

FINANCIAL CONTROLS AND REPORTING POLICY

Effective Date: January 15, 2024

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

WHEREAS, the Company desires to establish comprehensive financial controls and reporting procedures that appropriately reflect its technology-driven business model and revenue streams; and

WHEREAS, the Board of Directors has determined it to be in the best interests of the Company to adopt this Financial Controls and Reporting Policy (this "Policy").

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

1.0 FINANCIAL CONTROLS AND REPORTING FRAMEWORK

1.1 Revenue Recognition Standards

(a) The Company shall recognize revenue from its NexusCore™ Industrial AI Platform and related services in accordance with Accounting Standards Codification 606 ("ASC 606") and the following principles:

(i) Performance obligations shall be identified within each customer contract, including but not limited to software licensing, implementation services, and usage-based AI processing;

(ii) Transaction price shall be allocated among distinct performance obligations based on standalone selling prices;

(iii) Revenue shall be recognized when (or as) performance obligations are satisfied through transfer of control to the customer; and

(iv) Contract modifications shall be evaluated to determine whether they create new performance obligations or modify existing ones.

(b) The Company shall maintain detailed documentation supporting revenue recognition decisions, including:

(i) Written analysis of performance obligation identification; (ii) Pricing analyses supporting standalone selling price determinations; (iii) Technical documentation evidencing transfer of control; and (iv) Contract modification assessments and their revenue recognition impact.

1.2 AI Platform Usage Metrics

(a) The Company shall maintain automated systems to track and measure:

(i) Active user counts and authentication sessions; (ii) API calls and computational resource utilization; (iii) Data processing volumes and AI model executions; (iv) System uptime and service level achievement metrics; and (v) Resource consumption patterns and capacity utilization rates.

(b) Usage metrics shall be:

(i) Recorded in real-time through automated monitoring systems; (ii) Validated through independent system checks and reconciliations; (iii) Retained for a minimum of seven (7) years; and (iv) Subject to quarterly audit and verification procedures.

1.3 Subscription Revenue Procedures

(a) For subscription-based licenses of the NexusCore™ platform:

(i) Revenue shall be recognized ratably over the subscription term; (ii) Setup fees shall be recognized over the expected customer relationship period; (iii) Usage-based fees shall be recognized in the period of customer consumption; (iv) Early termination fees shall be recognized when charged and collectibility is reasonably assured; and (v) Renewal options shall be evaluated for material rights.

(b) Contract asset and liability recognition:

(i) Unbilled receivables shall be recorded for satisfied performance obligations pending invoicing; (ii) Deferred revenue shall be recorded for advance payments received; (iii) Contract assets shall be assessed quarterly for impairment; and (iv) Contract modification impacts shall be reflected prospectively.

1.4 Professional Services Revenue

(a) Implementation and configuration services shall be recognized as delivered based on:

(i) Time and materials billing at standard rates; or (ii) Percentage of completion for fixed-fee engagements.

(b) Professional services revenue recognition shall incorporate:

(i) Regular project status assessments and completion estimates; (ii) Documentation of delivered milestones and customer acceptance; (iii) Analysis of any project cost overruns or scope changes; and (iv) Assessment of collectibility throughout the project lifecycle.

1.5 Revenue Recognition Controls

(a) The Company shall maintain the following internal controls:

(i) Monthly revenue recognition review by qualified accounting personnel; (ii) Quarterly review by independent auditors; (iii) Automated system controls preventing unauthorized revenue recognition; and (iv) Documentation retention requirements for all revenue determinations.

(b) Control procedures shall include:

(i) Segregation of duties between sales, billing, and revenue recognition functions; (ii) Regular training for personnel involved in revenue recognition; (iii) Periodic testing of automated controls and calculations; and (iv) Executive review of significant revenue recognition judgments.

1.6 Reporting Requirements

(a) The Company shall prepare and maintain:

(i) Monthly revenue recognition schedules by product and service type; (ii) Quarterly reconciliations of usage metrics to recognized revenue; (iii) Annual analysis of customer relationship periods and contract renewal patterns; and (iv) Documentation supporting significant revenue recognition judgments and estimates.

(b) Reports shall be:

(i) Generated from the Company's financial systems of record; (ii) Reviewed and approved by appropriate personnel; (iii) Retained according to the Company's document retention policies; and (iv) Made available for audit and examination as required.

