

ENVIRO TECHNOLOGIES, INC.
Form 10-K
April 12, 2018

**U.S. SECURITIES AND EXCHANGE
COMMISSION**

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

**ANNUAL REPORT PURSUANT TO
SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

or

**TRANSITION REPORT UNDER SECTION
13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____
to _____

Commission file number: 000-30454

ENVIRO TECHNOLOGIES, INC.

(Exact name of registrant as specified in its
charter)

Idaho 83-0266517

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

821 NW 57th Place, Fort Lauderdale, Florida
33309

(Address of principal executive offices) (Zip
Code)

Registrant's telephone number, including area
code: (954) 958-6668

Securities registered under Section 12(b) of the
Act:

Title of Each Class Name of Each Exchange on
Which Registered

None

Securities registered under Section 12(b) of the Act:

Title of each class Name of each exchange on which registered
None **Not applicable**

Securities registered under Section 12(g) of the Act:

Common stock, par value \$0.001 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act) Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter. \$394,446 on June 30, 2017.

There were 33,534,497 shares of common stock outstanding as of March 31, 2018.

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PART I.

Item 1.

Business.

Our History

Enviro Technologies, Inc. (the “Company”) was incorporated in Idaho on October 19, 1964, under the name Idaho Silver, Inc. Our wholly owned subsidiary, Florida Precision Aerospace, Inc., a Florida corporation (“FPA”), was incorporated on February 26, 1993. Effective November 13, 2017 we filed Articles of Amendment to our Articles of Incorporation changing the Company’s name from Enviro Voraxial Technology, Inc. to “Enviro Technologies, Inc.”.

General

The Company developed and currently manufactures and sells the patented Voraxial® Separator (“Voraxia® Separator” or “Voraxia®”) pursuant to the agreements discussed below. The Voraxia® Separator is a proprietary technology now owned by Schlumberger (as defined below) that efficiently separates large volumes of liquid/liquid, liquid/solids or liquid/liquid/solids fluid mixtures with distinct specific gravities. Per the agreements we signed with Schlumberger, we continue to manufacture the technology for Schlumberger for the oil and gas industry and have a non-exclusive license to pursue other industries independent of Schlumberger, which include mining, sewage, wastewater as well as other markets.

On March 13, 2017, we entered into a Technology Purchase Agreement with Schlumberger Technology Corporation, a Texas corporation, Schlumberger Canada Limited, a Canadian entity, and Schlumberger B.V., an entity organized under the laws of the Netherlands (collectively, “Schlumberger”) which was approved by the Company’s shareholders on May 31, 2017 and completed on June 8, 2017. Under the agreement we sold our intellectual property (the “Purchased Intellectual Property”), substantially consisting of the Voraxial patents, marks, software and copyrights, to Schlumberger in consideration of up to \$4,000,000, of which \$3,000,000 was paid to us at closing. The remaining \$1,000,000 is payable upon the completion of both: (i) the complete transfer of the Purchased Intellectual Property to Schlumberger; and (ii) the provision to transfer information, assets and services to Schlumberger, which is estimated to be approximately 12 months from the closing date. We recognized a gain on the sale of our intellectual property of \$3,000,000 less direct cost of \$80,000, which include a termination fee and consulting fees.

We utilized a portion of the proceeds from this transaction to pay some of our outstanding debt and are using the balance for general working capital. We are also using some of the proceeds to buy additional manufacturing equipment to meet potential future sales; this includes the \$85,661 deposit to purchase the CNC machining equipment and approximately \$25,000 in installation costs.

As part of the agreement, Schlumberger granted us a non-exclusive, non-transferable, worldwide, royalty-free licenses (the “Grant Back Licenses”), to make, use, sell, offer for sale, and import products and processes embodying the Purchase Intellectual Property outside the oil and gas market. Our management believes that the Grant Back Licenses will provide for potential revenues through the sale of Voraxial Separators outside the oil and gas industry, including, but not limited to mining, sewage and wastewater.

