

**Disclosure Statement Pursuant to the
Pink Basic Disclosure Guidelines
ENERGY AND ENVIRONMENTAL SERVICES, INC.**

A Colorado Corporation
2601 NW Expressway, Suite 605W
Oklahoma City, Oklahoma 73112

Telephone: 800-635-7716
<https://eesokc.com>
LJoyce@eesokc.com
Primary SIC code: 2899

Annual Report for the Period Ending: 12/31/2023
(the "Reporting Period")

Outstanding Shares

53,829,393 as of 3/29/2024

53,829,393 as of 12/31/2023

Shell Status

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Change in Control

Indicate by check mark whether a Change in Control¹ of the company has occurred over this reporting period:

¹ "Change in Control" shall mean any events resulting in:

- (i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;
- (ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;
- (iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or
- (iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its

Yes: ☐

No: ☒

1) Name and address of the issuer and its predecessors (if any)

In answering this item, provide the current name of the issuer and any names used by predecessor entities along with the dates of the name changes.

Energy and Environmental Services, Inc.

See below for information regarding name changes.

Current State and Date of Incorporation or Registration: Colorado, domesticated on 3/23/2015

Standing in this jurisdiction: (e.g. active, default, inactive): active

Prior Incorporation Information for the issuer and any predecessors during the past five years:

Incorporated as Energas Resources, Inc in British Columbia, Canada, in 1989

Domesticated in Delaware in 2001

Name changed to Enerlabs, Inc. on 1/25/2012

Domesticated in Colorado on 3/23/2015

Name changed to Energy and Environmental Services, Inc. on 12/05/2016

Describe any trading suspension or halt orders issued by the SEC or FINRA concerning the issuer or its predecessors since inception:

None

List any stock split, dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None

Address of the issuer's principal executive office:

2601 NW Expressway, Suite 605W

Oklahoma City, Oklahoma 73112

Address of the issuer's principal place of business:

☒ *Check box if principal executive office and principal place of business are the same address.*

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

Yes: ☐

No: ☒

2) Security Information

Transfer Agent

Name: EQ Shareowner Services

Phone: 800-468-9716

Email: chad.dalton@equiniti.com

Address 1: 1110 Centre Pointe Curve, Suite 101

parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

Address 2: Mendota Heights, MN 55120

Publicly Quoted or Traded Securities:

The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.

Trading symbol: EESE
Exact title and class of securities outstanding: Common Stock: 100,000,000 authorized
CUSIP: 29273G103
Par or stated value: \$0.00001 per share
Total shares authorized: 100,000,000 shares as of: 12/31/2023
Total shares outstanding: 53,829,393 shares as of: 12/31/2023
Total number of shareholders of record: 230 as of: 12/31/2023

Other classes of authorized or outstanding equity securities that do not have a trading symbol:

Please provide the above-referenced information for all other publicly quoted or traded securities of the issuer._

Exact title and class of the security: Preferred Stock: 20,000,000 authorized
CUSIP (if applicable): N/A
Par or stated value: \$0.00001 per share
Total shares authorized: 20,000,000 shares as of: 12/31/2023
Total shares outstanding (if applicable): None
Total number of shareholders of record (if applicable): N/A

Security Description:

The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:

1. For common equity, describe any dividend, voting and preemption rights.
The Issuer's common stock entitles its holder to one vote per share. The common stock has no dividend, liquidation or similar preferences. The common stock has no preemptive rights or contractual transfer restrictions.
2. For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.
The authorized preferred stock is "blank check" preferred stock, which means that the issuer's board of directors can designate the right, preferences, duties and obligations of the class or series by resolution amending the certificate of incorporation. The issuer has not designated any rights or preferences and the Issuer has not issued any shares of preferred stock.
3. Describe any other material rights of common or preferred shareholders.
The common stock entitles its holders to the rights provided by statute, such as the right to vote in the election of directors, in amendments to the certificate of incorporation or bylaws, in mergers and consolidations, and in the issuer's dissolution, and to inspect the issuer's books and records. The common stock does not have material rights beyond those afforded by

statute. The rights and preferences of the preferred stock have not been fixed, but can be fixed by board resolution and an amendment to the certificate of incorporation.

4. Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report. No material modifications to rights of the shareholders have occurred during the reporting period.

3) Issuance History

The goal of this section is to provide disclosure with respect to each event that resulted in any changes to the total shares outstanding of any class of the issuer's securities in the past two completed fiscal years and any subsequent interim period.

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services. Using the tabular format below, please describe these events.

A. Changes to the Number of Outstanding Shares for the two most recently completed fiscal years and any subsequent period

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years : No ☐ Yes ☒ (If yes, you must complete the table below)

Number of Shares outstanding as of 1/01/2022		<div>Opening Balance:</div> <div>Common: 53,859,893</div> <div>Preferred: -0-</div>							
Date of Transaction	Transaction type (e.g. new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to You must disclose the control person for any entities listed (	Reason for share issuance (e.g. for cash or debt conversion) OR Nature of Services Provided	Restricted or Unrestricted as of this filing?	Exemption or Registration Type?
12/20/2022	Cancellation	100,000	Common Stock	\$0.09	No	Josh Jordan	Award forfeiture	Restricted	Private
12/20/2022	Cancellation	33,333	Common Stock	\$0.09	No	Travis Skeen	Award forfeiture	Restricted	Private
12/20/2022	Cancellation	10,000	Common Stock	\$0.09	No	Clay Malloy	Award forfeiture	Restricted	Private
12/29/2022	Issuance	30,000	Common Stock	\$0.17	No	Mark Day	Incentive Award	Restricted	Private
3/22/2023	Issuance	30,000	Common Stock	\$0.17	No	Michael Smith	Incentive Award	Restricted	Private
3/22/2023	Issuance	30,000	Common Stock	\$0.17	No	Matthew Hoffman	Incentive Award	Restricted	Private
3/22/2023	Issuance	30,000	Common Stock	\$0.17	No	Brad Fruit	Incentive Award	Restricted	Private

8/15/2023	Cancellation	12,500	Common Stock	\$0.09	No	Ryan Davis	Award forfeiture	Restricted	Private
8/15/2023	Cancellation	12,500	Common Stock	\$0.09	No	Chase Smyth	Award forfeiture	Restricted	Private
8/15/2023	Cancellation	5,000	Common Stock	\$0.09	No	James Duggan	Award forfeiture	Restricted	Private
8/15/2023	Cancellation	66,667	Common Stock	\$0.09	No	Alan McKinley	Award forfeiture	Restricted	Private
12/29/2023	Issuance	30,000	Common Stock	\$0.11	No	Mark Day	Incentive Award	Restricted	Private
12/29/2023	Issuance	30,000	Common Stock	\$0.11	No	Matthew Hoffman	Incentive Award	Restricted	Private
12/29/2023	Issuance	30,000	Common Stock	\$0.11	No	Darrel B Fruit	Incentive Award	Restricted	Private
Shares Outstanding on 12/31/2023:	Ending Balance: Common: 53,829,393 Preferred: <u>-0-</u>								

Example: A company with a fiscal year end of December 31, 2023, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2022 through December 31, 2023, pursuant to the tabular format above.

