

FINANCIAL CONTROLS AND REPORTING POLICY

THIS FINANCIAL CONTROLS AND REPORTING POLICY (this "Policy") is adopted and made effective as of January 15, 2024 (the "Effective Date"), by NEXUS INDUSTRIAL INTELLIGENCE, INC., a Delaware corporation (the "Company").

WHEREAS, the Company develops and provides artificial intelligence-powered software solutions for industrial process optimization; and

WHEREAS, the Company desires to establish comprehensive financial controls and reporting procedures appropriate for its business operations;

NOW, THEREFORE, the Company hereby adopts the following Policy:

1.0 FINANCIAL CONTROLS AND REPORTING POLICY

1.1 Purpose and Scope

This Policy establishes the internal control framework and financial reporting requirements for the Company's operations. These controls shall apply to all financial operations, including but not limited to revenue recognition, expense management, and research and development activities. The Policy ensures compliance with applicable accounting standards, regulatory requirements, and internal governance protocols while maintaining operational efficiency and risk management.

1.2 Segregation of Duties

(a) The Company shall maintain strict segregation of duties across financial operations, including: (i) Transaction initiation and approval (ii) Cash management and reconciliation (iii) Financial reporting and review (iv) System access and administration (v) Vendor management and payment processing (vi) Payroll administration and disbursement

(b) No single employee shall have authority to both initiate and approve financial transactions exceeding \$10,000.

(c) Department managers shall conduct quarterly reviews of duty assignments to ensure compliance with segregation requirements.

(d) Temporary duty reassignments due to employee absence must be documented and approved by the Chief Financial Officer.

1.3 Revenue Recognition Controls

- (a) Subscription Revenue Documentation Requirements: (i) Executed customer agreements (ii) Proof of platform access provision (iii) Monthly usage metrics (iv) Billing and collection records (v) Service level agreement compliance reports (vi) Customer acceptance documentation
- (b) Revenue recognition shall occur in accordance with Section 2.0 of this Policy.
- (c) Multi-year contracts shall be reviewed quarterly for: (i) Performance obligation fulfillment (ii) Contract modification impacts (iii) Variable consideration adjustments (iv) Customer credit risk assessment
- (d) Revenue deferral procedures shall apply when: (i) Implementation services are not complete (ii) Customer acceptance is pending (iii) Usage-based components cannot be reliably measured (iv) Collection probability falls below established thresholds

1.4 Software Development Cost Controls

- (a) All software development costs shall be tracked separately using designated project codes.
- (b) Capitalization decisions shall follow the criteria established in Section 3.0.
- (c) Development cost tracking requirements: (i) Direct labor hours with employee-specific time tracking (ii) Contractor expenses with deliverable documentation (iii) Infrastructure costs allocated to development activities (iv) Third-party software and services (v) Quality assurance and testing expenses
- (d) Quarterly review requirements: (i) Project milestone achievement assessment (ii) Capitalization criteria validation (iii) Impairment indicator evaluation (iv) Useful life estimates review

1.5 Internal Control Documentation

- (a) The Company shall maintain comprehensive documentation of all control procedures, including: (i) Process flowcharts (ii) Control matrices (iii) Risk assessment reports (iv) System access logs (v) Exception reports and resolution documentation
- (b) Documentation review and updates shall occur: (i) Annually for all control procedures (ii) Upon significant process changes (iii) Following control failure incidents (iv) When regulatory requirements change

1.6 Monitoring and Reporting

- (a) Monthly control effectiveness monitoring shall include: (i) Transaction testing samples (ii) Reconciliation review (iii) Exception report analysis (iv) Access right verification

(b) Quarterly reporting requirements: (i) Control effectiveness summary (ii) Violation incident reports (iii) Remediation status updates (iv) Risk assessment updates

(c) Annual comprehensive review: (i) Control framework assessment (ii) Policy compliance audit (iii) Procedure effectiveness evaluation (iv) Improvement recommendation development

1.7 Policy Violations

(a) All violations shall be reported to the Chief Financial Officer within 24 hours.