In addition, pursuant to the Technology Purchase Agreement FPA entered into a Framework Agreement on June 8, 2017 (the “Supply Agreement”) with Cameron Solutions, Inc. (“Cameron Solutions”), a Houston, Texas-based company engaged in the development, manufacture and sale of equipment used in the oil and gas industry. Under the terms of the three-year Supply Agreement, FPA is the exclusive supplier to Cameron Solutions of certain Voraxial series products for use in the oil and gas industry. Sales will be made from time to time in accordance with the terms of purchase orders. The Supply Agreement is cancellable by Cameron Solutions upon 15 days’ notice if we fail to meet delivery or performance schedules or breaches any of the terms of the agreement, including the warranties. Cameron Solutions may also cancel the Supply Agreement without notice in the event we become insolvent or commit any act of bankruptcy. The Supply Agreement contains customary indemnification and confidentiality provisions. There are no assurances that we will generate revenues under the Grant Back Licenses or Supply Agreement. There are no minimum purchase requirements for Cameron Solutions under the Supply Agreement.

For a period of three years following the closing of the Technology Purchase Agreement, the Company and our officers and directors (Raynard Veldman and John Di Bella), have agreed to not participate or cause participation in the oil-and-gas market in relation to phase or constituent sensing or separation which is defined as, liquid-liquid, liquid-solid or liquid-gas separation and

gas or liquid sensing, including all product lines and services related thereto and including the Voraxial product line and services, except to the extent necessary to: (i) repair or service, but not remanufacture, any goods the Company sold to third persons prior to closing; (ii) fulfill, on or after closing, any customer obligation; or (iii) comply with any term or condition of the agreement.

Separation Technology - The Grant Back License and Supply Agreement

Pursuant to the Technology Purchase Agreement, the Company signed a Supply Agreement to manufacture the Voraxial Separator for Schlumberger for a period of 3 years and a Grant Back License to sell the Voraxial Separator in other markets outside of the oil and gas markets. The Voraxial Separator is a continuous flow turbo machine that generates a strong centrifugal force, a vortex, capable of separating light and heavy liquids, such as oil and water, or any other combination of liquids and solids at extremely high flow rates. As the fluid passes through the machine, the Voraxial Separator accomplishes this separation through the creation of a vortex. In liquid/liquid and liquid/solid mixtures, this vortex causes the heavier compounds to gravitate to the outside of the flow and the lighter elements to move to the center where an inner core is formed. The liquid stream processed by the machine is divided into separate streams of heavier and lighter liquids and solids. As a result of this process, separation is achieved.

The benefits of the Voraxial Separator include:

- High volume / small footprint
- No Pressure drop requirement
- High G force
- Treats a wide range of flows, even slugging flows
- Handles fluctuation in flow rates without any adjustments
- Handles fluctuation in contaminants without any adjustments
- Separation of 2 or 3 components simultaneously

- Non-clogging - open rotor assembly
- Low maintenance with ease of operation and installation
- Can operate dry
- Since there is no pressure drop, there is very little wear caused by sand

The Voraxial Separator is a self-contained, non-clogging device that can be powered by an electric motor, diesel engine or by hydraulic power generation. Further, its scalability allows it to be utilized in a variety of industries and to process various amounts of liquid. The following are the various sizes and the corresponding capacity range:

Model	Diameter	Capacity Range
Number	Size	Gallons Per Minute
V1000	1 inch	3 - 5
V2000	2 inches	20 - 70
V4000	4 inches	100 - 500
V8000	8 inches	1,000 - 3,500

We believe that if sales of this technology by Schlumberger materialize in the oil and gas markets, we will have the resources and opportunity under the Grant Back Licenses to pursue other industries on a cost-effective basis, including: mining, municipal wastewater treatment, industrial wastewater, and numerous other industrial production and environmental remediation processes. As clean water becomes less available to the ever-increasing world population, this technology may become more valuable.

The Market

The need for effective and cost efficient wastewater treatment and separation technology is global in scale. Moreover, virtually every industry requires some type of separation process either during the manufacturing process, prior to treatment or discharge of wastewater into the environment, for general clean up, or emergency response capability. Separation processes, however, are largely unknown to the average consumer. These processes are deeply integrated in almost all industrial processes from oil to wastewater to manufacturing. Management believes that the separation technology has applications in most, if not all major separation industries. The unique characteristics of the technology allow it to be utilized either as a stand-alone unit or within an existing system

to provide a more efficient and cost effective way to handle the separation needs of the customer. We believe the separation technology can result in a cost savings and other benefits to the customer. These benefits result in and include:

A reduction in water and energy usage,
Requires no pressure drop to perform separation,
Less space needed to implement the Voraxial Separator, the Voraxial Separator weights less than existing systems,
A reduction time to process and separate the fluids, allowing the customer to be more efficient,
Creation of more efficient and faster process to treat water to increase the overall productivity of the end-user,
Fewer employees needed to operate the system, and
Reduction of ongoing maintenance and servicing costs.

