FINANCIAL CONTROLS AND REPORTING POLICY

Effective Date: January 15, 2024

Document Number: FIN-2024-001

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation (the "Company"), develops and deploys proprietary artificial intelligence and machine learning solutions for industrial applications;

WHEREAS, the Company requires comprehensive financial controls and reporting procedures that address the unique aspects of its technology-driven business model;

WHEREAS, the Board of Directors has determined it to be in the Company's best interests to establish standardized procedures for financial reporting, technology asset accounting, and compliance management;

NOW, THEREFORE, the Company hereby adopts the following Financial Controls and Reporting Policy (this "Policy"):

1.0 FINANCIAL CONTROLS AND REPORTING POLICY

1.1 Revenue Recognition Standards for SaaS Licensing

(a) The Company shall recognize revenue from its NexusCore™ Industrial AI Platform and related software services in accordance with ASC 606, applying the following five-step model:

(i) Identify the contract with the customer (ii) Identify performance obligations (iii) Determine transaction price (iv) Allocate transaction price to performance obligations (v) Recognize revenue when performance obligations are satisfied

(b) For subscription-based licenses, revenue shall be recognized ratably over the subscription term, commencing upon customer acceptance or deployment, whichever occurs later.

(c) Multi-component arrangements shall be evaluated to determine distinct performance obligations, with consideration given to:

(i) Implementation services (ii) Custom development work (iii) Training and support services (iv) Usage-based components

(d) Contract modifications shall be assessed to determine whether they constitute separate contracts or modifications to existing arrangements, with appropriate revenue recognition adjustments applied accordingly.

1.2 AI Technology Asset Valuation Methodology

(a) The Company shall value its proprietary artificial intelligence and machine learning assets using a cost-based approach, incorporating:

(i) Direct development costs (ii) Allocated overhead (iii) Capitalized labor for qualifying development activities (iv) Third-party technology integration costs

(b) Valuation assessments shall be conducted quarterly, with impairment testing performed annually or upon triggering events.

(c) The following specific criteria shall be applied for capitalizing AI development costs:

(i) Technical feasibility of completion has been established (ii) Intent to complete development is documented (iii) Ability to use or sell the asset is demonstrated (iv) Future economic benefits are probable (v) Adequate technical and financial resources exist (vi) Expenditure can be reliably measured

(d) Amortization of capitalized AI assets shall commence upon commercial deployment, using the straight-line method over the estimated useful life, not to exceed five years.

1.3 Internal Control Requirements for Cloud-Based Services

(a) The Company shall maintain SOC 2 Type II compliant controls for all cloud-based service delivery infrastructure.

(b) Access controls, change management, and monitoring procedures shall be documented and tested quarterly.

(c) The following control frameworks shall be implemented and maintained:

(i) Segregation of duties for development, testing, and production environments (ii) Multi-factor authentication for administrative access (iii) Automated monitoring and alerting systems (iv) Regular penetration testing and vulnerability assessments (v) Disaster recovery and business continuity procedures (vi) Change management approval workflows

(d) Annual control attestations shall be obtained from critical third-party service providers and infrastructure partners.

1.4 Data Privacy Compliance Financial Controls

(a) The Company shall maintain segregated accounting for data privacy compliance costs, including:

(i) GDPR compliance expenditures (ii) CCPA compliance costs (iii) Industry-specific privacy regulation expenses

(b) Privacy compliance budgeting shall incorporate:

(i) Data protection impact assessment costs (ii) Privacy training and certification expenses (iii) Technical compliance infrastructure (iv) External audit and certification fees (v) Insurance coverage for privacy-related risks

1.5 Financial Reporting Requirements

(a) The Company shall prepare and maintain the following reports:

(i) Monthly revenue recognition schedules (ii) Quarterly technology asset valuations (iii) Privacy compliance cost allocation reports (iv) Control testing documentation (v) Key performance indicator dashboards

(b) Reports shall be reviewed and approved by:

(i) Chief Financial Officer (ii) Chief Technology Officer (iii) Data Protection Officer (iv) Audit Committee, where applicable

1.6 Audit and Compliance Documentation

(a) The Company shall maintain comprehensive documentation supporting:

(i) Revenue recognition decisions (ii) Asset valuation methodologies (iii) Control testing results (iv) Privacy compliance expenditures

(b) Documentation shall be retained for a minimum of seven years and shall be readily accessible for audit purposes.

(c) Regular internal audits shall be conducted to ensure compliance with this policy, with findings reported to senior management quarterly.

