

**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 September 30, 2018

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: 000-55802

H/CELL ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction
of incorporation or organization)

47-4823945

(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

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

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 November 7, 2018, there were 7,586,024 shares of registrant's common stock outstanding.

H/CELL ENERGY CORPORATION

INDEX

PART I. FINANCIAL INFORMATION	
ITEM 1. Financial Statements	
Condensed consolidated balance sheets as of September 30, 2018 (unaudited) and December 31, 2017	3
Condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017 (unaudited)	4
Condensed consolidated statement of stockholders' equity for the nine months ended September 30, 2018 (unaudited)	5
Condensed consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 (unaudited)	6
Notes to condensed consolidated financial statements (unaudited)	7-20
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21-26
ITEM 3. Quantitative and Qualitative Disclosures about Market Risk	26
ITEM 4. Controls and Procedures	26
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	27
ITEM 1A. Risk Factors	27
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	27
ITEM 3. Defaults Upon Senior Securities	27
ITEM 4. Mine Safety Disclosures	27
ITEM 5. Other Information	27
ITEM 6. Exhibits	27
SIGNATURES	28

**PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS**

**H/CELL ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 331,236	\$ 455,700
Accounts receivable (net retention)	1,230,621	808,050
Prepaid expenses	23,282	14,669
Costs and earnings in excess of billings	73,180	51,531
Total current assets	1,658,319	1,329,950
Property and equipment, net	362,933	102,573
Security deposits and other non-current assets	20,711	8,416
Deferred tax asset	44,257	44,257
Customer lists, net	88,766	-
Goodwill	1,373,621	-
Total assets	\$ 3,548,607	\$ 1,485,196
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities		
Accounts payable and accrued expenses	\$ 830,708	\$ 631,385
Management fees payable – related party	-	31,257
Earn-out payable	186,346	-
Billings in excess of costs and earnings	51,798	87,206
Sales and withholding tax payable	45,154	61,239
Current equipment notes payable	32,538	-
Current capital lease payable	68,240	-
Income tax payable	26,197	98,313
Total current liabilities	1,240,981	909,400
Noncurrent liabilities		
Note payable	222,963	-
Capital leases	149,590	-
Equipment notes payable	118,606	-
Convertible note payable – related party, net of discount	14,268	-
Total noncurrent liabilities	505,427	-
Total liabilities	1,746,408	909,400
Commitments and contingencies		
Stockholders' equity		
Preferred stock - \$0.0001 par value; 5,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock - \$0.0001 par value; 25,000,000 shares authorized; 7,586,024 and 7,041,579 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	758	704
Additional paid-in capital	2,967,004	1,335,656
Accumulated deficit	(1,096,096)	(731,754)
Accumulated other comprehensive loss	(69,467)	(28,810)
Total stockholders' equity	1,802,199	\$ 575,796
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 3,548,607	\$ 1,485,196

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue				
Construction income	\$ 1,830,992	\$ 1,292,905	\$ 5,535,352	\$ 5,050,155
Related party	8,499	45,666	40,288	85,919
Total revenue	<u>1,839,491</u>	<u>1,338,571</u>	<u>5,575,640</u>	<u>5,136,074</u>
Cost of goods sold				
Direct costs	1,438,669	870,369	3,901,125	3,432,098
Direct costs – related party	9,019	37,304	40,636	87,649
Total cost of goods sold	<u>1,447,688</u>	<u>907,673</u>	<u>3,941,761</u>	<u>3,519,747</u>
Gross profit	391,803	430,898	1,633,879	1,616,327
Operating expenses				
General and administrative expenses	607,125	437,344	1,850,140	1,379,415
Management fees – related party	19,500	46,000	58,500	138,000
Total operating expenses	<u>626,625</u>	<u>483,344</u>	<u>1,908,640</u>	<u>1,517,415</u>
Income (loss) from operations	(234,822)	(52,446)	(274,761)	98,912
Income tax provision (benefit)	-	-	-	-
Income (loss) before other income and expense	<u>(234,822)</u>	<u>(52,446)</u>	<u>(274,761)</u>	<u>98,912</u>
Other expenses				
Interest expense	7,544	-	21,636	-
Interest expense – related party	19,877	-	52,768	-
Change in fair value earn-out	4,290	-	11,028	-
Loss on fixed asset disposal	795	-	4,149	-
Total other expenses	<u>28,216</u>	<u>-</u>	<u>78,553</u>	<u>-</u>
Net income (loss)	<u>\$ (267,328)</u>	<u>\$ (52,446)</u>	<u>\$ (364,342)</u>	<u>\$ 98,912</u>
Other comprehensive income (loss), net				
Foreign currency translation adjustment	<u>(7,828)</u>	<u>5,928</u>	<u>(40,657)</u>	<u>24,345</u>
Comprehensive income (loss)	<u>\$ (275,156)</u>	<u>\$ (46,518)</u>	<u>\$ (404,999)</u>	<u>\$ 123,257</u>
Earnings (loss) per share				
Basic	\$ (0.04)	\$ (0.01)	\$ (0.05)	\$ 0.02
Diluted	\$ (0.04)	\$ (0.01)	\$ (0.05)	\$ 0.01
Weighted average common shares outstanding				
Basic	7,586,024	7,084,436	7,469,307	6,601,873
Diluted	7,586,024	7,084,436	7,469,307	7,526,763

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

H/CELL ENERGY CORPORATION
STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

	<u>Common Stock</u>		<u>Preferred Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Income (Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>				
Beginning, January 1, 2018	7,041,579	\$ 704	-	\$ -	\$ 1,335,656	\$ (731,754)	\$ (28,810)	\$ 575,796
Issuance of common stock in February 2018, PVBJ Acquisition	444,445	44	-	-	1,183,537	-	-	1,183,581
Exercise of Stock Options	100,000	10	-	-	990	-	-	1,000
Stock-based compensation expense	-	-	-	-	51,821	-	-	51,821
Beneficial conversion feature	-	-	-	-	395,000	-	-	395,000
Net loss	-	-	-	-	-	(364,342)	(40,657)	(404,999)
Ending, September 30, 2018	<u>7,586,024</u>	<u>\$ 758</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 2,967,004</u>	<u>\$ (1,096,096)</u>	<u>\$ (69,467)</u>	<u>\$ 1,802,199</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 Nine Months Ended
September 30,

2018 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)	\$ (364,342)	\$ 98,912
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	135,498	23,374
Stock-based compensation	51,821	35,041
Loss on sale of assets	4,149	(77)
Change in fair value contingent consideration	11,028	-
Change in operating assets and liabilities:		
Accounts and retainage receivable	(456,672)	(108,014)
Prepaid expenses and other costs	(9,121)	1,490
Costs in excess of billings	(26,786)	82,431
Security deposits	(13,898)	-
Accounts payable and accrued expenses	311,906	(251,132)
Billings in excess of costs	(30,246)	(2,576)
	<u>(386,663)</u>	<u>(120,551)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	(13,909)	(32,577)
Cash acquired in business acquisition	30,408	-
Proceeds from disposition of property and equipment	5,534	11,957
	<u>22,033</u>	<u>(20,620)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of convertible debt	395,000	-
Payments of related party interest	(36,000)	-
Repayments on capital leases	(42,123)	-
Repayments on notes payable	(36,229)	-
Proceeds from line of credit	251,065	-
Repayments on long-term debt	(225,903)	-
Proceeds related to stock option exercises	1,000	1,000
	<u>306,810</u>	<u>1,000</u>