We believe that this separation technology is a unique front-end solution for the separation industry that can offer increased productivity while reducing the physical space and energy required to operate the unit. These advantages translate into the potential for substantial operating cost efficiencies that would increase the profitability of the solution's end user. The unique characteristic to conduct separation without a pressure loss allows the unit to be installed in locations other technologies cannot. For instance, another separation technology called a hydrocyclone requires a significant pressure loss to perform separation.

As environmental regulations, both domestically and internationally, have become more stringent, companies have been required to more effectively treat their wastewater prior to discharge. We believe the Grant Back License offers a great opportunity for the Company as the separation technology can be utilized in most separation applications to significantly increase the efficiency of the separation processes while simultaneously reduce the cost to the end-user.

Manufacturing

We manufacture and assemble the products at our Fort Lauderdale, Florida facilities.

Sources and availability of raw materials

The materials needed to manufacture the components of the products we sell, including the Separation Technology, have been provided by leading companies in the precision equipment industry. We do not have any long term contracts with any supplier. We do not anticipate any shortage of component parts.

Inventory

We maintain a limited inventory of finished parts until we receive a customer order. We currently have various models of the Voraxial Separator in inventory, which may include certain models located at third party facilities on a trial basis.

Marketing

Prior to the Technology Purchase Agreement, management developed relationships with oil service companies and representatives to promote the Voraxial to oil industry customers. Since the Technology Purchase Agreement, we started to develop a marketing program that will include independent sales representatives and relationships with engineering firms to stimulate awareness of the technology for industries outside of the oil and gas market. The Company does not currently have plans to present at tradeshow in 2018.

Intellectual property

Under the Technology Purchase Agreement we sold the Purchased Intellectual Property. We currently hold no patents.

Product liability

Our business exposes us to possible claims of personal injury, death or property damage, which may result from the failure, or malfunction of any component or subassembly manufactured or assembled by us. We have product liability insurance. However, any product liability claim made against us may have a material adverse effect on our business, financial condition or results of operations in light of our poor financial condition, losses and limited revenues. We have also obtained directors and officers, and general insurance coverage.

Competition

We are subject to competition from other manufacturing facilities who have greater manufacturing capacity which allows them to utilize economy of scale to reduce cost. We are also subject to competition from a number of companies who have greater experience, research abilities, engineering capability and financial resources than we have to market and sell separation technology. Although we believe the separation technology offers applications which accomplish better or similar results on a more cost-effective basis than existing products, other products have, in some instances, attained greater market and regulatory acceptance.

Employees

We currently have seven employees. All of our employees work full-time. None of our employees are members of a union. We believe that our relationship with our employees is favorable. We intend to add additional employees in the upcoming year related to manufacturing and sales.

Item 1A.

Risk Factors.

Our independent auditors have raised substantial doubt about our ability to continue as a going concern.

Our independent auditors have included in their audit report an explanatory paragraph that states that our continuing losses from operations raises substantial doubt about our ability to continue as a going concern. We have not yet generated significant revenues from the Supply Agreement or Grant Back License. There is no assurance that these agreements will generate sufficient revenues and income, nor is there any assurance that we will be able to leverage the Grant Back License and generate sufficient revenues from other industries. You have limited historical financial data and operating results with which to evaluate our business and our prospects under these agreements. Although we achieved operating income in 2017 due to the sale of our proprietary technology, we will continue to incur net losses until we can produce sufficient revenues to cover our costs. At December 31, 2017, we had an accumulated deficit of \$14,988,794 including a net income of \$2,070,670 for the year ended December 31, 2017, substantially due to the sale of the Purchased Intellectual Property. In addition, we have a working capital deficiency of \$166,137 as of December 31, 2017. Although we achieved profitability in 2017, we may not be able to sustain or increase our profitability on a quarterly or annual basis.

