

**SQS BFSI INC.**

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

**MARCH 31, 2018 AND 2017**

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**SQS BFSI INC.**

**TABLE OF CONTENTS**

**MARCH 31, 2018 AND 2017**

	<u><b>PAGE NO.</b></u>
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>1-2</b>
<b>FINANCIAL SECTION</b>	
Balance Sheets .....	3
Statements of Income .....	4
Statements of Changes in Stockholder's Equity .....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7-14
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule I – Schedules of Cost of Sales .....	15
Schedule II – Schedules of Operating Expenses .....	16

# **BALACHANDAR JAYARAMAN CPA LLC**

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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, 2018 and 2017 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.

## **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, 2018 and 2017, 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 15-16) 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  
May 2, 2018

**SQS BFSI INC.**  
**BALANCE SHEETS**  
**March 31, 2018 and 2017**

	2018	2017
<b><u>Assets</u></b>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 2,266,270	\$ 3,834,230
Accounts Receivable - Affiliate Others	383,141	635,502
Loans & Advances	4,225	12,340
Prepaid Expenses	7,231	7,790
Total Current Assets	2,660,867	4,489,862
<u>Property, Plant and Equipment</u>		
Computer Equipment	3,824	3,495
Less: Accumulated Depreciation	(2,738)	(3,310)
Total Property, Plant and Equipment	1,086	185
<u>Other Assets</u>		
Security Deposits	-	4,369
Total Other Assets	-	4,369
<b>Total Assets</b>	<b>\$ 2,661,953</b>	<b>\$ 4,494,416</b>
 <b><u>Liabilities and Stockholder's Equity</u></b>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 53,185	\$ 32
Accounts Payable - SQS India / Affiliates	803,865	3,034,536
Accrued Expenses	519,768	322,702
Accrued Income Taxes	17,894	27,999
Total Current Liabilities	1,394,712	3,385,269
<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	1,167,241	1,009,147
Total Stockholder's Equity	1,267,241	1,109,147
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 2,661,953</b>	<b>\$ 4,494,416</b>

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

**SQS BFSI INC.**  
**STATEMENTS OF INCOME**  
**For the Years Ended March 31, 2018 and 2017**

	2018	2017
<u>Operating Revenues</u>		
Sales Revenues	\$ 2,857,727	\$ 2,802,431
Total Operating Revenues	2,857,727	2,802,431
Cost of Sales (Schedule I)	(2,018,709)	(1,955,096)
Gross Profit/(Loss)	839,018	847,335
Operating Expenses (Schedule II)	(579,224)	(592,567)
Income/(Loss) from Operations	259,794	254,768
<u>Other Non-Operating Income/Expenses</u>		
Other Income	-	65,183
Interest Expense	-	(20,580)
Income/(Loss) before provision for Income Taxes	259,794	299,371
Income Tax Expense	(101,700)	(113,700)
<b>Net Income/(Loss)</b>	<b>\$ 158,094</b>	<b>\$ 185,671</b>

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, 2018 and 2017**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance at 04/01/2016	\$ 30	\$ 99,970	\$ 823,476	\$ 923,476
Contribution/Return of capital	-	-	-	
Net Income/(Loss)	-	-	185,671	185,671
Balance at 03/31/2017	30	99,970	1,009,147	1,109,147
Contribution/Return of Capital	-	-	-	-
Net Income/(Loss)	-	-	158,094	158,094
<b>Balance at 03/31/2018</b>	<b>\$ 30</b>	<b>\$ 99,970</b>	<b>\$ 1,167,241</b>	<b>\$ 1,267,241</b>

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, 2018 and 2017**

	2018	2017
<b><u>Cash Flows From Operating Activities</u></b>		
Net Income	\$ 158,094	\$ 185,671
Adjustment to Reconcile Changes in Net Income to Net Cash Provided by/(used in) Operating Activities:		
Depreciation Expense	203	764
<u>(Increase)/Decrease in:</u>		
Accounts Receivable/ Affiliate Others	252,361	256,653
Loans & Advances	8,115	17,490
Prepaid Expenses	559	(669)
Security Deposit	4,369	-
<u>Increase/(Decrease) in:</u>		
Accounts Payable	53,153	(4,135)
Accounts Payable - SQS India / Affiliates	(2,230,671)	2,345,204
Accrued Expenses	197,066	11,952
Accrued Income Taxes	(10,105)	(8,512)
Net Cash Provided by/(used in) Operating Activities	(1,566,856)	2,804,418
<b><u>Cash Flows From Investing Activities</u></b>		
Purchase of Property, Plant and Equipment	(1,104)	-
Net Cash Provided by/(used in) Investing Activities	(1,104)	-
<b><u>Cash Flows From Financing Activities</u></b>		
Common Stock	-	-
Additional Paid-in Capital	-	-
Net Cash Provided by/(used in) Financing Activities	-	-
Net Increase/(Decrease) in Cash and Cash Equivalents	(1,567,960)	2,804,418
Cash and Cash Equivalents: Beginning of Year	3,834,230	1,029,812
Cash and Cash Equivalents: End of Year	<b>\$ 2,266,270</b>	<b>\$ 3,834,230</b>