Net decrease in cash and cash equivalents	(57,820)	(140,171)
Effect of foreign currency translation on cash	(66,644)	23,375
Cash and cash equivalents, beginning of period	455,700	537,867
Cash and cash equivalents, end of period	<u>\$ 331,236</u>	<u>\$ 421,071</u>

Supplemental disclosure of non-cash investing and financing activities

Common stock issued for acquisition of business	\$ 1,177,779	-
Fair value of net assets acquired in business combination	\$ 2,056,344	-
Beneficial conversion feature	\$ 378,232	-

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

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (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 clean energy systems with a focus on hydrogen energy. Effective January 31, 2017, the Company acquired The Pride Group (QLD) Pty Ltd, an Australian company (“Pride”) (see Note 11). 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 new clean energy division has generated some revenue and has begun to bid a number of projects. On February 1, 2018, the Company acquired PVBJ Inc. (“PVBJ”) for 444,445 shares of the Company’s common stock with a fair value of \$1,177,779 and \$221,800 in earn-out liability (see Note 12). Established in 2008, PVBJ is well recognized for the design, installation, maintenance and emergency service of environmental systems both in residential and commercial markets. PVBJ is now expanding into clean energy systems.

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 using hydrogen and fuel cell technology. 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 electricity 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 Company’s condensed consolidated financial statements have been prepared in accordance with U.S. GAAP and following the requirements of the Securities and Exchange Commission (“SEC”) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These interim financial statements have been prepared on the same basis as the Company’s annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the Company’s financial information. These interim results are not necessarily indicative of the results of be expected for the year ending December 31, 2018 or any other interim period or for any other future year. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2017, included in the Company’s 2018 Annual Report on Form 10-K filed with the SEC. The balance sheet as of December 31, 2017 has been derived from audited financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements.

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 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 September 30, 2018 and December 31 2017, there was no allowance for doubtful accounts required.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

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.

Goodwill and Identifiable Intangible Assets

Goodwill represents the excess of the aggregate of the following (1) consideration transferred, (2) the fair value of any non-controlling interest in the acquiree, and (3) if the business combination is achieved in stages, the acquisition-date fair value of our previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Identifiable intangible assets consist primarily of customer lists and relationships, non-compete agreements and technology based intangibles and other contractual agreements. The Company amortizes finite lived identifiable intangible assets over the shorter of their stated or statutory duration or their estimated useful lives, generally ranging from 3 to 15 years, on a straight-line basis to their estimated residual values and periodically reviews them for impairment. Total identifiable intangible assets comprised 41% of our consolidated total assets at September 30, 2018. There were no intangible assets or goodwill at December 31, 2017.

The Company uses the acquisition method of accounting for all business combinations and does not amortize goodwill or intangible assets with indefinite useful lives. Goodwill and intangible assets with indefinite useful lives are tested for possible impairment annually during the fourth quarter of each fiscal year or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income (loss). The Company's other comprehensive income (loss) is comprised of foreign currency translation adjustments.

Advertising Costs

Advertising costs are charged to expense during the period in which they are incurred. Advertising expense for the three months ended September 30, 2018 and 2017 was \$1,144 and \$336, respectively. For the nine months ended September 30, 2018 and 2017, advertising expense was \$3,384 and \$2,482, respectively.

Foreign Currency Translation

The Company translates its foreign subsidiary's assets and liabilities denominated in foreign currencies into U.S. dollars at current rates of exchange as of the balance sheet date and income and expense items at the average exchange rate for the reporting period. Translation adjustments resulting from exchange rate fluctuations are recorded in accumulated other comprehensive income. The Company records gains and losses from changes in exchange rates on transactions denominated in currencies other than each reporting location's functional currency in net income (loss) for each period.

Revenue Recognition

On January 1, 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606) using the modified retrospective method applied to those contracts which were not completed as of December 31, 2017. Results for reporting periods beginning January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period.

Under Topic 606 requirements, the Company recognizes revenue from the installation or construction of projects over time using the cost-based input method. The Company accounts for a contract when: (i) it has approval and commitment from both parties, (ii) the rights of the parties are identified, (iii) payment terms are identified, (iv) the contract has commercial substance, and (v) collectability of consideration is probable. The Company considers the start of a project to be when the above criteria have been met and the Company either has written authorization from the customer to proceed or an executed contract.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

The Company uses the total costs incurred on the project relative to the total expected costs to satisfy the performance obligation. The input method involves measuring the resources consumed, labor hours expended, costs incurred, time lapsed, or machine hours used relative to the total expected inputs to the satisfaction of the performance obligation. Costs incurred prior to actual contract (i.e. design, engineering, procurement of material, etc.) should not be recognized as the client does not have control of the good/service provided. When the estimate on a contract indicates a loss, or claims against costs incurred reduce the likelihood of recoverability of such costs, the Company records the entire estimated loss in the period the loss becomes known. Project contracts typically provide for a schedule of billings or invoices to the customer based on the Company's job to date percentage of completion of specific tasks inherent in the fulfillment of its performance obligation(s). The schedules for such billings usually do not precisely match the schedule on which costs are incurred. As a result, contract revenue recognized in the statement of operations can and usually does differ from amounts that can be billed or invoiced to the customer at any point during the contract. Amounts by which cumulative contract revenue recognized on a contract as of a given date exceed cumulative billings and unbilled receivables to the customer under the contract are reflected as a current asset in the Company's balance sheet under the captions "Costs and estimated earnings in excess of billings" and "Unbilled accounts receivable." Amounts by which cumulative billings to the customer under a contract as of a given date exceed cumulative contract revenue recognized on the contract are reflected as a current liability in the Company's balance sheet under the caption "Billings in excess of costs and estimated earnings."

Revenue from service or short term contracts is recognized currently as the work is performed. Time and materials are accordingly charged to the customer at completion of the job. The Company recognizes service or short term contract revenues when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue is typically recorded once all performance obligations have been satisfied. Sales are recorded net of discounts and returns, which historically have not been material.

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 September 30, 2018 or December 31 2017. At times during the three and nine months ended September 30, 2018 and 2017, balances exceeded the FDIC insurance limit of \$250,000.

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.

Sales and Use Tax

The Company collects sales tax in various jurisdictions. Upon collection from customers, it records the amount as a payable to the related jurisdiction. On a periodic basis, it files a sales tax return with the jurisdictions and remits the amount indicated on the return.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

Income Taxes

The Company uses the asset and liability method of accounting for income taxes pursuant to FASB ASC 740, *Income Taxes* (“ASC 740”). 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 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 2017, 2016 and 2015 income tax returns are still open for examination by the taxing authorities.

