

# **FINANCIAL CONTROLS AND ACCOUNTING POLICIES**

THIS FINANCIAL CONTROLS AND ACCOUNTING POLICIES DOCUMENT (this "Policy Document") 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 and machine learning software solutions for industrial applications through its proprietary NexusCore™ platform;

WHEREAS, the Company desires to establish comprehensive financial controls and accounting policies appropriate for its business model and technology offerings; and

WHEREAS, the Company seeks to ensure compliance with applicable accounting standards, securities laws, and regulatory requirements.

NOW, THEREFORE, the Company hereby adopts the following financial controls and accounting policies:

## **1.0 FINANCIAL CONTROLS AND REPORTING FRAMEWORK**

### **1.1 Revenue Recognition Methodology for SaaS Subscriptions**

(a) The Company shall recognize revenue from NexusCore™ platform subscriptions in accordance with ASC 606, over the term of the customer contract as performance obligations are satisfied.

(b) Performance obligations shall be identified and allocated based on standalone selling prices determined through: (i) Observable prices from standalone sales; (ii) Market assessment approach where direct observation is not available; or (iii) Expected cost plus margin approach.

(c) Contract modifications shall be evaluated to determine whether they constitute: (i) Separate contracts requiring independent revenue recognition; (ii) Termination of existing contract and creation of new contract; or (iii) Modification of existing contract requiring cumulative catch-up adjustment.

(d) Subscription billing cycles shall be aligned with revenue recognition periods, with: (i) Monthly, quarterly, or annual billing options; (ii) Proper accrual accounting for prepaid subscriptions; (iii) Systematic amortization of setup fees over expected customer lifetime.

## **1.2 Treatment of Multi-Element Arrangements**

- (a) For contracts containing multiple performance obligations, including platform subscriptions, implementation services, and professional services, the Company shall: (i) Identify distinct performance obligations; (ii) Allocate transaction price based on relative standalone selling prices; (iii) Recognize revenue when each obligation is satisfied.
- (b) Contract consideration shall be allocated using the following hierarchy: (i) Established standalone selling prices from observable data; (ii) Estimated standalone selling prices based on market conditions; (iii) Residual approach only when specific criteria are met.
- (c) Material rights granted to customers shall be accounted for as separate performance obligations, including: (i) Renewal options at discounted rates; (ii) Additional goods or services provided at reduced prices; (iii) Customer loyalty programs or volume-based incentives.

## **1.3 AI Platform Implementation Revenue Recognition**

- (a) Implementation services revenue shall be recognized over time as services are performed, measured by: (i) Direct observation of value transferred to customer; (ii) Input methods based on labor hours expended; (iii) Output methods based on milestones achieved.
- (b) Implementation project phases shall be documented with specific deliverables: (i) Requirements gathering and analysis; (ii) Configuration and customization; (iii) Testing and validation; (iv) User training and knowledge transfer.
- (c) Progress measurement methods shall be consistently applied and documented: (i) Time tracking systems for labor hours; (ii) Milestone completion certificates; (iii) Customer acceptance documents.

## **1.4 Professional Services Revenue Recognition**

- (a) Professional services revenue shall be recognized as services are delivered, with consideration for: (i) Time and materials billing arrangements; (ii) Fixed fee project arrangements; (iii) Success-based fee arrangements.
- (b) Service delivery documentation requirements shall include: (i) Detailed time records and activity logs; (ii) Progress reports and deliverable acceptance; (iii) Customer satisfaction surveys and sign-offs.
- (c) Revenue recognition for specialized service arrangements shall address: (i) Extended warranty and maintenance services; (ii) Managed services agreements; (iii) Performance-based consulting arrangements.

## **1.5 Contract Asset and Liability Management**

- (a) The Company shall maintain detailed records of: (i) Contract assets representing right to payment for transferred goods or services; (ii) Contract liabilities representing advance payments received; (iii) Changes in contract balances during reporting periods.
- (b) Regular reconciliation procedures shall be performed for: (i) Unbilled revenue accruals; (ii) Deferred revenue balances; (iii) Contract modification impacts.

## **1.6 Reporting and Disclosure Requirements**

- (a) Financial reporting shall include detailed disclosures of: (i) Disaggregated revenue by major product/service lines; (ii) Contract asset and liability balances and significant changes; (iii) Performance obligation satisfaction timing and methods.
- (b) Internal controls shall be maintained to ensure: (i) Accurate revenue recognition timing; (ii) Proper allocation of transaction prices; (iii) Compliance with disclosure requirements.