Our ability to generate future revenues will depend on a number of factors, many of which are beyond our control, including competitive efforts and general economic trends. In addition, there are no assurances that we will generate any or significant revenues under the Supply Agreement or Grant Back License. Due to these factors, we cannot anticipate with any degree of certainty that we will be able to sustain or increase our profitability on a quarterly or

annual basis.

We have been limited by insufficient capital, and we may continue to be so limited.

In the past, we have lacked the required capital to market the Voraxial Separator. Our inability to raise the funding or to otherwise finance our capital needs could adversely affect our financial condition and our results of operations, and could prevent us from implementing our business plan. We may seek to raise capital through public and private equity offerings, debt financing or collaboration, and strategic alliances. Such financing may not be available when we need it or may not be available on terms that are favorable to us. If we raise additional capital through the sale of our equity securities, your ownership interest will be diluted and the terms of the financing may adversely affect your holdings or rights as a stockholder. If we fail to raise additional funds when needed, or do not have sufficient cash flows from sales, we may be required to scale back or cease operations, sell or liquidate our assets and possibly seek bankruptcy protection.

We currently rely on a limited number of customers for our revenues.

Revenues from two customers accounted for approximately 85% of total revenues during 2016 and revenues from two customers accounted for approximately 92% of total revenues during 2017. We do not have any contracts with these customers. If these customers fail to order additional products or we are unable to attract new customers, it could have an adverse effect on our financial condition and results of operations.

We are dependent upon the Supply Agreement and Grant Back License Agreement which have generated limited revenues to date.

Our Supply Agreement and Grant Back License Agreement are important to our future success. To date we have limited revenues under such agreements. Furthermore, these agreements are non-exclusive and may be terminated if we fail to comply with the terms of such agreements. Failure to generate significant revenues under these agreements or termination of either agreement could have a material adverse effect on our business, financial position and results of operations.

Our market is subject to intense competition. If we are unable to compete effectively, our product may be rendered non-competitive or obsolete.

We are engaged in a segment of the water filtration industry that is highly competitive and rapidly changing. Many large companies, academic institutions, governmental agencies, and other public and private research organizations are pursuing the development of technology that can be used for the same purposes as the Voraxial. We face, and expect to continue to face, intense and increasing competition, as new products enter the market and advanced technologies become available. We believe that a significant number of products are currently under development and will become available in the future that may address the water filtration segment of the market. If other products are successfully developed, it may be better received by the market or introduced before the Voraxial.

Our competitors' products may be more effective, or more effectively marketed and sold, than any of our products. Many of our competitors have:

significantly greater financial, technical and human resources than we have and may be better equipped to discover, develop, manufacture and commercialize products; and

more extensive experience in marketing water treatment products.

Competitive products may render the Voraxial obsolete or noncompetitive.

We are dependent on key personnel.

We are dependent upon the availability and the continued performance of the services of John A. DiBella. The loss of the services of John A. DiBella could have a material adverse effect on us. In addition, the availability of skilled personnel is extremely important to our growth strategy and our failure to attract and retain such personnel could have a material, adverse effect on us. We do not currently maintain any key man life insurance covering Mr. DiBella or any of our employees.

Our operations are subject to governmental approvals and regulations and environmental compliance.

Our operations are subject to extensive and frequently changing federal, state, and local laws and substantial regulation by government agencies, including the United States Environmental Protection Agency (EPA), the United States Occupational Safety and Health administration (OSHA) and the Federal Aviation Administration (FAA). Among other matters, these agencies regulate the operation, handling, transportation and disposal of hazardous materials used by us during the normal course of our operations, govern the health and safety of our employees and certain standards and licensing requirements for our aerospace components that we contract manufacture. We are subject to significant compliance burden from this extensive regulatory framework, which may substantially increase our operational costs.

We believe that we have been and are in compliance with environmental requirements and believe that we have no liabilities under environmental requirements. Further, we have not spent any funds specifically on compliance with environmental laws. However, some risk of environmental liability is inherent in the nature of our business, and we might incur substantial costs to meet current or more stringent compliance, cleanup, or other obligations pursuant to environmental requirements in the future. This could result in a material adverse effect to our results of operations and financial condition.

Our business has a substantial risk of product liability claims. If we are unable to obtain appropriate levels of insurance, a product liability claim against us could adversely affect our business.

