

SQS BFSI INC.

**FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORT**

MARCH 31, 2019 AND 2018

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SQS BFSI INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
SQS BFSI Inc.

We have audited the accompanying financial statements of SQS BFSI Inc. (a Delaware Corporation), which comprise the balance sheets as of March 31, 2019 and 2018 and the related statements of income, changes in stockholder's equity and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors and Stockholders of
SQS BFSI Inc.

INDEPENDENT AUDITOR'S REPORT – (Cont'd)

Auditor's Responsibility – (cont'd)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SQS BFSI Inc. as of March 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of cost of sales and operating expenses (on pages 14-15) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Balachandar Jayaraman CPA LLC

Colonia, New Jersey

April 30, 2019

SQS BFSI INC.
BALANCE SHEETS
March 31, 2019 and 2018

	2019	2018
<u>Assets</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 498,960	\$ 2,266,270
Accounts Receivable-Expleo India	1,307,785	-
Accounts Receivable - Affiliate/ Others	240,656	383,141
Loans & Advances	1,870	4,225
Prepaid Expenses	5,418	7,231
Total Current Assets	2,054,689	2,660,867
<u>Property, Plant and Equipment</u>		
Computer Equipment	5,646	3,824
Less: Accumulated Depreciation	(2,545)	(2,738)
Total Property, Plant and Equipment	3,101	1,086
Total Assets	\$ 2,057,790	\$ 2,661,953
 <u>Liabilities and Stockholder's Equity</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 29,466	\$ 53,185
Accounts Payable - Expleo India / Affiliates	300,118	803,865
Accrued Expenses	300,412	519,768
Accrued Income Taxes	12,495	17,894
Total Current Liabilities	642,491	1,394,712
<u>Stockholder's Equity</u>		
Common Stock - 0.01 Cent par value; 10,000 shares authorized and 3,000 shares issued	30	30
Additional Paid-in Capital	99,970	99,970
Retained Earnings	1,315,299	1,167,241
Total Stockholder's Equity	1,415,299	1,267,241
Total Liabilities and Stockholder's Equity	\$ 2,057,790	\$ 2,661,953

See independent auditor's report and accompanying notes to the financial statements

SQS BFSI INC.
STATEMENTS OF INCOME
For the Years Ended March 31, 2019 and 2018

	2019	2018
<u>Operating Revenues</u>		
Sales Revenues	\$ 1,613,211	\$ 2,857,727
Total Operating Revenues	1,613,211	2,857,727
Cost of Sales (Schedule I)	(807,595)	(2,018,709)
Gross Profit/(Loss)	805,616	839,018
Operating Expenses (Schedule II)	(658,989)	(579,224)
Income/(Loss) from Operations	146,627	259,794
<u>Other Non-Operating Income/Expenses</u>		
Other Income	47,995	-
Interest Expense	-	-
Income/(Loss) before provision for Income Taxes	194,622	259,794
Income Tax Expense	(46,564)	(101,700)
Net Income/(Loss)	\$ 148,058	\$ 158,094

See independent auditor's report and accompanying notes to the financial statements

SQS BFSI INC.
STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
For the Years Ended March 31, 2019 and 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance at 04/01/2017	\$ 30	\$ 99,970	\$ 1,009,147	\$ 1,109,147
Contribution/Return of capital	-	-	-	
Net Income/(Loss)	-	-	158,094	158,094
Balance at 03/31/2018	30	99,970	1,167,241	1,267,241
Contribution/Return of Capital	-	-	-	-
Net Income/(Loss)	-	-	148,058	148,058
Balance at 03/31/2019	\$ 30	\$ 99,970	\$ 1,315,299	\$ 1,415,299

See independent auditor's report and accompanying notes to the financial statements

SQS BFSI INC.
STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2019 and 2018

	2019	2018
<u>Cash Flows From Operating Activities</u>		
Net Income	\$ 148,058	\$ 158,094
Adjustment to Reconcile Changes in Net Income to Net Cash Provided by/(used in) Operating Activities:		
Depreciation Expense	1,158	203
<u>(Increase)/Decrease in:</u>		
Accounts Receivable-Expleo India	(1,307,785)	-
Accounts Receivable - Affiliate/ Others	142,485	252,361
Loans & Advances	2,355	8,115
Prepaid Expenses	1,813	559
Security Deposit	-	4,369
<u>Increase/(Decrease) in:</u>		
Accounts Payable	(23,719)	53,153
Accounts Payable - Expleo India / Affiliates	(503,747)	(2,230,671)
Accrued Expenses	(219,356)	197,066
Accrued Income Taxes	(5,399)	(10,105)
Net Cash Provided by/(used in) Operating Activities	(1,764,137)	(1,566,856)
<u>Cash Flows From Investing Activities</u>		
Purchase of Property, Plant and Equipment	(3,173)	(1,104)
Net Cash Provided by/(used in) Investing Activities	(3,173)	(1,104)
<u>Cash Flows From Financing Activities</u>		
Common Stock	-	-
Additional Paid-in Capital	-	-
Net Cash Provided by/(used in) Financing Activities	-	-
Net Increase/(Decrease) in Cash and Cash Equivalents	(1,767,310)	(1,567,960)
Cash and Cash Equivalents: Beginning of Year	2,266,270	3,834,230
Cash and Cash Equivalents: End of Year	\$ 498,960	\$ 2,266,270
<u>Additional required information:</u>		
Cash paid for Interest	\$ -	\$ -
Cash paid for Income Taxes	\$ 51,963	\$ 111,805