***Control persons for any entities in the table above must be disclosed in the table or in a footnote here.

Use the space below to provide any additional details, including footnotes to the table above:

B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities:

No: ☐ Yes: ☒ (If yes, you must complete the table below)

Date of Note Issuance	Outstanding Balance at 12/31/21 (\$)	Principal Amt at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder	Reason for Issuance (e.g. Loan, Services, etc.)
9/28/17	0	66,506	0	10/12/22	n/a	Ford(1)	vehicle
8/12/19	636,900	185,931*	3,740	4/12/25	n/a	Stride Bank(2)	operations
11/7/19	4,172	22,624	0	11/30/24	n/a	Toyota(3)	equipment
8/27/20	1,171,599	1,350,000	6,750	12/27/25	n/a	Stride Bank(2)	Loan consolidation and operations

9/10/21	32,011	55,319		10/25/26	n/a	Ford(1)	vehicle
9/10/21	32,676	56,469		10/25/26	n/a	Ford(1)	vehicle
9/10/21	38,589	66,686		10/25/26	n/a	Ford(1)	vehicle
10/29/21	40,825	66,739		10/29/26	n/a	Ford(1)	vehicle
12/10/21	42,467	67,620		12/10/26	n/a	Ford(1)	vehicle
12/23/21	43,789	66,816		12/23/26	n/a	Ford(1)	vehicle
1/4/22	39,622	61,277		1/4/27	n/a	Ford(1)	vehicle
1/10/22	38,804	59,984		1/10/27	n/a	Ford(1)	vehicle
2/21/22	46,882	69,034		2/21/27	n/a	Ford(1)	vehicle
3/15/22	46,043	67,794		3/15/27	n/a	Ford(1)	vehicle
4/1/22	2,937	15,943		4/1/24	n/a	NewLane(4)	equipment
5/11/22	56,187	79,019		5/11/27	n/a	Ford(1)	vehicle
5/18/22	47,947	85,096		5/18/25	n/a	Regents(5)	equipment
6/18/22	53,056	71,409		6/18/27	n/a	Ford(1)	vehicle
6/22/22	56,200	74,842		6/22/27	n/a	Ford(1)	vehicle
6/27/22	40,302	59,209		6/22/27	n/a	Ford(1)	vehicle
7/13/22	0	79,159		7/13/26	n/a	Ford(1)	vehicle
7/26/22	46,494	67,395		7/26/26	n/a	Ford(1)	vehicle
7/26/22	63,853	92,557		7/26/26	n/a	Ford(1)	vehicle
7/26/22	47,084	68,250		7/26/26	n/a	Ford(1)	vehicle
8/31/22	133,619	155,794		8/31/29	n/a	Stride(2)	vehicle
11/05/22	56,971	75,269		11/05/26	n/a	Ford(1)	vehicle
11/22/22	43,788	55,989		11/22/27	n/a	Ford(1)	vehicle
12/23/22	53,042	89,125		12/23/29	n/a	Stride(2)	vehicle
12/30/22	0	23,600		1/06/25	n/a	Stride(2)	vehicle
12/30/22	97,223	121,000		12/30/26	n/a	Stride(2)	vehicle
2/10/23	57,966	67,227		2/27/28	n/a	Ford(1)	vehicle
3/16/23	32,067	36,977		3/10/28	n/a	Toyota(3)	equipment
5/1/23	31,099	34,425		5/15/28	n/a	PNC(6)	equipment

Control persons for any entities in the table above must be disclosed in the table or in a footnote here.

Use the space below to provide any additional details, including footnotes to the table above:

-
- (1) Ford Motor Credit Company, LLC, P.O. Box 390910, Minneapolis, MN 55439.
 - (2) Stride Bank, N.A., a national association, 514 Colcord Dr., Oklahoma City, OK 73102.
 - (3) Toyota Motor Credit Corporation, Commercial Finance, P.O. Box, 3457, Torrance, CA 90510.
 - (4) NewLane, PO Box 7358, Philadelphia, PA 19101-7358
 - (5) Regents Bank, 3200 Bristol Street, Suite 400, Costa Mesa, CA 92626.
 - (6) PNC Equipment Finance, 655 Business Center Drive, Horsham, PA 19044

The notes above evidence standard commercial borrowings. None of the notes are convertible into the issuer's equity securities. None of the lenders are affiliated with the Issuer.

4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. Ensure that these descriptions are updated on the Company's Profile on www.otcm Markets.com.

- A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

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.

- B. Please list any subsidiaries, parents, or affiliated companies.

Our operations are conducted on a consolidated basis and are more fully described in the Annual Report for the year ended December 31, 2023, which is attached to this Disclosure Statement and incorporated herein by reference.

- C. Describe the issuers' principal products or services.

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. Our products and services are more fully described in the Annual Report for the year ended December 31, 2023, which is attached to this Disclosure Statement and incorporated herein by reference.

5) Issuer's Facilities

The goal of this section is to provide investors with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer and the extent in which the facilities are utilized.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer. Describe the location of office space, data centers, the principal plants and other property of the issuer and describe the condition of the properties. Specify if the assets, properties, or facilities are owned or leased and the terms of their leases. If the issuer does not have complete ownership or control of the property, describe the limitations on the ownership.

We conduct our operations in 12 facilities in Oklahoma and Texas. Our research and development lab and organic fertilizer plant is a 7,000 square foot building located at 6300 Boucher Drive, Edmond, Oklahoma. Our oilfield chemical plant is housed in a 27,500-square foot building located at 6701 Boucher Drive, Edmond, Oklahoma. Our Enduro-Bond® coating operations are mostly done in a 30,000-square foot facility located at 1728 Frisco Avenue in Chickasha, Oklahoma. We own these buildings as well as an 80,000-square foot chemical warehouse in Snyder, Texas, and a 2-acre lot on Boucher Drive, Edmond, Oklahoma. We also own land and a building in Abilene, Texas, which is used for our 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 four facilities, which are located in Ratliff City, Oklahoma, Cleveland, Oklahoma, Canadian, Texas, and Ada, Oklahoma. All the facilities are utilized in our operations and none are vacant.

Our facilities are more fully described in the Annual Report for the year ended December 31, 2023, which is attached to this Disclosure Statement and incorporated herein by reference.

6) All Officers, Directors, and Control Persons of the Company

Using the table below, please provide information, as of the period end date of this report, regarding all officers or directors of the company, as well as, or any person that performs a similar function, regardless of the number of shares they own.

In addition, list all individuals or entities controlling 5% or more of any class of the issuer's securities,

If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity.

Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

The goal of this section is to provide investors with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial owners.

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
Leon Joyce	CEO/President, Director	Edmond, OK	1,357,603	common	2.5%	_____
Troy Todd	COO	Guthrie, OK	1,325,603	common	2.5%	_____
Todd Jelinek	Vice President	Edmond, OK	1,381,324	common	2.6%	_____
Gary Presley	Vice President – Sales Director	Healdton, OK	1,580,000	common	2.9%	_____
Mark Day	Director	Moore, OK	510,000	common	0.1%	_____
Matthew Hoffman	Director	Fort Morgan, CO	25,000	common	0.05%	
Brad Fruit	Director	Okla. City, OK	-0-		0.0%	
Melvin Smith Revocable Trust Vickie Smith, Trustee	S/H	Olympia, WA	13,250,000	common	24.7%	_____
Estate of George Shaw	S/H	Okla. City, OK	2,932,463	common	5.5%	_____

Confirm that the information in this table matches your public company profile on www.OTCMarkets.com. If any updates are needed to your public company profile, log in to www.OTCIQ.com to update your company profile.

Additional information regarding our directors and officers is more fully described in the Proxy Statement relating to our 2024 Annual Meeting, which will be posted with the OTCIQ on or before April 30, 2024, and which will be incorporated herein by reference when filed.

