# FINANCIAL CONTROLS AND REPORTING POLICY

**Effective Date: January 15, 2024**

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

WHEREAS, the Company requires comprehensive financial controls and accounting procedures appropriate for its technology-driven business model and intellectual property assets;

WHEREAS, the Company seeks to establish standardized methodologies for revenue recognition, asset valuation, and compliance reporting;

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

## 1.0 FINANCIAL CONTROLS AND REPORTING POLICY

### 1.1 Revenue Recognition Standards

(a) The Company shall recognize revenue from SaaS licensing in accordance with ASC 606, with specific consideration for: (i) Performance obligations related to AI model deployment (ii) Subscription-based access to the NexusCore™ platform (iii) Implementation and customization services (iv) Multi-element arrangements involving hardware and software components (v) Variable consideration elements including usage-based pricing

(b) Revenue shall be recognized when control transfers to the customer, measured as: (i) Access credentials provisioned for cloud-based services (ii) Completion of initial AI model training and validation (iii) Customer acceptance of deployed solutions (iv) Satisfaction of service level agreements (SLAs) (v) Documentation of customer implementation milestones

(c) Contract modifications shall be evaluated for: (i) Distinct performance obligations (ii) Price adjustments reflecting standalone selling prices (iii) Impact on existing revenue recognition schedules (iv) Treatment of implementation services

### 1.2 Technology Asset Valuation

(a) AI and machine learning assets shall be valued using a risk-adjusted cost approach incorporating: (i) Direct development costs (ii) Allocated overhead and infrastructure costs (iii)

Data acquisition and processing costs (iv) Third-party licensing and integration expenses (v) Capitalized research and development costs meeting FASB criteria

(b) Valuation methodologies shall account for: (i) Model accuracy and performance metrics (ii) Commercial viability assessments (iii) Technological obsolescence risk (iv) Market comparables and replacement cost analysis (v) Expected useful life calculations

(c) Impairment testing shall be conducted quarterly, considering: (i) Changes in technological capabilities (ii) Market adoption rates (iii) Competition and alternative solutions (iv) Customer retention metrics (v) Revenue forecasts and margin analysis

### 1.3 Internal Controls for Cloud Operations

(a) The Company shall maintain SOC 2 Type II compliance for: (i) Security of cloud infrastructure (ii) Availability of AI services (iii) Processing integrity of ML models (iv) Confidentiality of customer data (v) Privacy of personally identifiable information

(b) Control activities shall include: (i) Access controls and authentication protocols (ii) Change management procedures (iii) Disaster recovery and business continuity plans (iv) Encryption standards for data at rest and in transit (v) Automated monitoring and alerting systems

(c) Documentation requirements shall encompass: (i) Control objective statements (ii) Risk assessment procedures (iii) Test plans and results (iv) Remediation protocols (v) Annual certification documentation

### 1.4 Financial Reporting Requirements

(a) Quarterly financial statements shall include: (i) Segment reporting for AI/ML revenue streams (ii) Technology asset depreciation schedules (iii) Deferred revenue analysis (iv) Customer acquisition cost metrics (v) Recurring revenue calculations

(b) Key performance indicators shall be reported: (i) Customer lifetime value (ii) Net revenue retention (iii) Gross margin by product line (iv) Research and development efficiency (v) Cloud infrastructure utilization

### 1.5 Compliance and Audit Protocols

(a) External audit procedures shall verify: (i) Revenue recognition compliance (ii) Asset valuation methodologies (iii) Internal control effectiveness (iv) SOC 2 certification maintenance (v) Regulatory compliance

(b) Internal audit functions shall include: (i) Quarterly control testing (ii) Data security assessments (iii) Process documentation reviews (iv) Compliance training verification (v) Risk management evaluations

(c) Remediation procedures shall address: (i) Control deficiencies (ii) Audit findings (iii) Compliance gaps (iv) Process improvements (v) Documentation updates

# 2.0 ACCOUNTING PROCEDURES AND STANDARDS

## 2.1 Subscription Revenue Recognition

(a) Performance obligations shall be identified and measured for: (i) Core platform access, including all standard features and functionalities inherent to the base subscription tier (ii) API usage and compute resources, measured through standardized consumption metrics (iii) Professional services and support, encompassing implementation, training, and ongoing technical assistance

(b) Contract modifications shall be evaluated for: (i) Additional distinct performance obligations arising from new features or services (ii) Price adjustments to existing services, including volume discounts and tier changes (iii) Impact on revenue recognition timing and allocation of transaction price

(c) Revenue recognition criteria shall adhere to: (i) Identification of distinct performance obligations within bundled offerings (ii) Allocation of transaction price based on relative standalone selling prices (iii) Recognition of revenue when control transfers to the customer (iv) Treatment of variable consideration using expected value or most likely amount methods

(d) Multi-element arrangements shall be evaluated for: (i) Separate performance obligations with independent value (ii) Interdependencies between delivered and undelivered elements (iii) Proper allocation of discounts across performance obligations (iv) Treatment of optional purchases and renewal rights