Fair Value of Financial Instruments

Except for the Company’s earn-out liability, 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. The Company classifies and discloses assets and liabilities carried at fair value in one of the following three categories:

- Level 1—quoted prices in active markets for identical assets and liabilities;
- Level 2—observable market based inputs or unobservable inputs that are corroborated by market data; and
- Level 3—significant unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The table below presents a reconciliation of the fair value of the Company’s contingent earn-out obligations that use significant unobservable inputs (Level 3).

Balance at December 31, 2017	\$	-
Earn-out liability from acquisition of PVBJ Inc.		175,318
Payments		-
Adjustments to fair value		11,028
Balance at September 30, 2018	\$	<u>186,346</u>

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

The Company values earn-out obligations using a probability weighted discounted cash flow method. This fair value measurement is based on significant unobservable inputs in the market and thus represents a Level 3 measurement within the fair value hierarchy. This analysis reflects the contractual terms of the purchase agreements (e.g., minimum and maximum payments, length of earn-out periods, manner of calculating any amounts due, etc.) and utilizes assumptions with regard to future cash flows, probabilities of achieving such future cash flows and a discount rate. The contingent earn-out obligations are measured at fair value each reporting period and changes in estimates of fair value are recognized in earnings.

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 diluted loss per share excludes dilutive securities for the nine months ended September 30, 2018 because their inclusion would be anti-dilutive. Potentially dilutive securities excluded from the computation of basic and diluted net loss per share for the three months ended September 30, 2018 and 2017 are as follows:

	September 30, 2018	September 30, 2017
Convertible debt	533,333	-
Options to purchase common stock	980,000	1,050,000
Totals	1,513,333	1,050,000

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 of directors. Rezaul Karim resigned from the board of directors effective April 1, 2017. On April 1, 2017, the Company entered into a consulting agreement with Rezaul Karim for a period of one year. As such his function will be to promote our products and services. In each of April 2017 and 2018, Rezaul Karim exercised 100,000 options.

In September 2016, the Company entered into a contract with Rezaul Karim, one of its former directors, for the installation of an HC-1 system. The system installation was complete pending any change orders as of September 30, 2018, and generated \$31,789 and \$85,919 of revenue for the nine months ended September 30, 2018 and 2017, respectively. 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 for REH were \$31,617 and \$87,649 for the nine months ended September 30, 2018 and 2017, respectively. No revenue or costs were incurred in the three months ended September 30, 2018. For the three months ended September 30, 2017, the Company incurred revenue of \$45,666 and direct costs of \$37,304.

In September 2018, the Company entered into a contract with Steve Mullane, the Executive General Manager of Pride, for a solar installation. The system installation was complete as of September 30, 2018, however one change order of \$686 will be deducted to the cost of the job amount in October 2018. Costs incurred were \$9,019 along with revenue of \$8,499 for each of the three and nine months ended September 30, 2018.

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.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

At September 30, 2018 and December 31, 2017, the balances due to Turquino Equity LLC (Turquino”), a significant shareholder, amounted to \$0 and \$31,257, respectively. These balances represent expenses for management services. There was \$19,500 of management fees expensed for the three months ended September 30, 2018 and \$58,500 for the nine months ended September 30, 2018. Management fees expensed totaled \$47,000 for the three months ended September 30, 2017 and \$138,000 for the nine months ended September 30, 2017.

On January 2, 2018, the Company entered into a securities purchase agreement (the “Purchase Agreement”) with two of its directors, pursuant to which the Company sold an aggregate principal amount of \$400,000 in 12% Convertible Debentures (“Debentures”), convertible into shares of the Company’s common stock at a conversion price of \$0.75 per share. The Debentures, together with any accrued and unpaid interest, become due and payable on January 2, 2020 (the “Maturity Date”). Interest on the Debentures accrues at the rate of 12% per annum, payable monthly in cash, beginning on February 1, 2018 and on the Maturity Date. The Debentures are convertible into common stock at a conversion price of \$0.75 per share at the discretion of the holder, with special provisions applying to any holder whose conversion would result in the holder beneficially owning more than 4.99% of the Company’s common stock. In connection with this convertible note payable, the Company recorded a \$395,000 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note using the effective interest method, or until the note is converted or repaid.

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 September 30, 2018 and December 31 2017, the balances exceeded the insured limits by \$81,236 and \$145,236, respectively.

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 September 30, 2018, approximately 20% of the Company’s accounts receivable was due from two unrelated customers at 12% and 8%, respectively. At December 31, 2017, approximately 36% of the Company’s accounts receivable was due from three unrelated customers, 14%, 12% and 10%, respectively.

5. MAJOR CUSTOMERS

There was one customer with a concentration of 10% or higher, at 20%, for the three months ended September 30, 2018, and three customers for the nine months ended September 30, 2018 at 16%, 14% and 11%, respectively. There was one customer with a concentration of 10% or higher of the Company’s revenue, at 19%, for the three months ended September 30, 2017, and two customers, at 29% and 14%, for the nine months ended September 30, 2017.

6. PROPERTY AND EQUIPMENT

At September 30, 2018 and December 31, 2017, property and equipment were comprised of the following:

	September 30, 2018	December 31, 2017
Furniture and fixtures (5 to 7 years)	\$ 12,803	\$ 6,857
Machinery and equipment (5 to 7 years)	35,565	35,919
Computer and software (3 to 5 years)	120,621	94,761
Auto and truck (5 to 7 years)	783,310	250,044
Leasehold improvements (life of lease)	38,961	40,608
	<u>991,260</u>	<u>428,189</u>
Less accumulated depreciation	<u>628,327</u>	<u>325,616</u>
	<u>\$ 362,933</u>	<u>\$ 102,573</u>

Depreciation expense for the three months ended September 30, 2018 and 2017 was \$29,105 and \$8,454, respectively. Depreciation expense for the nine months ended September 30, 2018 and 2017 was \$104,624 and \$23,374, respectively.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

7. UNCOMPLETED CONTRACTS

Costs, estimated earnings and billings on uncompleted contracts are summarized as follows at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Costs incurred on uncompleted contracts	\$ 1,871,577	\$ 2,485,787
Estimated earnings	550,409	779,598
Costs and estimated earnings on uncompleted contracts	2,421,896	3,265,385
Billings to date	2,467,054	3,553,817
Costs and estimated earnings in excess of billings on uncompleted contracts	(45,068)	(288,432)
Costs and earnings in excess of billings on completed contracts	(66,450)	(252,757)
	<u>\$ 21,382</u>	<u>\$ (35,675)</u>
Costs in excess of billings	\$ 73,180	\$ 51,531
Billings in excess of cost	(51,798)	(87,206)
	<u>\$ 21,382</u>	<u>\$ (35,675)</u>

8. COMMITMENTS

The Company previously entered into two operating leases for office space in Woombye and Brisbane, Queensland, Australia, both which expired in April 2018. The Company signed a new lease in February of 2018 for new office space in Kunda Park Queensland Australia, starting in May 2018 and expiring in May 2021. The Company also renewed the Brisbane office space for one year starting in May 2018. The Company's office in Downingtown, Pennsylvania was renewed in January of 2018 for a one-year period. The future minimum payments on the leases for each of the next three and one-half years and in the aggregate amount to the following:

2018	\$ 23,979
2019	54,050
2020	39,639
2021	13,213
	<u>\$ 130,881</u>

Rent expense for the three months ended September 30, 2018 and 2017 was \$22,582 and \$23,500, respectively. Rent expense for the nine months ended September 30, 2018 and 2017 was \$67,355 and \$68,500, respectively, and is included in "General and Administrative" expenses on the related statements of operations.