(b) Investigation procedures shall commence within 48 hours of reported violations.

(c) Remediation plans shall be developed within 5 business days of violation confirmation.

(d) Disciplinary actions may include: (i) Additional training requirements (ii) Suspension of system access (iii) Modification of duties (iv) Employment termination

2.0 REVENUE RECOGNITION AND CONTRACT ACCOUNTING

2.1 General Principles

(a) Revenue recognition shall comply with ASC 606 requirements for software-as-a-service arrangements, including: (i) Identification of customer contracts meeting enforceability criteria (ii) Assessment of collectibility threshold requirements (iii) Evaluation of contract combination circumstances (iv) Analysis of contract modification impacts

(b) Performance obligations shall be identified and allocated based on standalone selling prices, wherein: (i) Distinct goods or services shall be evaluated independently (ii) Series of distinct services shall be treated as single performance obligations when criteria are met (iii) Material rights shall be identified and accounted for separately (iv) Non-refundable upfront fees shall be assessed for distinct value

(c) Contract costs shall be evaluated for capitalization when: (i) Costs directly relate to an identified contract (ii) Costs generate or enhance resources for future performance (iii) Cost recovery is probable through future revenue generation

2.2 Subscription Revenue Recognition

(a) NexusCore™ platform subscription revenue shall be recognized ratably over the subscription term when: (i) Contract execution is complete and legally binding (ii) Platform access has been provisioned and verified (iii) Collection is reasonably assured based on credit assessment (iv) Performance obligations are identified and documented (v) Pricing terms are fixed or determinable

(b) Usage-based components shall be recognized monthly based on actual customer consumption, whereby: (i) Usage metrics shall be captured through automated monitoring

systems (ii) Variable consideration constraints shall be applied (iii) Minimum commitment levels shall be evaluated separately (iv) Overage charges shall be recognized when incurred

(c) Subscription modifications shall be processed as follows: (i) Upgrades shall be prorated from modification date (ii) Downgrades shall be implemented at renewal date (iii) Early terminations shall be evaluated for penalty enforcement (iv) Service level credits shall be recognized as revenue reductions

2.3 Professional Services Revenue

(a) Implementation services revenue shall be recognized as services are delivered, considering: (i) Time and materials billing based on actual hours (ii) Fixed price milestone completion verification (iii) Customer acceptance criteria satisfaction (iv) Project completion percentage assessment

(b) Training services shall be recognized upon completion of each training session, wherein: (i) Virtual training shall be recognized upon session delivery (ii) On-site training shall include travel time allocation (iii) Custom curriculum development shall be separately evaluated (iv) Certification programs shall be recognized upon completion

(c) Professional services delivery requirements include: (i) Statement of work execution (ii) Resource allocation confirmation (iii) Deliverable acceptance criteria (iv) Change order documentation

2.4 Multi-Element Arrangements

(a) Revenue allocation shall be based on relative standalone selling prices, determined by: (i) Observable prices in standalone transactions (ii) Market assessment approach when applicable (iii) Expected cost plus margin methodology (iv) Residual approach when criteria are met

(b) Contract modifications shall be evaluated for treatment as separate contracts when: (i) Additional distinct services are added (ii) Pricing reflects standalone selling prices (iii) Scope changes are substantially different (iv) Modification impacts are material

2.5 Special Considerations

(a) Extended payment terms shall be evaluated for: (i) Significant financing component presence (ii) Collectibility assessment impact (iii) Revenue recognition timing effects (iv) Contract asset classification

(b) Non-monetary consideration shall be measured at: (i) Fair value of goods or services received (ii) Fair value of non-monetary consideration (iii) Standalone selling price when neither is reliably measurable

2.6 Documentation Requirements

- (a) Revenue recognition documentation shall include: (i) Contract review and approval records (ii) Performance obligation identification support (iii) Standalone selling price calculations (iv) Revenue allocation worksheets (v) Recognition timing determinations
- (b) Contract modifications shall be documented with: (i) Amendment execution records (ii) Pricing adjustment calculations (iii) Performance obligation reassessments (iv) Revenue reallocation support