2.0 TECHNOLOGY ASSET VALUATION METHODOLOGY

2.1 AI Algorithm Capitalization

(a) Development costs for artificial intelligence algorithms shall be capitalized when:

(i) Technical feasibility has been established through documented proof-of-concept; (ii) Management has committed to completion via formal project authorization; (iii) Resources are available to complete development, including allocated budget and personnel; (iv) The Company's intention to use or sell is documented in strategic planning materials; (v) The ability to measure costs reliably has been demonstrated through established tracking systems.

(b) Qualifying costs eligible for capitalization shall include:

(i) Direct labor costs of employees engaged in coding and testing; (ii) Third-party contractor fees directly attributable to development; (iii) Data acquisition and preparation costs specific to algorithm training; (iv) Cloud computing and processing costs during development phase; (v) Software tools and licenses directly used in development.

2.2 R&D Cost Treatment

(a) Research costs shall be expensed as incurred, including:

(i) Conceptual formulation and design of possible product alternatives; (ii) Search for applications of new research findings; (iii) Early-stage prototype development and testing; (iv) Basic technology research activities.

(b) Development costs meeting capitalization criteria shall be:

(i) Recorded at direct cost including labor and overhead; (ii) Amortized over the estimated useful life, not to exceed five years; (iii) Tested for impairment annually or more frequently if indicators exist; (iv) Reviewed quarterly for changes in estimated useful life; (v) Documented with detailed cost allocation records.

2.3 Software Development Capitalization

(a) The Company shall capitalize software development costs when:

(i) The preliminary project stage is complete with formal documentation; (ii) Management authorization has been obtained through appropriate governance channels; (iii) It is probable that development will be completed based on technical assessment; (iv) The project team has demonstrated capability to complete development; (v) Market or internal-use value has been validated.

(b) Capitalization shall cease when:

(i) The software is substantially complete and ready for intended use; (ii) Development activities have been suspended indefinitely; (iii) The project has been abandoned or redirected.

2.4 IP Valuation Standards

(a) Intellectual property shall be valued using:

(i) Cost approach for internally developed assets, considering: - Historical development costs - Replacement cost estimates - Technological obsolescence factors

(ii) Market approach for acquired technology, incorporating: - Comparable transaction analysis - Industry licensing rates - Market pricing benchmarks

(iii) Income approach for revenue-generating IP, including: - Projected cash flow analysis - Risk-adjusted discount rates - Economic life assumptions

(b) Valuation methodology selection shall consider:

(i) Nature and stage of technology development; (ii) Availability of market comparables; (iii) Reliability of future income projections; (iv) Intended use of valuation results; (v) Regulatory compliance requirements.

(c) Valuation documentation shall include:

(i) Detailed methodology description; (ii) Key assumptions and inputs; (iii) Sensitivity analysis of critical variables; (iv) Market and economic context; (v) Reconciliation of different valuation approaches where applicable.

3.0 SUBSCRIPTION REVENUE MANAGEMENT

3.1 Contract Term Recognition

(a) Multi-year contracts shall be:

(i) Recognized over the full contract term in accordance with generally accepted accounting principles; (ii) Reviewed quarterly for modification events, including pricing adjustments and scope changes; (iii) Assessed for collectibility at inception and periodically throughout the contract term; (iv) Amortized on a straight-line basis unless specific performance obligations dictate otherwise; (v) Documented with detailed revenue recognition schedules maintained by the Finance Department.

(b) Contract modifications shall be evaluated to determine whether they constitute:

(i) Separate contracts requiring independent recognition; (ii) Termination of existing and creation of new contracts; (iii) Modifications to existing performance obligations.

3.2 Usage-Based Billing

(a) The Company shall:

(i) Calculate usage fees monthly based on actual platform utilization using automated monitoring systems; (ii) Invoice according to contracted rates and minimum commitments as specified in master service agreements; (iii) Recognize revenue as usage occurs, with detailed usage reports maintained as supporting documentation; (iv) Reconcile usage data across all monitoring systems monthly; (v) Apply tiered pricing structures and volume discounts as contractually specified.

(b) Usage measurement methodology shall:

(i) Be clearly defined in customer agreements; (ii) Include specific measurement intervals and calculation methods; (iii) Address partial period usage and proration rules; (iv) Specify handling of service outages and downtime.