During the three and nine months September 30, 2018, the Company had vehicles leased under four capital leases, with a net book value of \$159,226, which expire in September 2023. During the three and nine months ended September 30, 2017, the Company had no capital leases. The obligations are payable in monthly installments ranging from approximately \$615 to \$2,630 with interest rates from 5.57% to 7.20% per annum. The leases are secured by the related equipment.

At September 30, 2018, approximate payments to be made on these capital lease obligations are as follows:

2018	\$ 26,569
2019	78,209
2020	75,578
2021	44,718
2022	7,512
Thereafter	4,382
Capital lease obligation	<u>236,968</u>
Less: amounts representing interest	19,138
Current maturities of capital lease obligations	<u>68,240</u>
Capital lease obligations, non-current	<u>\$ 149,590</u>

For the three and nine months ended September 30, 2018, interest expense on the capital leases was \$2,912 and \$7,894, respectively.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

9. DEBT

Long-term debt consisted of the following:

Equipment Notes Payable

	September 30, 2018	December 31, 2017
Note payable with monthly payments of \$716, including interest at 6.50% per annum through November 2020.	\$ 20,235	\$ -
Note payable with monthly payments of \$1,294.50, including interest at 14.72 per annum through March 2023.	\$ 56,080	\$ -
Note payable with monthly payments of \$1,063.45, including interest at 5.76% per annum through April 2021	\$ 21,120	\$ -
Note payable with monthly payments of \$946.84 including interest at 6.14% per annum through December 2024.	\$ 53,709	\$ -
Total non-current portion:	\$ 151,144	\$ -
Total current portion:	\$ (32,538)	\$ -
Total:	<u>\$ 118,606</u>	<u>\$ -</u>

Aggregate annual principal payments in the fiscal years subsequent to December 31 2017, are as follows:

Year ending December 31:	Amount
2018 (remaining)	\$ 8,506
2019	40,395
2020	39,679
2021	25,657
2022	22,584
Thereafter	37,377
Notes payable obligation	174,198
Less amounts representing interest	(23,055)
	<u>\$ 151,144</u>

Convertible Note Payable

On January 2, 2018, the Company entered into an agreement with two related parties, who are directors of the Company and issued a 12.0% interest bearing convertible debenture for \$400,000 due on January 2, 2020, with conversion features commencing immediately following the date of the note. Payments of interest only were due monthly beginning January 2018. The Debentures are convertible into common stock at a conversion price of \$0.75 per share at the discretion of the holder, with special provisions applying to any holder whose conversion would result in the holder beneficially owning more than 4.99% of the Company's common stock. In connection with this convertible note payable, the Company recorded a \$395,000 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note using the effective interest method, or until the note is converted or repaid. The Company incurred \$5,000 of legal fees for preparation of the financing documents, which has been reflected as an additional debt discount.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

For the three months ended September 30, 2018, the Company incurred interest expense of \$19,877, of which \$7,877 related to the amortization of the discount.

For the nine months ended September 30, 2018, the Company incurred interest expense of \$52,768, of which \$14,268 related to the amortization of the discount.

10. CONTRACT BACKLOG

At September 30, 2018, the Company had a contract backlog approximating \$715,595 with anticipated direct costs to completion approximating \$550,409.

11. ACQUISITION UNDER COMMON CONTROL

On January 31, 2017, the Company entered into a share exchange agreement (the “Exchange Agreement”) by and among the Company, Pride, 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.

12. BUSINESS ACQUISITION

On February 1, 2018, the Company entered into a stock purchase agreement (the “Purchase Agreement”) by and among the Company, PVBJ and Benis Holdings LLC, the sole shareholder of PVBJ (“Benis Holdings”).

Pursuant to the Purchase Agreement, the Company acquired all of the issued and outstanding capital stock of PVBJ from Benis Holdings for an aggregate amount equal to (i) \$221,800 (the “Cash Purchase Price”) and (ii) 444,445 shares of the Company’s common stock, par value \$.0001 per share having a fair value of \$1,177,779 (the “Acquisition Shares”). Pursuant to the Purchase Agreement, the Acquisition Shares were issued at closing, and the earn-out will be paid to Benis Holdings from positive earnings before taxes of PVBJ, with Benis Holdings to receive 50% of annual earnings before taxes of PVBJ until such time as Benis Holdings has received the full Cash Purchase Price.

In connection with the acquisition of PVBJ, the Company entered into an employment agreement (the “Employment Agreement”) with Paul V. Benis, Jr. to serve as an Executive Vice President of the Company for a period of three years. Pursuant to the Employment Agreement, Mr. Benis shall receive an annual salary of \$150,000 and have oversight of the business operations of PVBJ.

The preliminary estimated consideration transferred in the acquisition was as follows:

Upfront consideration	\$	1,177,779
Liabilities assumed		878,565
Total	\$	2,056,343

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

The estimated fair values of working capital balances, property and equipment, identifiable intangible assets and goodwill are provisional and are based on the information that was available as of the acquisition date. The estimated fair values of these provisional items are based on certain valuation and other studies and are in progress and not yet at the point where there is sufficient information for a definitive measurement. The Company believes the preliminary information provides a reasonable basis for estimating the fair values of these amounts, but is waiting for additional information necessary to finalize those fair values. Therefore, provisional measurements of fair values reflected are subject to change and such changes could be significant. The Company expects to finalize the valuation of tangible assets and liabilities, identifiable intangible assets and goodwill, and complete the acquisition accounting as soon as practicable but no later than January 2, 2019.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Cash and cash equivalents	\$	30,408
Accounts receivable		277,338
Property and equipment, net		272,554
Customer list		102,422
Goodwill		1,373,621
Total assets acquired		<u>2,056,344</u>
Accounts payable		(112,590)
Debt assumed		(590,657)
Earn-out liability		(175,318)
Total liabilities assumed		<u>(878,565)</u>
Total net assets acquired	\$	<u>1,177,779</u>

The goodwill arising from the acquisition represents the expected synergistic benefits of the transaction, primarily related to lower future operating expenses and the knowledge and experience of the workforce in place. The goodwill is not deductible for income tax purposes.

A summary of preliminary estimated identifiable intangible assets acquired, preliminary estimated useful lives and amortization method is as follows:

Useful Life in	Amount	Years	Amortization Method
Customer List	\$ 102,422	5	Straight Line
Total	<u>\$ 102,422</u>		

The results of PVBJ's operations are included in the condensed consolidated statements of operations beginning February 1, 2018. PVBJ's net loss for three and eight month period ended September 30, 2018 totaled \$84,343 and \$61,341, respectively. The net loss includes estimated acquired intangible asset amortization of \$5,121 for the three month period ended September 30, 2018 and \$13,656 for the eight month period ended September 30, 2018.