2.7 Compliance and Review

- (a) Quarterly revenue recognition review shall assess: (i) Compliance with established policies (ii) Consistency of application (iii) Documentation completeness (iv) Special circumstance handling
- (b) Annual procedures shall include: (i) Policy updates for new guidance (ii) Staff training requirements (iii) Control effectiveness evaluation (iv) External auditor coordination

3.0 COST ALLOCATION AND R&D EXPENDITURE

3.1 Research and Development Phases

- (a) Research Phase Activities: (i) Conceptual formulation and initial project scoping (ii) Design alternatives evaluation and comparative analysis (iii) Initial prototype development and proof-of-concept testing (iv) Technology feasibility studies and market research (v) Preliminary architecture assessment and platform selection (vi) Experimental development of machine learning models (vii) Data requirements analysis and sourcing strategies
- (b) Development Phase Activities: (i) Detailed program design and technical specifications (ii) Coding, testing, and iterative refinement (iii) Configuration management and documentation (iv) Quality assurance validation and compliance verification (v) Model training and optimization procedures (vi) Integration testing and deployment preparation (vii) Performance benchmarking and optimization (viii) Security implementation and validation

3.2 Capitalization Criteria

- (a) Development costs shall be capitalized when: (i) Technical feasibility is established through formal assessment (ii) Management authorizes and commits resources via written approval (iii) Development costs can be reliably measured and tracked (iv) Future economic benefits are probable and documentable (v) The entity demonstrates ability to use or sell the resulting asset (vi) Adequate technical and financial resources exist for completion

(b) Specific Capitalization Requirements: (i) Documentation of technical feasibility studies (ii) Formal project authorization documents (iii) Detailed cost tracking mechanisms (iv) Revenue projection models (v) Resource allocation plans (vi) Risk assessment documentation

(c) All research phase costs shall be expensed as incurred, including: (i) Preliminary research activities (ii) Conceptual development work (iii) Alternative exploration (iv) Initial prototyping expenses

3.3 Cost Allocation Methodology

(a) Direct Costs: (i) Shall be assigned to specific projects based on actual usage (ii) Must be supported by detailed time tracking (iii) Include developer and engineer compensation (iv) Cover specific hardware and software licenses (v) Encompass direct materials and supplies (vi) Include project-specific consulting fees

(b) Indirect Costs: (i) Shall be allocated based on predetermined overhead rates (ii) Must be reviewed and adjusted quarterly (iii) Include shared infrastructure costs (iv) Cover administrative support expenses (v) Encompass facility and utility expenses (vi) Include general IT support costs

3.4 Cloud Infrastructure Cost Management

(a) Cloud Resource Allocation: (i) Usage-based cost distribution (ii) Project-specific instance tracking (iii) Storage allocation monitoring (iv) Network bandwidth attribution (v) Reserved instance optimization

(b) Cost Optimization Requirements: (i) Regular resource utilization reviews (ii) Automated scaling policies (iii) Idle resource management (iv) Cost-benefit analysis documentation

3.5 Amortization and Depreciation

(a) Capitalized Development Costs: (i) Shall be amortized over estimated useful life (ii) Not to exceed five years without senior approval (iii) Subject to annual impairment review (iv) Reviewed quarterly for technical obsolescence

(b) Infrastructure Investments: (i) Hardware depreciation schedules (ii) Software license amortization (iii) Regular carrying value assessments (iv) Impairment testing procedures

3.6 Reporting and Documentation

(a) Required Documentation: (i) Detailed cost allocation records (ii) Capitalization decision support (iii) Project phase transition documentation (iv) Resource utilization reports (v) Variance analysis and explanations

(b) Periodic Review Requirements: (i) Monthly cost allocation review (ii) Quarterly capitalization assessment (iii) Annual methodology evaluation (iv) Independent audit support documentation