## **2.0 INTELLECTUAL PROPERTY ACCOUNTING POLICIES**

### **2.1 Capitalization Criteria for AI Development Costs**

- (a) The Company shall capitalize software development costs when: (i) Technological feasibility is established through detailed program design; (ii) All planning, designing, coding, and testing activities are substantially completed; (iii) Management has authorized and committed to funding the project through completion; (iv) Personnel and technical resources required for completion have been allocated.
- (b) Capitalization thresholds: (i) Individual projects exceeding \$50,000 in development costs; (ii) Clear evidence of future economic benefit supported by market analysis; (iii) Reasonable expectation of project completion within approved timelines; (iv) Documentation of specific performance requirements and success criteria.
- (c) Cloud computing arrangements: (i) Implementation costs shall be capitalized when meeting ASC 350-40 criteria; (ii) Hosting arrangements must be evaluated for internal-use software classification; (iii) Configuration and customization costs require separate capitalization analysis.

### **2.2 Amortization Schedules**

- (a) Capitalized technology costs shall be amortized over: (i) Three years for core AI/ML algorithms and models; (ii) Five years for platform infrastructure and foundational code; (iii) Two years for customer-facing features and interfaces; (iv) Four years for integrated development environments and tools.

(b) Amortization methodology: (i) Straight-line basis unless another systematic basis is more representative; (ii) Commence amortization upon commercial release or internal deployment; (iii) Review useful life estimates annually for technological obsolescence; (iv) Document any changes to estimated useful lives with supporting analysis.

### **2.3 R&D Expense Classification**

(a) Research and development costs shall be expensed as incurred, except when meeting capitalization criteria under Section 2.1.

(b) Qualifying R&D activities include: (i) Laboratory research aimed at discovery of new knowledge; (ii) Searching for applications of new research findings; (iii) Conceptual formulation and design of possible product alternatives; (iv) Testing in search for or evaluation of product alternatives.

(c) Documentation requirements: (i) Detailed time tracking for development personnel; (ii) Project-specific cost allocation methodologies; (iii) Regular review of capitalized versus expensed activities.

### **2.4 Patent and Trade Secret Valuation**

(a) Patents shall be recorded at cost and amortized over the shorter of: (i) Legal life of the patent; or (ii) Estimated economic useful life.

(b) Patent costs eligible for capitalization: (i) Registration and defense costs; (ii) Legal fees directly related to patent filing; (iii) Technical documentation and drawing preparation; (iv) Patent maintenance fees.

(c) Trade secret valuation methodology: (i) Initial recognition at historical development cost; (ii) Annual impairment testing required; (iii) Documentation of steps taken to maintain secrecy; (iv) Consideration of economic value and competitive advantage.

### **2.5 Periodic Review and Impairment**

(a) Annual review requirements: (i) Assessment of carrying values against recoverable amounts; (ii) Evaluation of remaining useful lives; (iii) Documentation of impairment testing methodology; (iv) Recognition of impairment losses when identified.

(b) Impairment indicators: (i) Significant technological changes affecting utility; (ii) Unexpected competition or market changes; (iii) Legal or regulatory changes affecting value; (iv) Internal usage patterns and benefit realization.

## **3.0 SUBSCRIPTION REVENUE MANAGEMENT**

### **3.1 ARR Calculation Methodology**

(a) Annual Recurring Revenue shall be calculated as: (i) Monthly recurring revenue multiplied by twelve; (ii) Adjusted for contracted changes in subscription fees; (iii) Excluding one-time fees and professional services; (iv) Incorporating multi-year contract value adjustments; (v) Accounting for currency exchange fluctuations in international contracts.

(b) Revenue calculations shall include: (i) Base subscription fees for platform access; (ii) Add-on module subscription fees; (iii) User-based license fees; (iv) Contracted minimum usage commitments; (v) Volume-based pricing tiers.

### **3.2 Deferred Revenue Recognition**

(a) Deferred revenue shall be recognized: (i) Over the subscription term for platform access; (ii) As services are delivered for implementation; (iii) Based on milestone completion for professional services; (iv) According to usage patterns for consumption-based features; (v) Following specific performance obligation satisfaction.

(b) Recognition schedules shall account for: (i) Contract start and end dates; (ii) Pro-rated periods; (iii) Service level agreement compliance; (iv) Customer acceptance criteria; (v) Multi-element arrangement considerations.

### **3.3 Contract Modification Procedures**

(a) Contract modifications shall be evaluated to determine: (i) Whether they create new performance obligations; (ii) Impact on transaction price allocation; (iii) Recognition timing adjustments required; (iv) Treatment of upgrade or downgrade scenarios; (v) Effects on existing revenue streams.

(b) Modification assessment shall include: (i) Materiality of changes; (ii) Customer-specific terms; (iii) Bundle restructuring implications; (iv) Price concession impacts; (v) Contract extension effects.

### **3.4 Usage-Based Revenue Management**

(a) Usage-based revenue shall be tracked through: (i) Automated usage metering systems; (ii) Real-time consumption monitoring; (iii) Threshold notification protocols; (iv) Overage calculations and billing; (v) Usage report verification procedures.