7) Legal/Disciplinary History

A. Identify and provide a brief explanation as to whether any of the persons or entities listed above in Section 6 have, in the past 10 years,

1. Been the subject of an indictment or conviction in a criminal proceeding or plea agreement or named as a defendant in a pending criminal proceeding (excluding minor traffic violations);

N/A

2. Been the subject of the entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, financial or investment related, insurance or banking activities;

N/A

3. Been the subject of a finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

N/A

4. Named as a defendant or a respondent in a regulatory complaint or proceeding that could result in a "yes" answer to part 3 above; or

N/A

5. Been the subject of the entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

N/A

6. Been the subject of a U.S Postal Service false representation order, or a temporary restraining order, or preliminary injunction with respect to conduct alleged to have violated the false representation statute that applies to U.S mail

N/A

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding

and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

N/A

8) Third Party Service Providers

Provide the name, address, telephone number and email address of each of the following outside providers. You may add additional space as needed.

Confirm that the information in this table matches your public company profile on www.OTCMarkets.com. If any updates are needed to your public company profile, update your company profile.

Securities Counsel (must include Counsel preparing Attorney Letters)

Name: Gary W Derrick
Firm: Derrick & Briggs, LLP
Address 1: BancFirst Tower, Ste. 2700
Address 2: 100 N. Broadway Ave.
Oklahoma City, OK 73102
Phone: 405-235-1900
Email: derrick@derrickandbriggs.com

Accountant or Auditor

Name: Leslie G. Pettitt
Firm: Leslie G. Pettitt, PC
Address 1: 4603 N College Ave.
Address 2: Bethany, OK 73008
Phone: 405-833-7458
Email: lqpettitt@hotmail.com

Investor Relations

None

All other means of Investor Communication:

X (Twitter): _____
Discord: _____
LinkedIn <https://www.linkedin.com/company/energy-&-environmental-services-inc.>
Facebook: <https://www.facebook.com/pages/Energy-Environmental-Services/463184343865517>
Other <https://eesokc.com/investors/>

Other Service Providers

Provide the name of any other service provider(s) that assisted, advised, prepared or provided information with respect to this disclosure statement. This includes counsel, broker-dealer(s), advisor(s) or consultant(s), or provided assistance or services to the issuer during the reporting period.

None

9) Disclosure & Financial Information

A. This Disclosure Statement was prepared by (name of individual)

Name: Gary W. Derrick
Title: Securities Counsel
Relationship to Issuer: None

B. The following financial statements were prepared in accordance with:

- ☐ IFRS
☒ U.S. GAAP

C. The following financial statements were prepared by (name of individual)

Name: Leslie G. Pettitt
Title: CPA
Relationship to Issuer: None

Describe the qualifications of the person or persons who prepared the financial statements: Pettitt is a Certified Public Accountant

Provide the following qualifying financial statements.

- a. Audit letter (if audited)
- b. Balance Sheets;
- c. Statement of Income;
- d. Statement of Cash Flows;
- e. Statement of Changes in Shareholders' Equity; and
- f. Financial footnotes

Financial Statement Requirements:

- Financial statements must be published together with this disclosure statement as one document.
- Financial statements must be "machine readable". Do not publish images/scans of financial statements.
- Financial statements must be presented with comparative financials against the prior FYE or period, as applicable.
- Financial statements must be prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS) but are not required to be audited.

10) Issuer Certification

Principal Executive Officer:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities) in each Quarterly Report or Annual Report.

The certifications shall follow the format below:

I, Leon Joyce, certify that:

1. I have reviewed this Disclosure Statement for Energy and Environmental Services, Inc.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Disclosure Statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Disclosure Statement.

March 29, 2024

/s/ Leon Joyce [CEO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

Principal Financial Officer:

I, Andrew Schmidt, certify that:

1. I have reviewed this Disclosure Statement for Energy and Environmental Services, Inc.;
2. Based on my knowledge, this Disclosure Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Disclosure Statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Disclosure Statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Disclosure Statement.

March 29, 2024

/s/ Andrew Schmidt [CFO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

Energy and Environmental Services, Inc.

2023 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.

TABLE OF CONTENTS

	<u>Page No.</u>
Business and Properties	1
Risk Factors	8
Market for Our Common Stock, Related Shareholder Matters and Our Purchases of Equity Securities.....	13
Management Discussion and Analysis	14
Financial Statements	
Accountant's Compilation Report.....	16
Consolidated Balance Sheets	17
Consolidated Statements of Income.....	18
Consolidated Statements of Changes in Shareholders' Equity.....	19
Consolidated Statements of Cash Flows.....	20
Consolidated Footnotes to Financial Statements	21

BUSINESS AND PROPERTIES

Our Background

Energy and Environmental Services, Inc. (“*We*”) manufactures specialized liquid and solid chemicals used primarily in the oil and gas industry and high-tech specialized protective coatings for oil and gas and other industrial applications. We also manufacture products using enzyme technologies for animal feed supplements, organic fertilizers, and odor solutions. We are headquartered in Oklahoma City, Oklahoma.

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

Our stock is traded in the OTC Markets Pink Open Market under the symbol EESE. We qualify through the Alternative Reporting Standard by making filings, including unaudited annual and quarterly, GAAP-based financial statements, publicly available through the OTC Disclosure & News Service.

Our Business Segments

Oilfield Chemicals. We offer a full line of proprietary liquid and solid chemicals for use by oilfield well service companies. Our chemicals are used during drilling operations, completion operations including hydraulic 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; H₂S 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 before 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 fracturing processes.

– *Chemical Markets.* We produce and market our chemical products under our Enduro-Tech® name. We also provide custom chemical blending and private labeling for third party, downhole production chemical companies. While most of our chemicals are sold to oilfield users, we also sell and service water treatment and other industrial users.

Powdered Coatings. Under the Enduro-Bond® trademark, we offer a process that applies a protective, anti-corrosion coating to metal products. The powdered coating is baked on in high-temperature ovens and produces a smooth 1- to 2-millimeter protective coating to all areas of metal parts without compromising threads or connective tolerances. Applied to ductile iron or carbon steel, the coating will enable these metals to perform like stainless steel in corrosive environments at lower production costs. The coating is also stable in high heat and protects against impact and abrasion. Our services include electrostatic coating, valve servicing, testing, disassembly and reassembly, and grit blasting. To increase our capacity, we are gradually upgrading our production lines, but have been slowed by equipment procurement issues. We market four product lines – Enduro-Bond, Enduro-Bond PLUS, Enduro-Bond DuraShield, and Enduro-Bond ULTRA-Shield – to end users in oil and gas, industrial, pharmaceutical manufacturing, pipeline transmission, wastewater (municipalities), refineries, and automotive fields.

Lab Services We provide chemical testing and analysis in our laboratories, including water analysis, oil analysis, and scaling tendency testing. Our regional lab is equipped with an ICP, HPLC, GC, LCMS and viscometer. We have the ability to do many arrays of laboratory testing. Our oilfield testing includes 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: Ratliff City, Oklahoma, Chickasha, Oklahoma and Edmond, Oklahoma.

Trucking. We deliver most of our products and equipment with a fleet of Company-owned trucks. Our fleet currently consists of 31 trucks, including four semi-tractors for delivering products, six semi-tractors and one F550 (medium duty) for treating wells, one F550 (medium duty), seven one ton trucks, and twelve three quarter ton trucks for on-location deliveries of products and supplies, two 54' box vans, two 48' flatbed trailers, one 54' curtain side trailer, one 52' walking floor trailer, ten flatbed utility trailers ranging from 18' to 32', and three gooseneck trailers for on-location deliveries.

