

# FINANCIAL CONTROLS AND REPORTING STANDARDS 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; and

WHEREAS, the Board of Directors deems it necessary to establish comprehensive financial controls and reporting standards to ensure compliance with applicable laws, regulations, and accounting standards;

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

## 1.0 FINANCIAL CONTROLS AND REPORTING STANDARDS

### 1.1 Revenue Recognition Standards

(a) **Software as a Service (SaaS) Revenue.** The Company shall recognize revenue from its NexusCore™ Industrial AI Platform and related subscription services in accordance with ASC 606, over the term of the customer contract, commencing upon the date when the customer obtains control of the software, as evidenced by: (i) Customer acceptance of the platform deployment; (ii) Completion of implementation services; (iii) Activation of customer access credentials; and (iv) Written confirmation of system functionality compliance.

(b) **Multi-Year Contracts.** For contracts exceeding twelve (12) months in duration: (i) Total contract value shall be allocated across performance obligations based on standalone selling prices; (ii) Revenue shall be recognized ratably over the service period; (iii) Any advance payments shall be recorded as deferred revenue; and (iv) Contract modifications shall be evaluated to determine whether they create new performance obligations.

(c) **AI Development Costs.** The Company shall capitalize certain costs related to internal-use software development, including: (i) Direct labor costs for employees engaged in development; (ii) Third-party contractor costs directly related to development; (iii) Software and tools used in development; (iv) Cloud infrastructure costs during the development phase; and (v) Quality assurance and testing costs directly attributable to development.

## **1.2 Implementation Revenue**

(a) Professional services revenue related to implementation shall be recognized as follows: (i) Based on time and materials as services are performed; (ii) For fixed-fee arrangements, using the percentage-of-completion method; and (iii) With consideration for milestone-based recognition when clearly defined deliverables exist.

## **1.3 Performance Obligations and Contract Modifications**

(a) **Distinct Performance Obligations.** The Company shall identify and account for distinct performance obligations within customer contracts, including: (i) Software subscription services; (ii) Implementation services; (iii) Training and education services; (iv) Technical support and maintenance; and (v) Custom development services.

(b) **Contract Modifications.** Changes to existing contracts shall be evaluated to determine whether they constitute: (i) Separate contracts requiring independent accounting treatment; (ii) Termination of existing contract and creation of new contract; or (iii) Modification of existing contract requiring prospective or cumulative catch-up adjustment.

## **1.4 Cost Recognition and Allocation**

(a) **Direct Costs.** The Company shall recognize and allocate direct costs associated with revenue generation, including: (i) Server and infrastructure costs; (ii) Third-party software licenses; (iii) Customer support personnel costs; and (iv) Implementation team costs.

(b) **Indirect Costs.** Allocation of indirect costs shall be based on reasonable and consistent methodologies, including: (i) Development team overhead; (ii) Quality assurance resources; (iii) Project management allocation; and (iv) Administrative support services.

## **1.5 Financial Reporting Requirements**

(a) **Monthly Reporting.** The Company shall prepare and maintain: (i) Revenue recognition schedules; (ii) Deferred revenue reconciliations; (iii) Customer contract status reports; and (iv) Development cost capitalization analyses.

(b) **Quarterly Reviews.** Management shall conduct quarterly reviews of: (i) Revenue recognition policies and procedures; (ii) Contract modification impacts; (iii) Development cost capitalization criteria; and (iv) Performance obligation satisfaction status.

## **1.6 Documentation Requirements**

(a) **Contract Documentation.** The Company shall maintain comprehensive documentation for: (i) Customer contracts and amendments; (ii) Performance obligation identification and allocation; (iii) Revenue recognition calculations; and (iv) Implementation service delivery evidence.

(b) **Development Cost Documentation.** Records shall be maintained for: (i) Time tracking for development activities; (ii) Third-party development expenses; (iii) Infrastructure cost allocation; and (iv) Capitalization criteria evaluation.

## **1.7 Audit and Compliance**

(a) **Internal Controls.** The Company shall maintain controls to ensure: (i) Accurate revenue recognition; (ii) Proper cost capitalization; (iii) Compliance with accounting standards; and (iv) Documentation completeness.

(b) **External Audit Support.** The Company shall prepare and maintain documentation sufficient to support: (i) Independent auditor review; (ii) Regulatory compliance verification; (iii) Internal control testing; and (iv) Financial statement presentation.

## **2.0 INTERNAL CONTROL SYSTEMS**

### **2.1 Segregation of Duties**

(a) The Company shall maintain strict segregation of duties across: (i) Financial transaction approval; (ii) Account reconciliation; (iii) System access management; and (iv) Financial reporting.

(b) Personnel responsibilities shall be structured to ensure: (i) No single employee maintains end-to-end control over critical processes; (ii) Cross-training of key functions while maintaining segregation; (iii) Regular rotation of duties where operationally feasible; and (iv) Documentation of role assignments and responsibility matrices.

(c) Mandatory cooling periods shall be implemented: (i) Minimum 30 days between role transitions; (ii) 90 days for sensitive financial positions; (iii) Documentation of all role changes and approvals.

### **2.2 Authorization Protocols**

(a) **Transaction Approval Matrix:** (i) Transactions < \$10,000: Department Manager approval (ii) Transactions \$10,000 - \$50,000: VP-level approval (iii) Transactions > \$50,000: CFO approval (iv) Transactions > \$250,000: CEO and Board approval

(b) **Delegation of Authority:** (i) Written delegation must be documented and maintained; (ii) Temporary delegations limited to 30 days; (iii) Emergency protocols requiring post-facto validation; (iv) Annual review of delegation matrices.