For the three and nine month period ended September 30, 2018, acquisition related costs for the Company totaled \$29,500 and \$44,500 and are included in general and administration expenses. The Company may incur additional acquisition related costs during 2018.

Pro forma results for H/Cell Energy Corporation giving effect to the PVBJ Inc. acquisition

The following pro forma financial information presents the combined results of operations of PVBJ Inc. and the Company for the three and nine month periods ended September 30, 2018 and 2017. The pro forma financial information presents the results as if the acquisition had occurred as of the beginning of 2017.

The unaudited pro forma results presented include amortization charges for acquired intangible assets, interest expense and stock-based compensation expense.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

Pro forma financial information is presented for informational purposes and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place as of the beginning of 2017.

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017
Revenues	\$ 1,839,491	\$ 1,965,079
Net income (loss)	(267,328)	57,472
Net income (loss) per share:		
Basic	(0.04)	0.01
Diluted	(0.04)	0.01

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues	\$ 7,499,211	\$ 6,809,961
Net income (loss)	(352,860)	277,215
Net income (loss) per share:		
Basic	(0.05)	0.04
Diluted	(0.05)	0.04

13. STOCK OPTIONS AWARDS AND GRANTS

A summary of the stock option activity and related information for the Company's 2016 Incentive Stock Option Plan from December 31, 2017 to September 30, 2018 is as follows:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2017	1,050,000	\$ 0.27	3.35	\$ 514,182
Grants	30,000	1.00	4.89	-
Exercised	(100,000)	0.01	-	(38,475)
Canceled	-	-	-	-
Outstanding at September 30, 2018	980,000	0.92	3.66	475,707
Exercisable at September 30, 2018	112,500	\$ 1.13	3.23	\$ 127,125

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 weighted average grant date stock price of \$0.3958 per share, which would have been received by the option holders had those option holders exercised their options as of that date. It also includes options granted at exercise prices of \$2.00, \$1.50, and \$1.00, which were equal to the closing sales price of the Company's common stock on the dates of grant.

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. 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.

As of September 30, 2018, there was \$73,216 of unrecognized compensation expense. At September 30, 2017, there was \$126,991 of unrecognized compensation expense.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

14. SEGMENT INFORMATION

Our business is organized into two reportable segments: renewable systems integration revenue and non-renewable systems integration revenue. 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 at September 30, 2018 and December 31, 2017, and also for the three and nine months ended September 30, 2018 and 2017.

	<u>September 30, 2018</u>		<u>December 31, 2017</u>	
Assets by Segment				
Renewable Systems Integration	\$	1,612,793	\$	27,589
Non-renewable Systems Integration		1,935,814		1,457,607
	\$	<u>3,548,607</u>	\$	<u>1,485,196</u>
	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30, 2018</u>	<u>September 30, 2017</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Revenue by segment				
Renewable Systems integration	\$	8,499	\$	45,666
Non-renewable system Integration		1,830,992		1,292,905
	\$	<u>1,839,491</u>	\$	<u>1,338,571</u>
	\$	<u>40,288</u>	\$	<u>85,919</u>
		<u>5,535,352</u>		<u>5,050,155</u>
	\$	<u>5,575,640</u>	\$	<u>5,136,074</u>
Cost of sales by segment				
Renewable Systems integration	\$	9,019	\$	37,304
Non-renewable system Integration		1,438,669		870,369
	\$	<u>1,447,688</u>	\$	<u>907,673</u>
	\$	<u>40,636</u>	\$	<u>87,649</u>
		<u>3,901,125</u>		<u>3,432,098</u>
	\$	<u>3,941,761</u>	\$	<u>3,519,747</u>
Operating expenses				
Renewable Systems integration	\$	123,459	\$	57,447
Non-renewable system Integration		503,166		425,897
	\$	<u>626,625</u>	\$	<u>483,344</u>
	\$	<u>424,640</u>	\$	<u>206,051</u>
		<u>1,484,000</u>		<u>1,311,364</u>
	\$	<u>1,908,640</u>	\$	<u>1,517,415</u>
Operating (loss) income by segment				
Renewable Systems integration	\$	(126,461)	\$	(49,085)
Non-renewable system Integration		(108,361)		(3,361)
	\$	<u>(234,822)</u>	\$	<u>(52,446)</u>
	\$	<u>(424,988)</u>	\$	<u>(207,781)</u>
		<u>150,227</u>		<u>306,693</u>
	\$	<u>(274,761)</u>	\$	<u>98,912</u>

15. 401(k) PLANS

Substantially all of the Company's employees may elect to defer a portion of their annual compensation in the Company-sponsored 401(k) tax-deferred savings plans. The Company makes matching contributions in these plans. The amount charged to expense for these plans was \$5,753 for the three months ended September 30, 2018 and \$16,281 for the nine months ended September 30, 2018. There was no expense for the three or nine months ended September 30, 2017.

16. INCOME TAX

For the three and nine months ended September 30, 2018 and 2017, the Company did not record any income tax expense or benefit. No tax benefit has been recorded in relation to the pre-tax loss for the three and nine months ended September 30, 2018 and 2017. A partial valuation allowance of \$26,197 is listed on the balance sheet at September 30, 2018 to offset any deferred tax asset related to net operating loss carry forwards attributable to the losses.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

17. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued accounting standard update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects 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 previous guidance. This 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 July 2015, the FASB approved the proposal to defer the effective date of ASU 2014-09 standard by one year. Early adoption was permitted after December 15, 2016, and the standard became effective for public entities for annual reporting periods beginning after December 15, 2017 and interim periods therein. In 2016, the FASB issued final amendments to clarify the implementation guidance for principal versus agent considerations (ASU No. 2016-08), accounting for licenses of intellectual property and identifying performance obligations (ASU No. 2016-10), narrow-scope improvements and practical expedients (ASU No. 2016-12) and technical corrections and improvements to ASU 2014-09 (ASU No. 2016-20) in its new revenue standard. The Company has performed a review of the requirements of the new revenue standard and is monitoring the activity of the FASB and the transition resource group as it relates to specific interpretive guidance. The Company reviewed customer contracts, applied the five-step model of the new standard to its contracts, and compared the results to its current accounting practices. The Company has included disclosures required by the new standard and the adoption has not had a material impact on the 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 did not have a material impact on the Company’s 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 currently being evaluated by the Company, but is not expected to have a material impact on the Company’s 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. The Company adopted ASU 2016-15 effective January 1, 2018 and it did not have a material impact on its financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting (“ASU 2017-09”) to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under this new guidance, modification accounting is required if the fair value, vesting conditions, or classification of the award changes as a result of the change in terms or conditions. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within each annual reporting period. The Company adopted ASU 2017-09 effective January 1, 2018 and it did not have a material impact on its financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (ASC 718): Improvements to Nonemployee Share-Based Payment Accounting (“ASU 2018-07”). ASU 2018-07 simplifies the accounting for nonemployee share-based payment transactions. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The new standard will become effective for the Company beginning January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and disclosures.