Our business exposes us to possible claims of personal injury, death, or property damage, which may result from the failure, or malfunction of any component or subassembly manufactured or assembled by us. While we have product liability insurance, any

product liability claim made against us may have a material adverse effect on our business, financial condition, or results of operations in light of our poor financial condition, losses and limited revenues.

Item 1B.

Unresolved Staff Comments.

None.

Item 2.

Properties.

In October 2015, the Company entered into a three (3) year lease for an office and manufacturing facility located at 821 NW 57th Place, Fort Lauderdale, FL 33309. The lease is approximately \$6,100 per month.

Item 3.

Legal Proceedings.

On or about November 17, 2011, a claim was filed in the Broward County Circuit Court in Fort Lauderdale, Florida against the Company by Raw Energy Tech, LLC. The plaintiff alleged breach of an oral contract between the parties for the alleged design, fabrication and construction of a prototype power pack. Amount of damages sought were approximately \$58,000. Effective October 5, 2017, the lawsuit by Raw Energy Tech, LLC against the Company was settled and voluntarily dismissed by the plaintiff. See Footnote J to the Consolidated Financial Statements.

On or about October 23, 2017, a claim was filed in the 17th Judicial Circuit Court in and for Broward County in Fort Lauderdale, Florida, by the plaintiff, Industrial and Oilfield Procurement Services, LLC, against our company. The case involves an alleged breach of contract between the parties relating to the purchase and sale of a Voraxial unit in 2015. The plaintiff has demanded a refund and damages. We are defending this action, as we believe this claim is without merit.

Item 4.

Mine Safety Disclosures.

Not applicable.

PART II.

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is quoted on the OTC Markets under the symbol “EVTN”. The range of high and low bid quotations below are provided by the OTC Markets. The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

Quarter Ended	High	Low
March 31, 2016	\$0.03	\$0.02
June 30, 2016	\$0.04	\$0.03
September 30, 2016	\$0.03	\$0.03
December 31, 2016	\$0.03	\$0.02
March 31, 2017	\$0.04	\$0.02
June 30, 2017	\$0.08	\$0.04
September 30, 2017	\$0.07	\$0.03
December 31, 2017	\$0.07	\$0.04

The last sale price of our common stock as reported on the OTCPink on March 29, 2018, the last reported transaction, was \$0.10 per share. As of March 31, 2018, there were approximately 800 record owners of our common stock.

Dividends

We have not paid a cash dividend on the common stock since current management joined our company in 1996. The payment of dividends may be made at the discretion of our board of directors and will depend upon, among other things, our operations, our capital requirements and our overall financial condition. As of the date of this report, we have no intention to declare dividends.

Recent Sales of Unregistered Securities

Except for those unregistered securities previously disclosed in reports filed with the Securities and Exchange Commission, during the period covered by this report, we have not sold any securities without registration under the Securities Act of 1933, as amended, during the period covered by this report.

Issuer Purchase of Equity Securities

None.

Item 6.

Selected Financial Data.

Information not required by small reporting company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

Management's discussion and analysis contains various forward-looking statements. These statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or use of negative or other variations or comparable terminology. We caution that these statements are further qualified by important factors that could cause actual results to differ materially from those contained in the forward-looking statements that these forward-looking statements are necessarily speculative, and there are certain risks and uncertainties that could cause actual events or results to differ

materially from those referred to in such forward-looking statements.

Year ended December 31, 2017 compared to year ended December 31, 2016

Overview

2017 was a transitional year for us as we finalized the sale of our intellectual property to Schlumberger through the Technology Purchase Agreement. We are focusing our efforts and resources to the manufacturing and assembling of the Voraxial Separator for Schlumberger under the Supply Agreement. We were also granted a Grant Back License to market the Voraxial Separator into other markets outside of the oil and gas market which we plan to pursue. To date we have earned limited revenues under the Grant Back Licenses and Supply Agreement.

Revenue

Revenues for the year ended December 31, 2017 decreased by \$296,899 to \$265,160 or approximately 53% from \$562,059 for the year ended December 31, 2016. The decrease in revenues reflects the decrease in Voraxial sales. The decrease corresponds with the transition we are experiencing due to the Technology Purchase Agreement we consummated with Schlumberger and related transactions. We believe there is a market for the Voraxial Separator and that the Grant Back Licenses and Supply Agreement will provide us with the opportunity to increase revenues in the future in both the oil and gas industry and potentially other industries as well, such as mining, industrial and sewage through the Grant Back Licenses.