See independent auditor's report and accompanying notes to the financial statements

SQS BFSI INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 1. Organization

SQS BFSI Inc. (SQS/ Company) was incorporated on April 29, 2002 in the State of Delaware. SQS BFSI is a wholly owned subsidiary of Expleo Solutions Limited (formerly known as SQS India BFSI Limited) (Expleo India) a public limited corporation in India. SQS BFSI is a software service firm that provides software validation and verification services to the Banking and Financial Services industry located throughout the United States.

Note 2. Summary of Significant Accounting Policies

This summary of significant accounting policies of SQS is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States of America and have been consistently applied in the preparation of the financial statements.

a) Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. Accordingly, all significant receivables, payables, and other liabilities are recorded.

b) 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. Estimates also affect the reported amount of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates.

c) Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash is defined as unrestricted cash balances and investments with original maturities of three months or less. As of March 31, 2019 and 2018, there were no restricted cash balances and investments.

d) Concentrations of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents. Cash and cash equivalents are deposited with federally insured commercial banks in the United States. As of March 31, 2019 and 2018, the Company had cash balances in excess of federal insurance limits. Risk to the Company for the uninsured cash balances is considered minimal.

SQS BFSI INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 2. Summary of Significant Accounting Policies – (Cont'd)

e) Accounts Receivable

Trade accounts receivable are stated at net of allowance for doubtful accounts. The Company establishes an allowance for uncollectible trade accounts receivable based on historical collection experience and management's evaluation of collectability of outstanding accounts receivable.

f) Property, Plant and Equipment

For financial reporting purposes, depreciation of property, plant and equipment is provided on the straight-line method. The estimated useful lives of the assets are as follows:

Computers	3 years
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All property, plant and equipment with acquisition costs of 5,000 INR, which is converted to US dollars (approximately equal to \$73 converted at the exchange rate of INR 68.70 per US Dollar as of March 31, 2019) according to the exchange rate applicable at the time of purchase and useful life of over one year, is capitalized. The cost of assets sold, retired, or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in statement of income and retained earnings. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of an asset are capitalized.

g) Revenue Recognition

The company generates revenue from professional services rendered. Revenue is recognized for the services performed while the corresponding costs of providing those services are reflected as cost of sales. Revenue represents services billed to Parent company based on cost plus margin as per transfer pricing study. The Company invoices the parent company for all services rendered to customers in the United States at cost plus margin based on transfer pricing study.

Billings to customers for out-of-pocket expenses were recorded as revenues. Unbilled services represent revenue for services performed but not yet billed until the subsequent period. Advances received prior to providing services are recognized as revenue when services are performed.

The company also bills customers on behalf of the parent company, which in turn, bills the subsidiary for the same amount. These billing and charges are offset each other as per the company's transfer pricing study.

SQS BFSI INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 2. Summary of Significant Accounting Policies – (Cont'd)

h) Cost of Sales

Costs of sales primarily consist of employee payroll costs, related payroll taxes and benefits, business travel expenses, amounts paid to Expleo India for support services rendered to the customers and professional services for consultants on the projects.

i) Operating Expenses

Operating expenses are general and administrative in nature, which include recruiting, marketing, rent etc., which are not directly related to any specific client project, but provide for the overall support and direction of SQS BFSI, Inc.

j) Income Taxes

The Company provides for income taxes on the basis of United States generally accepted accounting principles (as codified by Financial Accounting Standards Board) which requires recognition of deferred taxes based on the differences between the financial statement and the tax bases of assets and liabilities at enacted rates in effect in the years in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

k) Advertising

The Company expenses the costs of advertising, including promotional expenses, as incurred.

l) Subsequent Events

Management considered subsequent events through the date of issuance of this report (April 30, 2019).