3.3 Customer Churn Accounting

(a) The Company shall maintain reserves for:

(i) Expected subscription non-renewals based on historical churn rates; (ii) Usage shortfalls versus minimums, calculated quarterly; (iii) Early termination events and associated penalties; (iv) Disputed charges and service credits.

(b) Reserve calculation methodology shall:

(i) Be reviewed and approved annually by external auditors; (ii) Consider customer segment-specific retention rates; (iii) Include both voluntary and involuntary churn factors; (iv) Account for contract-specific termination provisions.

3.4 Revenue Recognition Controls

(a) The Company shall implement controls to ensure:

(i) Proper timing of revenue recognition in accordance with ASC 606; (ii) Accurate allocation of transaction price to performance obligations; (iii) Appropriate treatment of contract modifications; (iv) Complete documentation of revenue recognition decisions.

(b) Regular compliance reviews shall:

(i) Be conducted quarterly by the Revenue Recognition Committee; (ii) Include sample testing of contract recognition patterns; (iii) Verify proper application of recognition policies; (iv) Document exceptions and remediation actions.

3.5 Reporting Requirements

(a) The Company shall prepare:

(i) Monthly revenue recognition schedules by customer and contract; (ii) Quarterly reconciliations of billed amounts to recognized revenue; (iii) Annual forecasts of recurring revenue streams; (iv) Detailed analyses of customer churn and retention metrics.

4.0 COMPLIANCE AND AUDIT PROCEDURES

4.1 SOX Compliance

(a) The Company shall maintain controls satisfying:

(i) Section 404 requirements for internal control, including comprehensive documentation of control processes, risk assessment matrices, and remediation procedures; (ii) Section 302 certification obligations, requiring executive management attestation of financial statement accuracy and control effectiveness; (iii) Documentation standards for control testing, encompassing test scripts, evidence retention, and deficiency reporting protocols.

(b) The Company shall establish and maintain:

(i) A dedicated compliance committee comprising senior management, finance personnel, and internal audit representatives; (ii) Quarterly compliance reviews of control effectiveness and operational adherence; (iii) Annual certification training programs for relevant personnel.

4.2 Audit Requirements

(a) External audits shall be conducted:

(i) Annually for financial statements, including comprehensive review of revenue recognition, expense allocation, and disclosure adequacy; (ii) Semi-annually for internal control attestation, with specific focus on key control effectiveness; (iii) Quarterly for interim reviews, encompassing financial statement preparation and disclosure controls.

(b) Internal audit procedures shall include:

(i) Risk-based assessment of control environments; (ii) Continuous monitoring of high-risk transactions; (iii) Regular testing of automated control systems; (iv) Documentation of audit findings and remediation tracking.

4.3 Technology Controls

(a) The Company shall implement controls over:

(i) Access to financial systems, including: - Multi-factor authentication protocols - Role-based access management - Regular access review and certification - Segregation of duties monitoring

(ii) Data integrity and security, comprising: - Encryption standards for financial data - Backup and recovery procedures - Audit logging requirements - Data retention policies

(iii) Change management procedures, including: - Documentation of system modifications - Testing requirements for system changes - Approval workflows for production deployment - Version control protocols

(b) Technology control monitoring shall include:

(i) Automated control testing tools and procedures; (ii) Regular vulnerability assessments; (iii) Incident response protocols; (iv) Business continuity testing requirements.

4.4 Reporting Requirements

(a) The Company shall maintain:

(i) Quarterly compliance dashboards for executive management; (ii) Monthly control effectiveness reports; (iii) Regular updates on remediation progress; (iv) Annual compliance certification documentation.

(b) All reporting shall adhere to:

(i) Regulatory filing deadlines; (ii) Internal governance requirements; (iii) Audit committee oversight protocols; (iv) Board reporting standards.

SIGNATURE PAGE

IN WITNESS WHEREOF, the undersigned has executed this Policy as of the date first written above.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

EXHIBIT A

Revenue Recognition Examples and Calculations

EXHIBIT B

Technology Asset Valuation Models

APPENDIX 1

Internal Control Documentation Requirements

APPENDIX 2

Audit Committee Charter and Procedures

[End of Document]