), and agriculture products ($24,300). In 2022, Other included laboratory testing services and rentals ($652,300), and income from Vortex ($64,700).

Our Business Strategy

The oil and gas industry has seen a significant rebound since the emergence from the COVID-19 pandemic and, in early 2022, from Russia's invasion of Ukraine. The industry rebound is reflected in our higher revenues for 2022. We experienced growth in our Enduro-Tech Liquid and solid frac and acid stimulation product lines. Our frac additives are used within fracturing fluids to enhance initial production of the well. We have also experienced growth in our 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 have benefited from our investment in a new oven, which significantly expanded our production capacity.

While the industry fundamentals appear very favorable for 2023, 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 12 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 a building in Abilene, Texas, which is used for our Abilene Texas Patriot yard for 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 agricultural products. Patriot leases four yards, which are located in Ratliff City, Oklahoma, Cleveland, Oklahoma, Ada, Oklahoma, and Canadian, Texas.

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 22 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 $21,989 in 2021 and expenses of $38,558 in 2022.

Major Customers

In 2021, we had one customer that accounted for 35.0% of our total net sales. The same customer accounted for 38.5% of our total net sales in 2022. No other customer accounted for more than 10.0% of total net sales in 2021 or 2022.

Trademarks and Patents

We have obtained trademark registrations for Enduro-Tech®, Enduro-Bond® and Bio-Blend®. We also have trademark registrations for TMB-2, 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, 2023, we employed 58 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. As a small company, we do not maintain statistical data regarding the composition of, and relationships within, our workforce. We are, however, committed to respect for our employees and integrity in our working relationships, including the diversity, equity, and inclusion within the workforce.

RISK FACTORS

Risks Relating Generally to Our Operations and Industry

Our business depends on domestic spending by the oil and gas industry, which is cyclical. While oil and gas prices were relatively high in 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. With the Russian invasion of Ukraine in the first quarter of 2022 and the resulting embargos of Russian oil and gas, the industry performance has been strong, and the outlook is bullish with a recovering Chinese economy adding demand. Nonetheless, the oil and gas markets are cyclical and many factors, foreseen and unforeseen, could weaken the forecast, including an economic downturn or lower industry spending in the domestic market. We cannot assure you that current pricing or current levels of industry activity will continue. Pricing could be volatile, which will negatively impact our business and results of operations.

The industries in which we operate are competitive and cyclical. While oil and gas prices increased in 2022, resulting in higher demand for our products, our product costs 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. With higher demand in 2022, we were able to adjust our pricing to restore the margins needed for profitable operations. We cannot assure you that we will be as successful in future periods of volatility.

The COVID-19 pandemic had, and may 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 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 our costs relative to sales, 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 removed most 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.

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.

Our primary source of borrowed capital is through an accounts receivable factoring agreement with a commercial bank. The bank funds us by purchasing certain accounts receivable invoices subject to a 2.15% service charge. We repay the bank when the receivables are collected. We maintain a reserve account to provide security for the bank. Under this arrangement, we are liable to the bank for delinquencies and defaults in the receivables, and thus depend on the performance of our customers. Given the relative and present strength of the oil and gas industry, we have experienced few delinquencies or defaults by our customers. However, the industry is cyclical, and a downturn could reduce the liquidity of our customers making it more difficult for them to meet their obligations to us, which would reduce our borrowing capacity and thus our liquidity.

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 38% and 35% of our total net sales in 2022 and 2021, 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 has proposed 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). The industry began to recover in 2021 and our revenues increased to $13,722,300, but we still had an operating loss of $(954,900). Our cash and cash equivalents have declined from $3,651,400 at December 31, 2017, to $739,400 at December 31, 2021. This was a strong year for the oil and gas industry and for us. We had revenues $20,081,900 and operating income of $1,723,100. Our cash and cash equivalents were $1,623,500. Our current cash and cash equivalents, accounts receivable and inventory continue to provide some cushion to absorb future losses and cash demands. Still, to face the demands of a cyclical industry, we 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, 2022, we had $3,483,200 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.

Our ability to meet the obligations will depend on our cash flow, which in turn is subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations.

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 marketing new product lines and services. Whether these new products will achieve commercial success is uncertain.

We are pursuing new product lines with enzyme and probiotics work. We have recently completed development and have brought to market organic liquid fertilizer, odor elimination products and probiotic livestock feed supplements. There is no guarantee that these new product lines will be successful in the marketplace. We had strong sales of the organic fertilizer in the first half of 2022 only to experience microbial issues that shut down production. WonderScent, our odor elimination product, is in more than 50 retail outlets, but we have not assembled an advertising campaign to support the product. The success of any new product is dependent on product performance, customer demand, market stability, existing barriers to entry, and other factors of product introduction. For these and other underlying risks, known and unknown, we cannot assure you that our new products will achieve commercial success.