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

- *Organic Fertilizer.* We make an all-natural organic humus and manure extract fertilizer for organic farming under the tradename “Terra Secure”. In the first six months of 2022, our fertilizer sales were \$346,800. We unfortunately encountered a microbial contamination issue, which shut down production through 2023. We are now ready to resume production and sales.
- *Odor Elimination.* We have developed and began marketing in 2022 WonderScent, an odor-elimination product for home and industrial use. This environmentally friendly product eliminates odors by breaking the chemical bond at a molecular level that forms to create the malodors. The malodors are eliminated, not just masked or deodorized. The product is a non-toxic and biodegradable liquid that combines microorganisms and a formulation of natural plant extracts. We are marketing for home use in over 50 retail outlets. We are also pushing industrial applications, which could include chicken hatcheries, feed lots, sewage facilities and other environments where foul odors might exist. Our WonderScent sales in 2023 were \$3,400 and we expect higher sales in 2024.
- *Probiotic Feed Supplements for Livestock.* We have developed BioBlend™, a proprietary blend of probiotic microorganisms and other organic ingredients that are combined to produce a fermented feed grade product to supplement the animal diet. Modern animal feeds are generally composed of plant material, such as cereals and vegetable proteins, which cannot be fully digested and utilized. The microorganisms produce beneficial enzymes that increase the digestibility of these feeds, which improves feed-to-gain ratios for cattle, pigs, horses and other ruminant and monogastric animals. The probiotics can also enhance the biome in the animal’s gut, which improves animal health. In our tests, cattle have reached target weights in a significantly shorter amount of time, and with fewer health issues in comparison to control groups using currently accepted feeding regimens. Our supplement has also improved meat grade in cattle and milk quality in dairy cows. We believe these results could build demand for the product, but we have yet to develop material sales.
- *Farrowing Product.* We have developed a neonatal farrowing aid called Pigs in Z Blanket, which is a unique blend of natural minerals and healing salts. The product absorbs moisture, reduces the risk of pathogenic bacteria, provides a blanket of exothermic natural warming, and captures a variety of malic odors targeting ammonia/sulfur in pens and holding areas. Our tests indicate that the product performs much better than comparable farrowing products. All ingredients are GRAS listed under 21 CFR Part 82. To develop demand, we have distributed the product to pork producing operations and participants in show-pig arenas, but have yet to develop material sales.

- *Distribution Agreement w/ Locus.* In October 2022, we became a distributor for Locus Agricultural Solutions, LLC products in Oklahoma, Arkansas, Louisiana and northern Texas and the Texas panhandle. Locus uses probiotics to make crop-specific, microbial applications that improve crop yield, sequester carbon and enhance soil health. Locus's work is related to our probiotic work and we believe the relationship will generate symbiotic opportunities. We intend to focus on regional row crops, alfalfa, and native grasses.

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

	<u>Year Ended Dec. 31,</u>			
	<u>2022</u>		<u>2023</u>	
Oilfield Chemicals				
• Patriot	\$8,060,000	40.0%	\$7,104,000	38.1%
• Enduro-Tech® liquid				
○ Production	\$811,000	4.3%	\$705,000	3.8%
○ Frac	\$8,246,500	41.0%	\$8,064,700	43.3%
• Enduro-Tech® solid				
○ Production	\$699,500	3.5%	\$414,400	2.2%
○ Frac	\$603,700	3.0%	\$1,188,100	6.4%
Enduro-Bond® Coatings	\$593,700	2.9%	\$438,900	2.4%
Enzymes and Probiotics Products	\$350,500	1.7%	\$67,650	0.3%
Other*	<u>\$717,000</u>	<u>3.6%</u>	<u>\$654,650</u>	<u>3.5%</u>
Total Sales	\$20,081,900	100.0%	\$18,637,400	100.0%

* Other reflects sales revenues from laboratory testing services and rentals and income from Vortex.

Our Business Strategy

The oil and gas industry has rebounded since the emergence from the concurrent supply and demand shocks that arose from internal OPEC dissension and the COVID-19 pandemic. Disruptions from Russia's invasion of Ukraine, global inflationary pressures, recessionary concerns and supply disruptions led to further uncertainty. But despite these concerns, global energy demand rebounded in 2021 and 2022. The industry rebound was reflected in our higher revenues for 2022. We experienced growth in our Enduro-Tech Liquid and solid frac and acid stimulation product lines. Our frac additives are used within fracturing fluids to enhance initial production of the well. We also experienced growth in our Patriot chemicals and services. Many exploration companies are bringing wells back online with the increased oil prices. The production chemicals help eliminate scaling, corrosion, paraffin, and emulsion issues that can cause a reduction in produced fluids from the well. By using our products, the operator reduces well failures by keeping production online, which reduces well maintenance cost. Enduro-Bond protective coatings should see an increase as well, due to the rising oil prices. Our Enduro-Bond

protective coating product sales have benefited from our investment in a new oven, which significantly expanded our production capacity.

While the industry fundamentals appear favorable for 2024, other factors could hamper our performance and that of the industry, such as the weak global demand, threats of inflation, labor shortages and product and equipment procurement. We are aware of these threats and are working to minimize any material effects on our business.

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

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

Our Facilities

We conduct our operations in 12 facilities in Oklahoma and Texas. Our research and development lab and organic fertilizer plant is a 7,000 square foot building located at 6300 Boucher Drive, Edmond, Oklahoma. Our oilfield chemical plant is housed in a 27,500-square foot building located at 6701 Boucher Drive, Edmond, Oklahoma. Our Enduro-Bond® coating operations are mostly done in a 30,000-square foot facility located at 1728 Frisco Avenue in Chickasha, Oklahoma. We own these buildings as well as an 80,000-square foot chemical warehouse in Snyder, Texas, and a 2-acre lot on Boucher Drive, Edmond, Oklahoma. We also own land and a building in Abilene, Texas, which is used for our Abilene Texas Patriot yard for production chemicals and services. We lease our corporate office in a 1,200-square foot suite in the Oil Center at 2601 NW Expressway, Oklahoma City, Oklahoma, a 7,000 square foot building at 6388 Boucher Drive, Edmond, Oklahoma, where we cultivate the enzymes and probiotics used on our microbial product lines and agricultural products. Patriot leases four yards, which are located in Ratliff City, Oklahoma, Cleveland, Oklahoma, Ada, Oklahoma, and Canadian, Texas.

Marketing

We market our Enduro-Tech® chemical products on a pre-packaged basis to end users and also offer custom chemical blending, toll manufacturing and private label packaging. The bulk of these sales is handled through an internal sales staff of two employees and three independent representatives, who are located in Oklahoma. We market our production chemicals and services through Patriot with our staff of 21 employees located in Oklahoma, Texas, and Kansas. Our Enduro-Bond® protective coating product line is distributed through authorized manufacturer representatives in 20 states: the Northeast region (Illinois, Indiana, Kentucky, West Virginia, Michigan, Ohio and Pennsylvania), the Southeast region (Mississippi, Louisiana and Arkansas), the South region (Oklahoma and Texas), the Southwest region (West Texas/Permian Basin and New Mexico), the Midwest region (Kansas, Colorado and Utah), and the Western region (Arizona, California and Nevada).

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

Research and Development

Our expertise for many years has been in the development of effective and innovative products. Our research and development apply to existing product lines and products under development. We had research and development expenses of \$38,558 in 2023 and expenses of \$20,350 in 2022.

Major Customers

In 2022, we had one customer that accounted for 38.5% of our total net sales. The same customer accounted for 45.3% of our total net sales in 2023. No other customer accounted for more than 10.0% of total net sales in 2022 or 2023.

