
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2017

or

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

For the Transition Period from _____ to _____

Commission file number: 333-212315

H/CELL ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

47-4823945

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

97 River Road, Flemington, NJ 08822

(Address of principal executive offices) (zip code)

(908) 837-9097

(Registrant's telephone number, including area code)

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 **(NOTE: Company has not been subject to the filing requirements for the past 90 days)**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth 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

Non-accelerated filer (Do not check if a smaller reporting company)

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 in Rule 12b-2 of the Exchange Act). Yes No .

As of May 18, 2017, there were 7,041,579 shares of registrant's common stock outstanding.

H/CELL ENERGY CORPORATION

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

H/CELL ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
	(Unaudited)	(as restated)
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 346,893	\$ 537,867
Accounts receivable (net retention)	1,521,592	650,886
Prepaid expenses	7,425	14,168
Costs in excess of billings	80,826	91,904
Total current assets	<u>1,956,736</u>	<u>1,294,825</u>
Property and equipment, net	106,603	99,816
Security deposits and other non-current assets	8,718	8,497
Total assets	<u>\$ 2,072,057</u>	<u>\$ 1,403,138</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,394,199	\$ 713,237
Billings in excess of costs	104,718	83,538
Sales tax payable	120,617	114,085
Total current liabilities	<u>1,619,534</u>	<u>910,860</u>
Commitments and Contingencies		
Stockholders' Equity		
Common Stock - \$0.0001 par value; 25,000,000 shares authorized; 6,941,579 and 3,131,579 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	694	313
Preferred Stock - \$0.0001 par value; 5,000,000 shares authorized; 0 shares issued and outstanding	-	-
Additional paid-in capital	1,288,041	1,283,422
Accumulated deficit	(796,775)	(740,651)
Accumulated other comprehensive loss	(39,437)	(50,806)
Total stockholders' equity	<u>452,523</u>	<u>492,278</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	<u>\$ 2,072,057</u>	<u>\$ 1,403,138</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

H/CELL ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS - OTHER COMPREHENSIVE INCOME
(UNAUDITED)

	For the Three Months Ended March 31,	
	2017	2016
Revenue		
Construction income	\$ 1,850,755	\$ 1,216,004
Related party	16,090	-
Total revenue	1,866,845	1,216,004
Cost of goods sold		
Direct costs	1,413,820	914,262
Related party	15,905	-
Total cost of goods sold	1,429,725	914,262
Gross profit	437,120	301,742
Operating expenses		
Research and development	-	2,000
General and administrative expenses	493,244	953,495
Total operating expenses	493,244	955,495
Loss from operations	(56,124)	(653,753)
Income tax provision (benefit)	-	-
Net loss	\$ (56,124)	\$ (653,753)
Other comprehensive loss, net		
Change in foreign currency translation adjustment	11,369	11,268
Comprehensive loss	\$ (44,755)	\$ (642,485)
Loss per share		
Basic	\$ (0.01)	\$ (0.27)
Weighted average common shares outstanding		
Basic	5,657,309	2,432,749

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

H/CELL ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017

	<u>Common Stock</u>		<u>Preferred Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Deficit</u>
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>				
Beginning, January 1, 2017	3,131,579	\$ 313	-	-	\$1,283,422	\$ (740,651)	\$ (50,806)	\$ 492,278
Issuance of common stock January 2017, Pride Acquisition	3,800,000	380			(380)			-
Common stock issued for services	10,000	1			4,999			5,000
Net loss						(56,124)	11,369	(44,755)
Ending, March 31, 2017	<u>6,941,579</u>	<u>\$ 694</u>	<u>-</u>	<u>\$ -</u>	<u>\$1,288,041</u>	<u>\$ (796,775)</u>	<u>\$ (39,437)</u>	<u>\$ 452,523</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

H/CELL ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Three Months Ended March 31,

2017

2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ (56,124)	\$ (653,753)
Depreciation and amortization	7,434	694
Stock based compensation	5,000	387,450
Accounts and retainage receivable	(831,900)	510,083
Security deposits and other non-current assets	-	(270)
Prepaid expenses and other costs	7,700	(1,443)
Costs in excess of billings	16,624	72,751
Accounts payable and accrued expenses	637,529	(201,536)
Billings in excess of costs	16,589	(22,866)

Net cash (used in) provided by operating activities (197,148) 91,110

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets (6,787) -

Net cash (used in) investing activities (6,787) -

CASH FLOWS FROM FINANCING ACTIVITIES

Issuance of common stock - 200,000

Due to stockholders - (4,204)

Net cash provided by financing activities - 195,796

Net Increase (Decrease) in cash and cash equivalents (203,935) 286,906

Effect of foreign currency translation on cash 12,961 10,329

Cash and cash equivalents -beginning 537,867 141,332

Cash and cash equivalents - ending \$ 346,893 \$ 438,567

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016 (UNAUDITED)

1. ORGANIZATION AND LINE OF BUSINESS

H/Cell Energy Corporation (the “Company”) was incorporated in the state of Nevada on August 17, 2015. The Company, based in Flemington, N.J., is a company whose principal operations consist of designing and installing hydrogen energy systems. Effective January 31, 2017, the Company acquired The Pride Group (QLD) Pty Ltd, an Australian company (“Pride”) (see Note 10). Founded in 1997, Pride is a provider of security systems integration for a variety of customers in the government and commercial sector and has launched a new clean energy systems division to focus on the high growth renewable energy market in Asia-Pacific.

