

# Energy and Environmental Services, Inc.

2020 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.

Recent acquisitions have significantly increased our operations. In May 2019, we acquired Patriot Chemicals & Services LLC (“*Patriot*”) in a merger for up to 4.9 million shares of our common stock, \$165,000 in cash, and \$165,000 in promissory notes. The Patriot merger significantly expanded our sales of chemicals used in oil and gas production. In August 2019, we acquired D.R. Graham Trucking, LLC (“*Graham Trucking*”) to increase our oilfield delivery capacity. Effective February 1, 2020, we acquired Abilene Celex Services, LLC (“*Celex*”), a Texas-based oilfield chemical provider for \$325,000. Had we owned Patriot, Graham Trucking and Celex for the full twelve months of 2019, we estimate the pro forma addition to revenues would have been \$5,740,100. 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 fracturing 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<sub>2</sub>S 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. In 2019 and 2020, we upgraded our production lines, which will significantly increase our capacity. We market four product lines – Enduro-Bond, Enduro-Bond PLUS, Enduro-Bond DuraShield, and Enduro-Bond ULTRA-Shield – to end users in oil and gas, industrial, pharmaceutical manufacturing, pipeline transmission, wastewater (municipalities), refineries, and automotive fields. We have a two-truck fleet for pick up and deliveries.

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

*Trucking Services.* In August 2019, we purchased Graham Trucking to increase our delivery capacity. We currently have a fleet of six trucks, including three semi-tractor trailers, two 54' box vans, two 48' flatbed trailers, one 54' curtain side trailer, one 52' walking floor trailer, and three gooseneck trailers for on-location deliveries. In addition to our in-house chemical deliveries, we also make third party deliveries of equipment and other products. In 2019, trucking revenues were \$130,000, of which in-house deliveries accounted for 14% and third-party deliveries accounted for 86%. In 2020, trucking revenues were \$297,000, of which in-house deliveries accounted for 19% and third-party deliveries accounted for 81%.

*Products in Development – Enzymes and Probiotics.* We have several products in development that relate to our work with enzymes and probiotics. The COVID-19 hurdles slowed our product rollouts in 2020, but we are market ready and anticipate an increase in sales this year.

- *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
- *Fertilizer Blending Facility.* 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. The product pricing is competitive with non-organic fertilizers.

- *Probiotic Feed Supplements for Livestock.* We have developed a proprietary blend of probiotic microorganisms and other organic ingredients that are combined to produce a fermented feed grade product to supplement the animal diet. We call our feed supplement BioBlend™. Modern animal feeds are generally composed of plant material, such as cereals and vegetable proteins, which cannot be fully digested and utilized. The microorganisms produce beneficial enzymes that increase the digestibility of these feeds, which improves feed-to-gain ratios for cattle, pigs, horses and other ruminant and monogastric animals. The probiotics can also enhance the biome in the animal's gut, which improves animal health. In our early tests, cattle have reached target weights in a significantly shorter amount of time, and with fewer health issues in comparison to control groups using currently accepted feeding regimens. Our supplement has also improved meat grade in cattle and milk quality in dairy cows. An 8,000 head feedlot in Kansas is using BioBlend™ and has found that target weights are realized earlier, death rates are down, and the slaughterhouse is seeing a 4% increase in hanging weight. We believe these results will strengthen demand for the product.
- *Farrowing Product.* We have developed a neonatal farrowing aid, which is a unique blend of natural minerals and healing salts. It interacts with the amniotic fluid and the skin of the neonatal piglets to ease the birth cycle, facilitate umbilical cord drying and healing, provide traction on the birthing mat, and speed the time from birth to suckling. When applied to the underside of the gilt or sow, it will assist in a more rapid and even colostrum/milk distribution. In birthing piglets, excess moisture in consort with pathogens and mold poses significant health risks, while ammonia, sulfide and putrefaction are some of the leading causes of respiratory and scours problems. The product absorbs moisture, reduces the risk of pathogenic bacteria, provides a blanket of exothermic natural warming, and captures a variety of malic odors targeting ammonia/sulfur in pens and holding areas. Our tests indicate that the product performs much better than comparable farrowing products. All ingredients are GRAS listed under 21 CFR Part 82. To develop demand, we have distributed the product to pork producing operations, and participants in show-pig arenas.

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

		<u>Year Ended Dec. 31,</u>			
		<u>2019</u>		<u>2020</u>	
Oilfield Chemicals					
• Patriot (5/16/19 – 12/31/19)	\$ 3,464,500	40.5%	\$4,361,300	51.0%	
• Enduro-Tech® liquid					
○ Production	715,600	8.4%	\$730,800	8.6%	
○ Frac	927,800	10.8%	\$1,534,600	18.0%	
• Enduro-Tech® solid					
○ Production	646,100	7.5%	\$497,200	5.8%	

○ Frac	2,023,600	23.6%	\$360,700	4.3%
Enduro-Bond® Coatings	686,300	8.0%	\$411,400	4.8%
Other*	<u>102,900</u>	<u>1.2%</u>	<u>\$634,400</u>	<u>7.5%</u>
Total Sales	\$8,566,800	100.0%	\$8,530,400	100.0%

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\* Other in 2020 includes sales revenues from trucking (\$297,200), laboratory testing services and rentals (\$258,617), and agriculture products (\$57,500).

## Our Business Strategy

As oil and gas prices have recovered somewhat from the lows of 2020 and capital expenditures by exploration companies will likely increase in 2021, we anticipate 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 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 has significantly expanded our production capacity.

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 1,900-square foot suite in the Oil Center at 2601 NW Expressway, Oklahoma City, Oklahoma, a 7,000 square foot building at 6388 Boucher Drive, Edmond, Oklahoma, where we cultivate the enzymes and probiotics used on our microbial product lines and ag products. Patriot leases three yards, which are located in Ratliff City, Oklahoma, Cleveland, 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, who are located in Oklahoma. We market our production chemicals and services through Patriot with our staff of 20 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**

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. WonderScent, our odor removal product, is ready to market, but we must determine the manner of distribution, especially for retail sales. We expect to produce the probiotic livestock feed supplements, for which we must also find distribution. We had research and development expenses of \$123,600 in 2019 and expenses of \$23,000 in 2020.

