

FINANCIAL CONTROLS AND ACCOUNTING POLICY DOCUMENT

Effective Date: January 15, 2024

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

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

WHEREAS, the Company seeks to establish standardized procedures for revenue recognition, intellectual property accounting, and cost allocation in compliance with Generally Accepted Accounting Principles ("GAAP") and applicable regulations;

NOW, THEREFORE, the Company hereby adopts the following Financial Controls and Accounting Policy Document:

1.0 FINANCIAL CONTROLS AND REPORTING FRAMEWORK

1.1 Revenue Recognition Standards

(a) The Company shall recognize revenue from its SaaS and AI solutions in accordance with ASC 606, applying the following principles: (i) Identification of customer contracts through formal documentation and electronic acceptance (ii) Determination of performance obligations with explicit delineation of deliverables (iii) Establishment of transaction prices based on standard rate cards and custom pricing matrices (iv) Allocation of transaction prices to performance obligations using relative standalone selling prices (v) Recognition of revenue upon satisfaction of performance obligations with documented completion criteria

(b) Multi-year enterprise contracts shall be accounted for as follows: (i) Initial license fees shall be recognized ratably over the contract term, commencing upon customer access (ii) Implementation services shall be recognized as delivered, measured by milestone completion (iii) Usage-based fees shall be recognized when usage occurs, subject to monthly reconciliation (iv) Contract modifications shall trigger reassessment of performance obligations (v) Early termination provisions shall be factored into revenue recognition schedules

(c) Performance Obligation Documentation Requirements: (i) Detailed service level agreements with measurable metrics (ii) Implementation timelines with specific deliverables

(iii) Acceptance criteria for each major component (iv) Customer sign-off requirements for completion stages (v) Documentation of any contract-specific customizations

1.2 AI Development Cost Capitalization

(a) Research costs shall be expensed as incurred, including: (i) Conceptual formulation and evaluation of alternatives (ii) Search for applications of new research findings (iii) Initial prototype development for proof of concept (iv) Data collection and analysis prior to technical feasibility

(b) Development costs shall be capitalized when: (i) Technical feasibility is established through working prototypes (ii) The Company demonstrates intent and ability to complete development (iii) Future economic benefits are probable based on market analysis (iv) Resources are available to complete development (v) Costs can be reliably measured and tracked

(c) Capitalization Criteria Documentation: (i) Technical feasibility studies and approvals (ii) Project budgets and resource allocation plans (iii) Market analysis and revenue projections (iv) Development milestone tracking systems (v) Cost tracking and allocation methodologies

1.3 Cloud Infrastructure Allocation

(a) Direct infrastructure costs shall be allocated to: (i) Customer-specific instances with usage-based tracking (ii) Development environments with project-specific tagging (iii) Testing and quality assurance environments (iv) General administrative usage with departmental allocation

(b) Infrastructure Cost Tracking Requirements: (i) Real-time monitoring of resource utilization (ii) Monthly reconciliation of allocated costs (iii) Quarterly review of allocation methodologies (iv) Annual audit of infrastructure efficiency metrics

1.4 Financial Reporting Controls

(a) Monthly Reporting Requirements: (i) Revenue recognition schedules by contract type (ii) Development cost capitalization reports (iii) Infrastructure cost allocation summaries (iv) Variance analysis and explanations

(b) Quarterly Review Procedures: (i) Independent review of revenue recognition calculations (ii) Validation of capitalized development costs (iii) Assessment of infrastructure allocation accuracy (iv) Update of financial forecasts and projections

(c) Annual Compliance Requirements: (i) External audit of revenue recognition practices (ii) Review of capitalization policies and procedures (iii) Evaluation of infrastructure cost allocation effectiveness (iv) Assessment of internal control systems (v) Update of accounting policies and procedures

1.5 Documentation and Record Retention

(a) Required Documentation: (i) Customer contracts and amendments (ii) Revenue recognition calculations and support (iii) Development cost capitalization records (iv) Infrastructure allocation worksheets (v) Internal control testing results

(b) Retention Requirements: (i) Active contracts plus seven years (ii) Development project documentation for life of asset plus five years (iii) Infrastructure allocation records for seven years (iv) Audit reports and working papers for seven years

2.0 INTELLECTUAL PROPERTY ACCOUNTING POLICIES

2.1 AI Model Valuation

(a) Proprietary AI models shall be valued using: (i) Cost approach for internally developed models, incorporating all direct development expenses, overhead allocations, and capitalized labor costs (ii) Market approach for acquired models, referencing comparable transactions and industry benchmarks (iii) Income approach for revenue-generating models, utilizing discounted cash flow analysis and projected revenue streams