2.0 TECHNOLOGY ASSET ACCOUNTING PROCEDURES

2.1 Capitalization Criteria for AI Development Costs

(a) Development costs shall be capitalized when all of the following criteria are met:

(i) Technical feasibility has been established through documented proof-of-concept (ii) Management has authorized and committed to the project via formal written approval (iii) The Company has the ability to complete the project, including sufficient resources (iv) The Company can demonstrate probable future economic benefit through market analysis (v) The Company maintains adequate documentation of development milestones (vi) The project has advanced beyond preliminary research stage

(b) Qualifying costs include:

(i) Direct labor for AI algorithm development, including salaries and benefits (ii) Third-party API and computing resources directly attributable to development (iii) Data acquisition and preparation costs for training datasets (iv) Testing and validation expenses for model optimization (v) Cloud computing infrastructure costs during development phase (vi) Contract labor specifically engaged for development activities (vii) Software licenses required for development environment

(c) Non-qualifying costs explicitly exclude:

(i) General administrative overhead (ii) Training of personnel (iii) Maintenance of existing systems (iv) Marketing and promotional activities (v) Data center operational costs (vi) Research costs prior to establishing technical feasibility

2.2 Amortization Schedules for Software Assets

(a) Capitalized software development costs shall be amortized using the straight-line method over the estimated useful life, not to exceed five (5) years, with the following specifications:

(i) Core platform infrastructure: five (5) years (ii) Customer-facing applications: four (4) years (iii) Internal use software: three (3) years (iv) Mobile applications: two (2) years

(b) AI models and algorithms shall be amortized over three (3) years, subject to periodic reassessment, with consideration for:

(i) Technological obsolescence (ii) Market conditions (iii) Competitive landscape (iv) Model performance metrics

2.3 Impairment Assessment

(a) Technology assets shall be evaluated for impairment when any of the following triggers occur:

(i) Significant adverse changes in technological environment (ii) Material reduction in estimated useful life (iii) Loss of key customers or markets (iv) Substantial decline in operating performance (v) Regulatory changes affecting asset utility

(b) Impairment testing shall follow a two-step process:

(i) Recoverability test comparing undiscounted cash flows to carrying amount (ii) Fair value measurement if carrying amount exceeds undiscounted cash flows

2.4 Documentation Requirements

(a) The following documentation must be maintained for all capitalized technology assets:

(i) Technical specifications and architecture documents (ii) Development timeline and milestone achievements (iii) Capitalization worksheets detailing cost components (iv) Management approvals and authorizations (v) Economic benefit analysis and projections (vi) Periodic impairment assessment results (vii) Amortization schedules and calculations

(b) Documentation shall be retained for a minimum of seven (7) years following the asset's retirement or disposal.

2.5 Periodic Review and Reporting

(a) Quarterly review of capitalized assets shall be conducted to ensure:

(i) Continued technical feasibility (ii) Alignment with business objectives (iii) Accuracy of amortization schedules (iv) Identification of potential impairment indicators (v) Compliance with documentation requirements

(b) Annual comprehensive review shall include:

(i) Validation of useful life estimates (ii) Assessment of capitalization criteria (iii) Evaluation of amortization methods (iv) Update of valuation models

3.0 COMPLIANCE AND RISK MANAGEMENT

3.1 SOC 2 Compliance Financial Controls

(a) The Company shall maintain and document financial controls supporting:

(i) Security, including access controls, encryption protocols, and incident response procedures (ii) Availability, encompassing system redundancy and disaster recovery mechanisms (iii) Processing integrity, ensuring accurate data handling and transaction processing (iv) Confidentiality of sensitive information and intellectual property (v) Privacy protection measures aligned with regulatory requirements

(b) The Company shall conduct quarterly audits of these controls, including:

(i) Documentation of control effectiveness (ii) Gap analysis and remediation planning (iii) Third-party verification of compliance measures (iv) Updated risk assessment documentation

3.2 GDPR Financial Impact Management

(a) The Company shall maintain reserves for potential GDPR compliance issues equal to the greater of:

(i) 2% of annual global revenue (ii) $1,000,000 USD

(b) The Company shall implement additional financial safeguards including:

(i) Quarterly assessment of GDPR compliance costs (ii) Documentation of data processing activities and associated risks (iii) Insurance coverage specific to data protection violations (iv) Budget allocation for ongoing compliance training and updates

3.3 AI Ethics Compliance Monitoring

(a) The Company shall establish and maintain financial controls supporting:

(i) AI bias monitoring and mitigation procedures (ii) Algorithm transparency requirements (iii) Ethical AI development practices (iv) Regular ethical impact assessments

(b) The Company shall maintain documentation of:

(i) AI system development lifecycle controls (ii) Risk assessment methodologies (iii) Bias testing procedures and results (iv) Transparency reporting mechanisms

3.4 Risk Assessment Procedures

(a) The Company shall conduct regular risk assessments addressing:

(i) Emerging regulatory requirements (ii) Technology evolution impacts (iii) Market condition changes (iv) Operational risk factors