## **Major Customers**

In 2020, we had one customer that accounted for 17.7% of our total net sales. No other customer accounted for more than 10.0% of total net sales. In 2019, we had six customers that accounted for 57.0% of our total net sales.

## **Trademarks and Patents**

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

## **Environmental, Health and Safety Matters**

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

catastrophic releases of toxic, reactive, flammable or explosive chemicals. We also are subject to EPA Chemical Accident Prevention Provisions, known as the Risk Management Plan requirements, which are designed to prevent the accidental release of toxic, reactive, flammable or explosive materials.

Our Bio-Blend™ 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 29, 2021, we employed 38 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 2019 and 2020. The volatility may continue; our business has been, and may in the future be, adversely affected by industry and financial market conditions that are beyond our control.***

We depend on our customers' ability and willingness to make operating and capital expenditures to explore, develop and produce oil and gas in the United States. In March 2020, the market experienced a precipitous decline in oil prices in response to oil demand concerns due to the economic impacts of the COVID-19 virus and increases in worldwide supply. Major declines in oil and gas prices have resulted in substantial declines in capital spending and drilling programs across the industry. As a result of the declines in oil and natural gas prices, many exploration and production companies substantially reduced drilling and completions programs in 2020, which adversely affected our 2020 operating results. We are unable to ascertain when prices will increase and companies will expand their drilling and completions programs, which will increase demand for our products.

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

We operate in competitive markets. Many of our competitors have substantially greater financial and technical resources than we do. Additionally, new competitors may enter our markets. In addition, the markets are cyclical and downturned in 2020. 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 while the industry struggles with low pricing and weak demand. The downside of our pricing strategy is narrower margins, which we are willing to incur in the short-term for expected long-term gain. If the industry does not rebound as soon as we anticipate, we may be unable to absorb the losses and may lack the capital to compete when the industry rebounds.

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

While we market our products in other industries, the bulk of our sales is in the oil and gas industry, which has experienced major decreases in oil and gas market prices. We faced a very difficult operating environment in 2020. Exploration and production companies reduced their drilling and completions plans, which resulted in less demand for our oilfield chemical and coatings products. These products account for approximately 90% of our revenues. The decline in our customers' demand for our services may continue to have a material adverse impact on our financial condition, results of operations and cash flows.

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

Weak economic conditions and widespread financial distress, including the significantly reduced global and national economic activity caused by the COVID-19 pandemic, could reduce the liquidity of our customers. 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. As a result, the loss of one or more of these customers, or a material reduction of demand from any of those customers, could adversely affect our revenues and operating income.

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

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

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

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

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

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

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

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

***Our use of hazardous materials exposes us to potential liabilities.***

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

**Risks Specific to Us**

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

We have been in existence for over 25 years and have relied, historically, upon cash from operations to fund all the cash requirements of our business. 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 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 \$1,736,900 at December 31, 2020. 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.***

As of December 31, 2020, we had \$3,550,100 million outstanding under our secured loan facilities. 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, we may have significant principal payments due at specified future dates under the loan documents. Our ability to meet the principal 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.

***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 29, 2021, was \$0.085 per share with daily volume averaging 38,549 shares over the prior 30 days.

<b><u>Fiscal Year 2020</u></b>	<b>-</b>	<b><u>High</u></b>	<b>-</b>	<b><u>Low</u></b>
First Quarter	\$	0.16	\$	0.07
Second Quarter	\$	0.08	\$	0.05
Third Quarter	\$	0.10	\$	0.04
Fourth Quarter	\$	0.06	\$	0.04

<u>Fiscal Year 2019</u>	-	<u>High</u>	-	<u>Low</u>
First Quarter	\$	0.34	\$	0.15
Second Quarter	\$	0.29	\$	0.12
Third Quarter	\$	0.19	\$	0.11
Fourth Quarter	\$	0.19	\$	0.09

*Holders.* As of March 29, 2021, there were approximately 247 shareholders of record of our common shares. As such date, we had 53,575,727 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. We think Patriot will likely meet the 2021 earnout contingency and earn another 1.0 million shares. 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 2019 and 2020, we awarded 640,997 and 111,753 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 2019. 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. The Footnote 1 to our Financial Statements describe some of the more critical judgment areas in the application of accounting policies that currently affect our financial condition and results of operations.

### **Results of Operations**

We 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 \$8,566,800 in 2019 and \$8,530,400 in 2020. Our oilfield chemical lines represent approximately 90% of our sales revenue. Although oil prices stalled toward the end of 2019, as the industry anticipated excess supply, our chemical sales to the industry increased. We attribute the increase to our marketing efforts in the frac and stimulation products as well as production chemical lines. A more aggressive approach in pricing lead to increase in market share in the Mid-Con basin. 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 while the industry struggles with low pricing and weak demand. The downside of our pricing strategy is narrower margins, which we are willing to incur in the short-term for expected long-term gain. Despite this strategy, our margins held in 2020 from 65.8% of sales \$5,617,800) in 2019 to 64.3% of sales \$5,486,400 in 2020.

We realized net loss from operations of \$(414,400) in 2019 versus net loss from operations of \$(2,108,200) for 2020. The net loss after tax in 2019 was \$(347,400) versus a net loss after tax of \$(1,742,100) for 2020. The net loss in 2019 was largely caused by increase in selling, general and administrative expenses of \$2,448,900, which was partially offset by the increase in gross profit of \$2,193,300. The net income per share was \$(0.01) in 2019 compared to \$(0.03) in 2020.

Total operating expenses grew in 2020 from \$7,594,600 from \$6,032,200 in 2019. The increase was due to higher selling, general and administrative expenses, which were \$6,885,400 in 2020. The higher selling, general and administrative expenses were generally attributable to higher expenses in the operations of Patriot, which we acquired in 2019. In light of cost-cutting measures we implemented in 2020, we do not expect that selling, general and administrative expense will increase proportionately with growth in revenue.