Trademarks and Patents

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

Environmental, Health and Safety Matters

Our operations are subject to extensive Federal, state and local laws and regulations relating to the protection of the environment and human health and to safety, including those pertaining to chemical manufacture and distribution, waste generation, storage and disposal, the health of our employees and the safety of our facilities. Applicable environmental laws include the Federal Clean Air Act, the Water Pollution Control Act (also known as the Clean Water Act), the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, and the Toxic Substances Control Act. We are subject to the Occupational Safety and Health Act (“*OSHA*”), and comparable state statutes, the purpose of which are to protect the health and safety of workers. We also are subject to OSHA Process Safety Management regulations, which are designed to prevent or minimize the consequences of catastrophic releases of toxic, reactive, flammable or explosive chemicals. We also are subject to EPA Chemical Accident Prevention Provisions, known as the Risk Management Plan requirements, which are designed to prevent the accidental release of toxic, reactive, flammable or explosive materials.

Our Bio-Blend™ animal feed supplement is subject to regulation by the Federal Food and Drug Administration (“*FDA*”), which is the primary Federal regulatory agency responsible for ensuring the safety of animal feed. The FDA manages this responsibility under its Animal Feed Safety System, which cover all stages of feed production and use. Typical feed ingredients, such as forages, grains, most minerals and vitamins, and the probiotic microorganisms and other organic ingredients that we make, are generally recognized as safe as sources of nutrients and do not require premarket approval.

Governmental authorities have the power to enforce compliance with their regulations, and violators may be subject to civil, criminal and administrative penalties, injunctions or both. Our facilities are inspected periodically, and we may be subject to further regulatory inspections, future requests for investigation or assertions of liability relating to OSHA and other regulatory compliance. We devote significant financial resources to ensure compliance with safety and environmental laws. See “*Risk Factors*”.

Competition

Our bulk Enduro-Tech® oilfield chemical products face strong competition from other suppliers, many of whom have substantially greater financial and other resources than we do. To the extent we are engaged in private labelling or toll manufacturing, our operations will experience indirect competition from the competitors of our customers, since we rely on our customers to market and sell finished goods that incorporate our components or products. Our Enduro-Bond® protective coating products materials compete in a more limited market, but still face substantial competition including competition from the manufacturers of stainless steel products, the use of which are prevalent in corrosive environments. Transportation costs especially impact our Enduro-Bond® lines, since we are often coating metal items that are large and heavy and expensive to transport. Based on our experience developing products for a variety of customers, we believe that potential customers will continue to be product-specific in nature, with the decision for each product being driven primarily by the performance needs of the application and, secondarily, by cost considerations.

Legal Proceedings

We are not party to any material legal or administrative proceedings.

Employees

As of March 29, 2024, we employed 37 people on a full-time basis and none on a part-time basis. We also use temporary workers on an “as needed” basis. None of our employees are covered under collective bargaining contracts, and we believe our employee relationships are good. As a small company, we do not maintain statistical data regarding the composition of, and relationships within, our workforce. We are, however, committed to respect for our employees and integrity in our working relationships, including the diversity, equity, and inclusion within the workforce.

RISK FACTORS

Risks Relating Generally to Our Operations and Industry

Our business depends on domestic spending by the oil and gas industry, which is cyclical. Oil and gas prices softened in 2023 and industry activity moderated, which adversely affected our results of operations. While demand for oil and gas is increasing, there is no guaranty that higher prices and greater activity will generate profits.

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. While the oil and gas industry has rebounded from the concurrent supply and demand shocks that arose from internal OPEC dissension and the COVID-19 pandemic, oil and gas operators have been cautious in their resumption of activity. Their caution recognizes that the oil and gas markets are cyclical and many factors, foreseen and unforeseen, could weaken the forecast, including an economic downturn or lower industry spending in the domestic market. We cannot assure you that higher pricing or industry activity will return. Pricing could be volatile, which will negatively impact our business and results of operations.

The industries in which we operate are competitive and cyclical. While oil and gas prices increased in 2022, resulting in higher demand for our products, our product costs also increased. Higher product costs contributed to our losses when faced with a pricing decrease and weaker product demand in 2023. We operate in a highly competitive market and our ability to adjust prices is not fully elastic, making it difficult for us to maintain existing business and win new business.

We operate in highly competitive markets. Many of our competitors have substantially greater financial and technical resources than we do. Additionally, new competitors may enter our markets. In addition, the markets are cyclical. To weather the cyclical downturn, we increased sales efforts and took a more competitive pricing approach to try to maintain existing accounts, add new accounts and gain market share. The downside of our pricing strategy is narrower margins.

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

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

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

Our primary source of borrowed capital is through an accounts receivable factoring agreement with a commercial bank. The bank funds us by purchasing certain accounts receivable invoices subject to a 2.15% service charge. We repay the bank when the receivables

are collected. We maintain a reserve account to provide security for the bank. Under this arrangement, we are liable to the bank for delinquencies and defaults in the receivables, and thus depend on the performance of our customers. Given the relative and present strength of the oil and gas industry, we have experienced few delinquencies or defaults by our customers. However, the industry is cyclical, and a downturn could reduce the liquidity of our customers making it more difficult for them to meet their obligations to us, which would reduce our borrowing capacity and thus our liquidity.

A significant portion of our revenue and operating income are concentrated in a relatively small number of customers.

We derive a significant portion of our revenues and operating income from sales of products to a relatively small number of customers, including one customer that accounted for 45% and 38% of our total net sales in 2023 and 2022, respectively. As a result, the loss of one or more of these customers, or a material reduction of demand from any of those customers, could adversely affect our revenues and operating income.

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

We depend on a limited number of suppliers for certain key materials and equipment needed to blend and produce for our oilfield chemicals and Enduro-Bond® protective coatings products. Those suppliers are subject to a variety of operational and commercial constraints that can adversely impact our supply. With the disruption of global supply chains due to COVID-19 and the Ukrainian war, we have experienced some difficulties in obtaining materials and equipment. If we were to lose suppliers for key materials and equipment, we might have difficulty procuring equivalent materials or replacement equipment at reasonable costs, and no assurance can be given that such loss would not have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

Our use of hazardous materials exposes us to potential liabilities.

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

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

Increasing attention to climate change, increasing societal expectations on companies to address climate change, and potential consumer use of substitutes for fossil-fuel energy

commodities may result in increased costs and reduced demand for hydrocarbon products and our products and services. The threat of climate change has and will result in legislation, regulations or other regulatory initiatives that impose more stringent oil and gas sector standards and increase compliance costs for us and other industry participants. The SEC has proposed new reporting standards for the release of greenhouse gas emissions. These and similar regulatory requirements will reduce our profits and may reduce demand for hydrocarbon products and the services related to those products, which would negatively impact on our business.

Risks Specific to Us

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

We have been in existence for over 25 years and have relied, historically, upon cash from operations to fund all the cash requirements of our business. Between 2019 and 2023, we were able to more than double our revenues from \$8,566,800 to \$18,637,400. During those years, however, we incurred aggregate net operating losses of \$(469,900). In the 2020 industry downturn, we had revenues of \$8,530,400 and an operating loss of \$(2,234,500). The industry has continued to recover in 2023 and our revenues were \$18,637,400 and while we had an operating loss of \$(171,700). Our cash and cash equivalents have declined from \$1,600,600 on December 31, 2019, to \$875,800 on December 31, 2023. In 2023, we had revenues of \$18,637,400 and operating loss of \$(676,300). Our cash and cash equivalents were \$875,800. Our current cash and cash equivalents, accounts receivable and inventory continue to provide some cushion to absorb future losses and cash demands. Still, to face the demands of a cyclical industry, we need higher revenues, solid product margins, and lower general and administrative costs to strengthen profitability. If we do not sustain or increase profitability, our business will be adversely affected and our stock price will decline.

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

We need to make sufficient and effective capital expenditures to expand our business operations. We have historically funded our capital expenditures with cash flows from operating activities and existing cash balances. In recent years, we have increasingly used secured bank borrowings to fund our capital expenditures and acquisitions. As of December 31, 2023, we had \$3,279,800 outstanding under our secured loan facilities and financial leases. Our secured borrowings have important consequences for our future operations, including that:

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

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

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

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

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

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

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

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

affect our ability to raise capital by selling securities, or impair our ability to make acquisitions using our shares as consideration.