### **3.5 Revenue Adjustment Protocols**

(a) Revenue adjustments shall be processed for: (i) Service credits due to SLA violations; (ii) Billing disputes and resolutions; (iii) Customer bankruptcy proceedings; (iv) Early termination penalties; (v) Contract renegotiation outcomes.

### **3.6 Compliance and Documentation**

- (a) Revenue management procedures shall maintain: (i) Audit-ready documentation; (ii) Regulatory compliance evidence; (iii) Customer communication records; (iv) Contract modification history; (v) Revenue recognition calculations.
- (b) Regular reviews shall be conducted to: (i) Validate revenue recognition practices; (ii) Update procedures for regulatory changes; (iii) Ensure consistent application; (iv) Address emerging revenue scenarios; (v) Maintain compliance documentation.

## **4.0 COMPLIANCE AND AUDIT PROCEDURES**

### **4.1 SOX Compliance Requirements**

- (a) The Company shall maintain comprehensive internal controls including: (i) Access controls for financial systems, incorporating multi-factor authentication, role-based permissions, and automated access logging; (ii) Segregation of duties across financial operations, ensuring no single individual maintains conflicting responsibilities; (iii) Documentation of control procedures, including flowcharts, narratives, and control matrices; (iv) Regular testing and validation of control effectiveness through automated monitoring systems; (v) Implementation of change management procedures for modifications to financial systems.
- (b) Internal control documentation shall include: (i) Detailed process narratives for all material financial procedures; (ii) Risk assessment matrices identifying key control points; (iii) Evidence of periodic control testing and remediation efforts; (iv) Annual certification of control effectiveness by process owners.

### **4.2 AI System Audit Trails**

- (a) The Company shall maintain comprehensive audit trails for: (i) Revenue recognition determinations, including AI-driven categorization decisions; (ii) Capitalization decisions and automated threshold applications; (iii) Contract modifications and version control documentation; (iv) Algorithm training data and model validation procedures.
- (b) AI system audit documentation requirements: (i) Preservation of all training datasets used in financial decision-making; (ii) Documentation of model parameters and configuration changes; (iii) Retention of system outputs and human oversight decisions; (iv) Maintenance of algorithm performance metrics and accuracy rates.

### **4.3 Data Privacy Controls**

- (a) Financial data handling shall comply with: (i) SOC 2 Type II requirements, including annual third-party attestation; (ii) GDPR where applicable, including data minimization

principles; (iii) Industry standard encryption protocols for data at rest and in transit; (iv) State-specific privacy regulations as applicable to financial operations.

(b) Privacy control implementation shall include: (i) Regular privacy impact assessments for new processing activities; (ii) Data classification and handling procedures; (iii) Employee training on privacy requirements; (iv) Incident response protocols for potential data breaches.

#### **4.4 Financial Statement Review Process**

(a) Quarterly review procedures shall include: (i) Executive management review of financial statements and supporting documentation; (ii) Audit committee oversight of significant accounting policies; (iii) External auditor examination of material transactions; (iv) Documentation of all review comments and resolutions.

(b) Additional review requirements: (i) Monthly reconciliation of AI-generated financial entries; (ii) Validation of automated calculation methodologies; (iii) Review of system-generated estimates and assumptions; (iv) Documentation of manual overrides to automated processes.

#### **4.5 Compliance Monitoring and Reporting**

(a) The Company shall establish: (i) Continuous monitoring programs for key control activities; (ii) Quarterly compliance assessments and reporting; (iii) Annual review of control framework effectiveness; (iv) Regular updates to control documentation based on operational changes.

(b) Reporting requirements shall include: (i) Monthly compliance dashboards for executive management; (ii) Quarterly compliance certificates from process owners; (iii) Annual SOX certification documentation; (iv) Regular updates to the audit committee on control effectiveness.

#### **4.6 Remediation Procedures**

(a) The Company shall maintain: (i) Documented procedures for addressing control deficiencies; (ii) Timelines for remediation of identified issues; (iii) Escalation protocols for significant control failures; (iv) Testing procedures to validate remediation effectiveness.

### **DEFINITIONS**

"ASC 606" means Accounting Standards Codification Topic 606, Revenue from Contracts with Customers.

"NexusCore™" means the Company's proprietary artificial intelligence and machine learning software platform.

"SOX" means the Sarbanes-Oxley Act of 2002, as amended.

## **SIGNATURE**

IN WITNESS WHEREOF, this Policy Document has been executed as of the Effective Date.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: \_\_\_\_\_ Name: David Kumar Title: Chief Financial Officer

## **EXHIBITS**

Exhibit A: Revenue Recognition Decision Tree Exhibit B: Capitalization Threshold Analysis  
Template Exhibit C: Internal Control Documentation Requirements

## **APPENDICES**

Appendix 1: Sample Revenue Recognition Scenarios Appendix 2: Audit Trail Requirements  
Appendix 3: Required System Controls Documentation