## **Liquidity and Capital Resources**

Our primary source of capital historically has been cash flow from operations, 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. At December 31, 2020, we had working capital of \$4,881,300 versus \$4,460,400 for 2019. Cash used in operating activities during 2020 was \$802,800 versus \$590,700 used in 2019. The 2020 negative cash flow was primarily due to the net operating loss and increases in deferred tax assets of \$(631,400) and inventory of \$(285,000), which were partially offset by increases in payables of \$432,900. We invested \$709,900 in 2020, which included \$421,100 in our property and equipment and \$325,000 in the Celex merger.

We had bank borrowing of \$2,773,500 during 2020 and repaid \$1,055,300 of bank and vehicle financing. The borrowings included a \$787,000 paycheck protection program loan, which we hope to have forgiven.

## **Outlook**

As the oil and gas industry, and the broader economy, gradually recovers from the devastation of the COVID-19 pandemic, we anticipate a gradual rebound in our results of operations. Oil and gas prices have recovered somewhat from the lows of 2020, and we believe

capital expenditures by exploration companies will likely strengthen in 2021. These developments should mean higher sales of our production chemicals and improved margins. We are cautiously optimistic about a better 2021.

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

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

During 2019, Patriot opened a new yard in Canadian, Texas, which enables us to better serve our existing customers and to reach new customers with an expanded marketing footprint. Patriot is also developing synergies with Enduro-Tech® and Enduro-Bond products to further increase sales.

We anticipate increases in coating sales in 2021. We expect higher utilizations of our new 35-foot oven, in our Chickasha, Oklahoma coating facility. This oven gives us the capacity to coat larger volumes of pipe, which will allow us the better meet the demand for coated pipe.

## MANAGEMENT AND OWNERSHIP OF THE COMPANY

### Biographical Information

The following table sets forth the name and age of each director and the year he became a director.

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Position</u>
Leon Joyce	51	2017	Chairman of the Board and Chief Executive Officer/President
Gary Presley	64	2020	Director and Vice President of Sales
Mark Day	64	2017	Director
James Merrill	53	2017	Director
Michael Smith	64	2019	Director
Matthew Hoffman	58	2020	Director

*The Directors.* The Board of Directors is composed of the following six persons. The directors serve one-year terms. A brief summary of each director's principal occupation, business affiliations and other information follows.

*Leon Joyce* became President in December 2019, Chief Executive Officer in January 2018, and previously served as President from April 2017 to January 2018. Mr Joyce became a Director in June 2017. He joined us in 2007 as a sales and marketing representative in Oklahoma, Kansas and Colorado and became national accounts manager in

2011, Business Development Manager in 2013, Vice President of Sales in 2015, and Senior Vice President in November 2016. Mr. Joyce attended Marymount College and Benedictine College.

*Mark Day* became a Director in June 2017. He is the co-owner and President of Opeco, Inc., a privately held sales and distribution company with over 40 employees in seven locations in five states. Before forming Opeco in 1984, he worked in various capacities with Bethlehem Steel. Mr. Day holds a Bachelor of Science degree in business education from the University of Wyoming.

*Matthew Hoffman* became a Director in November 2020. Since 2018, he has been an Engineering Manager at New IPT Inc., a Colorado-based independent petroleum consulting firm. He previously worked in similar capacities at Halliburton, Maverick Stimulation Co, LLC and Basic Energy Services designing and implementing stimulation treatments on oil and gas wells. Mr. Hoffman holds an engineering degree from the Colorado School of Mines specializing in Petroleum Engineering.

*James Merrill* became a Director in October 2017. He has served as the Chief Financial Officer of Flogistix, LP since 2014. From 2006 to 2014, he was the CFO or Controller for GMX Resources, Inc., a small cap, publicly held oil and gas exploration and production company. GMX Resources was reorganized in a Chapter 11 bankruptcy in 2013 and 2014. Mr. Merrill has over 15 years' experience with publicly traded companies either in a controller or CFO position. Upon graduating from college, Mr. Merrill spent eight years with Deloitte & Touche in the firm's audit practice. He is a certified public accountant and has a Bachelor of Business Administration in finance and accounting from the University of Oklahoma.

*Gary Presley* serves as our Vice President of Sales, a position he has held since the Patriot acquisition in May 2019. Mr. Presley was appointed to the Board in November 2020. Since 2010, he was the President of Patriot. Before forming Patriot in 2010, Mr. Presley spent over 30 years in the production chemical business with companies like Champion, Multichem, and Tretolite/Baker Petrolite. He holds a Bachelor of Science degree in biology from Southeastern Oklahoma State University.

*Michael Smith* became a Director in June 2019 upon the acquisition of Patriot Chemicals and Services, LLC ("*Patriot*"). Since 1991, he has been the Manager of EnterWest Trading Co., LLC, an oil and gas trading company. Mr. Smith holds a Bachelor of Science degree in business management with a minor in accounting from Southwestern Oklahoma State University and a Master of Business Administration from Oklahoma City University.

### **Other Executive Officers**

In addition to the executive officers who serve on the Board of Directors, we have the following executive officers:

*Troy Todd*, age 58, became Vice President of Operations in April 2017. He served as a Director from June 2017 to November 2020. Mr. Todd joined us in 2001 as a coating technician and became inventory/ procurement manager in 2007, Manager of Solid Chemical in 2010, Manager of the Chemical Division in 2011, Director of Operations for EES in 2014, and Vice President of Operations in November 2016. Mr. Todd has an Associate degree in business management from Oklahoma State University.

*Todd Jelinek*, age 52, became Vice President in December 2019, served as President between then and January 2018, and was Chief Executive Officer from April 2017 to January 2018. He served as a Director from September 2016 to November 2020. Mr. Jelinek joined us in 2012 as our Research & Development Director and became Executive Vice President in September 2016. Mr. Jelinek has over 22 years' experience in research and development in the areas of biotechnology, pharmaceutical and environmental sciences. He has a Bachelor of Science in microbiology and a minor in chemistry from South Dakota State University.

*Andrew Schmidt*, age 51, serves as our Chief Financial Officer, a position he has held since 2018. He is a certified public accountant and the managing partner of Schmidt & Associates, PC, a certified public accounting firm established in 2003. Before that, he worked with Jerry L. Williams as an employee and a partner from 1992 to 2003. Mr. Schmidt holds a Bachelor of Arts degree in accounting and business from Benedictine College.