(b) Valuation inputs shall include: (i) Development costs, including computational resources and infrastructure expenses (ii) Training data acquisition costs, including data licensing and cleaning expenses (iii) Expected useful life, determined through technological assessment and market analysis (iv) Revenue potential, supported by documented market research and customer contracts (v) Maintenance and upgrade requirements (vi) Risk-adjusted discount rates specific to AI technology assets

(c) Periodic revaluation requirements: (i) Annual impairment testing for all material AI assets (ii) Quarterly performance metric review (iii) Documentation of significant valuation assumptions and methodologies

2.2 Patent and Trade Secret Treatment

(a) Patent application costs shall be capitalized, including: (i) Legal filing fees and professional services (ii) Internal patent development documentation (iii) Prior art search expenses (iv) Patent maintenance fees

(b) Trade secret protection costs shall be expensed, encompassing: (i) Security measures and systems (ii) Employee confidentiality training (iii) Legal enforcement actions (iv) Access control implementation

(c) Amortization periods shall be determined based on: (i) Legal protection period, including jurisdiction-specific terms (ii) Technological obsolescence risk, assessed annually (iii) Economic useful life, supported by market analysis (iv) Industry-specific factors and competitive landscape

2.3 Software Development Recognition

- (a) Qualifying costs for capitalization: (i) Direct labor, including contractor expenses (ii) Project management oversight (iii) Quality assurance testing (iv) Documentation and training materials (v) Code review and security testing (vi) Integration testing and deployment costs
- (b) Amortization shall commence upon release to customers, with: (i) Straight-line amortization over estimated useful life (ii) Regular review of amortization periods (iii) Adjustment for material changes in usage patterns

2.4 Third-Party Technology Integration

- (a) License acquisition costs shall be: (i) Capitalized when meeting recognition criteria (ii) Amortized over the shorter of license term or useful life (iii) Reviewed quarterly for impairment indicators
- (b) Implementation costs shall include: (i) Integration labor and consulting fees (ii) Configuration and customization expenses (iii) Testing and validation costs

2.5 Data Asset Recognition

- (a) Qualifying data assets shall be capitalized when: (i) Separately identifiable and measurable (ii) Expected to generate future economic benefits (iii) Under entity control and protected
- (b) Valuation methodology shall consider: (i) Acquisition or generation costs (ii) Data quality and uniqueness (iii) Market comparables where available (iv) Replacement cost analysis
- (c) Periodic review requirements: (i) Data accuracy and relevance assessment (ii) Value impairment testing (iii) Useful life evaluation (iv) Regulatory compliance verification

3.0 REVENUE RECOGNITION PROCEDURES

3.1 Performance Obligation Identification

- (a) Distinct performance obligations include: (i) Software licenses, including perpetual and term-based licensing arrangements (ii) Implementation services, encompassing system configuration and deployment (iii) Training services, both standard and customized programs (iv) Support and maintenance, including technical assistance and updates (v) Professional services, including consulting and integration services
- (b) Obligation assessment criteria: (i) Customer's ability to benefit from the good or service independently (ii) Distinct identification within the context of the contract (iii) Separability of promised goods or services (iv) Integration requirements with other contract components

(c) Bundle evaluation requirements: (i) Assessment of interdependencies between components (ii) Determination of standalone selling prices (iii) Documentation of bundling rationale (iv) Regular review of bundling practices

3.2 Contract Modifications

(a) Material modifications shall be evaluated for: (i) Additional distinct products or services (ii) Price changes to existing obligations (iii) Impact on revenue recognition timing (iv) Modification of performance obligations (v) Changes in contract duration

(b) Modification assessment procedures: (i) Documentation of modification scope (ii) Determination of prospective or cumulative catch-up treatment (iii) Price allocation methodology (iv) Impact on existing performance obligations (v) Contract amendment documentation requirements

(c) Modification implementation requirements: (i) System updates and configuration changes (ii) Communication to relevant stakeholders (iii) Revenue schedule adjustments (iv) Compliance documentation

3.3 Usage-Based Revenue

(a) Usage measurement and verification procedures: (i) Automated usage tracking requirements (ii) Manual verification protocols (iii) Data retention requirements (iv) Usage reporting frequency (v) Dispute resolution procedures

(b) Minimum commitment treatment: (i) Recognition timing for minimum commitments (ii) True-up procedures (iii) Shortfall calculations (iv) Customer notification requirements

(c) Overage calculation methodology: (i) Rate determination for excess usage (ii) Billing frequency for overages (iii) Recognition timing for overage revenue (iv) Documentation requirements

3.4 Professional Services Revenue

(a) Time and materials basis recognition: (i) Hourly rate structures (ii) Expense recognition criteria (iii) Progress tracking requirements (iv) Invoice timing and documentation (v) Revenue recognition frequency