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

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

Dependence on Key Personnel

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

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

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

The following table sets forth the high and low bid quotations per share of our common stock as reported on by OTC Markets for the periods indicated. The high and low bid quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The closing price at March 29, 2023, was $0.14 per share with daily volume averaging 10,440 shares over the prior 65 days.

Fiscal Year 2022		**High**		**Low**
First Quarter	$	.15	$	.08
Second Quarter	$	.17	$	.10
Third Quarter	$	.32	$	.12
Fourth Quarter	$	.35	$	.14

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

Holders. As of March 29, 2023, there were approximately 226 shareholders of record of our common shares. As such date, we had 53,836,060 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.

Securities Authorized for Issuance under Equity Compensation Plans. In 2021 and 2022, we awarded 395,000 and 30,000 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*".

Recent Sales of Unregistered Securities. Apart from restricted stock awards granted under the Plan, we have not had any sales of unregistered shares of our common stock since January 1, 2021.

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 2 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 increased $6,359,600 to $20,081,900 in 2022 from $13,722,300 in 2021. Our gross profit was up $4,338,400 or 60.7% from $7,145,500 in 2021 to $11,483,900 in 2022. The higher 2022 sales revenues were posted as the oil and gas industry continued to gain strength during 2022 with an average West Texas Intermediate ("*WTI*") price of $95 per barrel in 2022 versus an average price of $68 per barrel in 2021. Our cost of goods improved in 2022 from 47.9% to 42.8% as we worked to improve our margins.

Our selling, general and administrative expenses as a percentage of revenues fell nearly 10% from 53.3% ($7,313,000) in 2021 to 43.5% ($8,730,700) in 2022. The comparative decrease was primarily attributed to lower relative payroll expenses compared to the previous year as we continue to control overall spending.

We had income from operations of $1,723,100 in 2022 compared to a loss from operations of $(954,900) in 2021. Our earnings before depreciation and amortization, interest expense, and provision (benefit) for income taxes ("*EBITDA*") were $2,885,300 in 2022 compared to $1,619,500 for 2021. The higher income from operations and EBITDA for 2022 result from higher sales revenues and improved costs controls during the period.

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. As of December 31, 2022, we had working capital of $5,571,100 versus $4,750,500 for December 31, 2021. Cash provided by operating activities in 2022 was $2,182,700 versus cash used in operating activities during 2021 of $939,800. The 2022 positive cash flow was primarily due to increases in short term borrowings of $2,016,200 and net income, including cash adjustments of $1,902,100, which were partially offset by increases in inventory of ($1,212,200), accounts receivable of ($512,600) and restricted cash of ($376,000). We invested $1,795,200 in our property plant and equipment in 2022 compared to $1,010,700 in 2021.

We had new advances of $1,528,800 and paid $953,200 on our long-term debt during 2022.

Outlook

The oil and gas industry had a strong 2022 with an average WTI price of $95 per barrel in 2022 versus an average price of $67.99 per barrel in 2021. The higher pricing was largely due to the Russian invasion of Ukraine in the first quarter of 2022 and the resulting embargos of Russian oil. For 2023, we expect that production will continue to be limited by Russian oil embargos, a recovering Chinese economy will increase demand, and domestic producers will invest at rates comparable to or higher than 2022. With these expectations, the oil and gas outlook for 2023 is fairly bullish, and we anticipate improvement in our results of operations. These developments should mean higher sales and improved margins for our liquid and solid frac stimulation chemicals and for our production chemicals.

ENERGY AND ENVIRONMENTAL SERVICES, INC.