### **Stock Ownership of Management and Certain Shareholders**

The following table sets forth certain information regarding the beneficial ownership of our Common Stock as of March 29, 2020, by (a) each director, (b) each named executive officer (“NEO”) in the Summary Compensation Table, (c) each person that we know or believe to own beneficially five percent or more of the Common Stock, and (d) all directors and NEOs as a group. Unless indicated otherwise, each person has sole voting and dispositive power with respect to the shares.

<b><u>Name of Director, Executive Officer, or Shareholders Holding 5% or More</u></b>	<b><u>Beneficial Ownership<sup>(1)</sup></u></b>	
	<b><u>Number of Shares</u></b>	<b><u>Percent</u></b>
Melvin Smith Revocable Trust Vickie Smith, Trustee 602 Carlyon Avenue SE Olympia, WA 98501	13,250,000	24.7%
Leon Joyce	1,357,603	2.5%
Troy Todd	1,350,663	2.5%
Todd Jelinek	1,381,324	2.6%
Mark Day	496,077	*
Matthew Hoffman	25,000	*
James Merrill	52,481	*
Michael Smith <sup>(2)</sup>	2,275,000	4.2%
Gary Presley <sup>(3)</sup>	1,580,000	2.9%
George Shaw 17504 Cranbrook Rd. Edmond, OK 73015	3,386,988	6.3%
Scott Shaw 6500 NW Grand Blvd., #139 Oklahoma City, OK 73116	3,470,880	6.5%
All directors and named executive officers as a group (8 persons)	8,518,148	15.9%

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\* Less than one percent.

- (1) Disclosures regarding “beneficial ownership” are made as that term is defined under Federal securities laws.
- (2) Mr. Smith has beneficial ownership over 2,250,000 shares, which are held of records by EnterWest Trading Co., LLC.
- (3) Mr. Presley’s beneficial ownership includes 600,000 shares held by his spouse, Shelley Presley.

## Corporate Governance

*Board Composition and Meetings.* Our Board of Directors is currently composed of six directors. The Board has determined that four of the directors, Mark Day, Matthew Hoffman, James Merrill and Michael Smith, are independent.

In 2020, the full Board met five times with all directors attending at least 75% of the meetings. The Board acted three times by written consent during the year. Management also periodically conferred with directors between meetings regarding our affairs.

*The Compensation Committee.* The Compensation Committee is composed of the independent directors: Mr. Day (Chair), Mr. Merrill and Mr. Smith. It met once in 2020 with all members participating physically. The Committee also acted once by written consent. It sets the compensation levels of the Chief Executive Officer and the other executive officers, and oversees the operation of the equity incentive program and other employee benefits.

*The Audit Committee.* The Audit Committee is composed of the independent directors: Mr. Merrill (Chair), Mr. Day and Mr. Smith. The Board has determined that our Audit Committee members meet the required financial literacy and sophistication requirements, and that its Chair, Mr. Merrell, qualifies as an “audit committee financial expert” under the SEC rules. After terminating our registration under the Securities Exchange Act of 1934 (the “Exchange Act”) in 2011, we stopped auditing our financial statements. We intend to register under the Exchange Act eventually and will resume financial audits; however, we do not anticipate undertaking the costs of financial audits until our financial condition is much stronger. The Audit Committee did not meet in 2020.

*Director Nominations.* The Board has not delegated its functions to any other standing committees, and thus has not created executive, nominating or other similar committees. The task of nominating directors is undertaken by the full Board. In selecting candidates for director appointments or reelection, the Board believes that it should be composed of directors having a diversified background of knowledge and management expertise. We do not have a formal policy about the consideration of diversity in identifying director nominees, but the Board seeks directors with a variety of complementary skills and perspectives so that, as a group, the Board will possess the appropriate talent, skills, and expertise to oversee our business. The Board considers independence, diversity, age, skills, expertise, time availability, and industry backgrounds in the context of the needs of the Board and Enduro-Tech.

*Annual Meeting Attendance.* We have a policy of encouraging all directors to attend the Annual Meetings. All our directors attended last year’s virtual Annual Meeting.

*Outside Director Compensation.* We compensate our outside directors \$500 per board or committee meeting attended physically and \$250 for telephonically attended meetings. We also

reimburse all ordinary and necessary expenses, including travel expense, incurred in the conduct of our business.

In 2019 and 2020, we provided the following compensation to our non-employee directors.

<u>Name</u>	<u>Director Fees<sup>(1)</sup></u>		<u>Stock Awards</u>		<u>Total(\$)</u>	
	<u>2019</u>	<u>2020</u>	<u>2019<sup>(2)</sup></u>	<u>2020<sup>(3)</sup></u>	<u>2019</u>	<u>2020</u>
Mark Day	\$2,500	-	\$3,216	\$371	5,716	\$371
Matthew Hoffman <sup>(4)</sup>	-	-	-	\$1,000	-	\$1,000
James Merrill	\$3,000	-	\$3,180	\$39	\$6,180	\$39
Michael Smith <sup>(5)</sup>	\$1,500	-	\$3,000	-	\$4,500	-

- (1) The director fees reflect amounts accrued for service in the year indicated. With the industry downturn in 2020, the directors elected to waive their director fees.
- (2) On December 15, 2019, we granted the following restricted shares to the outside directors: 26,798 shares to Mr. Day, 26,499 shares to Mr. Merrill, and 25,000 shares to Mr. Smith. The shares vest over a three-year period. The values of the grants, regardless of vesting, are reflected in the above table and were calculated based upon the closing price of a share of Common Stock on the date of grant.
- (3) On December 21, 2020, we granted the following restricted shares to the outside directors: 9,279 shares to Mr. Day, 982 shares to Mr. Merrill, and 25,000 shares to Mr. Hoffman. The shares vest over a three-year period. The values of the grants, regardless of vesting, are reflected in the above table and were calculated based upon the closing price of a share of Common Stock on the date of grant.
- (4) Mr. Hoffman became a director in November 2020.
- (5) Mr. Smith became a director in June 2019 with the Patriot acquisition.

