

CONVERDE ENERGY USA, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business

Converde Energy USA, Inc. (Converde) is a publicly-traded company (OTC: XFUL) comprised of subsidiaries that source, treat and distribute reclaimed water in an effort to preserve our nation's naturally occurring resources. Together with Hydration Company of PA (sourcing, distributing) and American Energy Solutions (treating), Gilbert Oil and Gas Company provides value through net revenue interests, mineral interests and royalty rights.

Note 2. Summary of Significant Accounting Policies

Use of estimates:

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

Cash:

The Company classifies an investment with original maturities of three months or less as cash and cash equivalents.

Allowance for doubtful accounts:

The Company provides an allowance for doubtful accounts equal to the estimated collection losses that will be incurred in collection of all receivables. The estimated losses are based on managements' evaluation of outstanding accounts receivable at the end of the year. The allowance for doubtful accounts is \$0 for the end of the first quarter 2017. Amounts charged to bad debt expense are \$0 for the end of the first quarter 2017.

Inventory:

Inventory is stated at the lower of cost or market, which is determined by the first in, first out method of valuation. At March 31st 2017, inventories were \$0.

Depreciation and amortization:

Property and equipment are stated at cost. Depreciation on property and equipment is recorded using the straight-line method of depreciation over the estimated useful lives of depreciable assets which range from 7 to 10 years for equipment and automobiles and 40 years for improvements.

For federal income tax purposes, depreciation is computed using the accelerated cost recovery system and the modified accelerated cost recovery system. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

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NOTES TO FINANCIAL STATEMENTS

Income taxes:

The Company has elected to be taxed as a C corporation. Accordingly, the accompanying financial statements do contain a provision for income taxes.

The federal income tax returns for 2013, 2014, 2015 and 2016 are subject to examination by the IRS, generally three years after they were filed.

The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings in determining any uncertain tax positions.

Shipping and handling fees and costs:

The Company classifies freight billed to customers as sales revenue and the related shipping and handling fees and costs to delivery expense as an operating expense.

Advertising:

The Company expenses advertising costs as incurred. Advertising expense for the end of the first quarter 2017 was \$2,300.

Research and development:

Research and development costs are expensed as incurred. Engineering and development expenses included research and development expenses of \$0 for the end of the first quarter 2017.

Date of management's review:

The Company has evaluated subsequent events through, the date on which the financial statements were available to be issued.

Note 3. Line of Credit

The company currently does not have a line of credit.

Note 4. Commitments

The Company does not have any current commitments as of March 31, 2017.

Note 5. Profit Sharing Plan

The Company does not engage in a retirement plan for its employees.

Note 6. Major Customer

CONVERDE ENERGY USA, INC.

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There was one major customer that accounted for 100% of sales during the first quarter of 2017.

Note 7. Concentration of Credit Risk

The Company maintains its cash in one bank in one deposit account which at times exceed the federal insured limits. The Company has not experienced any losses in such accounts.

Note 8. Bad or Aged Debt

In the first quarter of 2017 the Company reduced its liabilities associated with aged debt by \$100,000. As a result, the Company cut its aged debt exposure in half.

Converde Energy USA, Inc. Profit & Loss
Q1 2017

Income		
	Sales	6,600
Total Income		<u>6,600</u>
	Gross Profit	<u>6,600</u>
Expense		
	Advertising and Promotion	2,300
	Automobile Expense	-
	Bank Service Charges	108
	Dues and Subscriptions	8,290
	Meals and Entertainment	133
	Office Supplies	902
	Postage and Delivery	8
	Professional Fees	17,500
	Travel	242
Total Expense		<u>29,483</u>
	Net Income	<u><u>(22,883)</u></u>

Converde Energy USA, Inc.
Balance Sheet - Q1 2017

Assets		
	Checking	5,498
	A/R	106,600
	Investments	<u>77,551</u>
Total Current Assets		189,649
Total Assets		189,649
Liabilities & Capital		
	Accounts Payable	-
	Convertible Notes	120,000
Total Liabilities		120,000
Stockholder Equity		69,649
Common		-
Common B		-
Preferred		-
Total Liabilities & Capital		189,649