H/CELL ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

In August 2018, the FASB issue ASU 2018-13, Fair Value Measurement (ASC 820ASC 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The new standard will become effective for the Company January 1, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and disclosures.

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.

18. NET INCOME PER SHARE

The following table sets forth the information needed to compute basic and diluted earnings per share:

	Nine months ended September 30, 2017
Net income	\$ 98,912
Weighted average common shares outstanding	6,601,873
Dilutive securities	
Convertible debt	-
Options	924,890
Diluted weighted average common shares outstanding	7,526,763
Basic net income per share	\$ 0.02
Diluted net income per share	\$ 0.01

For the nine month period ended September 30, 2018 and for the three month periods ended September 30, 2018 and 2017, there are no calculations as there were net losses and certain potential shares of common stock would have been excluded from the calculation of diluted income per share, and therefore, the effect on diluted income per share would have been anti-dilutive.

19. NOTE PAYABLE

On August 21, 2018, PVBJ entered into a loan and security agreement (the “Credit Agreement”) with Thermo Communications Funding, LLC (“Thermo”). The Credit Agreement provides for a revolving line of credit in an amount not to exceed \$350,000, which is evidenced by a promissory note issued by PVBJ to Thermo (the “Note”). Pursuant to the Credit Agreement, PVBJ granted a security interest to Thermo in all of its assets. In addition, pursuant to a limited recourse guaranty, Andrew Hidalgo, the Company’s Chief Executive Officer personally guaranteed the repayment of the Credit Agreement under certain conditions. Pursuant to the terms of the Credit Agreement, the Company is permitted to borrow up to \$350,000 under the revolving credit line, under a borrowing base equal to the lesser of (i) or 85% of Eligible Accounts (as defined in the Credit Agreement). Borrowings under the Credit Agreement may be used for working capital and to refinance certain existing debt of PVBJ. The Credit Agreement contains certain customary representations and warranties, affirmative and negative covenants, and events of default. Principal covenants include a debt service coverage ratio of not less than 1.15 to 1.0, a fixed charge coverage ratio of not less than 1.15 to 1.0, and maintaining a tangible net worth of at least \$150,000, excluding intercompany loans to H/Cell. The loan commitment shall expire on August 21, 2020. The interest rate applicable to revolving loans under the Credit Agreement is prime plus 5.0%, subject to a minimum interest rate of 9.5%. The Company paid a loan commitment fee of \$7,000, of which \$3,500 was paid on closing, and \$3,500 will be paid on the first anniversary. The Company will also pay a monthly monitoring fee during the term of the Credit Agreement of 0.33% of the average outstanding balance, payable monthly in arrears. The Company may prepay the Note at any time and terminate the Credit Agreement. In the event that the Company terminates the Credit Agreement, the Company will pay Thermo an early termination fee equal to 4% of the pro rata portion, which pro rata portion is determined by multiplying \$350,000 by the number of months prior to the second anniversary of the effective date of the Credit Agreement and then dividing that by 24. The obligations of PVBJ under the Credit Agreement may be accelerated upon the occurrence of an event of default under the Credit Agreement, which includes customary events of default including, without limitation, payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, cross-defaults, bankruptcy and insolvency related defaults, defaults relating to judgments, an ERISA reportable event occurs, a change of control and a change in the Company’s financial condition that could have a material adverse effect on the Company. As of September 30, 2018, funds totaling \$38,296 were available for borrowing under the Thermo Credit Agreement.

20. SUBSEQUENT EVENTS

The Company has evaluated events from September 30, 2018 through the date the financial statements were issued. There were no subsequent events that need disclosure.

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 renewable energy as its source for hydrogen production. It functions as a self-sustaining clean energy system using hydrogen and fuel cell technology. Its production of electricity 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.

There are great benefits to hydrogen energy. The use of hydrogen as an energy source produces no carbon dioxide or other greenhouse gases. Unlike fossil fuels, the only emissions from hydrogen are chemically pure water and oxygen. Hydrogen can be extracted from water using renewable energy from the sun and unlike batteries, hydrogen can be stored indefinitely. There is no drilling, fracking or mining required to produce hydrogen. We believe it is safe and the most abundant and cleanest energy source on the planet. In addition to offering this unique self-sustaining clean energy system using hydrogen and fuel cell technology, we offer a number of renewable energy services, such as audits of energy consumption, review of energy/tax credits available, feasibility studies, solar/battery system installation, zoning/permitting analysis, site design/preparation and restoration, system startup, testing, commissioning, maintenance and interconnection applications.

We have succeeded in developing and installing a hydrogen energy system that is combined with renewable solar energy to produce clean electricity. 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. 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 electricity that charges a bank of batteries through a battery inverter. After the batteries are fully charged, the excess electricity powers a hydrogen generator that electrolyzes water and extracts the hydrogen in a gasified state, which is safely stored in a tank for later use. If the tank is full, excess electricity can be sent from the batteries through the battery inverter to the utility grid, which results in energy credits for the system owner, if applicable. The electricity for the end user 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 the hydrogen gas stored in the tank, which processed through a fuel cell, creates the electricity to charge the batteries. As the system is able to produce its own hydrogen gas, which keeps the 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 a customer wishes to connect the system to the electrical grid in order to generate renewable energy credits, we obtain interconnection agreements from the local electric utility company. If the customer obtains authorization for interconnection to the utility grid, once the HC-1 system is operational, the HC-1 system owner 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 kilowatt hours (kWh) produced through renewal 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.

On January 31, 2017, we 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 division to focus on the high growth renewable energy market in Asia-Pacific. On February 1, 2018, we acquired PVBJ Inc. (“PVBJ”). Established in 2008, PVBJ is a regionally recognized company that specializes in HVAC and refrigeration for commercial and residential customers. The services offered include design, installation, repair, maintenance and emergency services for environmental systems. PVBJ has a highly trained technical team that is experienced in all aspects of environmental systems. PVBJ covers the U.S. Mid-Atlantic market. PVBJ is also establishing a clean energy division so that it can offer hydrogen energy systems to its existing customer base.

Current Operating Trends

Currently, a number of technicians are licensed to install our HC-1 systems in the Mid-Atlantic region of the U.S. and Australia. In addition to recently establishing a clean energy division, Pride is a highly regarded and established company that designs, installs and maintains a variety of technology products in the security systems market. Pride also provides annual maintenance programs which amount to approximately AUD \$2 million per annum. Pride currently generates approximately half of its revenue from government contracts and the other half from the commercial sector. Pride is a certified and licensed security systems integrator for the Queensland Government and has various government contracts in place for installation, maintenance and project services.

PVBJ is well recognized for the design, installation, maintenance and emergency service of environmental systems both in residential and commercial markets. The subsidiary has a team of technicians that can install and service a variety of HVAC and refrigeration products. PVBJ is certified and licensed in multiple states and has developed an extensive customer base. PVBJ is now expanding into clean energy systems and employs technicians that are familiar with installing environmental systems requiring electrical, plumbing and gases, which is similar to the installation of an HC-1 system.