The Company has developed a hydrogen energy system for residential and commercial use designed to create electricity. This unique system uses renewable energy as its source for hydrogen production. It functions as a self-sustaining clean energy system. It can be configured as an off grid solution for all electricity needs or it can be connected to the grid to generate energy credits. Its production of hydrogen is truly eco-friendly, as it is not produced by the use of fossil fuels. It is a revolutionary green-energy concept that is safe, renewable, self-sustaining and cost effective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and cover the three months ended March 31, 2017. These condensed consolidated financial statements should be read in conjunction with the financial statements and additional information as contained in our Annual Report on Form 10-K for the year ended December 31, 2016. Results of operations for the three-month period ended March 31, 2017 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2017. The other information in these condensed consolidated financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise.

Use of Estimates

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, 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. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Accounts and Retainage Receivable

Accounts receivable are recorded when invoices are issued and are presented in the balance sheet net of the allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on the Company’s historical losses, the existing economic conditions in the construction industry, and the financial stability of its customers. Accounts are written off as uncollectible after collection efforts have failed. In addition, the Company does not generally charge interest on past-due accounts or require collateral. At March 31, 2017 and 2016, there was no allowance for doubtful accounts required.

Property and Equipment, and Depreciation

Property and equipment are stated at cost. Depreciation is generally provided using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the remaining term of the lease or the estimated useful life of the improvement.

Repairs and maintenance that do not improve or extend the lives of the property and equipment are charged to expense as incurred.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016 (UNAUDITED)

Comprehensive Income (Loss)

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to revenue, expenses, gains and losses that are recorded as an element of stockholder's equity but are excluded from net income (loss). The Company's other comprehensive income (loss) is comprised of foreign currency translation adjustments.

Foreign Currency Translation

Assets, liabilities, revenue and expenses denominated in non-U.S. currencies are translated at the rate of exchange prevailing on the date of the balance sheet. Gains (losses) on translation of the financial statements are from the Company's operations where the functional currency is not the U.S. dollar. Translation gains (losses) are reflected as a component of accumulated other comprehensive income (loss). Gains (losses) on foreign currency transactions are included in the statements of Operations.

Revenue Recognition

Revenues and related costs on construction contracts are recognized using the "percentage of completion method" of accounting in accordance with ASC 605-35, Accounting for Performance of Construction-Type and Certain Production Type Contracts. Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor and any allocable indirect costs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred.

Revenues and expenses related to service and maintenance contracts are booked when costs are incurred and billed when the job is complete.

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts, which require the revision, become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Cash and Cash Equivalents

Cash and cash equivalents includes cash in bank and money market funds as well as other highly liquid investments with an original maturity of three months or less. The Company had no cash equivalents as of March 31, 2017. At times during the three months ended March 31, 2017, balances exceeded the FDIC insurance limit of \$250,000.

Research and Development Costs

Research and development costs are expensed as incurred. These costs consist primarily of consulting fees, salaries and direct payroll related costs.

Stock-Based Compensation

The Company recognizes expense for its stock-based compensation based on the fair value of the awards at the time they are granted. We estimate the value of stock option awards on the date of grant using the Black-Scholes model. The determination of the fair value of stock-based payment awards on the date of grant is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, expected term, risk-free interest rate, expected dividends and expected forfeiture rates. The forfeiture rate is estimated using historical option cancellation information, adjusted for anticipated changes in expected exercise and employment termination behavior. Our outstanding awards do not contain market or performance conditions and all options were granted for past services.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016 (UNAUDITED)

Income Taxes

The Company uses the asset and liability method of accounting for income taxes pursuant to FASB ASC 740, *Income Taxes*. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The determination of the Company's provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The benefits of uncertain tax positions are recorded in the Company's financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from taxing authorities. When facts and circumstances change, the Company reassesses these probabilities and records any changes in the financial statements as appropriate. Accrued interest and penalties related to income tax matters are classified as a component of income tax expense.

The Company recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740. Under that guidance, management assesses the likelihood that tax positions will be sustained upon examination based on the facts, circumstances and information, including the technical merits of those positions, available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

The Company did not identify any material uncertain tax positions. The Company did not recognize any interest or penalties for unrecognized tax benefits.

The federal income tax returns of the Company are subject to examination by the IRS, generally for the three years after they are filed. The Company's 2015 return is still open for examination by the taxing authorities.

There was no provision for income taxes for the three months ended March 31, 2017.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts payable and accrued liabilities, and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments. All other significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

Operating Loss and Tax Credit Carryforwards

At March 31, 2017, the Company has loss carryforwards totaling approximately \$41,000 that may be offset against future taxable income. The carryforward expires in 2036.

Net Income (Loss) Per Common Share

The Company computes basic net income (loss) per share by dividing net income (loss) per share available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable. The computation of basic and diluted loss per share excludes potentially dilutive securities because their inclusion would be anti-dilutive. Potentially-dilutive securities excluded from the computation of basic and diluted net loss per share for the quarter ended March 31, 2017 are as follows:

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016 (UNAUDITED)

	March 31, 2017
Options to purchase common stock	1,000,000
Totals	1,000,000

3. RELATED PARTY TRANSACTIONS

The Company's current office space consists of approximately 800 square feet, which is donated to it from one of its executive officers. There is no lease agreement and the Company pays no rent.

Effective February 4, 2016, the Company sold 526,316 shares of common stock to Reza Enterprises, Inc., an entity beneficially owned by Rezaul Karim. In connection with, and as a condition of closing, the Company agreed to appoint Rezaul Karim to its Board.