(b) Risk assessment documentation shall include:

(i) Quantitative impact analysis (ii) Mitigation strategy development (iii) Resource allocation planning (iv) Implementation timelines

3.5 Compliance Reporting Requirements

(a) The Company shall maintain regular reporting procedures including:

(i) Monthly compliance status updates (ii) Quarterly risk assessment reviews (iii) Annual comprehensive compliance reports (iv) Ad-hoc incident reporting as required

(b) Reports shall address:

(i) Control effectiveness metrics (ii) Compliance violation incidents (iii) Remediation efforts and outcomes (iv) Financial impact assessments (v) Resource allocation effectiveness

3.6 Continuous Improvement

(a) The Company shall implement processes for:

(i) Regular review of compliance procedures (ii) Updates to control mechanisms (iii) Integration of emerging best practices (iv) Stakeholder feedback incorporation (v) Documentation of improvement initiatives

4.0 REVENUE RECOGNITION AND CONTRACT MANAGEMENT

4.1 Multi-element Arrangement Accounting

(a) For contracts containing multiple performance obligations, the Company shall:

(i) Identify distinct performance obligations through systematic evaluation of promised goods or services (ii) Determine standalone selling prices using observable inputs when available (iii) Allocate transaction price using relative standalone selling price method (iv) Document the basis for allocation methodologies employed (v) Review allocation methodologies at least annually

(b) Performance obligation distinctness shall be evaluated based on:

(i) Customer's ability to benefit from the good or service independently (ii) Separability from other promises in the contract (iii) Integration level with other contracted deliverables (iv) Significant modification or customization requirements

(c) Standalone selling price determination shall follow this hierarchy:

(i) Observable prices from standalone sales (ii) Market assessment approach (iii) Expected cost plus margin approach (iv) Residual approach (only when highly variable or uncertain)

4.2 Subscription Revenue Recognition

(a) Subscription revenue shall be recognized ratably over the service period, with consideration given to:

(i) Setup and implementation services (ii) Usage-based components (iii) Service level guarantees (iv) Termination provisions (v) Contract renewal options

(b) Implementation revenue treatment shall adhere to:

(i) Distinct service evaluation criteria (ii) Recognition upon completion when standalone (iii) Integration with subscription period when not distinct (iv) Capitalization of direct implementation costs

(c) Usage-based revenue components shall be:

(i) Estimated monthly based on historical patterns (ii) Adjusted quarterly for actual usage (iii) Recognized when consumption occurs (iv) Separately tracked and reported

4.3 Contract Modification Procedures

(a) Contract modifications shall be evaluated to determine whether they create:

(i) Separate contracts (ii) Prospective modifications (iii) Cumulative catch-up adjustments

(b) Modification assessment criteria shall include:

(i) Addition of distinct goods or services (ii) Price increase reflection of standalone selling prices (iii) Remaining performance obligations (iv) Degree of interdependence with existing services

4.4 Revenue Recognition Timing

(a) Revenue shall be recognized when the Company:

(i) Transfers promised goods or services (ii) Satisfies performance obligations (iii) Obtains right to payment (iv) Achieves contract milestones

(b) Transfer of control indicators include:

(i) Customer acceptance provisions (ii) Physical possession (iii) Legal title transfer (iv) Payment terms and conditions

4.5 Contract Asset and Liability Management

(a) Contract assets shall be recorded when:

(i) Revenue is recognized prior to billing (ii) Performance occurs before payment is due (iii) Conditional rights to consideration exist

(b) Contract liabilities shall be recorded when:

(i) Payment is received before performance (ii) Advance billing occurs (iii) Refund obligations exist

4.6 Documentation Requirements

(a) The Company shall maintain detailed records of:

(i) Performance obligation identification analysis (ii) Standalone selling price calculations (iii) Allocation methodologies (iv) Revenue recognition timing decisions (v) Contract modification assessments

(b) Documentation shall be reviewed and updated:

(i) Quarterly for material contracts (ii) Annually for all other contracts (iii) Upon significant changes in business model (iv) When new product offerings are introduced

4.7 Compliance and Review

(a) The Revenue Recognition Committee shall:

(i) Meet quarterly to review complex arrangements (ii) Approve non-standard contract terms (iii) Evaluate revenue recognition policies (iv) Monitor regulatory changes (v) Update procedures as needed

(b) Internal audit shall conduct annual reviews of:

(i) Revenue recognition compliance (ii) Documentation adequacy (iii) Control effectiveness (iv) Policy adherence

IN WITNESS WHEREOF, this Policy has been adopted as of the Effective Date first written above.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

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

EXHIBIT A: Defined Terms EXHIBIT B: Revenue Recognition Examples EXHIBIT C: Capitalization Criteria Checklist

[Exhibits follow on separate pages]