FINANCIAL STATEMENTS

Together with Accountants' Compilation Report

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March 28, 2023

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, 2022 and 2021 and the related consolidated statements of income for years ended December 31, 2022 and 2021, the consolidated statements of equity for the years ended December 31, 2022 and 2021, and the consolidated statements of changes in cash flows for the years December 31, 2022 and 2021, 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, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,621,500	$ 739,400
Restricted cash	376,000	-
Accounts receivable - trade (net of reserve for bad debts of $60,700 and $60,700 as of December 31, 2022 and 2021, respectively)	2,718,500	2,205,900
Inventory	5,175,300	3,963,100
Deferred tax assets	1,020,200	1,430,500
Prepaid expenses and other current assets	398,700	370,700
Total current assets	11,310,200	8,709,600
Property, plant and equipment (net of accumulated depreciation of $4,347,100 and $3,381,900 at December 31, 2022 and 2021, respectively)	6,231,000	5,436,900
Notes receivable	93,400	93,400
Equity investments	114,600	49,900
Goodwill	886,100	886,100
Total assets	$ 18,635,300	$ 15,175,900
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 2,428,000	$ 2,475,600
Short-term borrowings	2,016,200	-
Other current liabilities	400	72,800
Short-term notes payable	-	420,300
Notes payable - related parties	111,500	127,000
Deferred tax liabilities	431,900	415,400
Current portion of long-term debt	467,000	235,400
Current portion of financial lease obligations	147,000	169,900
Other taxes	137,100	42,700
Total current liabilities	5,739,100	3,959,100
Long-term notes - less current portion	3,016,200	2,236,400
Financial lease obligations - less current portion	102,700	160,800
Stockholders' Equity		
Preferred stock, $0.00001 par value, 20,000,000 shares authorized, no shares issued and outstanding December 31, 2022 and 2021, respectively	-	-
Common stock, $0.00001 par value, 100,000,000 shares authorized 53,746,060 and 53,859,893 shares issued and outstanding at December 31, 2022 and 2021, respectively	500	500
Additional paid in capital	1,919,800	1,927,800
Retained earnings	7,857,000	6,891,300
Total Stockholder's Equity	9,777,300	8,819,600
Total Liabilities and Stockholders' Equity	$ 18,635,300	$ 15,175,900

See Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Sales revenues	$ 20,081,900	$ 13,722,300
Cost of goods sold	8,598,000	6,576,800
Gross profit	11,483,900	7,145,500
Operating expenses		
Selling general and administrative expenses	8,730,400	7,313,000
Depreciation and amortization	1,030,400	787,400
Total operating expenses	9,760,800	8,100,400
Income (loss) from operations	1,723,100	(954,900)
Other income (expense)		
Payroll protection loan forgivness	-	1,567,000
Other revenues	102,500	146,300
Gain(loss) on sale of assets	29,300	73,700
Interest and finance costs	(462,400)	(209,900)
Income from operations before income tax	1,392,500	622,200
(Expense) benefit from income tax		
Current income tax benefit	-	-
Deferred income tax (expense) benefit	(426,800)	203,400
	(426,800)	203,400
Net income	$ 965,700	$ 825,600
Income per share	$ 0.02	$ 0.02
Weighted average shares outstanding	53,855,238	53,553,422

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ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Common Stock		Preferred Stock		Additional Paid-In	Retained	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Equity
Balance, December 31, 2020	53,575,727	$ 500	-	$ -	$ 1,916,400	$ 6,065,700	$ 7,982,600
Forfeiture of stock compensation	(110,834)	-	-	-	(22,500)	-	(22,500)
Stock based compensation	395,000	-	-	-	33,900	-	33,900
Net income	-	-	-	-	-	825,600	825,600
Balance, December 31, 2021	53,859,893	500	-	-	$ 1,927,800	$ 6,891,300	$ 8,819,600
Stock based compensation	30,000	-	-	-	5,100	-	5,100
Forfeiture of stock compensation	(143,833)				(13,100)		(13,100)
Net income						965,700	965,700
Balance, December 31, 2022	53,746,060	$ 500	-	$ -	$ 1,919,800	$ 7,857,000	$ 9,777,300

See Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities		
Net income	$ 965,700	$ 825,600
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	1,030,400	787,400
Gain on sale of assets	(29,300)	(73,700)
Payroll protection loan forgivness	-	(1,567,000)
Stock based compensation	-	62,900
Earnings from equity method investment	(64,700)	(15,500)
Net changes in current assets and liabilites		
Restricted cash	(376,000)	-
Accounts Receivable	(512,600)	(779,600)
Inventory	(1,212,200)	(972,700)
Deferred tax assets	410,300	(325,500)
Prepaid expenses and other current assets	(36,000)	(242,800)
Accounts payable	(47,600)	1,518,700
Short-term borrowings	2,016,200	-
Other current liabilities	(72,400)	(293,800)
Other taxes	94,400	14,100
Deferred taxes	16,500	122,100
Net cash provided by (used in) operations	2,182,700	(939,800)
Cash flows from investing activities		
Sale of property, plant and equipment	59,200	86,000
Purchases of property, plant and equipment	(1,854,400)	(1,096,700)
Net cash used in investing activities	(1,795,200)	(1,010,700)
Cash flows from financing activities		
Payments on notes payable	(953,200)	(783,100)
Advances on notes payable	1,528,800	1,677,000
Payments on lease obligations	(189,700)	(340,100)
Advance on lease obligations	108,700	399,200
Net cash provided by financing activities	494,600	953,000
Net increase (decrease) in cash	882,100	(997,500)
Cash and cash equivalents, beginning of period	739,400	1,736,900
Cash and cash equivalents, end of period	$ 1,621,500	$ 739,400
Supplemental disclosures of cash flow informations:		
Cash paid during the year for:		
Interst	$ 462,400	$ 209,900
Taxes	$ -	$ -

See Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

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.