In June 2016, the Company entered into a contract with Rezaul Karim, one of its then directors, for the installation of an HC-1 system. The system installation was approximately 50% complete as of March 31, 2017 and generated \$16,090 of revenue for the three months ended March 31, 2017. The Company subcontracted the installation of the system to Renewable Energy Holdings LLC ("REH"), a company owned by Mike Strizki, one of the Company's executive officers. James Strizki, one of the Company's executive officers, is vice president of operations at REH. Costs incurred were \$15,905 for REH for the three months ended March 31, 2017.

The Company has entered into agreements to indemnify its directors and executive officers, in addition to the indemnification provided for in the Company's articles of incorporation and bylaws. These agreements, among other things, provide for indemnification of the Company's directors and executive officers for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by or in the right of the Company, arising out of such person's services as a director or executive officer of the Company, any subsidiary of the Company or any other company or enterprise to which the person provided services at the Company's request. The Company believes that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

At March 31, 2017 and December 31, 2016, the balances due to Turquino Equity LLC, a significant shareholder, amounted to approximately \$61,000 and \$52,000, respectively, which are included in accounts payable on the balance sheet. These balances represent expenses for management services. For the three months ended March 31, 2017 and 2016, management fees expensed totaled \$45,826 and \$38,345, respectively.

4. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Cash is maintained at an authorized deposit-taking institution (bank) incorporated in both the United States and Australia and is insured by the U.S. Federal Deposit Insurance Corporation and Australian Securities & Investments Commission up to \$250,000 and approximately \$186,000 USD in total, respectively. At March 31, 2017 and 2016, cash balances did not exceed either threshold.

Credit risk for trade accounts is concentrated as well because substantially all of the balances are receivable from entities located within certain geographic regions. To reduce credit risk, the Company performs ongoing credit evaluations of its customers' financial conditions, but does not generally require collateral. In addition, at March 31, 2017, approximately 66% of the Company's accounts receivable was due from two unrelated customers, 53% and 13%, respectively; and, at March 31, 2016, approximately 13% of the Company's accounts receivable was due from one customer.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016 (UNAUDITED)

5. MAJOR CUSTOMERS

During the three months ended March 31, 2017, there were two customers with a concentration of 10% or higher. During the three months ended March 31, 2016 there was one customer with a concentration of 10% or higher of the Company's revenue.

6. PROPERTY AND EQUIPMENT

At March 31, 2017 and December 31, 2016, property and equipment were comprised of the following:

	March 31, 2017	December 31, 2016
Furniture and fixtures (5 to 7 years)	\$ 6,702	\$ 6,320
Machinery and equipment (5 to 7 years)	21,900	34,480
Computer and software (3 to 5 years)	83,889	79,098
Auto and truck (5 to 7 years)	234,900	227,456
Leasehold improvements (life of lease)	39,691	37,425
	<u>387,082</u>	<u>384,779</u>
Less accumulated depreciation	<u>280,479</u>	<u>284,963</u>
	<u>\$ 106,603</u>	<u>\$ 99,816</u>

Depreciation expense for the three months ended March 31, 2017 and 2016 amounted to \$7,287 and \$3,357, respectively.

7. UNCOMPLETED CONTRACTS

Costs, estimated earnings and billings on uncompleted contracts are summarized as follows at March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
Costs incurred on uncompleted contracts	\$ 2,042,082	\$ 2,193,406
Estimated earnings	946,868	629,086
Costs and estimated earnings earned on uncompleted contracts	<u>2,988,950</u>	<u>2,822,492</u>
Billings to date	2,616,487	2,558,700
Costs and estimated earnings in excess of billings on uncompleted contracts	372,463	263,792
Costs and earnings in excess of billings on completed contracts	396,515	255,426
	<u>\$ (24,052)</u>	<u>\$ 8,366</u>
Costs in excess of billings	\$ 80,826	\$ 91,904
Billings in excess of cost	(104,718)	(83,538)
	<u>\$ (24,052)</u>	<u>\$ 8,366</u>

8. LEASES

The Company entered into two operating leases for office space in Woombye and Brisbane, Queensland, Australia, both expiring in April 2018. The future minimum payments on the leases for each of the next two years and in the aggregate amount to the following:

2017	\$ 61,284
2018	68,005
	<u>\$ 129,289</u>

Rent expense for each of the three months ended March 31, 2017 and 2016 amounted to approximately \$23,000 and is included in "General and Administrative" expenses on the related statements of operations.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016 (UNAUDITED)

9. CONTRACT BACKLOG

As of March 31, 2017, the Company had a contract backlog approximating \$1,661,000, with anticipated direct costs to complete approximating \$1,270,000. At March 31, 2016, the Company had a contract backlog approximating \$948,000, with anticipated direct costs to complete approximating \$650,000.

10. ACQUISITION UNDER COMMON CONTROL

On January 31, 2017 (the “Closing Date”), the Company entered into a share exchange agreement (the “Exchange Agreement”) by and among the Company, The Pride Group (QLD) Pty Ltd., an Australian corporation (“Pride”), Turquino Equity LLC (“Turquino”) and Stephen Paul Mullane and Marie Louise Mullane as Trustees of the Mullane Family Trust (the “Mullane Trust” and together with Turquino, the “Pride Shareholders”). Andrew Hidalgo and Matthew Hidalgo, the Company’s Chief Executive Officer and Chief Financial Officer, respectively, are each a managing partner of Turquino.

Pursuant to the Exchange Agreement, the Company acquired all of the issued and outstanding capital stock of Pride from the Pride Shareholders in exchange for an aggregate of 3,800,000 shares of the Company’s common stock (the “Acquisition Shares”). As a result, the combination of the Company and Pride pursuant to the Exchange Agreement is considered a business combination of companies under common control and will be accounted for in a manner similar to a pooling-of-interests. The accompanying financial statements have been retrospectively restated as a result of an acquisition of another company under common control with the Company, which was completed in January 2017.