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



**SQS BFSI INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

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 SQS India BFSI Limited (SQS-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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 AND 2017**

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 \$78 converted at the exchange rate of INR 64.50 per US Dollar as of March 31, 2018) 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, 2018 AND 2017**

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 SQS-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 (May 2, 2018).

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, 2018 and 2017, the Company's uninsured cash balances were as follows:

	<u>Mar. 31, 2018</u>	<u>Mar. 31, 2017</u>
Carrying Value	2,266,270	2,822,580
Portion insured by FDIC	250,000	250,000
Portion uninsured by FDIC	<u>\$ 2,016,270</u>	<u>\$ 2,572,580</u>

**SQS BFSI INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

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

Risk to the Company for uninsured cash balances is considered minimal. In books, cash amounted to \$2,266,270 and \$3,834,230 as of March 31, 2018 and 2017. The cause for this large variance between the two years includes collections received from US customers on behalf of SQS India were transferred to the parent company during the year ended March 31, 2018.

Note 4. Accounts Receivable – Affiliate SQS India

100 % of the revenues represented amounts billed to the parent company at cost margin basis, using transfer pricing study. Accounts Receivable – Affiliate SQS India consists of balances due from the parent company for services billed at cost plus basis. As of March 31, 2018 and 2017 such balances amounted to \$0 and \$0, respectively.

Note 5. Short Term Investments - Certificate of Deposit

The company opened three certificate of deposits for a total of \$2,250,000 which matured on February 23, 2017. The interest earned on these certificate of deposits is 0.9 % per annum. Loan proceeds were temporarily invested in certificate of deposits. The certificates of deposits were withdrawn early in October 2016 in order to return the loan payable.

Note 6. 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 \$383,141 and \$635,502 as of March 31, 2018 and 2017, respectively. It also includes balances due from an US subsidiaries of the ultimate German parent company in the amounts of \$157,999 and \$325,151, as of March 31, 2018 and March 31, 2017, respectively.

Note 7. 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, 2018 and 2017, loans & advances amounted to \$4,225 and \$12,340, respectively. These advances bear no interest.

Note 8. Prepaid Expenses

The Company paid advances for dues and subscription. As of March 31, 2018 and 2017, prepaid expenses amounted to \$7,231 and \$7,790, respectively.

**SQS BFSI INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

Note 9. Property and Equipment

Property and equipment included computer equipment purchased for business purposes at a cost of \$ 3,824 and \$ 3,495 as of March 31, 2018 and 2017, respectively. The accumulated depreciation as of March 31, 2018 and 2017 amounted to \$2,738 and \$3,310, respectively. The depreciation expense for the years ended March 31, 2018 and 2017 amounted to \$203 and \$764, respectively. Additions and dispositions amounted to \$1,104 and \$775 respectively, for the year ended March 31, 2018. Such amounts were zero during the previous year.

Note 10. Security Deposits

The Company has security deposit of \$-0- and \$4,369 as of March 31, 2018 and 2017, respectively. The Company moved its offices out of New Jersey resulting in refund of security deposit.

Note 11. Accounts Payable

Accounts payable includes outstanding invoices due to vendors. As of March 31, 2018 and 2017, the balances amounted to \$53,185 and \$32, respectively.

Note 12. 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, 2018 and 2017, accrued expenses amounted to \$519,768 and \$322,702, respectively.

Note 13. 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, 2018 and 2017, they amounted to \$ 17,894 and \$ 27,999, respectively.

Note 14. Loan Payable – Intercompany

On August 12, 2016, the Company entered into a loan agreement with SQS BSFI UK LTD, UK, for an unsecured loan of GBP 1,750,000. The interest rate is 3.5% per year which shall be payable quarterly. The loan is payable on or before Aug 11, 2017. The loan was fully paid back in November 2016 and loan balance amounted to -0- and \$ -0- as of March 31, 2018 and March 31, 2017, respectively.

Note 15. Stockholder's Equity

During the years ended March 31, 2018 and 2017, parent Company SQS-India did not contribute any additional funds to Equity.

**SQS BFSI INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

Note 16. Related Party Transactions

SQS-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 \$2,857,727 and \$2,802,431 for costs of consultants provided for onsite/offshore services to SQS India for the years ended March 31, 2018 and 2017, respectively. Such billing is based on transfer pricing study, which uses cost plus margin basis, consistent with industry standards.