## 2.2 R&D Capitalization

(a) Development costs shall be capitalized when: (i) Technical feasibility is established through working prototypes or beta versions (ii) Commercial viability is demonstrated via market analysis and customer commitments (iii) Resources are available for completion, including personnel and infrastructure (iv) Management demonstrates intent and ability to complete development

(b) Capitalized costs shall include: (i) Direct labor for AI/ML development, including salary and benefits of technical personnel (ii) Third-party data and services directly attributable to development activities (iii) Cloud infrastructure costs specifically allocated to development environments (iv) External consultant fees for specialized technical expertise

(c) Amortization of capitalized costs shall: (i) Commence upon commercial release of the developed technology (ii) Follow a systematic basis reflecting the expected benefit pattern (iii) Be reviewed annually for impairment indicators (iv) Consider technological obsolescence and market conditions

(d) Excluded from capitalization are: (i) Research costs and preliminary project activities (ii) General administrative overhead (iii) Training and maintenance costs (iv) Marketing and promotional expenses

### 2.3 Contract Assets and Liabilities

(a) Contract assets shall be recognized for: (i) Unbilled revenue from customization services rendered but not yet invoiced (ii) Success-based implementation fees contingent upon specific milestones (iii) Usage-based overage charges exceeding standard subscription limits (iv) Enhanced service delivery exceeding contractual requirements

(b) Contract liabilities shall include: (i) Advance payments for subscriptions received prior to service delivery (ii) Unearned implementation fees for services not yet performed (iii) Credits and refund obligations arising from service level agreements (iv) Customer loyalty programs and volume-based incentives

(c) Measurement and monitoring requirements: (i) Regular review of contract asset collectibility (ii) Assessment of contract liability satisfaction timing (iii) Reconciliation with billing and revenue recognition systems (iv) Documentation of significant judgments and estimates

### 2.4 Special Considerations

(a) Foreign currency transactions shall be recorded: (i) Using spot rates at transaction dates (ii) With separate treatment of realized and unrealized gains/losses (iii) Following designated hedging relationships where applicable

(b) Revenue-based taxes and fees shall be: (i) Evaluated for gross versus net presentation (ii) Tracked separately from revenue recognition (iii) Reported in compliance with jurisdictional requirements

(c) Disclosure requirements shall include: (i) Disaggregation of revenue by major service types (ii) Significant judgments in determining performance obligations (iii) Timing of satisfaction of performance obligations (iv) Transaction price allocation methodologies

### 2.5 Internal Controls

(a) Revenue recognition controls shall include: (i) Systematic review of contract terms and conditions (ii) Regular validation of performance obligation identification (iii) Monitoring of contract modification impacts (iv) Documentation of revenue recognition decisions

(b) Capitalization controls shall encompass: (i) Project-specific cost tracking mechanisms (ii) Regular review of capitalization criteria compliance (iii) Periodic assessment of carrying values (iv) Documentation of technical feasibility determinations

(c) Reporting controls shall ensure: (i) Accurate classification of contract assets and liabilities (ii) Proper timing of revenue recognition entries (iii) Compliance with disclosure requirements (iv) Regular reconciliation of subsidiary ledgers

# 3.0 INTELLECTUAL PROPERTY ACCOUNTING

## 3.1 IP Valuation Methodology

(a) AI/ML intellectual property shall be valued considering: (i) Development and acquisition costs, including: - Direct labor and materials - Allocated overhead expenses - Third-party licensing fees - Data acquisition and processing costs - Infrastructure and computing resources (ii) Expected useful life determination based on: - Technological advancement projections - Historical obsolescence patterns - Industry-specific lifecycle analyses - Competitive technology roadmaps (iii) Market comparison data incorporating: - Similar technology transactions - Industry-standard valuation multiples - Comparable licensing agreements - Recent market acquisitions

(b) Valuation shall incorporate: (i) Model performance metrics, including: - Accuracy and precision measurements - Processing efficiency indicators - Scalability assessments - Reliability benchmarks - Error rate analyses (ii) Commercial application potential evaluated through: - Market size assessments - Revenue generation capabilities - Implementation costs - Customer adoption barriers - Regulatory compliance requirements (iii) Competitive advantage assessment considering: - Unique technological features - Patent protection strength - Market positioning - Alternative solutions comparison - Barriers to entry

## 3.2 Amortization and Impairment

(a) Amortization schedules shall reflect: (i) Expected technological obsolescence factors: - Industry innovation rates - Emerging technology trends - Historical depreciation patterns - Competitive technology development - Regulatory environment changes (ii) Customer contract duration considerations: - Service agreement terms - Renewal probabilities - Usage patterns - Client dependency factors - Migration costs (iii) Industry adoption cycles including: - Market maturity assessment - Technology acceptance rates - Implementation timeframes - Integration requirements - User adaptation periods