*Director Insurance and Indemnity.* We maintain directors' and officers' liability insurance policies covering our directors and officers in the course of their service. Our bylaws provide for mandatory indemnification and advancement to hold our directors and executive officers harmless in the event claims are made against them in the course of their service.

*Director Communication.* Shareholders may send communications to the Board (and to individual directors) through Mr. Troy Todd, Secretary, Energy and Environmental Services, Inc., 2601 NW Expressway, Suite 605W, Oklahoma City, Oklahoma 73112, and telephone 800-635-7716. He will forward to the directors all communications that, in his judgment, are appropriate for consideration by the directors. Comments or questions regarding our accounting, internal controls or auditing matters will be referred to members of the Audit Committee. Comments or questions regarding the nomination of directors and other corporate governance matters will be referred to all members of the Board.

## Code of Ethics

We have adopted a Code of Ethics that applies to our directors, management and employees. The latest copy of our Code of Ethics is available under the heading "Governance" on our web site at <https://eesokc.com/investors/>. We intend to disclose future amendments to certain provisions of our Code of Ethics, or waivers of those provisions, at the same location on our web site.

## Executive Compensation

The following table sets forth the compensation paid or accrued to the Chief Executive Officer and President, the Chief Operating Officer, the Vice President and the Vice President of Sales (they are sometimes called the “*named executive officers*” or “*NEOs*”) for services performed in 2020 and 2019.

*Summary Compensation Table*

Name and Principal Position	Fiscal Year	Annual Compensation			Other Annual Compensation <sup>(3)</sup>
		Salary (\$)	Bonus <sup>(1)</sup> (\$)	Stock Awards <sup>(2)</sup> (\$)	
Leon Joyce Chief Executive Officer/President	2020	\$165,000	-	\$1,016	-
	2019	\$164,000	\$50,000	9,048	-
Troy Todd Vice President of Operations	2020	\$115,000	-	\$1,011	-
	2019	\$122,064	\$ 25,000	9,048	-
Todd Jelinek Vice President <sup>(4)</sup>	2020	\$108,000	-	\$1,033	\$12,000
	2019	\$ 122,064	\$25,000	9,048	-
Gary Presley Vice President of Sales <sup>(5)</sup>	2020	\$116,200	-	-	\$15,700
	2019	\$ 68,750	\$ 1,200	\$71,800	-

(1) Based solely on the Board’s discretion, upon recommendation of the Compensation Committee, bonuses are paid to the NEOs. In 2019, the Board established EBITDA bonus objectives, which were earned, were accrued for financial reporting purposes, and are reflected in above table as 2019 bonuses. Payment of the 2019 bonuses, which normally would occur after completion of the 2019 financial statements in 2020, was voluntarily deferred due to the industry downturn.

(2) Upon the Patriot acquisition, Mr. Presley received an incentive award of 250,000 shares of restricted stock, which were valued at \$.2392 per share. In December 2019, Mr. Presley received an incentive award of 100,000 shares of restricted stock and Messrs. Joyce, Jelinek and Todd each received an incentive award of 75,400 shares of restricted stock, which were valued at \$.12 per share. In December 2020, Mr. Joyce received an incentive award of 25,393 shares of restricted stock, Mr. Todd received an award of 25,263 shares, and Mr. Jelinek received an award of 25,836 shares, which awards were valued at \$.04 per share.

(3) We have a 401K program for employees, but do not match contributions. The column excludes compensation amounts of less than \$10,000.

(4) Mr. Jelinek received an automobile allowance in 2020.

(5) Mr. Presley joined us in May 2019 with the Patriot acquisition and drives a company truck, the value of which is reflected in the table

## Employment Agreements

We have entered into written term employment agreements with each of the Named Executive Officers. These employment agreements provide for “at will” employment. The agreements define the rights and responsibilities of each party, including the rights and responsibilities upon termination of employment. Upon involuntary termination for death or

disability, for voluntary terminations by the executive officer, for terminations by Enduro-Tech with or without cause, the executive officer receives only his accrued compensation (including accrued vacation) through the termination date. For terminations after a change in control or for good reason, the executive officer will receive compensation through the end of the employment term and an additional six months' compensation. "Good reason" is defined as the executive officer's termination after a reduction in compensation, an assignment of duties inconsistent with his office, or an assignment of duties in an office more than ten miles from his present office. The agreements prohibit the executive officer from disclosing our confidential information or business practices or engaging directly or indirectly in competition with us. The executive officer is also prohibited from competing against us or soliciting our clients for two years after his employment terminates.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **Related Person Transactions**

We own 50% of Vortex Oilfield Products, LLC ("*Vortex*"), which was formed in 2017 to market and distribute pump barrels coated with our anti-corrosive Enduro-Bond® coating. The other 50% owner is Daxon Investments, LLC ("*Daxon*"), which is 50% owned and managed by our director, Mark Day. Mr. Day and Leon Joyce are the managers of Vortex. Under the arrangement, Vortex buys the pump barrels and has contracted with us for an exclusive ten-year term to coat the pump barrels at our standard pricing. In 2019 and 2020, Vortex paid us \$34,620 and \$20,296, respectively, for coating pump barrels. Once coated, Vortex distributes the pump barrels through direct sales and sales representatives. Vortex has contracted with Opeco, Inc., which is also partially owned and managed by Mr. Day. Under the distribution agreement, Opeco purchases the coated pump barrels from Vortex at a discount and distributes them within the states of Oklahoma, Arkansas, Kansas, Alabama, Mississippi, McCook County, Nebraska, certain counties in northern Louisiana, and certain counties in northern and eastern Texas and the Texas panhandle. We entered into these arrangements in 2017, and in 2019 we and Daxon each invested \$27,283 in Vortex. Opeco bought \$135,981 in pump barrels from Vortex in 2019 and \$46,260 in 2020.

We have a separate distribution agreement with Opeco for the sale of our coating products. The agreement covers the same territory as the Vortex distribution agreement described above. Opeco receives a 10% sales commission on coating sales within the territory and may buy coating products from us at a 20% discount for resale. In 2019 and 2020, we paid Opeco \$18,864 and \$8,500, respectively, for sales under the distribution agreement. Opeco purchased \$49,474 of coatings products from us in 2019, and \$38,300 in 2020.