We intend to aggressively grow our business, both organically and through strategic acquisitions. Our goal is to acquire companies with the licenses and certifications to operate in various states and countries. This will allow us to expand the geographic areas 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 systems and technicians that can be trained to install our products and services. Initially, we intend to focus on states or countries whose government supports a regulatory standard requiring its utility companies to increase their production of electricity from renewable energy sources. This overall approach is more cost effective than the protracted nature of opening an office, hiring staff and obtaining certifications to operate in a specific geographic area. 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 September 30, 2018 and 2017

Revenue and Cost of Revenue

We had \$1,839,491 of revenue and \$1,447,688 for cost of revenue during the three months ended September 30, 2018, respectively, of which \$8,499 and \$9,019, respectively, was related party. We had \$1,338,571 of revenue and \$907,673 for cost of revenue during the three months ended September 30, 2017, respectively, of which \$45,666 and \$37,304, respectively, was related party. The revenue breakdown by segment is as follows:

	For the Three Months Ended	
	September 30, 2018	September 30, 2017
Revenue by segment		
Renewable systems integration	\$ 1,830,992	\$ 45,666
Non-renewable system integration	8,499	1,292,905
	<u>\$ 1,839,491</u>	<u>\$ 1,338,571</u>

General and Administrative Expenses

During the three months ended September 30, 2018, our general and administrative expenses were \$626,625. \$123,459 was related to the Renewable Systems Integration segment, including corporate expenses: \$37,490 of gross payroll, \$19,500 of management disbursements, \$17,524 of stock-based compensation, \$12,000 of legal fees, \$9,435 of dues and subscription fees, which pertained to transfer agent fees and OTC listing fees, \$7,500 of accounting fees, \$4,301 of liability insurance, \$4,000 of investor relations, \$2,999 of travel, \$2,868 of payroll taxes, and \$5,842 of miscellaneous expenses.

The Non-renewable Systems Integration segment incurred general and administrative expenses during the three months ended September 30, 2018 of \$503,166, including management and administrative salaries of \$208,588 along with \$109,750 of other various employee expenses, such as vacation and sick time, and auto allowance. In addition, various business and health insurance of \$52,056, \$37,837 of professional fees related to acquisition costs and other legal fees, \$32,598 of office and internet and information technology costs, \$21,308 of facilities rent, \$5,753 of 401(k) contributions, \$4,244 of training, \$3,601 of bank and finance charges, \$3,323 of safety/environmental, \$2,345 of dues and subscriptions, \$2,054 of utilities and \$19,889 of miscellaneous fees.

During the three months ended September 30, 2017, our general and administrative expenses were \$483,344. \$57,447 was related to the Renewable Systems Integration segment, including corporate expenses: \$16,584 of stock-based compensation, \$16,118 of accounting fees, \$12,189 of legal fees, \$4,102 of dues and subscription fees, which pertained to transfer agent fees and OTC listing fees, \$3,901 of liability insurance, \$2,456 of travel and \$2,097 of miscellaneous expenses.

The Non-renewable Systems Integration segment incurred general and administrative expenses during the three months ended September 30, 2017 of \$425,897, including management and administrative salaries of \$159,662 along with \$94,618 of other various employee expenses, such as vacation and sick time, and management fees of \$46,972. In addition, automobile expenses totaled \$48,761, which included repairs, fuel and auto allowance. Facilities lease for the Pride offices totaled \$24,090. Other expenses included insurance of \$11,977, depreciation of \$8,365, computer expenses of \$7,805, telecommunications of \$6,861, accounting fees of \$5,063 and other miscellaneous fees of \$11,723.

As a result of the foregoing, we had net losses of \$267,328 and \$52,446 for the three months ended September 30, 2018 and 2017, respectively.

For the nine months ended September 30, 2018 and 2017

Revenue and Cost of Revenue

For the nine months ended September 30, 2018, we had \$5,575,640 of revenue and \$3,941,761 of cost of revenue, of which \$40,288 and \$40,636 respectively, was related party. For the nine months ended September 30, 2017, we had \$5,136,074 of revenue and \$3,519,747 of cost of revenue, of which \$85,919 and \$87,649 respectively, was related party. The revenue breakdown by segment is as follows:

	For the Nine Months Ended	
	September 30, 2018	September 30, 2017
Revenue by segment		
Renewable Systems integration	\$ 5,535,352	\$ 85,919
Non-renewable system Integration	40,288	5,050,155
	<u>\$ 5,575,640</u>	<u>\$ 5,136,074</u>

General and Administrative Expenses

During the nine months ended September 30, 2018, our general and administrative expenses were \$1,908,640. \$424,640 was related to the Renewable Systems Integration segment, including corporate expenses: \$112,490 of gross payroll, \$65,460 of accounting fees related to audit and consulting costs, \$58,500 of management distributions, \$51,821 of stock-based compensation, \$51,050 of legal fees, \$24,307 of dues and subscription fees, which pertained to transfer agent, EDGAR fees and OTC Market annual listing fees, \$13,761 of directors and officers' insurance, \$12,517 of travel meals and transportation, \$11,606 of amortization of intangible assets, \$8,606 of payroll taxes, \$4,000 of investor relations and \$10,522 of miscellaneous expenses.

The Non-renewable Systems Integration segment incurred general and administrative expenses during the nine months ended September 30, 2018 of \$1,484,000, including management administrative and employee` salaries of \$721,717 along with \$304,845 of other various employee expenses, such as vacation and sick time, and auto allowance of \$42,415. In addition, \$127,439 of various insurances including employee health, \$77,775 of telecommunications, internet and office expense, \$67,355 of facilities rent, \$46,060 of legal fees associated with acquisition costs and various other legal expenses, \$29,723 in tools, equipment purchases and facilities maintenance, \$16,281 of 401(k) costs, \$6,055 in safety/environmental, \$5,915 in utilities, \$3,461 in training, \$5,725 of dues and subscriptions, \$4,066 in income tax expense, \$3,638 of bank charges, \$3,344 in advertising and other miscellaneous fees of \$18,186.

During the nine months ended September 30, 2017, our general and administrative expenses were \$1,517,415. \$206,051 was related to the Renewable Systems Integration segment, including corporate expenses: \$84,124 of accounting fees related to audit, consulting and Pride acquisition costs, \$43,689 of legal fees, \$35,041 of stock-based compensation, \$20,628 of dues and subscription fees, which pertained to transfer agent, EDGAR fees and OTC Market annual listing fees, \$8,761 of travel, directors and officers insurance liability of \$6,502 and \$7,306 of miscellaneous expenses.

The Non-renewable Systems Integration segment incurred general and administrative expenses during the nine months ended September 30, 2017 of \$1,311,364 including management and administrative salaries of \$473,968 along with \$310,615 of other various employee expenses, such as vacation and sick time, and management fees of \$137,871. In addition, automobile expenses totaled \$139,326, which included repairs, fuel and auto allowance. Facilities lease for the Pride offices totaled \$68,814. Consulting/dues and subscription fees were \$12,817, which pertained to miscellaneous business subscriptions and renewals. Professional fees of \$12,405 consisted of legal and accounting fees incurred for tax and human resources advice. Other expenses included insurance of \$27,063, telecommunications of \$21,381, computer expenses of \$20,743, \$7,803 of utilities and safety expenses, including an audit of \$7,477. We also incurred bad debt expense of \$24,288, depreciation of \$22,924, interest expense of \$6,905 \$2,039 of travel and entertainment and other miscellaneous fees of \$14,925.

