

INTERTRADING USA SECURITIES INC.
(A Wholly-Owned Subsidiary of InterTrading Holdings, Inc.)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

InterTrading USA Securities Inc. ("the "Company"), a registered broker-dealer under the Securities Exchange Act of 1934, operates a securities business and is a wholly-owned subsidiary of InterTrading Holdings, Inc., a wholly-owned subsidiary of Interacciones Casa De Bolsa, S.A. de C.V. (the "Parent") which operates as an investment holding company.

The Company has an agreement with a clearing broker to clear securities transactions, carry customers' accounts on a fully disclosed basis and perform certain record-keeping functions. Accordingly, the Company operates under the exemptive provisions of the Securities and Exchange Commission Rule 15c3-3(k)(2)(ii).

Use of estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") 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 dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. These estimates and assumptions include collectability of accounts receivable and valuation of securities owned and on margin. Certain of management's estimates, including evaluating the collectability of accounts receivable, could be affected by external conditions, including those unique to the Company's industry and general economic conditions. It is possible that these external factors could have an effect on management's estimates that could cause actual results to differ from their estimates. The Company reevaluates all of their accounting estimates annually based on these conditions and record adjustments when necessary.

Marketable securities

Marketable securities are recorded at fair value on a recurring basis and consist primarily of investments in Mexican bonds. Realized trading gains and losses and unrealized gains and losses (fair value adjustments) are reported in the statement of operations.

Cash

The Company maintains cash balances at various financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Company's accounts at these institutions may, at times, exceed the Federally insured limits. The Company has not experienced any losses in such accounts.

Revenue recognition

All securities transactions, commissions, and related expenses for which the Company acts as agent are recorded on a trade date basis. Transactions for which the Company acts as principal are recorded on a trade date basis.

Interest and dividend revenues earned from securities owned are accounted for on an accrual basis.

Rental expense

Rental expense is accounted for on the straight-line method.

Deferred rent as of December 31, 2015 represents the excess of recognized rent expense over scheduled lease payments.

Impairment of long-lived assets

The Company periodically evaluates whether events or circumstances have occurred that indicate long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use of the asset. In the event the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based on discounted cash flows or appraised values depending on the nature of the assets. The long-term nature of these assets requires the estimation of cash inflows and outflows several years into the future.

Fair value measurements

The Company adopted the provisions of ASC Topic 820, "Fair Value Measurements and Disclosures", which defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 — quoted prices in active markets for identical assets or liabilities

Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 — inputs that are unobservable (for example cash flow modeling inputs based on assumptions)

The estimated fair value of certain financial instruments, including cash, commissions receivable, due from broker, clearing broker deposit and accounts payable and accrued expenses are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments. Securities owned are valued using a Level 1 input.

Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment are computed using the straight-line method over the estimated useful lives of the assets, generally three to five years.

Income taxes

ASC Topic 740.10.30 clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has no material uncertain tax positions for the reporting period presented. Income tax returns are subject to examination by major jurisdictions for the years 2013 through 2014.

The Company uses the asset and liability method to calculate deferred income taxes. Deferred tax assets and liabilities are recognized on temporary differences between financial statement and tax bases of assets and liabilities using enacted tax rates. The effect of tax rate changes on deferred tax assets and liabilities is recognized in income during the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when the Company does not consider it more likely than not that some portion or all of the deferred tax assets will be realized.

2 GOING CONCERN

Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

The company has sustained losses for the years ended December 31, 2015 and 2014 and has an accumulated deficit of \$2,671,226 at December 31, 2015. In addition, that Company has no sales employees and management intends to either sell the business or shut down operations. These factors, among others, raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this contingency.

3 REGULATORY NET CAPITAL REQUIREMENTS

The Company is subject to the SEC's Uniform Net Capital Rule, which requires the maintenance of minimum regulatory net capital and requires that, the ratio of aggregate indebtedness to regulatory net capital not to exceed 15 to 1. At December 31, 2015 The Company had regulatory net capital of \$517,538 which exceeded requirements by \$467,538. The Company's ratio of aggregate indebtedness to net capital was .37 to 1.

4 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 are as follows:

	Amount	Estimated Useful Life
Automobile	\$ 31,595	5 years
Furniture and equipment	67,487	5 years
	<u>99,082</u>	
Less accumulated depreciation	(63,235)	
	<u>\$35,847</u>	

5 CONCENTRATION OF CREDIT RISK

The Company has cash equivalents, accrued interest and marketable securities totaling \$707,866.

Investing in securities of companies operating in foreign countries may include certain risks and considerations not typically associated with investing in U.S. companies, such as changing local and regional economic, political, regulatory and social conditions, which may result in greater market volatility.

6 INCOME TAXES

The income tax benefit provision varied from the amount computed using the U.S. Federal statutory regular tax rate as follows:

At statutory rates	\$ (232,100)
Valuation allowance	<u>232,100</u>
	<u>\$ -</u>

As of December 31, 2015, the Company has net operating loss carryforwards of approximately \$2,679,400 which expire as follows:

2032	\$ 348,400
2033	876,000
2034	640,000
2035	<u>815,000</u>
	<u>\$ 2,679,400</u>

As of December 31, 2015, the Company's deferred tax assets consist of the following:

Deferred tax assets – tax operating loss carryforwards	\$ 911,000
Less: valuation allowance	<u>(911,000)</u>
	<u>\$ -</u>

6 INCOME TAXES (Continued)

The Company assessed the likelihood that its deferred tax assets would be recovered from future taxable income and determined that recovery was not more likely than not based upon all available evidence, both positive and negative. The amount of the non-cash valuation reduction was based on management's estimates of future taxable income by taking jurisdictions and the period over which the Company believes deferred tax assets will be recoverable.

During the year ended December 31, 2015 the valuation allowance increased by approximately \$309,000.

7 COMMITMENTS AND CONTINGENCIES

The Company is committed under an operating lease for its office space which expires in 2017 and provides for annual rentals of approximately \$120,000 plus increases in operating expenses.

Future minimum lease commitments (excluding renewal options) under non-cancellable leases are as follows:

Year ended December 31, 2016	124,000
2017	<u>106,000</u>
	<u>\$230,000</u>

Rental expense amounted to \$124,787 for the year ended December 31, 2015.

8 SUBSEQUENT EVENTS

The Company has evaluated events occurring after the date of these financial statements through February 28, 2016, the date that these financial statements were issued. There were no material subsequent events as of that date which would require disclosure in or adjustments to these financial statements.