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"), and Patriot Chemicals & Services, LLC ("Patriot"). 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, and Patriot. 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.

Restricted Cash – The Company has a cash reserve account that is held as a loss reserve for factored accounts receivable. As factored receivables are collected the reserve is adjusted and amounts are moved to the Company's operating account. Repurchases of recourse receivables are also through this reserve account.

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, 2022.

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 years ended December 31, 2022 and 2021, there was pension cost charged to the statements of income under the plans of $48,100 and $51,100, 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. RELATED PARTY TRANSACTIONS

In 2022 and 2021, the Company paid $14,500 and $13,700 as sales commissions to a distributor partially owned and controlled by a director of the Company. During the same period, the distributor purchased $51,100 and $52,900 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.

4. 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, 2022 and December 31, 2021, inventories consisted of the following:

	December 31, 2022	December 31, 2021
At cost:		
Raw materials	$ 4,066,200	$ 3,579,600
Finished goods	1,109,100	383,500
	$ 5,175,300	$ 3,963,100

5. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2022 and December 31, 2021, property, plant and equipment, stated at cost less accumulated depreciation, consisted of the following:

	December 31, 2022	December 31, 2021
Buildings	$ 2,026,700	$ 2,026,700
Improvements	1,297,700	1,230,700

Equipment	3,198,500	2,842,800
Vehicles and transportation equipment	3,655,300	2,306,400
Furniture and fixtures	258,300	269,100
Software and closing costs	141,600	143,100
	10,578,100	8,818,800
Less: Accumulated depreciation	(4,347,100)	(3,381,900)
	$ 6,231,000	$ 5,436,900

6. SHORT-TERM BORROWINGS

The Company has entered into an accounts receivable factoring agreement with recourse where certain accounts receivable invoices are purchased subject to a 2.15% service charge. There is also a reserve account (restricted cash, see note 2) to provide security for the Company's repurchase obligations.

	December 31, 2022	December 31, 2021
Short-term borrowing	$ 2,016,200	-
Restricted cash reserve	$ 376,000	-

6. SHORT-TERM NOTES PAYABLE

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

7. LONG-TERM NOTES - LESS CURRENT PORTION

	December 31, 2022	December 31, 2021
Vehicle loan dated May 15, 2017 due May 14, 2022 with an interest rate of 6.94%	-	6,800
Vehicle loan dated July 31, 2017 due July 31, 2022 with an interest rate of 7.64%	-	11,500
Vehicle loan dated August 24, 2017 due September 8, 2022 with an interest rate of 4.49%	-	11,900
Vehicle loan dated September 8, 2017 due September 23, 2022 with an interest rate of 4.84%	-	11,900

Vehicle loan dated October 11, 2017 due October 25, 2022 with an interest rate of 4.49%	-	19,300
Bank loan dated June 10, 2019 due June 10, 2022 with an interest rate of 7.00% (Paid July 2022)	-	20,500
Bank loan dated August 12, 2019 due April 12, 2025 with an interest rate of 6.5% (Paid July 2022)	676,200	690,400
Equipment loan dated November 7, 2019, due November 30, 2024 with an interest rate of 13.26%	8,900	13,500
Bank loan dated 8/27/20, due December 27, 2025 with an interest rate of 6.0%	1,265,600	1,324,200
Vehicle loan dated September 25, 2021, due September 25, 2026 with an interest rate of 4.5%	51,500	63,800
Vehicle loan dated September 25, 2021, due September 25, 2026 with an interest rate of 4.5%	43,600	54,100
Vehicle loan dated September 25, 2021, due September 25, 2026 with an interest rate of 4.5%	42,700	52,900
Vehicle loan dated October 29, 2021, due October 29, 2026 with an interest rate of 4.54%	53,600	65,900
Vehicle loan dated December 10, 2021, due December 10, 2026 with an interest rate of 4.54%	55,400	67,600
Vehicle loan dated December 23, 2021, due December 23, 2026 with an interest rate of 4.54%	56,200	66,800
Vehicle loan dated January 4, 2022, due February 4, 2027 with an interest rate of 4.94%	50,200	-
Vehicle loan dated January 10, 2022, due February 10, 2027 with an interest rate of 4.99%	51,200	-
Vehicle loan dated February 21, 202, due March 21, 2027 with an interest rate of 4.94%	59,900	-
Vehicle loan dated March 15, 2025, due April 15, 2027 with an interest rate of 4.94%	58,800	
Vehicle loan dated May 11, 2022, due May 25, 2027 with an interest rate of 4.94%	70,900	-
Vehicle loan dated June 17, 2022, due July 1, 2027 with an interest rate of 6.74%	69,600	-
Vehicle loan dated June 16, 2022, due June 30, 2026 with an interest rate of 7.94%	54,000	-
Vehicle loan dated June 18, 2022, due July 2, 2027 with an interest rate of 4.99%	66,300	-