We believe that these arrangements are appropriate, and the payments are reasonable and equal to or less than amounts that would be payable to an unaffiliated third party for comparable service.

### **Related Person Transactions Policy and Procedures**

We have a corporate policy for the identification, review, consideration and approval or ratification of "related person transactions". For purposes of our policy only, a "related-person transaction" is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we and any "related person" are participants involving



an amount that exceeds \$10,000. Transactions involving compensation for services provided to us as an employee, director, consultant or similar capacity by a related person are not covered by this policy. A related person is any executive officer, director, or more than 5% shareholder, including any of their immediate family members, and any entity owned or controlled by those persons. The Board has adopted a written policy covering relating party transactions.

# **Leslie G. Pettitt, P.C.**

**Certified Public Accountant**

4603 N College Ave

Bethany, Oklahoma 73008

(405) 833-7458 Fax (888) 748-6813

email: lgpettitt@hotmail.com

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March 29, 2021

## **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, 2020 and 2019 and the related consolidated statements of income for years ended December 31, 2020 and 2019, the consolidated statements of equity for the years ended December 31, 2020 and 2019, and the consolidated statements of changes in cash flows for the years ended December 31, 2020 and 2019, 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,	December 31,	
		2020	2019	
ASSETS				
<b>Current assets</b>				
	Cash and cash equivalents	\$ 1,736,900	\$ 1,600,600	
	Accounts receivable - trade (net of reserve for bad debts of \$60,700 and \$nil as of December 31, 2020 and 2019)	1,426,300	1,688,100	
	Inventory	2,990,400	2,671,700	
	Deferred tax assets	1,105,000	473,600	
	Prepaid expenses and other current asset	179,400	230,000	
	<b>Total current assets</b>	<b>7,438,000</b>	<b>6,664,000</b>	
<b>Property, plant and equipment (net of accumulated depreciation of \$2,781,800 and \$2,614,700 at December 31, 2020 and 2019, respectively)</b>				
		5,139,900	4,987,200	
	<b>Notes receivable</b>	93,400	116,100	
	<b>Equity investments</b>	27,500	33,100	
	<b>Goodwill</b>	893,000	867,400	
	<b>Total assets</b>	<b>\$ 13,591,800</b>	<b>\$ 12,667,800</b>	
LIABILITIES AND STOCKHOLDERS' EQUITY				
<b>Current liabilities</b>				
	Accounts payable	\$ 956,900	\$ 524,000	
	Other current liabilities	366,600	175,000	
	Short-term notes payable	475,000	942,800	
	Notes payable - related parties	142,100	163,800	
	Deferred tax liabilities	293,300	154,300	
	Current portion of long-term debt	225,900	202,700	
	Current portion of financial lease obligations	68,300	48,300	
	Other taxes	28,600	(7,300)	
	<b>Total current liabilities</b>	<b>2,556,700</b>	<b>2,203,600</b>	
	<b>Long-term notes - less current portion</b>	<b>2,849,200</b>	<b>664,700</b>	
	<b>Financial lease obligations - less current portion</b>	<b>203,300</b>	<b>103,900</b>	
<b>Stockholders' Equity</b>				
	Preferred stock, \$0.00001 par value, 20,000,000 shares authorized, no shares issued and outstanding December 31, 2020 and 2019, respectively	-	-	
	Common stock, \$0.00001 par value, 100,000,000 shares authorized 53,575,727 and 52,226,974 shares issued and outstanding at December 31, 2020 and 2019, respectively	500	500	
	Additional paid in capital	1,916,400	1,887,300	
	Retained earnings	6,065,700	7,807,800	
	<b>Total Stockholder's Equity</b>	<b>7,982,600</b>	<b>9,695,600</b>	
	<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 13,591,800</b>	<b>\$ 12,667,800</b>	
See Accountants' Compilation Report				

[illegible]

[illegible]

ENERGY AND ENVIRONMENTAL SERVICES, INC.					
CONSOLIDATED STATEMENTS OF CASH FLOWS					
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019					
			<u>2020</u>		<u>2019</u>
<b>Cash flows from operating activities</b>					
	Net loss		\$ (1,742,100)		\$ (347,400)
	Adjustments to reconcile net loss to net cash				
	used in operating activities				
	Depreciation and amortization		709,200		473,300
	Write off of bad debts		60,700		
	Stock based compensation		50,700		76,900
	Earnings from equity method investment		5,600		(5,800)
	Net changes in current assets and liabilities				
	Accounts Receivable		201,100		86,100
	Accounts receivable - other		-		-
	Inventory		(285,000)		(518,200)
	Deferred tax assets		(631,400)		(132,000)
	Prepaid expenses and other current assets		29,000		86,600
	Accounts payable		432,900		(343,400)
	Other current liabilities		191,600		44,400
	Other taxes		35,900		(86,000)
	Deferred taxes		139,000		74,800
	Net cash used in operations		(802,800)		(590,700)
<b>Cash flows from investing activities</b>					
	Purchases of property, plant and equipment		(421,100)		(799,700)
	Notes receivable		22,700		(128,900)
	Investment in merger		(325,000)		(53,000)
	Net cash used in investing activities		(709,900)		(981,600)
<b>Cash flows from financing activities</b>					
	Payments on notes payable		(1,055,300)		(933,600)
	Advances on notes payable		2,773,500		1,789,300
	Payments on lease obligations		(69,200)		(14,800)
	Net cash provided by financing activities		1,649,000		840,900
	Net increase(decrease) in cash		136,300		(731,400)
	Cash and cash equivalents, beginning of period		1,600,600		2,332,000
	Cash and cash equivalents, end of period		\$ 1,736,900		\$ 1,600,600
<b>Supplemental disclosures of cash flow informations:</b>					
Cash paid during the year for:					
	Interest		\$ 139,100		\$ 109,800
	Taxes		\$ -		\$ -
See Accountants' Compilation Report					

**ENERGY & ENVIRONMENTAL SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2020 AND 2019**

**1. NATURE OF OPERATIONS**

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

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

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

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

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 merge 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. It also has products under development using enzyme technologies for animal feed supplements and odor solutions. The Company’s operations are maintained and occur through its wholly-owned subsidiaries: Enduro-Tech Energy Services, Inc. (formerly EES) (“Enduro-Tech”), Enduro-Bond Manufacturing Company, LLC (“EMC”), EcoZyme System Technologies, LLC (“EST”), Graham, Patriot and Celex. Enduro-Tech, EMC, EST, Graham 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 since May 16, 2019 (the date of acquisition), Graham since August 13, 2019 (the date of acquisition) 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, 2020.