11. STOCK OPTIONS AWARDS AND GRANTS

A summary of the stock option activity and related information for the 2016 Plan from August 17, 2015 (date of inception) to March 31, 2017 is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at August 17, 2015 (date of inception)	-			
Grants	-			
Exercised	-			
Canceled	-			
Outstanding at December 31, 2015	-			
Grants	1,000,000	\$ 0.01	5.00	\$ 385,833
Exercised	-			
Canceled	-			
Outstanding at December 31, 2016	1,000,000	\$ 0.01	4.19	\$ 385,833
Grants	-			
Exercised	-			
Canceled	-			
Outstanding at March 31, 2017	1,000,000	\$ 0.01	3.95	385,833
Vested and expected to vest at March 31, 2017	-			
Exercisable at March 31, 2017	1,000,000	\$ 0.01	3.95	\$ 385,833

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016 (UNAUDITED)

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on options with an exercise price less than the Company's estimated market stock price of \$0.3958 as of March 31, 2016, which would have been received by the option holders had those option holders exercised their options as of that date.

Option valuation models require the input of highly subjective assumptions. The fair value of stock-based payment awards was estimated using the Black-Scholes option model with a volatility figure derived from an index of historical stock prices of comparable entities until sufficient data exists to estimate the volatility using the Company's own historical stock prices. Management determined this assumption to be a more accurate indicator of value.

The Company accounts for the expected life of options based on the contractual life of options for non-employees and for non-statutory options granted to employees. For incentive options granted to employees, the Company accounts for the expected life in accordance with the "simplified" method, which is used for "plain-vanilla" options, as defined in the accounting standards codification. The risk-free interest rate was determined from the implied yields of U.S. Treasury zero-coupon bonds with a remaining life consistent with the expected term of the options. The fair value of stock-based payment awards was estimated using the Black-Scholes pricing model.

The following table presents information related to stock options at March 31, 2017:

Options Outstanding		Options Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Life In Years	Exercisable Number of Options
\$ 0.01	1,000,000	3.95	-

As of March 31, 2017, there was no unrecognized compensation expense.

12. SEGMENT INFORMATION

Our business is organized into two reportable segments: renewable systems integration revenue and non-renewable systems integration revenue. Asset information by operating segment is not presented below since our chief operating decision maker ("CODM") does not review this information by segment. Our CODM is our chief executive officer. The reporting segments follow the same accounting policies used in the preparation of the Company's unaudited condensed consolidated financial statements. The following represents selected information for the Company's reportable segments for the three months ended March 31, 2017 and 2016.

	For the Three Months Ended	
	March 31, 2017	March 31, 2016
Revenue by Segment		
Renewable Systems Integration	\$ 16,090	\$ -
Non-renewable Systems Integration	1,850,755	1,216,004
	<u>\$ 1,866,845</u>	<u>\$ 1,216,004</u>
Cost of Sales by Segment		
Renewable Systems Integration	\$ 16,163	\$ -
Non-renewable Systems Integration	1,413,562	914,262
	<u>\$ 1,429,725</u>	<u>\$ 914,262</u>
Operating Expenses		
Renewable Systems Integration	\$ 46,435	\$ 431,005
Non-renewable Systems Integration	446,809	524,490
	<u>\$ 493,244</u>	<u>\$ 955,495</u>
Operating (Loss) Income by Segment		
Renewable Systems Integration	\$ (46,105)	\$ (431,005)
Non-renewable Systems Integration	(10,019)	(222,748)
	<u>\$ (56,124)</u>	<u>\$ (653,753)</u>

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016 (UNAUDITED)

13. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (Topic 606). This ASU provides guidance for revenue recognition and affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition,” and most industry specific guidance. The standard’s core principle is the recognition of revenue when a company transfers promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers” (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 to fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted for fiscal years beginning after December 15, 2016. We have begun a limited evaluation of the provisions of ASU 2014-09 and the impact, if any, it may have on our financial position and results of operations. As of March 31, 2017 management has deemed the impact as immaterial.

In March 2016, FASB issued ASU No. 2016-09, “Improvements to Employee Share-based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We do not believe the accounting standards currently adopted have a material effect on the accompanying condensed consolidated financial statements.

During January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is not permitted with the exception of certain provisions related to the presentation of other comprehensive income. The adoption of ASU 2016-01 is not expected to have a material impact on our financial position, results of operations or cash flows.

During February 2016, the FASB issued ASU No. 2016-02, “Leases” (“ASU 2016-02”). The standard requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The adoption of ASU 2016-02 is not expected to have a material impact on our financial position, results of operations or cash flows due to an insignificant number of leases that the Company has entered into.

In August 2016, FASB issued ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for fiscal years, and interim periods within those years beginning after December 15, 2017. Early adoption is permitted. The Company does not expect the adoption of ASU No. 2016-15 to have a material impact on its financial statements.

Management does not believe there would have been a material effect on the accompanying financial statements had any other recently issued, but not yet effective, accounting standards been adopted in the current period.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016 (UNAUDITED)

14. GOING CONCERN

As reflected in the accompanying financial statements, the Company had a net loss of \$56,124 and net cash used in operations of \$197,148 for the three months ended March 31, 2017, and cash of \$346,893, stockholders' equity of \$452,523 and an accumulated deficit of \$796,775 at March 31, 2017. In addition, the Company is a start-up in the renewable energy space.