Dependence on Key Personnel

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

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

Market Information. Our common stock is quoted on the OTC Markets Pink Open Market under the symbol “ESEE”.

The following table sets forth the high and low bid quotations per share of our common stock as reported on OTC Markets for the periods indicated. The high and low bid quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The closing price at March 27, 2024, was \$0.11 per share with daily volume averaging 10,341 shares over the prior 65 days.

<u>Fiscal Year 2023</u>		<u>High</u>		<u>Low</u>
First Quarter	\$	.15	\$	.08
Second Quarter	\$	.17	\$	.10
Third Quarter	\$	.32	\$	.12
Fourth Quarter	\$	.35	\$	.14
<u>Fiscal Year 2022</u>		<u>High</u>		<u>Low</u>
First Quarter	\$	.15	\$	.08
Second Quarter	\$	.17	\$	.10
Third Quarter	\$	.32	\$	.12
Fourth Quarter	\$	.35	\$	.14

Holders. As of March 29, 2024, there were approximately 230 shareholders of record of our common shares. As of such date, we had 53,829,393 shares outstanding.

Dividend Policy. We have not paid any dividends on our common shares and do not anticipate that dividends will be paid at any time in the immediate future.

Securities Authorized for Issuance under Equity Compensation Plans. In 2022 and 2023, we awarded 395,000 and 1,800,000 shares of restricted stock, respectively, to employees, officers and outside directors under our Equity Incentive Plan (“Plan”). The Plan was approved by our shareholders in 2018 and the first grants of restricted stock were made in 2020. The Plan reserves for issuance 5.0 million shares less share awards granted. No options or similar awards have been granted under the Plan. Other information concerning grants under the Plan is contained under the sections “*Stock Ownership of Management and Certain Shareholders* –

Corporate Governance – Outside Director Compensation” and “- Executive Compensation – Summary Compensation Table”.

Recent Sales of Unregistered Securities. Apart from restricted stock awards granted under the Plan, we have not had any sales of unregistered shares of our common stock since January 1, 2022.

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following discussion is intended to assist in understanding our financial condition and results of operations. Our Financial Statements and Notes thereto contain detailed information that should be referred to in conjunction with the following discussion. See “*Financial Statements*”.

Summary of Significant Accounting Policies

Our financial statements reflect the selection and application of accounting policies that require us to make significant estimates and assumptions. Note 2 to our Financial Statements describe some of the more critical judgment areas in the application of accounting policies that currently affect our financial condition and results of operations.

Results of Operations

Our sales revenues decreased \$1,444,500 to \$18,637,400 in 2023 from \$20,081,900 in 2022. Our gross profit was down \$2,150,100 or 18.7% from \$11,483,900 in 2022 to \$9,333,800 in 2023. The lower 2023 sales revenues were posted as the domestic oil and gas industry pulled back some during 2023 with an average West Texas Intermediate (“WIT”) price of \$78 per barrel in 2023 versus an average WIT price of \$95 per barrel in 2022. In Oklahoma, the average drilling rig count was 55 in 2023 compared to a count of 60 in 2022. With flattened demand, we also experienced more competitive pricing in our market. We believe customer retention is critical and we are able to live with smaller margins until industry demand strengthens. Smaller margins in a competitive market resulted in our cost of goods as a percentage of sales decreasing to 49.9% in 2023 from 42.8% in 2022.

Our selling, general and administrative expenses as a percentage of revenues rose from 43.5% (\$8,730,400) in 2022 to 47.4% (\$8,828,200) in 2023. The small increase of \$97,800 was primarily attributed to inflation cost rising on all goods and services in 2023. We continued to control overall spending in an environment of inflationary pressure during 2023.

Our loss from operations of \$(676,300) in 2023 compared to income from operations of \$1,723,100 in 2022. Our earnings before depreciation and amortization, interest expense, and provision (benefit) for income taxes (“EBITDA”) were \$1,730,200 in 2023 compared to \$2,885,300 for 2022.

Liquidity and Capital Resources

Our primary source of capital historically has been cash flow from operations, although borrowings have increased with the Patriot acquisition in 2019 and in debt consolidation. Our balance sheet remains relatively strong. As of December 31, 2023, we had working capital of \$5,571,100 versus \$4,750,500 for December 31, 2022. Cash provided by operating activities in

2023 was \$2,182,700 versus cash used in operating activities during 2022 of \$939,800. The 2023 positive cash flow was primarily due to increases in short term borrowings of \$2,016,200 and net income, including cash adjustments of \$1,902,100, which were partially offset by increases in inventory of (\$1,212,200), accounts receivable of (\$512,600) and restricted cash of (\$376,000). We invested \$369,600 in our property plant and equipment in 2023 compared to \$1,795,200 in 2022.

We had new advances of \$67,200 and paid \$536,600 on our long-term debt during 2023.

Outlook

The industry continues to confront some headwinds. Oil prices in 2023 averaged approximately \$78 per barrel compared to an average WTI price of \$95 per barrel in 2022. Drilling activity has decreased with an 18% lower rig count in Texas and 38% lower rig count in Oklahoma for December 2023 versus December 2022. The result is that oil and gas operators are focused on returning capital to shareholders. Capital returns result in lower capital expenditures and weaker demand for our products and eservices.

These headwinds will not dissipate without higher oil and gas prices. We continue to believe that long-term pricing will increase resulting in greater demand for our products and services. The higher pricing in 2022 was largely due to the Russian invasion of Ukraine in the first quarter of 2022 and the resulting embargos of Russian oil. For 2024, we expect that oil production will continue its gradual increase along with higher demand as the economies, particularly the domestic economy, ease past the risk of recession and inflationary pressures subside. With these expectations, our oil and gas outlook for 2024 and beyond is more optimistic. Global energy demand is predicted to increase over the coming decades despite transitions to alternative energy sources. These developments should mean higher sales and improved margins for our liquid and solid frac stimulation chemicals and for our production chemicals.

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

March 25, 2024

Accountants' Compilation Report

ENERGY AND ENVIRONMENTAL SERVICES, INC.

Board of Directors:

Management is responsible for the accompanying financial statements of Energy and Environmental Services, Inc., which comprise the consolidated balance sheets as of December 31, 2023 and 2022 and the related consolidated statements of income for years ended December 31, 2023 and 2022, the consolidated statements of equity for the years ended December 31, 2023 and 2022, and the consolidated statements of changes in cash flows for the years December 31, 2023 and 2022, 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,
			2023	2022
ASSETS				
Current assets				
	Cash and cash equivalents		\$ 875,800	\$ 1,621,500
	Restricted cash		524,800	376,000
	Accounts receivable - trade (net of reserve for bad debts of \$60,700 and \$60,700 as of December 31, 2023 and 2022, respectively)		1,329,000	2,718,500
	Inventory		5,109,500	5,175,300
	Deferred tax assets		1,055,200	1,020,200
	Prepaid expenses and other current assets		426,300	398,700
Total current assets			9,320,600	11,310,200
Property, plant and equipment (net of accumulated depreciation of \$5,305,600 and \$4,347,100 at December 31, 2023 and 2022, respectively)			5,524,100	6,231,000
Notes receivable			93,400	93,400
Equity investments			48,800	114,600
Goodwill			886,100	886,100
Total assets			\$ 15,873,000	\$ 18,635,300
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
	Accounts payable		\$ 1,448,200	\$ 2,428,000
	Short-term borrowings		936,100	2,016,200
	Other current liabilities		3,500	400
	Notes payable - related parties		95,500	111,500
	Deferred tax liabilities		431,900	431,900
	Current portion of long-term debt		455,700	467,000
	Current portion of financial lease obligations		75,600	147,000
	Other taxes		59,200	137,100
Total current liabilities			3,505,700	5,739,100
Long-term notes - less current portion			2,574,100	3,016,200
Financial lease obligations - less current portion			174,400	102,700
Shareholders' Equity				
	Preferred stock, \$0.00001 par value, 20,000,000 shares authorized, no shares issued and outstanding at December 31, 2023 and 2022, respectively		-	-
	Common stock, \$0.00001 par value, 100,000,000 shares authorized 53,829,393 and 53,746,060 shares issued and outstanding at December 31, 2023 and 2022, respectively		500	500
	Additional paid in capital		1,933,100	1,919,800
	Retained earnings		7,685,200	7,857,000
Total Shareholder's Equity			9,618,800	9,777,300
Total Liabilities and Shareholders' Equity			\$ 15,873,000	\$ 18,635,300
See Accountants' Compilation Report				