As a result of the foregoing, we had a net loss of \$364,342 for the nine months ended September 30, 2018, compared to net income of \$98,912 for the nine months ended September 30, 2017.

Liquidity and Capital Resources

As of September 30, 2018, we had working capital of \$417,338 comprised of \$1,230,621 of accounts receivables, \$331,236 of cash and cash equivalents, \$73,180 of costs in excess of billings and \$23,282 of prepaid expenses, offset by \$830,708 of accounts payables and accrued expenses, \$186,346 in earn-out payable, \$68,240 of current capital leases payable, \$51,798 of billings in excess of cost, \$45,154 of sales and withholding tax payable, \$32,538 of current notes payable, and \$26,197 of income tax payable, which made up current liabilities at September 30, 2018.

For the nine months ended September 30, 2018, we used \$386,663 of cash in operating activities, which represented our net loss of \$364,342. \$311,906 of changes in accounts payable, \$135,498 of depreciation and amortization, \$51,821 of stock-based compensation \$30,246 of billings in excess of cost, \$26,786 of costs in excess of billings, \$13,898 of security deposits, \$11,028 of fair value changes, \$9,121 of prepaid expenses and \$4,149 loss on fixed asset sales, offset by \$456,672 of changes in accounts receivables.

For the nine months ended September 30, 2018, we used \$22,033 in investing activities relating to the purchase of fixed assets of \$13,909, offset by \$30,408 of cash acquired in a business acquisition and \$5,534 of proceeds from the disposition of property and equipment.

For the nine months ended September 30, 2018, we had \$306,810 of cash provided by financing activities, which represented \$395,000 proceeds from the issuance of convertible debt, \$251,065 of proceeds from a line of credit and \$1,000 from the exercise of stock options, offset by \$225,903 of repayments on long term debt, \$42,123 in repayments on capital leases, \$36,229 of repayments of notes payable and \$36,000 in payments of related party interest.

For the nine months ended September 30, 2017, we used \$120,551 of cash in operating activities, which represented \$251,132 of changes in accounts payable, our net income of \$98,912. \$82,431 of costs in excess of billings, \$35,041 of stock-based compensation \$23,374 of depreciation and amortization, \$2,576 of billings in excess of cost \$1,490 of prepaid expenses and \$77 gain on fixed asset sales, offset by \$108,014 of changes in accounts receivables.

For the nine months ended September 30, 2017, we used \$20,620 in investing activities relating to the purchase of fixed assets of \$32,577, offset by \$11,957 of proceeds from the disposition of property and equipment.

For the nine months ended September 30, 2017, we received \$1,000 from financing activities, which represented proceeds from the exercise of stock options.

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.

Other than an asset-based lending facility for PVBJ discussed below, we presently do not have any available credit, bank financing or other external sources of liquidity. We have not achieved net income from operations as of September 30, 2018 and our operations historically have not been a source of liquidity and cannot be assured they will be in the near future. 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.

Note Payable

On August 21, 2018, PVBJ entered into a loan and security agreement (the “Credit Agreement”) with Thermo Communications Funding, LLC (“Thermo”). The Credit Agreement provides for a revolving line of credit in an amount not to exceed \$350,000, which is evidenced by a promissory note issued by PVBJ to Thermo (the “Note”). Pursuant to the Credit Agreement, PVBJ granted a security interest to Thermo in all of its assets. In addition, pursuant to a limited recourse guaranty, Andrew Hidalgo, our Chief Executive Officer personally guaranteed the repayment of the Credit Agreement under certain conditions.

Pursuant to the terms of the Credit Agreement, we are permitted to borrow up to \$350,000 under the revolving credit line, under a borrowing base equal to the lesser of (i) or 85% of Eligible Accounts (as defined in the Credit Agreement). Borrowings under the Credit Agreement may be used for working capital and to refinance certain existing debt of PVBJ. The Credit Agreement contains certain customary representations and warranties, affirmative and negative covenants, and events of default. Principal covenants include a debt service coverage ratio of not less than 1.15 to 1.0, a fixed charge coverage ratio of not less than 1.15 to 1.0, and maintaining a tangible net worth of at least \$150,000, excluding intercompany loans.

The loan commitment shall expire on August 21, 2020. The interest rate applicable to revolving loans under the Credit Agreement is prime plus 5.0%, subject to a minimum interest rate of 9.5%. We paid a loan commitment fee of \$7,000, of which \$3,500 was paid on closing, and \$3,500 will be paid on the first anniversary. We will also pay a monthly monitoring fee during the term of the Credit Agreement of 0.33% of the average outstanding balance, payable monthly in arrears.

We may prepay the Note at any time and terminate the Credit Agreement. In the event that we terminate the Credit Agreement, we will pay Thermo an early termination fee equal to 4% of the pro rata portion, which pro rata portion is determined by multiplying \$350,000 by the number of months prior to the second anniversary of the effective date of the Credit Agreement and then dividing that by 24.

The obligations of PVBJ under the Credit Agreement may be accelerated upon the occurrence of an event of default under the Credit Agreement, which includes customary events of default including, without limitation, payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, cross-defaults, bankruptcy and insolvency related defaults, defaults relating to judgments, an ERISA reportable event occurs, a change of control and a change in our financial condition that could have a material adverse effect on us.

2018 Convertible Debenture Financing

On January 2, 2018, we entered into a securities purchase agreement (the “Purchase Agreement”) with two of our directors, pursuant to which we sold an aggregate principal amount of \$400,000 in 12% Convertible Debentures (“Debentures”), convertible into shares of our common stock at a conversion price of \$0.75 per share.

The Debentures, together with any accrued and unpaid interest, become due and payable on January 2, 2020 (the “Maturity Date”). Interest on the Debentures accrues at the rate of 12% per annum, payable monthly in cash, beginning on February 1, 2018 and on the Maturity Date. The Debentures are convertible into common stock at a conversion price of \$0.75 per share at the discretion of the holder, with special provisions applying to any holder whose conversion would result in the holder beneficially owning more than 4.99% of our common stock.

Critical Accounting Policies

Please refer to Note 2 in the accompanying financial statements.

Recent Accounting Pronouncements

Please refer to Note 17 in the accompanying 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 September 30, 2018, 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. 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; and
- b) 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 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 in the future.

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 September 30, 2018 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

None.

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 The following materials from H/Cell Energy Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Stockholders’ Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

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: November 8, 2018

By: */s/ ANDREW HIDALGO*

Andrew Hidalgo
Chief Executive Officer (Principal Executive Officer)

Date: November 8, 2018

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: November 8, 2018

/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: November 8, 2018

/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 September 30, 2018 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: November 8, 2018

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 September 30, 2018 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: November 8, 2018

By: /s/ MATTHEW HIDALGO

Name: Matthew Hidalgo

Title: *Chief Financial Officer*