Management has evaluated the significance of these conditions and under these circumstances expects that its current cash resources as well as projections for 2017 would be sufficient to sustain operations for a period greater than one year from this report issuance date.

15. SUBSEQUENT EVENTS

On April 3, 2017, a consultant and former director exercised options to acquire 100,000 shares of the Company's common stock.

On April 3, 2017, the Company, in connection with the appointment of two new directors, granted each of them options to purchase 50,000 shares of the Company's common stock under the 2016 Plan. The options have a term of five years, and an exercise price of \$2.00 per share, with 50% of the options vesting on April 3, 2018 and the remaining 50% vesting on April 3, 2019.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect Management's current views with respect to future events and financial performance. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. Those statements include statements regarding the intent, belief or current expectations of us and members of our management team as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.

Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission. Important factors currently known to Management could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time. We believe that our assumptions are based upon reasonable data derived from and known about our business and operations. No assurances are made that actual results of operations or the results of our future activities will not differ materially from our assumptions. Factors that could cause differences include, but are not limited to, expected market demand for our products, fluctuations in pricing for materials, and competition.

Business Overview

We were formed in August 2015 to expand upon the successful implementation of a hydrogen energy system used to completely power a residence or commercial property with clean energy so that it can run independent of the utility grid and also provide energy to the utility grid for monetary credits. This unique system uses renewal energy as its source for hydrogen production. We believe that it is a revolutionary green-energy concept that is safe, renewable, self-sustaining and cost effective. On January 31, 2017, the Company acquired The Pride Group (QLD) Pty Ltd, an Australian company ("Pride"). Founded in 1997, Pride is a provider of security systems integration for a variety of customers in the government and commercial sector and has launched a new clean energy systems division to focus on the high growth renewable energy market in Asia-Pacific.

Pride Energy Systems is Pride's clean energy division, which sells, designs, installs and maintains a variety of technology services in the clean energy market, including audits of energy consumption, review of energy and tax credits available, feasibility studies, solar/battery energy system design, zoning and permitting analysis, site design/preparation and restoration, system startup, testing and commissioning and maintenance. The division has just begun to bid for clean energy systems and is focused on the residential, commercial and government sectors. The division is able to utilize the many contacts established in the security systems division.

There are great benefits to hydrogen energy. The use of hydrogen as a fuel produces no carbon dioxide or other greenhouse gases. Unlike fossil fuels, the only emissions from hydrogen fuel are chemically pure water and oxygen. Hydrogen can be extracted from water using renewable energy from the sun and unlike batteries, hydrogen energy can be stored indefinitely. There is no drilling, fracking or mining required to produce hydrogen energy. We believe it is safe and efficient, and the cleanest energy source on the planet.

We have succeeded in developing a hydrogen energy system designed to create electricity that is generated by renewable solar energy. We call the hydrogen energy system the HC-1. The HC-1 system functions as a self-sustaining renewable energy system. It can be configured as an off grid solution for all your electricity needs or it can be connected to the grid to generate energy credits. Its production of hydrogen is truly eco-friendly, as it is not produced by the use of fossil fuels. It is a system comprised of solar modules, inverters, batteries, a hydrogen generator, a fuel cell and a hydrogen storage tank.

When there is solar power, the solar modules produce renewable energy that is collected through a solar inverter, which charges a bank of batteries through a battery inverter. After the batteries are fully charged, the excess electricity is then combined with water through a hydrogen generator that extracts the hydrogen from the water in a gasified state, which is safely transferred to the hydrogen tank and stored for later use. If the tank is full, excess electricity is sent from the batteries through the battery inverter to the utility grid, which results in energy credits for the system owner.

The HC-1 system is connected to the residential or commercial property through the inverters. The electricity is always provided by the charged batteries. If there is no solar power to charge the batteries, the system keeps the batteries fully charged by using hydrogen stored in the tank, which processed through a fuel cell, creates the electricity. As the system is able to produce hydrogen, that keeps the hydrogen tank full, it provides a continuous supply of clean energy and sustainability that is independent from the grid.

Each HC-1 system is custom designed to accommodate the electrical loads for an end user. The system is completely scalable. If the customer is connected to the electric grid, energy production that is converted to hydrogen in excess of the amount stored in the hydrogen tank is transferred to the local electric company, creating energy credits.

If a customer wishes to connect our system to the electrical grid in order to generate renewable energy credits, the customer needs to obtain interconnection agreements from the applicable local primary electricity utility. In our experience, there has not been any cost involved in obtaining an interconnection agreement, but as the requirements are determined on a local basis, it may be possible that some nominal costs are involved in connection with the process. If the customer obtains an interconnection agreement, once the HC-1 system is operational, the HC-1 system end user can eliminate their electric bill and, if in a permissible state, can begin generating energy credits. In certain states, an end user receives one energy credit for each 1,000 kWh produced through renewable energy. The customer sells these credits to a broker who in turn sells the credits to a utility company so that the utility company can demonstrate their compliance with the regulatory obligations to reduce greenhouse gas emissions. The price per credit can vary depending on supply and demand. Many other states that may not offer an energy credit program, do offer other cash incentives for renewable energy systems.

Current Operating Trends

Currently, our employees are licensed to install our HC-1 systems in the State of New Jersey. Pride sells, designs, installs and maintains a variety of technology products in the security systems market, including commercial alarm systems, access control, video surveillance, CCTV (closed circuit television)/MATV (master antenna television) systems, biometric technology, audio/visual systems, nurse call systems and public announcement systems. Pride also provides programs for annual maintenance of its products and systems. The division generates approximately half of its revenue from government contracts and the other half from the commercial sector. Pride has recurring annual maintenance revenue of close to AUD \$2 million. Pride is a certified security systems integrator for the Queensland Government and has various government contracts in place for installation, maintenance and project services. Pride also works with a number of general contractors as a subcontractor for security systems integration.