Note 3. Cash and Cash Equivalents

For purposes of statements of cash flows, SQS BFSI considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Company maintains its cash accounts at banks, which are guaranteed by the FDIC up to \$ 250,000. As of March 31, 2019 and 2018, the Company's uninsured cash balances were as follows:

	Mar. 31, 2019	Mar. 31, 2018
Carrying Value	536,138	2,266,270
Portion insured by FDIC	250,000	250,000
Portion uninsured by FDIC	\$ 286,138	\$ 2,016,270

SQS BFSI INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 3. Cash and Cash Equivalents– (Cont'd)

Risk to the Company for uninsured cash balances is considered minimal. In books, cash amounted to \$498,960 and \$2,266,270 as of March 31, 2019 and 2018. The cause for this large variance between the two years includes collections received from US customers on behalf of Expleo India were transferred to the parent company during the year ended March 31, 2019.

Note 4. Accounts Receivable – Expleo India

100 % of the revenues represented amounts billed to the parent company at cost plus margin basis, using transfer pricing study. Accounts Receivable – Expleo India consists of balances due from the parent company for services billed at cost plus basis. As of March 31, 2019 and 2018 such balances amounted to \$1,307,785 and \$0, respectively.

Note 5. Accounts Receivable – Affiliate/ Others

Accounts Receivable – Affiliate/ Others represent amounts billed to customers for direct billing by parent company routed through SQS. Such balances amounted to \$240,656 and \$383,141 as of March 31, 2019 and 2018, respectively. It also includes balances due from an US subsidiaries of the ultimate parent company in the amounts of \$186,576 and \$157,999, as of March 31, 2019 and 2018, respectively.

Note 6. Loans & Advances

The Company provides advances to employees to meet their expenses during relocation or temporary assignments away from their home location. These advances are adjusted when the employee's expense bills are submitted or salary advances are repaid by the employees. Advances also include fees paid to government for immigration matters. As of March 31, 2019 and 2018, loans & advances amounted to \$1,870 and \$4,225, respectively. These advances bear no interest.

Note 7. Prepaid Expenses

The Company paid advances for dues and subscription. As of March 31, 2019 and 2018, prepaid expenses amounted to \$5,418 and \$7,231, respectively.

Note 8. Property and Equipment

Property and equipment included computer equipment purchased for business purposes at a cost of \$ 5,646 and \$ 3,824 as of March 31, 2019 and 2018, respectively. The accumulated depreciation as of March 31, 2019 and 2018 amounted to \$2,545 and \$2,738, respectively. The depreciation expense for the years ended March 31, 2019 and 2018 amounted to \$1,158 and \$203, respectively. Additions and dispositions amounted to \$3,173 and \$1,351 respectively, for the year ended March 31, 2019. Such amounts were \$1,104 and \$775, respectively during the previous year.

SQS BFSI INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 9. Security Deposits

The Company has security deposit of \$-0- and \$-0- as of March 31, 2019 and 2018, respectively. The Company moved its offices out of New Jersey resulting in refund of security deposit.

Note 10. Accounts Payable

Accounts payable includes outstanding invoices due to vendors. As of March 31, 2019 and 2018, the balances amounted to \$29,466 and \$53,185, respectively.

Note 11. Accrued Expenses

Accrued expenses include sales and marketing expenses, professional fees for services rendered, travel and immigration related expenses incurred during the reporting period. As of March 31, 2019 and 2018, accrued expenses amounted to \$300,412 and \$519,768, respectively.

Note 12. Accrued Income Taxes

Accrued income taxes consist of federal and state corporate income taxes owed by the Company less the amount of estimated tax payments made during the fiscal year. As of March 31, 2019 and 2018, they amounted to \$ 12,495 and \$ 17,894, respectively.

Note 13. Stockholder's Equity

During the years ended March 31, 2019 and 2018, parent Company Expleo India did not contribute any additional funds to Equity.

Note 14. Foreign Operations

Expleo India, the parent company, provides professional services to the customers in the USA and bills SQS BFSI Inc at the agreed upon rates in US dollars based on the service contracts / orders received from the customers. SQS, in turn, bills Expleo India for its revenues at cost plus margin basis in accordance with transfer pricing study.

Note 15. Related Party Transactions

Expleo India, the parent company of SQS BFSI, undertakes full responsibility for project execution, provides operational and management direction, technical literatures, and training for implementation of projects.

SQS billed \$1,613,211 and \$2,857,727 for costs of consultants provided for onsite/offshore services to Expleo India for the years ended March 31, 2019 and 2018, respectively. Such billing is based on transfer pricing study, which uses cost plus margin basis, consistent with industry standards.

SQS BFSI INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 15. Related Party Transactions (continued)

SQS billed customers on behalf of the parent company \$ 1,788,055 and \$ 3,369,163 for the years ended March 31, 2019 and 2018, respectively. These amounts are offset by Expleo India's billing to SQS of the equal amounts, as per the Company's transfer pricing study and methodology recommended in the study.