(b) Impairment testing shall evaluate: (i) Changes in technology landscape through: - Quarterly market assessments - Competitive analysis reports - Patent landscape monitoring - Innovation trend tracking - Technical obsolescence indicators (ii) Market demand shifts considering: - Customer preference changes - Industry sector dynamics - Economic condition impacts - Regulatory requirement changes - Geographic market variations (iii) Performance degradation measurements: - Accuracy trend analysis - Processing efficiency metrics - User satisfaction indicators - Maintenance cost tracking - System reliability data

### 3.3 Development Cost Allocation

(a) Direct development costs shall include: (i) Personnel expenses: - Software engineer salaries - Data scientist compensation - Project management costs - Quality assurance staff - Technical support personnel (ii) Technology infrastructure: - Computing resources - Storage systems - Network capabilities - Security implementations - Testing environments

(b) Indirect cost allocation shall consider: (i) Overhead distribution: - Facility costs - Administrative support - Professional services - Insurance coverage - Corporate resources (ii) Research and development: - Experimental iterations - Prototype development - Testing procedures - Documentation efforts - Knowledge transfer activities

### 3.4 Reporting Requirements

(a) Periodic valuation reports shall include: (i) Detailed cost breakdowns (ii) Performance metric trends (iii) Market position analyses (iv) Risk assessment updates (v) Future value projections

(b) Documentation requirements shall encompass: (i) Valuation methodology explanations (ii) Assumption justifications (iii) Market data sources (iv) Expert opinions and certifications (v) Compliance verifications

(c) Review procedures shall maintain: (i) Quarterly assessment schedules (ii) Independent verification processes (iii) Stakeholder communication protocols (iv) Adjustment mechanism documentation (v) Audit trail preservation

## 4.0 COMPLIANCE AND AUDIT PROCEDURES

### 4.1 AI Algorithm Audit Requirements

(a) Documentation shall be maintained for: (i) Model version control, including sequential versioning, deployment timestamps, and authorized modifications (ii) Training data lineage, encompassing source verification, data quality metrics, and bias assessment protocols (iii) Performance validation results, with detailed accuracy metrics, error rates, and statistical significance analyses (iv) Model architecture specifications, including layer configurations and hyperparameter settings (v) Risk assessment documentation for each algorithmic deployment

(b) Audit trails shall include: (i) Algorithm modification history, documenting all changes, patches, and updates (ii) Deployment approvals, including authorized signatories and validation timestamps (iii) Testing protocols, with comprehensive test cases and acceptance criteria (iv) Incident response records and remediation measures (v) System access logs and authorization matrices

(c) Regular audit intervals shall be established for: (i) Quarterly algorithm performance reviews (ii) Semi-annual bias detection assessments (iii) Annual comprehensive system audits (iv) Monthly security vulnerability scanning

### 4.2 Data Privacy Compliance

(a) The Company shall maintain compliance with: (i) GDPR requirements, including data minimization and purpose limitation principles (ii) CCPA obligations, encompassing consumer rights and disclosure requirements (iii) Industry-specific regulations, as applicable to the deployment context (iv) International data transfer protocols and cross-border requirements (v) State-specific privacy legislation and regulatory frameworks

(b) Compliance costs shall be tracked for: (i) Privacy impact assessments, including third-party evaluation fees (ii) Data protection measures, including encryption and security infrastructure (iii) Regulatory reporting, including filing fees and documentation costs (iv) Staff training and certification programs (v) Insurance coverage and liability protection

### 4.3 Third-Party Validation Requirements

(a) External auditors shall conduct: (i) Annual compliance assessments (ii) Algorithm fairness evaluations (iii) Security penetration testing (iv) Data protection reviews

(b) Validation documentation shall include: (i) Auditor credentials and certifications (ii) Testing methodologies and standards applied (iii) Findings and recommendations (iv) Remediation timelines and responsibilities

### 4.4 Regulatory Reporting Obligations

(a) The Company shall submit: (i) Quarterly compliance reports to relevant authorities (ii) Annual algorithmic impact assessments (iii) Incident disclosure notifications within mandated timeframes (iv) Updated documentation upon material system changes

(b) Reports shall detail: (i) Compliance status and violations (ii) Remediation measures implemented (iii) Risk assessment outcomes (iv) Performance metrics and benchmarks

### 4.5 Compliance Monitoring and Enforcement

(a) The Company shall establish: (i) Continuous monitoring systems for regulatory compliance (ii) Internal audit committees with defined authority (iii) Escalation procedures for compliance violations (iv) Documentation retention protocols

(b) Enforcement measures shall include: (i) Compliance violation penalties (ii) Corrective action requirements (iii) Mandatory retraining programs (iv) System access restrictions (v) Regular compliance certifications

## EXHIBITS

**Exhibit A: Revenue Recognition Decision Tree**

**Exhibit B: Capitalization Criteria Checklist**

**Exhibit C: IP Valuation Framework**

## SIGNATURE AND ATTESTATION

IN WITNESS WHEREOF, this Financial Controls and Reporting Policy has been executed by the duly authorized officers of the Company as of the Effective Date first above written.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

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

ATTEST:

---

Corporate Secretary