We intend to aggressively grow our business, both organically and through strategic acquisitions. We intend to acquire companies with licensed contractors in various states and regions, which will allow us to expand the territories in which we can install our systems. These acquired companies will also provide us with a consistent revenue stream, a customer base for marketing our HC-1 systems and technicians. Initially, we intend to focus on states or countries whose government supports a regulatory standard requiring its utility companies to increase their production of energy from renewable energy sources.

These governments have established various incentives and financial mechanisms to accelerate and promote the use of renewable energy sources. Currently, many states comply with regulatory standards including New Jersey, Massachusetts, Pennsylvania, Maryland, Ohio, Delaware, North Carolina, Virginia, Kentucky, West Virginia, Michigan, Indiana, Illinois as well as the District of Columbia. In addition, countries such as the United Kingdom, Australia, Italy, Poland, Sweden, Belgium and Chile have adopted regulatory standards. The list is expanding each year.

We are also searching for suitable acquisition targets that will complement our services, create revenue production, allow us to expand our sales and technical staff and provide us with a larger customer base to pursue with greater geographic coverage. As of the date of this quarterly report, we have no written agreements or understandings to acquire any companies and no assurances can be given that we will identify or successfully acquire any other companies.

Results of Operations

For the three months ended March 31, 2017 and the three months ended March 31, 2016

Revenue and Cost of Revenue

We had \$1,866,845 of revenue and \$1,429,725 for cost of revenue during the three months ended March 31, 2017, respectively, of which \$16,090 and \$15,905, respectively, was related party. We had \$1,216,004 of revenue and \$914,262 for cost of revenue for the period for the three months ended March 31, 2016. The revenue breakdown by segment is as follows:

Revenue by Segment	For the Three Months Ended	
	March 31, 2017	March 31, 2016
Renewable Systems Integration	\$ 16,090	\$ -
Non-renewable Systems Integration	1,850,755	1,216,004
	<u>\$ 1,866,845</u>	<u>\$ 1,216,004</u>

General and Administrative Expenses

During the three months ended March 31, 2017, our general and administrative expenses were \$493,244. \$46,435 was related to the Renewable Systems Integration segment, including \$19,500 of legal fees, \$7,675 of consulting/dues and subscription fees, which pertained to EDGAR fees and OTC Market annual listing fees, \$5,000 of stock based compensation, \$3,519 of travel, a New Jersey state tax of \$750 and \$9,991 of miscellaneous expenses.

The Non-renewable Systems Integration segment incurred general and administrative expenses during the three months ended March 31, 2017 of \$446,809, including management and administrative salaries of \$166,628 along with \$100,149 of other various employee expenses, such as vacation and sick time, and management fees of \$45,826. In addition, automobile expenses totaled \$41,449, which included repairs, fuel and auto allowance. Facilities lease for the Pride offices totaled \$22,901. Professional fees of \$8,085 consisted of legal and accounting fees incurred for tax and human resources advice. Consulting/dues and subscription fees were \$7,290, which pertained to miscellaneous business subscriptions and renewals. We incurred \$3,234 of travel and entertainment, business meals, investor relations and promotional expenses. In addition, we incurred other miscellaneous fees of \$20,219, bad debt expense of \$23,591 and depreciation of \$7,437.

During the three months ended March 31, 2016 expenses for our general and administrative expenses were \$955,495. \$431,005 was related to the Renewable Systems Integration segment, including a grant of an aggregate 1,000,000 options to purchase our common stock in connection with the services rendered, at the exercise price of \$0.01 per share for a term of five years, with various vesting periods, and having a fair value of \$387,450. Research and development expenses were \$2,000 for improvements to our HC-1 system. \$40,189 of legal fees in connection with for services rendered in connection with the filing of a registration statement. We had miscellaneous expenses of \$1,366.

The Non-renewable Systems Integration segment incurred general and administrative expenses during the three months ended March 31, 2016 of \$524,490, including management and administrative salaries of \$164,103, \$181,580 of other various employee expenses, such as vacation and sick time, and management fees of \$38,148. Automobile expenses totaled \$54,553, which included repairs, fuel, lease and auto allowance. Facilities lease for the Pride offices totaled \$22,682. In addition, we incurred other miscellaneous fees of \$50,045, of which \$15,600 was for telecommunications, \$10,075 of legal and accounting fees, and \$3,304 of depreciation.

Net Loss

As a result of the foregoing, we had a net loss of \$56,124 for the three months ended March 31, 2017 and a net loss of \$653,753 for the period for the three months ended March 31, 2016.

Liquidity and Capital Resources

As of March 31, 2017, we had working capital of \$337,202, comprised of \$346,893 of cash and cash equivalents, \$1,521,592 of accounts receivables, \$7,425 of prepaid expenses and \$80,826 of costs in excess of billings. We had \$1,394,199 of accounts payables, \$104,718 of billings in excess of cost and \$120,617 of sales tax payable, which made up current liabilities at March 31, 2017. For the three months ended March 31, 2017, we used \$197,148 of cash in operating activities, which represented our net loss of \$56,124 and \$637,529 of changes in accounts payable, offset by \$7,434 of depreciation and amortization, \$831,900 of changes in accounts receivables, \$7,700 of prepaid expenses, \$16,624 of costs in excess of billings and \$16,589 of billings in excess of cost. We had \$6,787 from investing activities from the purchase of fixed assets. For the three months ended March 31, 2016, we had \$91,110 of net cash provided by operating activities and we had \$195,796 of cash provided by financing activities, comprised of \$200,000 from the issuance of common stock less \$4,204 due to stockholders. We did not have any cash used in investing activities for the three months ended March 31, 2016.