Equipment loan dated April 1, 2022, due April 1, 2024 with an interest rate of 12.355%	11,100	-
Note payable dated February 28, 2022 due February 29, 2025 with no interest	12,400	-
Vehicle loan dated July 26, 2022, due August 26, 2027 with an interest rate of 4.99%	63,200	-
Vehicle loan dated July 26, 2022, due August 26, 2027 with an interest rate of 4.99%	85,700	-
Vehicle loan dated July 26, 2022, due August 26, 2027 with an interest rate of 4.99%	62,400	-
Vehicle loan dated July 26, 2022, due August 30, 2029 with an interest rate of 7.5%	150,000	-
Vehicle loan dated November 5, 2022, due December 20, 2026 with an interest rate of 6.69%	74,100	-
Vehicle loan dated November 22, 2022 due January 6, 2027	56,000	-
Vehicle loan dated December 23, 2022, due December 23, 2029 with an interest rate of 9.5%	89,100	-
Vehicle loan dated December 30, 2022, due January 6, 2025 with an interest rate of 9.5%	23,600	-
Vehicle loan dated December 30, 2022, due December 30, 2026 with an interest rate of 9.5%	121,000	-
	3,483,200	2,471,800
Less current portion of notes payable	(467,000)	(235,400)
	$ 3,016,200	$ 2,236,400

8. 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 2,768,251 shares available for future issuance under the 2018 Plan as of December 31, 2022.

Restricted Stock Awards	Number of Shares
Unvested as of December 31, 2021	654,667
Issued	30,000
Vested	(308,335)
Forfeited/Cancelled	(143,833)
Unvested as of December 31, 2022	232,499

The weighted average grant date value of the restricted stock award issued was $0.17 and $0.086 during the period ended December 31, 2022 and 2021, respectively. The fair value of the restricted stock awards vested during the years ended December 31, 2022 and 2021 was $41,600 and 62,900, respectively.

9. 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, 2022 and 2021:

	2022	2021
Basic and Diluted income (loss) per share computation		
Numerator:		
Net income	$ 965,700	$ 825,600
Denominator:		
Weighted average common shares outstanding	53,859,393	53,559,051
Basic income per share	$ .02	$ .02

10. FINANCIAL LEASES

	December 31, 2022	December 31, 2021
Vehicle leases with terms of 30 to 36 months	$ 249,700	$ 330,700
Less current portion	(147,000)	(169,900)
	$ 102,700	$ 160,800

11. 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 $2,000 per month expiring in May 2027. The Company leases an office and warehouse in Ratliff City, Oklahoma, for $4,000 per month expiring in May 2027. The Company leases an office in

Oklahoma City, Oklahoma, for $1,700 per month expiring in February 2025. 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, 2022 and 2021, were $152,200 and $135,200, respectively. Future minimum lease payments over the next five years are as follows:

2023	102,400
2024	92,400
2025	75,400
2026	68,000
2027	12,000
	$350,200

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,	
	2022	**2021**
Computed at the federal statutory rate	$ 292,400	$ 130,600
State tax (benefit) at statutory rates	83,600	37,300
Use of prior year net operating losses and return adjustments	(443,500)	133,100
Payroll protection loan forgiveness	-	(423,100)
Depreciation differences	67,500	122,100
Income tax (Benefit)	$ -	$ -

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

	As of December 31,	
	2022	2021
Deferred tax assets – Net Operating Loss Carryforwards	$ 1,020,200	$ 473,600
Deferred tax liabilities – depreciation and amortization	$ (431,900)	$ (154,300)

The Company is subject to examination in the U.S. federal and state tax jurisdictions for the 2018 to 2021 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. 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.