**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, 2020 and 2019, there was pension cost charged to the statements of income under the plans of \$35,376 and nil, respectively.

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

### **New Accounting Pronouncements**

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes," which removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocations and calculating income taxes in interim periods. This ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. This guidance is effective for annual

periods beginning after December 15, 2020, with early adoption permitted, including adoption in any interim period. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period. The amendments in this ASU that are related to separate financial statements of legal entities that are not subject to tax should be applied on a retrospective basis for all periods presented. The amendments in this ASU that are related to changes in ownership of foreign equity method investments or foreign subsidiaries should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The amendments in this ASU that are related to franchise taxes that are partially based on income should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. All other amendments under this ASU should be applied on a prospective basis. The Company is in the process of assessing the impact, if any, that this ASU is expected to have on the Company's results of operations, financial condition and/or financial statement disclosures.

In January 2020, the FASB issued ASU 2020-01, Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)-Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the Emerging Issues Task Force), which addresses the accounting for the transition into and out of the equity method and measuring certain purchased options and forward contracts to acquire investments. ASU 2020-01 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the expected impact of this standard but does not expect it to have a material impact on its consolidated financial statements upon adoption.

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

### **3. BUSINESS COMBINATIONS**

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

Patriot markets chemicals used in oil and gas drilling and production, including chemicals manufactured by the Company. Patriot has two locations in Oklahoma and one in Texas.

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

The fair value of the consideration paid by the Company was in excess of the net assets acquired, resulting in goodwill. Upon the determination that the Company was going to recognize goodwill, the Company reassessed its valuation assumptions utilized as part of the acquisition accounting. No adjustments to the acquisition accounting valuations were identified as a result of management's reassessment. The goodwill is included in the balance sheet as of December 31, 2020.

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

Graham is an over-the-road trucking company. Graham provides trucking services to the Company as well as to outside third parties. Graham had sales to the Company of \$35,000 during the period ended August 13, 2019.

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

	Graham
Cash and cash equivalents	\$ 21,100
Accounts receivable	12,800
Total current assets	33,900
Vehicles	44,100
Net Assets	78,000
Purchase consideration	84,900
Excess of purchase consideration over net assets (Goodwill)	\$ 6,900

The fair value of the consideration paid by the Company was in excess of the net assets acquired, resulting in goodwill. Upon the determination that the Company was going to recognize goodwill, the Company reassessed its valuation assumptions utilized as part of the acquisition accounting. No adjustments to the acquisition accounting valuations were identified as a result of management's reassessment. The goodwill is included in the balance sheet as of December 31, 2020.

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 Basin in Texas. The Company had sales to Celex of \$15,700 in January 2020 and \$55,500 during the year ended December 31, 2019.

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

	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 May 16, 2019 acquisition of Patriot, the August 13, 2019 acquisition of Graham and the February 1, 2020 acquisition of Celex as if the acquisitions and merger had been consummated as of January 1, 2019. The pro-forma earnings/(loss) for year ended December 31, 2020 and 2019, 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, 2019.

	Year Ended December 31,	
	2020	2019
Revenues	\$ 8,554,700	\$ 11,730,700
(Loss) earnings from continuing operations	\$ (2,222,700)	\$ (223,500)
Basic and diluted (loss)/earnings from continuing operations per share	\$ (0.04)	\$ 0.00

### 4. RELATED PARTY TRANSACTIONS

In 2020 and 2019, the Company paid \$8,800 and \$18,900 as sales commissions to a distributor partially owned and controlled by a director of the Company. During the same period, the distributor purchased \$38,300 and \$49,500 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, 2020 and 2019, inventories consisted of the following:

	December 31, 2020	December 31, 2019
<b>At cost:</b>		
Raw materials	\$ 2,250,500	\$ 1,963,600
Blends	551,600	33,800
Consumables	34,800	-
Finished goods	153,500	674,300
	<u>\$ 2,990,400</u>	<u>\$ 2,671,800</u>

## 6. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2020 and 2019, property, plant and equipment, stated at cost less accumulated depreciation, consisted of the following:

	December 31, 2020	December 31, 2019
Buildings	\$ 2,026,800	1,930,000
Improvements	1,195,500	1,149,700
Equipment	2,545,000	2,140,400
Vehicles and transportation equipment	1,757,300	1,449,200
Furniture and fixtures	254,000	278,800
Software and closing costs	143,100	135,700
	<u>7,921,700</u>	<u>7,083,800</u>
Less: Accumulated depreciation	<u>(2,781,800)</u>	<u>(2,096,600)</u>
	<u>\$ 5,139,900</u>	<u>\$ 4,987,200</u>

## 7. SHORT-TERM NOTES PAYABLE

	December 31, 2020	December 31, 2019
Bank loan dated August 29, 2019 due August 29, 2020 with an interest rate of 3.9%	\$ -	\$ 198,000
Bank loan dated February 7, 2019 due February 7, 2020 with a variable interest rate	-	42,200
Bank loan dated June 10, 2020 due June 10, 2021 with an interest rate of 4.0%	-	227,200
Bank loan dated June 10, 2020 due June 10, 2021 with an interest rate of 7.0%	475,000	475,400
	<u>475,000</u>	<u>942,800</u>