The majority of revenues in 2017 and 2016 were a result of sales of the Voraxial Separator and auxiliary equipment and parts.

Cost of goods sold increased to \$112,193 for the year ended December 31, 2017 from \$45,474 during the year ended December 31, 2016 or an increase of \$66,719 or approximately 146%. The increase in our cost of goods sold was related to the use of previously written off inventory and increase in pass-through expenses.

Costs and expenses

Total costs and expenses increased by approximately 3% or \$32,387 to \$968,972 for the year ended December 31, 2017 as compared to \$936,585 for the year ended December 31, 2016. The increase was due to a \$132,494 increase in payroll expense, which was partially offset by decreases in general and administrative expenses and professional fees.

General and administrative expenses

General and Administrative expenses decreased by 1% or \$1,284 to \$223,695 for the year ended December 31, 2017 from \$222,411 for the year ended December 31, 2016. We reduced our sales and marketing expenditures as we entered into the Technology Purchase Agreement with Schlumberger. Our general and administrative expenses primarily consist of sales and marketing, rent, travel, insurance and other general overhead expenses.

Professional Fees and Payroll Expenses

Professional fees decreased by approximately 52% or \$101,391 to \$94,964 for the year ended December 31, 2017 from \$196,355 for the year ended December 31, 2016. The decrease was primarily due to the decrease in our legal, professional and investment banking fees associated with discussions, negotiations and due diligence with various companies interested in entering into strategic relationships and material transactions with our Company, including but not limited to the Technology Purchase Agreement, which primarily occurred in 2016. Payroll expense increased \$132,494 or 26% to \$650,313 the year ended December 31, 2017 as compared to \$517,819 for the year ended December 31, 2016. The increase in 2017 payroll primarily relates to the addition of personnel both full-time and part-time and increased overtime as our manufacturing activity increased to comply with the production of Voraxial Separators under the Technology Purchase Agreement.

Liquidity and capital resources

At December 31, 2017, we had a working capital deficiency of \$166,137, cash of \$1,010,434 and an accumulated deficit of \$14,988,794. For the year ended December 31, 2017, we had a net income of \$2,070,670 due to the sale of our intellectual property.

On December 29, 2016, the Company entered into a termination, assignment, settlement and general release agreement with an inventor named on certain Company patents and party to a use agreement with the Company. Under the release agreement the parties agreed to mutual releases and the inventor agreed to (1) terminate the use agreement and all rights to the patents and (2) assign any remaining rights to the patents to the Company. The Company paid the inventor \$45,000 (the "Termination Fee") on May 6, 2017.

During 2017 the Company's chief executive officer advanced the Company \$46,354 for working capital. These advances were non-interest bearing and due on demand. The loans were repaid as of December 31, 2017.

On February 3, 2017, the Company received an advance of \$150,000 from a third party investor pursuant to a \$165,000 discounted promissory note. The Company shall pay interest to the noteholder on the principal face amount of \$165,000 at a rate of 2.5% per month in the event the note is not repaid on or before May 31, 2017. The note was repaid as of December 31, 2017. As additional consideration for the advance, the Company issued the third party 50,000 shares of the Company's common stock with a fair value of \$1,000. Proceeds from the advance have been used to satisfy working capital requirements.

On May 25, 2017, the Company received advances in the aggregate of \$70,000 from two third party investors pursuant to two \$37,000 discounted promissory notes. The Company shall pay interest to the noteholder on the principal face amount of \$37,000 at a rate of 2.5% per month in the event the note is not repaid on or before May 31, 2018. The notes were repaid as of December 31, 2017. As additional consideration for the advance, the Company issued each investor 10,000 shares of the Company's common stock with a total fair value of \$1,000. Proceeds from the advance have been used to satisfy working capital requirements.

On June 8, 2017, we completed the Technology Purchase Agreement and recognized a gain on the sale of our intellectual property of \$3,000,000 less direct costs of \$80,000, which include the Termination Fee and consulting fees.