Accounts Receivable due from Expleo India as of March 31, 2019 and 2018 were \$1,307,785 and \$0, respectively. Accounts Payable to related parent and other affiliated companies amounted to \$300,118 and \$803,865 as of March 31, 2019 and 2018, respectively. These amounts included \$298,991 and \$716,401 towards balances due to Expleo India as of the same period. The March 31, 2019 and 2018 balance due included \$24 and \$80,606 for SQS USA Inc. respectively and \$1,103 and \$6,858 for SQS North America LLC as of same year end. The amounts due to/ from are settled with the parent and affiliated companies periodically in the ordinary course of business.

SQS raised debit note in the amount of \$42,535 and \$453,751 to Expleo India for marketing cost during the fiscal years ended March 31, 2019 and 2018, respectively.

During the years ended March 31, 2019 and 2018, SQS received \$ 1,630 and \$ 4,222 respectively, from the customers of Expleo India. SQS did not provide any services to those customers and all services were provided and billed by Expleo India.

Billings to related party SQS USA Inc. amounted to \$212,257 and \$596,146 for the years ended March 31, 2019 and 2018 respectively. SQS USA Inc. owed \$59,942 and \$98,684 as of the same period.

Billings to related party SQS North America LLC amounted to \$330,487 and \$59,314 for the years ended March 31, 2019 and 2018 respectively. SQS North America LLC owed \$126,634 and \$59,314 as of the same period.

Note 16. Cash Flow Information

Cash paid for interest and income taxes for the years ended March 31, 2019 and 2018 were as follows:

	<u>Mar. 31, 2019</u>	<u>Mar. 31, 2018</u>
Interest	\$ -	\$ -
Income Taxes	51,963	111,805
Total	<u>\$ 51,963</u>	<u>\$ 111,805</u>

SQS BFSI INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 17. Income Taxes

The Company files income tax returns in the U.S. federal and various state jurisdictions. During the years ended March 31, 2019 and 2018, the Company's tax expense / (benefit) amounted to \$46,564 and \$101,700, respectively.

Note 18. Operating Lease

The Company's lease in NJ State expired as of April 30, 2017. The Company signed a new office lease in Lexington, KY, effective May 1, 2017 for 24 months at the rate of \$500 per month. Rental expenses incurred for the years ended March 31, 2019 and 2018 amounted to \$-0- and \$3,557 respectively. Rent is being charged back to the parent company. The future minimum lease payments for the KY lease (up to April 30, 2019) is \$500.

Note 19. Concentration

100 % of the sales revenue is based on billing the parent company for services rendered in the USA to various customers, at cost plus margin based on transfer pricing study. Sales to related party SQS USA Inc and SQS North America LLC amounted to 30% and 20% during the years ended March 31, 2019 and 2018, respectively.

Billing to one customer on behalf of the parent company accounted for 41 % and 42 % of the total billings during the years ended March 31, 2019 and 2018, respectively. Similarly, two customers accounted for 55 % and 66 % and three customers accounted for 58 % and 84 % of the total billings during the same period.

Accounts Receivable from one customer accounted for 6 % and 43 % as of March 31, 2019 and 2018, respectively. Accounts receivable from two customers accounted for 58 % and 69 % and three customers accounted for 69 % and 85 %, respectively as of the same period.

The Company maintains its cash in a bank deposit account located in New York, which, at times, may exceed federally insured limit of \$ 250,000. The Company has not experienced any losses in the account. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents. As of March 31, 2019, and 2018, the uninsured cash balances were \$ 286,138 and \$ 2,016,270, respectively (Note 3).

Note 20. Subsequent Events

No major subsequent events occurred from April 1, 2019 to April 30, 2019 (date of issuance of this report).

Note 21. Other Income

Other income adjustment of \$47,995 represents expenses and charges reversed from prior year, due to reduction in estimated accrued expenses.

SQS BFSI INC.
SCHEDULES OF COST OF SALES
For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Costs of Sales</u>		
Payroll Expenses	\$ 596,581	\$ 1,389,793
Payroll Taxes & Benefits	118,271	245,319
Project Implentation/Professional Fees	<u>92,743</u>	<u>383,597</u>
 Total Cost of Sales	 <u>\$ 807,595</u>	 <u>\$ 2,018,709</u>

See independent auditor's report and accompanying notes to the financial statements

SQS BFSI INC.
SCHEDULES OF OPERATING EXPENSES
For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Operating Expenses</u>		
Salaries & Wages	\$ 432,895	\$ 336,907
Travel & Immigration Expenses	906	13,099
Marketing Expenses	111,599	60,929
Payroll Taxes & Benefits	44,060	25,606
Professional Fees	47,082	38,165
Recruitment and Training Expenses	16,627	81,114
Rent	-	3,557
Office Expense	1,711	9,657
Telecommunication	2,951	9,987
Depreciation	1,158	203
Total Operating Expenses	<u>\$ 658,989</u>	<u>\$ 579,224</u>

See independent auditor's report and accompanying notes to the financial statements