## 8. LONG-TERM NOTES - LESS CURRENT PORTION

	December 31, 2020	December 31, 2019
Vehicle loan dated March 14, 2017 due March 28, 2022 with an interest rate of 0.00%	20,700	32,900
Vehicle loan dated May 15, 2017 due May 14, 2022 with an interest rate of 6.94%	17,500	25,600
Vehicle loan dated July 31, 2017 due July 31, 2022 with an interest rate of 7.64%	-	26,400
Vehicle loan dated July 31, 2017 due July 31, 2022 with an interest rate of 7.64%	23,900	33,200
Vehicle loan dated July 31, 2017 due July 31, 2022 with an interest rate of 7.64%	-	26,400
Vehicle loan dated August 24, 2017 due September 8, 2022 with an interest rate of 4.49%	24,100	33,600
Vehicle loan dated September 8, 2017 due September 23, 2022 with an interest rate of 4.84%	24,000	33,600
Vehicle loan dated September 28, 2017 due October 12, 2022 with an interest rate of 4.84%	25,600	35,400
Vehicle loan dated October 11, 2017 due October 25, 2022 with an interest rate of 4.49%	19,300	26,600
Vehicle loan dated March 11, 2019 due March 25, 2024 with an interest rate of 9.99%	26,700	31,400
Equipment loan dated February 28, 2018, due February 28, 2021 with an interest rate of 11.336%	2,100	9,800
Bank loan dated June 10, 2019 due June 10, 2022 with an interest rate of 7.00%	45,900	63,600
Bank loan dated August 12, 2019 due April 12, 2025 with an interest rate of 6.5%	690,500	467,000
Equipment loan dated November 7, 2019, due November 30, 2024 with an interest rate of 13.26%	17,800	21,900
Bank loan dated 8/27/20, due December 27, 2025 with an interest rate of 6.0%	1,350,000	-
Payroll protection program loan dated April 12, 2020 due April 12, 2022 with an interest rate of 1%	787,000	-
	3,075,100	867,400
Less current portion of notes payable	(225,900)	(202,700)
	<u>\$ 2,849,200</u>	<u>\$ 664,700</u>

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 (the “CARES Act”). 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. The Company is closely tracking proceed expenditures and other compliance matters and believes that it will qualify for loan forgiveness.

## 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 2,535,917 shares available for future issuance under the 2018 Plan as of December 31, 2020.

<u>Restricted Stock Awards</u>	<u>Number of Shares</u>
Unvested as of December 31, 2019	945,501
Issued	606,753
Vested	(537,338 )
Forfeited/Cancelled	(258,000 )
Unvested as of March 31, 2020	<u>756,916</u>

The weighted average grant date value of the restricted stock award issued was \$0.09 and \$0.17 during the period ended December 31, 2020 and 2019, respectively. The fair value of the restricted stock awards vested during the year ended December 31, 2020 and 2019 was \$81,700 and \$61,100, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Basic and Diluted (loss) per share computation		
Numerator:		
Net (loss) income	\$ (2,240,400)	\$ (347,400)
Denominator:		
Weighted average common shares outstanding	52,691,548	50,402,021
Basic income per share	\$ (0.04)	\$ (0.01)

## 11. FINANCIAL LEASES

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Vehicle leases with terms of 30 to 36 months	\$ 271,600	\$ 152,200
Less current portion	(68,300)	48,300
	<u>\$ 203,300</u>	<u>\$ 103,900</u>

## 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, OK for \$2,722 per month expiring in March 2022. The Company also leases various office and warehouse space under month-to-month leases. Total rent expense for the year ended December 31, 2020 and 2019, was \$115,600 and \$55,90, respectively. Future minimum lease payments over the next five years are as follows:

2021	64,500
2022	46,400
2023	4,000
	<u>\$114,900</u>

## 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:

	<u>Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Computed at the federal statutory rate	\$ (470,500)	\$ (8,500)
State tax (benefit) at statutory rates	(134,400)	(2,400)
Use of prior year net operating losses and return adjustments	-	-
Depreciation differences	112,500	(9,400)
Income tax (Benefit)	<u>\$ (492,400)</u>	<u>\$ (20,300)</u>

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

	<u>As of December 31,</u>	
	<u>2020</u>	<u>2019</u>
Deferred tax assets – Net Operating Loss Carryforwards	<u>\$ 1,105,000</u>	<u>\$ 473,600</u>
Deferred tax liabilities – depreciation and amortization	<u>\$ (293,300)</u>	<u>\$ (154,300)</u>

The Company is subject to examination in the U.S. federal and state tax jurisdictions for the 2016 to 2019 tax years. There are no current examinations of the Company’s prior tax returns. The penalty and interest



charges on the delinquent returns is estimated to be minimal due to net operating losses incurred or carried forward in each year of operations.

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

#### **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.

#### **15. OTHER EVENTS**

The COVID 19 pandemic has resulted in widespread, adverse impacts on the global economy and on the oil and gas industry specifically. The pandemic has caused a significant reduction in global demand for and an over-supply of oil and gas followed by a sharp decline in oil prices and contractions within the industry. The resulting supply/demand imbalance is having disruptive impacts on the oil and gas exploration and production industry and on other business, such as ours, that serve exploration and production companies. These industry conditions, coupled with those resulting from the COVID-19 pandemic, have led to significant global economic contraction generally and in the Company's industry in particular.

To date, the Company has experienced operational impacts because of the restrictions from working remotely or COVID-19 directly. As an essential business under applicable guidelines, the Company has continued operations, although for the health and safety of its employees, the Company has chosen to have our non-essential personnel work remotely. Those employees who are unable to work remotely are being closely monitored, and the Company is taking safety precautions to minimize the risk of exposure. These restrictions have allowed it to maintain the engagement and connectivity of its personnel, as well as minimizing the number of employees required in the office and field.

The Company cannot predict the full impacts of the COVID-19 pandemic or the significant disruption and volatility within the oil and natural gas industry, but the impacts have had, and will continue to have, negative effects on its business, cash flows, liquidity, financial condition and results of operations. The ultimate impacts will depend on future developments, including the ultimate geographic spread of the virus, the consequences of governmental and other measures designed to prevent the spread of the virus, the development of effective treatments, the duration of the outbreak, actions taken by members of OPEC and other foreign, oil-exporting countries, governmental authorities, customers and other third parties, workforce availability, and the timing and extent to which normal economic and operating conditions resume.