In July 2017, the Company entered into a financing agreement for the purchase of CNC machining equipment valued at approximately \$426,000. The machining equipment was received in July 2017 and will be used for the manufacture of Voraxial Separators in preparation of potential future orders under the Supply Agreement and sales pursuant to the Grant Back Licenses. Under the terms of the agreement the Company made an initial down payment of \$85,661 and is required to make monthly payments of \$6,788 through January 2023.

Continuing losses

While the Company has historically experienced recurring net losses, on June 8, 2017, the Company completed the Technology Purchase Agreement and entered into the Supply Agreement with Cameron Solutions. In addition, Schlumberger granted us the Grant Back Licenses for the sale of Voraxial products outside the oil and gas industry. Our management believes that the Grant Back License will provide us the opportunity to possibly leverage future Schlumberger sales in the oil and gas market to penetrate the sale and use of licensed Voraxial products to other industries, including, but not limited to mining, sewage and wastewater. We believe that including our current cash resources and anticipated revenue to be generated under the Grant Back Licenses and Supply Agreement, we will have sufficient resources to continue business operations in excess of 12 months. However, there are no assurances that we will generate any or significant revenues under the Supply Agreement or Grant Back License and there is limited historical financial data and operating results with which to evaluate our business and our prospects under the new agreements.

Our ability to generate future revenues will depend on a number of factors, many of which are beyond our control. These factors include competitive efforts and general economic trends. Due to these factors, we cannot anticipate with any degree of certainty what our revenues will be in future periods. Our independent auditors have included in their audit report an explanatory paragraph that states that our continuing losses from operations raises substantial doubt about our ability to continue as a going concern. Although we achieved profitability in 2017, such profit was due to the closing of the Technology Purchase Agreement and we may not be able to sustain or increase our profitability on a quarterly or annual basis. If we fail to sustain or increase our profitability on a quarterly or annual basis, or to raise additional funds when needed, or do not have sufficient cash flows from sales, we may be required to scale back or cease operations, sell or liquidate our assets and possibly seek bankruptcy protection. As a result of the above, there is substantial doubt about the ability of the Company to continue as a going concern and the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note C of the Notes to Financial Statements describes the significant accounting policies used in the preparation of the consolidated financial statements. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of our financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on our financial condition and results of operations. Specifically, critical accounting estimates have the following attributes: 1) we are required to make assumptions about matters that are highly uncertain at the time of the estimate; and 2) different estimates we could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on our financial condition or results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that our consolidated financial statements are fairly stated in accordance with accounting

principles generally accepted in the United States, and present a meaningful presentation of our financial condition and results of operations. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements:

Revenue Recognition

The Company derives its revenue from the sale and short-term rental of the Voraxial Separator. The Company presents revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 605 "Revenue Recognition in Financial Statements". Under Revenue Recognition in Financial Statements, revenue is realized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured.

Estimates

The preparation of consolidated 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ.

Income Taxes

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the "TCJA") that significantly reforms the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The TCJA, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, effective as of January 1, 2018; limitation of the tax deduction for interest expense; limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, in each case, for losses arising in taxable years beginning after December 31, 2017 (though any such tax losses may be carried forward indefinitely); modifying or repealing many business deductions and credits, including reducing the business tax credit for certain clinical testing expenses incurred in the testing of certain drugs for rare diseases or conditions generally referred to as "orphan drugs"; and repeal of the federal Alternative Minimum Tax ("AMT").

The staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the

TCJA. In connection with the initial analysis of the impact of the TCJA, the Company remeasured its deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. The remeasurement of the Company's deferred tax assets and liabilities was offset by a change in the valuation allowance.

The Company is still in the process of analyzing the impact to the Company of the TCJA. Where the Company has been able to make reasonable estimates of the effects related to which its analysis is not yet complete, the Company has recorded provisional amounts. The ultimate impact to the Company's consolidated financial statements of the TCJA may differ from the provisional amounts due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the TCJA. The accounting is expected to be complete when the Company's 2017 U.S. corporate income tax return is filed in 2018.

Recent Accounting Pronouncements

Recent accounting pronouncements issued by the FASB, the AICPA and the SEC, did not, or are not believed by management, to have a material impact on the Company's present or future financial statements, except as follows:

In February 2016, the FASB issued ASU 2016-02 “*Leases*,” which will amend current lease accounting to require lessees to recognize (i) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations, cash flows or financial condition.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation: Improvements*