ENERGY AND ENVIRONMENTAL SERVICES, INC.				
CONSOLIDATED STATEMENTS OF INCOME				
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022				
			<u>2023</u>	<u>2022</u>
Sales revenues			\$ 18,637,400	\$ 20,081,900
Cost of goods sold			9,303,600	8,598,000
Gross profit			9,333,800	11,483,900
Operating expenses				
Selling general and administrative expenses			8,828,200	8,730,400
Depreciation and amortization			1,181,900	1,030,400
Total operating expenses			10,010,100	9,760,800
(Loss) income from operations			(676,300)	1,723,100
Other income (expense)				
Employee retention credits			1,015,300	-
Other revenues			125,000	102,500
Other expense			(21,100)	-
Gain(loss) on sale of assets			105,400	29,300
Interest and finance costs			(755,000)	(462,400)
(Loss) income from operations before income tax			(206,700)	1,392,500
Benefit from income tax				
Current income tax benefit			-	-
Deferred income tax benefit			35,000	(426,800)
			35,000	(426,800)
Net (loss) income			\$ (171,700)	\$ 965,700
Income per share			\$ -	\$ 0.02
Weighted average shares outstanding			53,780,032	53,859,393

See Accountants' Compilation Report

[illegible]

ENERGY AND ENVIRONMENTAL SERVICES, INC.			
CONSOLIDATED STATEMENTS OF CASH FLOWS			
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022			
		<u>2023</u>	<u>2022</u>
Cash flows from operating activities			
Net (loss) income		\$ (171,700)	\$ 965,700
Adjustments to reconcile net income to net cash			
used in operating activities			
Depreciation and amortization		1,181,900	1,030,400
Gain on sale of assets		(105,400)	(29,300)
Stock based compensation		21,600	-
Earnings from equity method investment		65,800	(64,700)
Net changes in current assets and liabilities			
Restricted cash		(148,800)	(376,000)
Accounts Receivable		1,389,500	(512,600)
Inventory		65,800	(1,212,200)
Deferred tax assets		(35,000)	410,300
Prepaid expenses and other current assets		(35,900)	(36,000)
Accounts payable		(979,800)	(47,600)
Short-term borrowings		(1,080,100)	2,016,200
Other current liabilities		3,100	(72,400)
Other taxes		(77,900)	94,400
Deferred taxes		-	16,500
Net cash provided by operations		<u>93,100</u>	<u>2,182,700</u>
Cash flows from investing activities			
Sale of property, plant and equipment		227,000	59,200
Purchases of property, plant and equipment		(596,600)	(1,854,400)
Net cash used in investing activities		<u>(369,600)</u>	<u>(1,795,200)</u>
Cash flows from financing activities			
Payments on notes payable		(536,600)	(953,200)
Advances on notes payable		67,200	1,528,800
Payments on lease obligations		(224,200)	(189,700)
Advance on lease obligations		224,500	108,700
Net cash (used in) provided by financing activities		<u>(469,100)</u>	<u>494,600</u>
Net (decrease) increase in cash		<u>(745,600)</u>	<u>882,100</u>
Cash and cash equivalents, beginning of period		<u>1,621,500</u>	<u>739,400</u>
Cash and cash equivalents, end of period		<u>\$ 875,900</u>	<u>\$ 1,621,500</u>
Supplemental disclosures of cash flow informations:			
Cash paid during the year for:			
Interest		\$ 755,000	\$ 462,400
Taxes		\$ -	\$ -
See Accountants' Compilation Report			

ENERGY AND ENVIRONMENTAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022

1. NATURE OF OPERATIONS

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

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

The Company, headquartered in Oklahoma City, manufactures specialized liquid and solid chemicals used primarily in the oil and gas industry and high-tech specialized protective coatings for oil and gas and other industrial applications. The Company’s operations are maintained and occur through its wholly-owned subsidiaries: Enduro-Tech Energy Services, Inc. (formerly Energy and Environmental Services, Inc.) (“Enduro-Tech”), Enduro-Bond Manufacturing Company, LLC (“EMC”), EcoZyme System Technologies, LLC (“EST”), and Patriot Chemicals & Services, LLC (“Patriot”). Enduro-Tech, EMC, EST, and Patriot were formed in the state of Oklahoma.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Enduro-Tech, EMC, EST, and Patriot. All significant inter-company items have been eliminated in consolidation.

Use of estimates in the preparation of financial statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – The Company considers all highly liquid debt instruments purchased with a maturity period of three months or less to be cash equivalents. The carrying

amounts reported in the accompanying consolidated balance sheets for cash and cash equivalents approximate their fair value.

Restricted Cash – The Company has a cash reserve account that is held as a loss reserve for factored accounts receivable. As factored receivables are collected the reserve is adjusted and amounts are moved to the Company’s operating account. Repurchases of recourse receivables are also through this reserve account. The Company also maintains a \$300,000 certificate of deposit that is also collateral for the uncollected factored receivables.

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, 2023.

Financial Instruments – The carrying value of current assets and liabilities reasonably approximates their fair value due to their short maturity periods.

Income taxes - The Company uses the asset/liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in

effect for the year in which the differences are expected to reverse. The Company's policy is to classify the penalties and interest associated with uncertain tax positions, if required, as a component of its income tax provision.

Retirement Benefit Costs – The Company maintains defined contribution 401(k) retirement plans in two subsidiaries Enduro-Tech and EMC.

For the years ended December 31, 2023 and 2022, there was pension cost charged to the statements of income under the plans of \$41,300 and \$48,100, respectively.

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

New Accounting Pronouncements

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

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

3. RELATED PARTY TRANSACTIONS

In 2023 and 2022, the Company paid \$9,000 and \$5,400 as sales commissions to a distributor partially owned and controlled by a director of the Company. During the same period, the distributor purchased \$48,300 and \$51,100 of coatings products from the Company for resale. The sales commissions and resale discounts were comparable to commissions paid and discounts afforded to third party distributors.

4. INVENTORIES

ASC 330-10-35, "Adjustments to Lower of Cost or Market", requires the Company to reduce the carrying value of inventory when there is evidence that the utility of goods will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels or other causes.