SQS billed customers on behalf of the parent company \$ 3,369,163 and \$ 3,840,314 for the years ended March 31, 2018 and 2017, respectively. These amounts are offset by SQS 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 SQS-India as of March 31, 2018 and 2017 were \$0 and \$0, respectively. Accounts Payable to related parent and other affiliated companies amounted to \$803,865 and \$3,034,536 as of March 31, 2018 and 2017, respectively. These amounts included \$716,401 and \$ 2,943,458 towards balances due to SQS India as of the same period. The March 31, 2018 and 2017 balance due included \$80,606 and \$79,839 for SQS USA Inc. respectively and \$6,858 and \$11,239 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 \$453,751 and \$211,986 to SQS-India for marketing cost during the fiscal years ended March 31, 2018 and 2017, respectively.

During the years ended March 31, 2018 and 2017, SQS received \$ 4,222 and \$ 16,310 respectively, from the customers of SQS-India. SQS did not provide any services to those customers and all services were provided and billed by SQS-India.

Billings to related party SQS USA Inc. amounted to \$596,146 and \$939,144 for the years ended March 31, 2018 and 2017 respectively. SQS US Inc. owed \$98,684 and \$325,151 as of the same period. Accounts payable due to SQS USA Inc. is shown elsewhere in note 16.

The Company borrowed \$2,240,345 loan from SQS BSFI UK LTD, UK for 1 year term. The loan was paid in full and year end balances were \$-0- as of March 31, 2018 and 2017, respectively. The interest incurred for the years ended March 31, 2018 and 2017 is \$ -0- and \$20,580.

**SQS BFSI INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

Note 17. Cash Flow Information

Cash paid for interest and income taxes for the years ended March 31, 2018 and 2017 were as follows:

	<b>Mar. 31, 2018</b>	<b>Mar. 31, 2017</b>
Interest	\$ -	\$ 20,580
Income Taxes	111,805	119,720
Total	<b>\$ 111,805</b>	<b>\$ 140,300</b>

Note 18. Income Taxes

The Company files income tax returns in the U.S. federal and various state jurisdictions. During the years ended March 31, 2018 and 2017, the Company's tax expense / (benefit) amounted to \$101,700 and \$113,700, respectively.

Note 19. 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, 2018 and 2017 amounted to \$3,557 and \$22,536, respectively.

The future minimum lease payments for the KY lease (up to April 30, 2019) is as follows:

Year ending:	
March 31, 2019	6,000
March 31, 2020	500
	-----
Total	\$6,500
	=====

Note 20. Concentrations

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 20% and 24% during the years ended March 31, 2018 and 2017, respectively.

Billing to one customer on behalf of the parent company accounted for 42 % and 59 % of the total billings during the years ended March 31, 2018 and 2017, respectively. Similarly, two customers accounted for 66 % and 67 % and three customers accounted for 84 % and 91 % of the total billings during the same period.

**SQS BFSI INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

Note 20. Concentrations– (Cont'd)

Accounts Receivable from one customer accounted for 43 % and 35 % as of March 31, 2018 and 2017, respectively. Accounts receivable from two customers accounted for 69 % and 86 % and three customers accounted for 85 % and 95 %, 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, 2018, and 2017, the uninsured cash balances were \$ 2,016,270 and \$ 2,572,580, respectively (Note 3).

Note 21 Foreign Operations

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

Note 22. Subsequent Events

No major subsequent events occurred from April 1, 2018 to May 2, 2018 (date of issuance of this report).



**SQS BFSI INC.**  
**SCHEDULES OF COST OF SALES**  
**For the Years Ended March 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<u>Costs of Sales</u>		
Payroll Expenses	\$ 1,389,793	\$ 1,548,234
Payroll Taxes & Benefits	245,319	313,219
Project Implentation/Professional Fees	<u>383,597</u>	<u>93,643</u>
 Total Cost of Sales	 <b><u>\$ 2,018,709</u></b>	 <b><u>\$ 1,955,096</u></b>

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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<u>Operating Expenses</u>		
Salaries & Wages	\$ 336,907	\$ 300,005
Travel & Immigration Expenses	13,099	100,597
Marketing Expenses	60,929	96,083
Payroll Taxes & Benefits	25,606	40,227
Professional Fees	38,165	14,854
Recruitment and Training Expenses	81,114	-
Rent	3,557	22,536
Office Expense	9,657	10,441
Telecommunication	9,987	7,060
Depreciation	203	764
Total Operating Expenses	<u>\$ 579,224</u>	<u>\$ 592,567</u>

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