In the future we expect to incur expenses related to compliance for being a public company and travel related to visiting potential customer sites. We expect that our general and administrative expenses will increase as we expand our business development, add infrastructure and incur additional costs related to being a public company, including incremental audit fees, investor relations programs and increased professional services.

Our future capital requirements will depend on a number of factors, including the progress of our sales and marketing of our services, the timing and outcome of potential acquisitions, the costs involved in operating as a public reporting company, the status of competitive services, the availability of financing and our success in developing markets for our services. When we enter into contracts with customers, they will be required to make payments in tranches, including a payment after a contract is executed but prior to commencement of the project. We believe our existing cash, together with revenue generated by future projects under tranche payment plans, will be sufficient to fund our operating expenses and capital equipment requirements for at least the next 12 months.

We presently do not have any available credit, bank financing or other external sources of liquidity. Due to our brief history, our operations have not been a source of liquidity. We may need to obtain additional capital in order to expand operations and fund our activities. Future financing may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. Even if we are able to raise the funds if required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we may be required to delay, reduce the scope of or eliminate our marketing and business development services.

February 2016 Private Placement

Effective February 4, 2016, we sold 526,316 shares of common stock to one accredited investor for gross proceeds of \$200,000.

June 2016 Private Placement

Effective June 16, 2016, we sold 500,000 shares of common stock to 52 accredited investors for gross proceeds of \$250,000.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued expenses and stock-based compensation. We based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents includes cash in bank and money market funds as well as other highly liquid investments with an original maturity of three months or less.

Website Development Costs

In accordance with FASB Accounting Standards Codification (“ASC”) 350, Website Development Costs, website development is segregated into three stages or activities. During the initial, or planning stage, all related costs are expensed as incurred. The second phase is the development of the site, which includes costs incurred for web application and infrastructure, as well as graphics development. Costs incurred during the second phase are capitalized and then amortized when the website is ready for its intended use. Stage three consists of costs incurred for post-implementation work, such as security, training and administration. Such costs incurred during this phase are expensed as incurred. Expenditures for additional upgrades and features once the website is launched are capitalized if the upgrades and enhancements furnish additional functionality; otherwise, such costs are expensed as incurred.

Website development costs which have been capitalized will be amortized, using the straight-line method, over an estimated useful life of five years, commencing when the site is launched.

Revenue Recognition

Revenues from construction contracts are included in contract revenue in the consolidated statements of operations and are recognized under the percentage-of-completion accounting method. The percent complete is measured by the cost incurred to date compared to the estimated total cost of each project. This method is used as management considers expended cost to be the best available measure of progress on these contracts, the majority of which are completed within one year, but may occasionally extend beyond one year. Inherent uncertainties in estimating costs make it at least reasonably possible that the estimates used will change within the near term and over the life of the contracts.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance and completion. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. General and administrative costs are charged to expense as incurred.

Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income. Such revisions are recognized in the period in which they are determined.

Costs and estimated earnings in excess of billings are comprised principally of revenue recognized on contracts (on the percentage-of-completion method) for which billings had not been presented to customers because the amounts were not billable under the contract terms at the balance sheet date. In accordance with the contract terms, any unbilled receivables at period end will be billed subsequently. Amounts are billed based on contractual terms. Billings in excess of costs and estimated earnings represent billings in excess of revenues recognized.

Research and Development Costs

Research and development costs are expensed as incurred. These costs consist primarily of consulting fees, salaries and direct payroll related costs.

Stock-Based Compensation

We measure the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on vesting dates and interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period.

As of March 31, 2017, we had 1,000,000 options outstanding to purchase shares of common stock, none of which were vested.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606). This ASU provides guidance for revenue recognition and affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry specific guidance. The standard's core principle is the recognition of revenue when a company transfers promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers" (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 to fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted for fiscal years beginning after December 15, 2016. We have begun a limited evaluation of the provisions of ASU 2014-09 and the impact, if any, it may have on our financial position and results of operations. As of March 31, 2017 management has deemed the impact as immaterial.

In March 2016, FASB issued ASU No. 2016-09, “Improvements to Employee Share-based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We do not believe the accounting standards currently adopted will have a material effect on our financial statements.

During January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is not permitted with the exception of certain provisions related to the presentation of other comprehensive income. The adoption of ASU 2016-01 is not expected to have a material impact on our financial position, results of operations or cash flows.

During February 2016, the FASB issued ASU No. 2016-02, “Leases” (“ASU 2016-02”). The standard requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The adoption of ASU 2016-02 is not expected to have a material impact on our financial position, results of operations or cash flows due to an insignificant number of leases that we have entered into.

In August 2016, FASB issued ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for fiscal years, and interim periods within those years beginning after December 15, 2017. Early adoption is permitted. We do not expect the adoption of ASU No. 2016-15 to have a material impact on our financial statements.

Management does not believe there would have been a material effect on the accompanying financial statements had any other recently issued, but not yet effective, accounting standards been adopted in the current period.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required under Regulation S-K for “smaller reporting companies.”