(b) Fixed fee project milestone recognition: (i) Milestone definition requirements (ii) Progress measurement criteria (iii) Completion documentation standards (iv) Revenue allocation methodology (v) Partial completion treatment

(c) Training service revenue recognition: (i) Per-session revenue recognition (ii) Prepaid training package treatment (iii) Cancellation and rescheduling policies (iv) Material delivery timing impact

3.5 Revenue Recognition Timing

- (a) Point in time recognition criteria: (i) Control transfer requirements (ii) Acceptance criteria (iii) Documentation standards (iv) Recognition triggers
- (b) Over time recognition requirements: (i) Progress measurement methodology (ii) Input vs. output methods (iii) Recognition frequency (iv) True-up procedures

3.6 Documentation Requirements

- (a) Contract documentation: (i) Original agreement retention (ii) Modification documentation (iii) Performance obligation identification (iv) Price allocation documentation
- (b) Revenue recognition support: (i) Calculation methodologies (ii) Recognition timing support (iii) Performance obligation completion evidence (iv) System-generated reports

3.7 Special Considerations

- (a) Multi-currency transactions: (i) Exchange rate determination (ii) Timing of conversion (iii) Treatment of gains and losses
- (b) Extended payment terms: (i) Significant financing component evaluation (ii) Present value calculations (iii) Interest recognition methodology
- (c) Non-standard arrangements: (i) Evaluation criteria (ii) Documentation requirements (iii) Approval procedures (iv) Recognition methodology

4.0 COST ALLOCATION AND EXPENSE RECOGNITION

4.1 Cloud Computing Costs

- (a) Direct customer instance costs shall be allocated based on actual resource consumption, including: (i) Compute instance hours (ii) Storage utilization metrics (iii) Data transfer volumes (iv) Licensed software usage
- (b) Shared infrastructure allocation must be determined through: (i) Proportional usage calculations (ii) Monthly capacity assessments (iii) Peak load considerations (iv) Resource reservation commitments
- (c) Development environment costs shall encompass: (i) Staging environments (ii) Testing infrastructure (iii) Continuous integration systems (iv) Version control repositories
- (d) Disaster recovery costs must include: (i) Redundant system maintenance (ii) Backup storage facilities (iii) Recovery testing procedures (iv) Geographic redundancy expenses

4.2 Research vs Development Classification

(a) Research activities include: (i) New algorithm exploration and theoretical modeling (ii) Proof of concept development and validation (iii) Technical feasibility studies and assessments (iv) Experimental prototype creation (v) Market research and competitive analysis (vi) Initial technology evaluation

(b) Development activities include: (i) Detailed program design and architecture (ii) Coding and testing implementations (iii) Documentation and technical specifications (iv) Quality assurance and validation (v) Performance optimization (vi) Security implementation (vii) User interface development

4.3 Implementation Cost Treatment

(a) Customer-specific costs shall be recognized as: (i) Direct labor expenses (ii) Custom feature development (iii) Integration services (iv) Project management overhead

(b) Reusable component development costs must be: (i) Capitalized when meeting threshold criteria (ii) Amortized over expected useful life (iii) Reviewed quarterly for impairment (iv) Allocated across benefiting projects

(c) Training and documentation costs shall include: (i) Internal staff training (ii) Customer onboarding materials (iii) Technical documentation (iv) Knowledge base development

4.4 Cost Recognition Principles

(a) Timing of recognition: (i) Costs shall be recognized in the period incurred (ii) Future benefit considerations must be documented (iii) Matching principle shall be applied where appropriate

(b) Capitalization criteria: (i) Direct relationship to revenue generation (ii) Expected future economic benefit (iii) Measurable and reliable cost basis (iv) Minimum threshold requirements

4.5 Periodic Review and Adjustment

(a) Quarterly assessment of: (i) Cost allocation methodologies (ii) Capitalization policies (iii) Amortization schedules (iv) Impairment indicators

(b) Annual comprehensive review of: (i) Cost pools and allocation bases (ii) Technology infrastructure costs (iii) Development methodology changes (iv) Customer implementation metrics

EXHIBITS

Exhibit A: Revenue Recognition Decision Tree

Exhibit B: Capitalization Criteria Checklist

Exhibit C: Cost Allocation Matrices

APPENDICES

Appendix 1: Defined Terms

Appendix 2: Reference Standards

Appendix 3: Process Flowcharts

IN WITNESS WHEREOF, this Financial Controls and Accounting Policy Document has been adopted by the Company effective as of the date first written above.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

ATTEST:

Corporate Secretary

[Corporate Seal]