As of December 31, 2023 and 2022, inventories consisted of the following:

	December 31, 2023	December 31, 2022
At cost:		
Raw materials	\$ 3,970,900	\$ 4,066,200
Finished goods	1,138,500	1,109,100
	<u>\$ 5,109,500</u>	<u>\$ 5,175,300</u>

5. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2023 and 2022, property, plant and equipment, stated at cost less accumulated depreciation, consisted of the following:

December 31, 2023	December 31, 2022
----------------------	----------------------

Buildings	\$ 2,026,700	2,026,700
Improvements	1,302,800	1,297,700
Equipment	3,398,200	3,198,500
Vehicles and transportation equipment	3,684,000	3,655,300
Furniture and fixtures	274,900	258,300
Software and closing costs	143,100	141,600
	<u>10,829,700</u>	<u>10,578,100</u>
Less: Accumulated depreciation	<u>(5,305,600)</u>	<u>(4,347,100)</u>
	<u>\$ 5,524,100</u>	<u>\$ 6,231,000</u>

6. SHORT-TERM BORROWINGS

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Short-term borrowing	\$ 936,100	2,016,200
Restricted cash reserve	<u>\$ 524,800</u>	<u>376,000</u>

7. LONG-TERM NOTES - LESS CURRENT PORTION

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Bank loan dated August 12, 2019 due April 12, 2025 with an interest rate of 6.5% (Paid July 2022)	636,900	676,200
Equipment loan dated November 7, 2019, due November 30, 2024 with an interest rate of 13.26%	4,200	8,900
Bank loan dated 8/27/20, due December 27, 2025 with an interest rate of 6.0%	1,171,600	1,265,600
Vehicle loan dated September 25, 2021, due September 25, 2026 with an interest rate of 4.5%	38,600	51,500
Vehicle loan dated September 25, 2021, due September 25, 2026 with an interest rate of 4.5%	32,700	43,600
Vehicle loan dated September 25, 2021, due September 25, 2026 with an interest rate of 4.5%	32,000	42,700

Vehicle loan dated October 29, 2021, due October 29, 2026 with an interest rate of 4.54%	40,800	53,600
Vehicle loan dated December 10, 2021, due December 10, 2026 with an interest rate of 4.54%	42,500	55,400
Vehicle loan dated December 23, 2021, due December 23, 2026 with an interest rate of 4.54%	43,800	56,200
Vehicle loan dated January 4, 2022, due February 4, 2027 with an interest rate of 4.94%	39,600	50,200
Vehicle loan dated January 10, 2022, due February 10, 2027 with an interest rate of 4.99%	38,800	51,200
Vehicle loan dated February 21, 2022, due March 21, 2027 with an interest rate of 4.94%	46,900	59,900
Vehicle loan dated March 15, 2022, due April 15, 2027 with an interest rate of 4.94%	46,000	58,800
Vehicle loan dated May 11, 2022, due May 25, 2027 with an interest rate of 4.94%	56,200	70,900
Vehicle loan dated June 17, 2022, due July 1, 2027 with an interest rate of 6.74%	56,200	69,600
Vehicle loan dated June 16, 2022, due June 30, 2026 with an interest rate of 7.94%	40,300	54,000
Vehicle loan dated June 18, 2022, due July 2, 2027 with an interest rate of 4.99%	53,100	66,300
Equipment loan dated April 1, 2022, due April 1, 2024 with an interest rate of 12.355%	2,900	11,100
Note payable dated February 28, 2022 due February 29, 2025 with no interest	6,700	12,400
Vehicle loan dated July 26, 2022, due August 26, 2027 with an interest rate of 4.99%	46,500	63,200
Vehicle loan dated July 26, 2022, due August 26, 2027 with an interest rate of 4.99%	63,800	85,700
Vehicle loan dated July 26, 2022, due August 26, 2027 with an interest rate of 4.99%	47,100	62,400
Vehicle loan dated July 26, 2022, due August 30, 2029 with an interest rate of 7.5%	133,600	150,000
Vehicle loan dated November 5, 2022, due December 20, 2026 with an interest rate of 6.69%	57,000	74,100
Vehicle loan dated November 22, 2022 due January 6, 2027 with an interest rate of 8.19%	43,800	56,000

Vehicle loan dated December 23, 2022, due December 23, 2029 with an interest rate of 9.5%	53,000	89,100
Vehicle loan dated December 30, 2022, due January 6, 2025 with an interest rate of 9.5%	-	23,600
Vehicle loan dated December 30, 2022, due December 30, 2026 with an interest rate of 9.5%	97,200	121,000
Vehicle loan dated February 13, 2023, due March 27, 2028 with an interest rate of 7.89%	58,000	-
	<u>3,029,800</u>	<u>3,483,200</u>
Less current portion of notes payable	<u>(455,700)</u>	<u>(467,000)</u>
	<u>\$ 3,016,200</u>	<u>\$ 3,016,200</u>

8. SHARE-BASED PAYMENT AWARDS

The Company's board of directors and shareholders approved the EES 2018 Equity Incentive Plan in June 2018 (the "2018 Plan"), which authorized the issuance of up to 5,000,000 shares of the Company's common stock. There were 2,339,750 shares available for future issuance under the 2018 Plan as of December 31, 2023.

Restricted Stock Awards	Number of Shares
Unvested as of December 31, 2022	232,499
Issued	180,000
Vested	(154,999)
Forfeited/Cancelled	(150,833)
Unvested as of December 31, 2022	<u>106,667</u>

The weighted average grant date value of the restricted stock award issued was \$0.12 and \$0.17 during the period ended December 31, 2023 and 2022, respectively. The fair value of the restricted stock awards vested during the years ended December 31, 2023 and 2022 was \$18,400 and 41,600, respectively.

9. EARNINGS PER SHARE

Accounting guidance requires a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations. The following reconciles the components of the EPS computation for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Basic and Diluted income (loss) per share computation		
Numerator:		
Net (loss) income	\$ (171,700)	\$ 965,700
Denominator:		
Weighted average common shares outstanding	53,780,032	53,859,393
Basic income per share	\$ -	\$.02

10. FINANCIAL LEASES

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Vehicle leases with terms of 30 to 36 months	\$ 250,000	\$ 249,700
Less current portion	(75,600)	(147,000)
	<u>\$ 174,400</u>	<u>\$ 102,700</u>

11. OPERATING LEASES

The Company leases an office and warehouse in Cleveland, Oklahoma for \$2,000 per month until February 2024, \$2,200 per month from March 2024 until February 2025 and \$2,400 per month from March 2025 until February 2026 expiring in February 2026. The Company leases an office and warehouse in Canadian, Texas, for \$2,000 per month expiring in May 2027. The Company leases an office and warehouse in Ratliff City, Oklahoma, for \$4,000 per month expiring in May 2027. The Company leases an office in Oklahoma City, Oklahoma, for \$1,700 per month expiring in February 2025. The Company leases an office and warehouse in Ada, Oklahoma for \$2,000 per month expiring in August 2026. The Company also leases various office and warehouse space under month to month leases. Total rent expense for the years ended December 31, 2023 and 2022, were \$158,400 and \$152,200, respectively. Future minimum lease payments over the next five years are as follows:

2024	118,400
2025	103,800
2026	72,800
2027	12,000
	<u>\$307,000</u>

12. 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>2023</u>	<u>2022</u>
Computed at the federal statutory rate	\$ (43,400)	\$ 292,400
State tax (benefit) at statutory rates	(12,400)	83,600
Use of prior year net operating losses and return adjustments	(376,000)	(443,500)
Depreciation differences	432,000	67,500
Income tax (Benefit)	<u>\$ -</u>	<u>\$ -</u>

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

	<u>As of December 31,</u>	
	<u>2023</u>	<u>2022</u>
Deferred tax assets – Net Operating Loss Carryforwards	<u>\$ 1,496,600</u>	<u>\$ 1,020,200</u>
Deferred tax liabilities – depreciation and amortization	<u>\$ (441,400)</u>	<u>\$ (431,900)</u>

The Company is subject to examination in the U.S. federal and state tax jurisdictions for the 2019 to 2022 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.

13. 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.