3.7 Compliance and Control

- (a) Internal Controls: (i) Regular methodology review (ii) Documentation maintenance (iii) Approval workflow enforcement (iv) Cost allocation verification
- (b) Audit Requirements: (i) Supporting documentation retention (ii) Regular compliance reviews (iii) External auditor coordination (iv) Remediation procedure documentation

4.0 COMPLIANCE AND AUDIT PROCEDURES

4.1 SOC 2 Compliance

- (a) The Company shall maintain SOC 2 Type II compliance for: (i) Security (ii) Availability (iii) Processing integrity (iv) Confidentiality (v) Privacy
- (b) SOC 2 compliance shall be validated through: (i) Annual third-party attestation reports (ii) Continuous monitoring of control effectiveness (iii) Quarterly control assessment reviews (iv) Documentation of remediation activities
- (c) The Company shall maintain a dedicated compliance team responsible for: (i) Monitoring control implementation (ii) Coordinating with external auditors (iii) Implementing corrective actions (iv) Maintaining compliance documentation

4.2 Internal Audit Requirements

- (a) Quarterly internal control reviews shall include: (i) Assessment of operational controls (ii) Testing of security protocols (iii) Evaluation of data protection measures (iv) Review of access management systems (v) Verification of backup procedures
- (b) Annual comprehensive audit of: (i) Revenue recognition practices (ii) Capitalization policies (iii) Cost allocation procedures (iv) Compliance requirements (v) Risk management frameworks (vi) Vendor management processes
- (c) Internal audit procedures shall: (i) Follow GAAP and industry standards (ii) Utilize risk-based methodology (iii) Include sampling of transactions (iv) Document findings and recommendations (v) Track remediation efforts

4.3 Documentation Standards

- (a) All financial transactions, control activities, and compliance measures shall be documented in accordance with this Policy.
- (b) Documentation requirements include: (i) Detailed transaction records (ii) Control activity logs (iii) Audit trails (iv) System access records (v) Change management documentation (vi) Incident response records

(c) Record retention requirements: (i) Financial records: 7 years (ii) Audit reports: 5 years (iii) Compliance documentation: 3 years (iv) System logs: 18 months

4.4 Regulatory Reporting

(a) The Company shall maintain compliance with: (i) Federal regulations (ii) State-specific requirements (iii) Industry standards (iv) International requirements where applicable

(b) Regular reporting obligations include: (i) Quarterly compliance assessments (ii) Annual regulatory filings (iii) Incident reporting within required timeframes (iv) Stakeholder communications

4.5 Compliance Monitoring

(a) Continuous monitoring procedures shall include: (i) Automated control testing (ii) Real-time compliance alerts (iii) Regular control effectiveness reviews (iv) Performance metric tracking

(b) Response procedures for compliance violations: (i) Immediate notification to management (ii) Root cause analysis (iii) Corrective action implementation (iv) Documentation of remediation (v) Effectiveness validation

4.6 Audit Committee Oversight

(a) The Audit Committee shall: (i) Review compliance reports quarterly (ii) Approve annual audit plans (iii) Monitor remediation efforts (iv) Evaluate control effectiveness (v) Report significant findings to the Board

(b) Committee responsibilities include: (i) Oversight of external auditors (ii) Review of internal audit function (iii) Approval of compliance initiatives (iv) Risk assessment review (v) Policy amendment recommendations

5.0 GENERAL PROVISIONS

5.1 Amendments

This Policy may be amended only by written instrument approved by the Board of Directors.

5.2 Governing Law

This Policy shall be governed by and construed in accordance with the laws of the State of Delaware.

5.3 Severability

If any provision of this Policy is held invalid, the remainder shall continue in full force and effect.

IN WITNESS WHEREOF, the Company has adopted this Policy as of the Effective Date.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: _____ Name: Dr. Sarah Chen Title: Chief Executive Officer

By: _____ Name: David Kumar Title: Chief Financial Officer

EXHIBIT A Capitalization Thresholds and Approval Matrix [Detailed matrix of approval requirements by transaction type and amount]

APPENDIX 1 Required Documentation Templates [Standard forms and templates for financial control documentation]