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2017, as a result of the material weaknesses described below, our disclosure controls and procedures are not designed at a reasonable assurance level and are ineffective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The material weaknesses, which relate to internal control over financial reporting, that were identified are:

- a) Due to our small size, we did not have sufficient personnel in our accounting and financial reporting functions at the public, parent company level. As a result, we were not able to achieve adequate segregation of duties and were not able to provide for adequate review of the financial statements. This control deficiency, which is pervasive in nature, results in a reasonable possibility that material misstatements of the consolidated financial statements will not be prevented or detected on a timely basis;
- b) We did not maintain sufficient personnel with an appropriate level of technical accounting knowledge, experience, and training in the application of U.S. GAAP commensurate with our complexity and our financial accounting and reporting requirements as it related to accounting for an acquisition under common control in connection with our acquisition of Pride. This control deficiency is pervasive in nature. Further, there is a reasonable possibility that material misstatements of the financial statements including disclosures will not be prevented or detected on a timely basis as a result; and
- c) We lacked sufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of U.S. GAAP and SEC disclosure requirements.

We are committed to improving our financial organization. As part of this commitment, we will create a segregation of duties consistent with control objectives and will look to increase our personnel resources and technical accounting expertise within the accounting function when possible to appropriately address non-routine or complex accounting matters. As a result of our acquisition of Pride in January 2017, we increased our accounting personnel and technical accounting expertise within the accounting function, including accounting personnel with experience in U.S. public reporting requirements, however, those employees only handle accounting as it relates to Pride and not our company on a consolidated basis.

Management believes that hiring additional knowledgeable personnel with technical accounting expertise will remedy the following material weaknesses: (A) lack of sufficient personnel in our accounting and financial reporting functions to achieve adequate segregation of duties; and (B) insufficient personnel with an appropriate level of technical accounting knowledge, experience, and training in the application of U.S. GAAP commensurate with our complexity and our financial accounting and reporting requirements.

Management believes that the hiring of additional personnel who have the technical expertise and knowledge with the non-routine or technical issues we have encountered in the past will result in both proper recording of these transactions and a much more knowledgeable finance department as a whole. Due to the fact that our accounting staff at the parent level currently consists of our Chief Financial Officer, additional personnel will also ensure the proper segregation of duties and provide more checks and balances within the department. Additional personnel will also provide the cross training needed to support us if personnel turnover issues within the department occur. We believe this will greatly decrease any control and procedure issues we may encounter in the future. We currently engage an outside accounting firm to assist us in the preparation of our condensed consolidated financial statements and anticipate doing so until we have a sufficient number of internal accounting personnel to achieve compliance. As necessary, we will engage consultants in the future in order to ensure proper accounting for our condensed consolidated financial statements.

In addition, we intend to create written policies and procedures for accounting and financial reporting with respect to the requirements and application of U.S. GAAP and SEC disclosure requirements during the 2017 fiscal year.

We will continue to monitor and evaluate the effectiveness of our disclosure controls and procedures and our internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are currently not a party to any material legal proceedings or claims.

Item 1A. Risk Factors

Not required under Regulation S-K for “smaller reporting companies.”

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On January 31, 2017, we entered into a share exchange agreement (the “Exchange Agreement”) by and among us, The Pride Group (QLD) Pty Ltd., an Australian corporation (“Pride”), Turquino Equity LLC (“Turquino”) and Stephen Paul Mullane and Marie Louise Mullane as Trustees of the Mullane Family Trust (the “Mullane Trust” and together with Turquino, the “Pride Shareholders”). Andrew Hidalgo and Matthew Hidalgo, the Company’s Chief Executive Officer and Chief Financial Officer, respectively, are each a managing partner of Turquino.

Pursuant to the Exchange Agreement, we acquired all of the issued and outstanding capital stock of Pride from the Pride Shareholders in exchange for an aggregate of 3,800,000 shares of our common stock.

The issuances of our common stock were exempt from registration under the Securities Act of 1933, as amended, in reliance upon Section 4(a)(2) of the Securities Act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.01	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 INS	XBRL Instance Document
101 SCH	XBRL Taxonomy Extension Schema Document
101 CAL	XBRL Taxonomy Calculation Linkbase Document
101 LAB	XBRL Taxonomy Labels Linkbase Document
101 PRE	XBRL Taxonomy Presentation Linkbase Document
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

H/CELL ENERGY CORPORATION

Date: May 19, 2017

By: /s/ ANDREW HIDALGO

Andrew Hidalgo
Chief Executive Officer (Principal Executive
Officer)

Date: May 19, 2017

By: /s/ MATTHEW HIDALGO

Matthew Hidalgo
Chief Financial Officer (Principal Financial Officer
and Principal Accounting Officer)

CERTIFICATION

I, Andrew Hidalgo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H/Cell Energy Corporation;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 19, 2017

/s/ ANDREW HIDALGO

Andrew Hidalgo
Chief Executive Officer

CERTIFICATION

I, Matthew Hidalgo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H/Cell Energy Corporation;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 19, 2017

/s/ MATTHEW HIDALGO

Matthew Hidalgo
Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Andrew Hidalgo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of H/Cell Energy Corporation on Form 10-Q for the fiscal quarter ended March 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of H/Cell Energy Corporation.

Date: May 19, 2017

By: /s/ ANDREW HIDALGO

Name: Andrew Hidalgo

Title: *chief Executive Officer*

I, Matthew Hidalgo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of H/Cell Energy Corporation on Form 10-Q for the fiscal quarter ended March 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of H/Cell Energy Corporation.

Date: May 19, 2017

By: /s/ MATTHEW HIDALGO

Name: Matthew Hidalgo

Title: *Chief Financial Officer*