(c) **Special Transactions:** (i) Related party transactions require Audit Committee review; (ii) Cross-border transactions require Legal Department approval; (iii) Technology acquisitions require CTO assessment.

## **2.3 System Access Controls**

- (a) Access to financial systems shall be: (i) Role-based with minimum necessary privileges; (ii) Reviewed quarterly by Information Security; (iii) Terminated within 24 hours of employee separation.
- (b) **Authentication Requirements:** (i) Multi-factor authentication for all financial systems; (ii) Biometric verification for high-risk transactions; (iii) Password rotation every 60 days; (iv) Unique user IDs with no shared accounts.

## **2.4 Audit Trail Requirements**

- (a) **System Logging:** (i) All financial transactions must maintain complete audit trails; (ii) System logs retained for minimum 7 years; (iii) Tamper-proof storage of audit records; (iv) Regular backup and verification of audit logs.
- (b) **Documentation Standards:** (i) Supporting documentation maintained for all transactions; (ii) Electronic storage with redundant backups; (iii) Chain of custody tracking for critical documents.

## **2.5 Compliance Monitoring**

- (a) **Regular Reviews:** (i) Monthly compliance checks by Internal Control team; (ii) Quarterly review by External Auditors; (iii) Annual SOX compliance assessment; (iv) Continuous monitoring of AI platform controls.
- (b) **Reporting Requirements:** (i) Monthly violation reports to Management; (ii) Quarterly compliance updates to Audit Committee; (iii) Immediate notification of material control breaches; (iv) Annual effectiveness assessment to Board.

## **2.6 Remediation Procedures**

- (a) **Control Deficiencies:** (i) Immediate documentation of identified weaknesses; (ii) Root cause analysis within 5 business days; (iii) Corrective action plans within 10 business days; (iv) Management review and approval of remediation plans.

# **3.0 REVENUE RECOGNITION PROCEDURES**

## **3.1 Performance Obligations**

- (a) The Company shall identify distinct performance obligations including: (i) Software subscription services; (ii) Implementation services; (iii) Training services; and (iv) Technical support.
- (b) Each performance obligation shall be evaluated independently based on: (i) The customer's ability to benefit from the good or service on its own; (ii) The distinct nature of the promise

within the context of the contract; (iii) The integration requirements with other services; and (iv) The interdependency of deliverables.

(c) For NexusCore™ platform implementations, specific consideration shall be given to: (i) Core platform licensing; (ii) Custom module development; (iii) Data integration services; (iv) AI model training and deployment; and (v) Ongoing maintenance services.

### **3.2 Contract Modifications**

(a) Changes to existing contracts shall be evaluated to determine: (i) Whether modification creates new performance obligations; (ii) Impact on transaction price; and (iii) Recognition methodology for additional goods/services.

(b) Contract modifications shall be treated as: (i) Separate contracts when additional distinct services are provided at standalone prices; (ii) Termination of existing contract and creation of new contract when remaining services are distinct; or (iii) Continuation of existing contract when services are not distinct.

(c) Documentation requirements for modifications include: (i) Written amendment to original agreement; (ii) Pricing analysis and justification; (iii) Updated performance obligation schedule; and (iv) Revenue recognition impact assessment.

### **3.3 Variable Consideration**

(a) Variable elements shall be estimated using either: (i) Expected value method; or (ii) Most likely amount method.

(b) Factors affecting variable consideration assessment: (i) Historical experience with similar contracts; (ii) Current market conditions; (iii) Technology implementation complexity; (iv) Customer-specific factors; and (v) Economic and regulatory environment.

(c) Constraints on variable consideration: (i) Recognition limited to amounts highly probable of no significant reversal; (ii) Regular reassessment of estimates required; (iii) Documentation of estimation methodology; and (iv) Approval requirements for significant variable components.

### **3.4 Implementation Services**

(a) Recognition criteria for implementation services: (i) Milestone-based recognition where appropriate; (ii) Time-and-materials billing recognition; (iii) Fixed-price implementation recognition; and (iv) Hybrid recognition approaches.

(b) Implementation service documentation requirements: (i) Detailed project plans with measurable milestones; (ii) Customer acceptance criteria; (iii) Resource allocation schedules; and (iv) Progress reporting requirements.

### **3.5 Recognition Timing**

- (a) Revenue shall be recognized when: (i) Performance obligations are satisfied; (ii) Control transfers to the customer; (iii) Collection is probable; and (iv) Transaction price is determinable.
- (b) Specific timing considerations for NexusCore™ implementations: (i) Software access activation dates; (ii) Completion of implementation milestones; (iii) Customer acceptance of deliverables; and (iv) Commencement of support services.
- (c) Documentation requirements for recognition timing: (i) Evidence of performance obligation satisfaction; (ii) Customer acceptance documentation; (iii) Service activation records; and (iv) Billing and payment documentation.

## **4.0 COMPLIANCE AND REPORTING REQUIREMENTS**

### **4.1 SEC Reporting Requirements**

- (a) The Company shall maintain readiness for potential public offering through: (i) GAAP-compliant financial statements prepared in accordance with current accounting standards; (ii) SOX-compliant control environment with documented procedures and testing protocols; (iii) Quarterly and annual reporting frameworks aligned with SEC requirements; (iv) Implementation of disclosure controls and procedures; (v) Maintenance of internal control over financial reporting (ICFR).
- (b) The Company shall establish and maintain: (i) A disclosure committee comprising key management personnel; (ii) Documentation of material transactions and significant accounting policies; (iii) A system for tracking and reporting related party transactions; (iv) Procedures for the timely identification and disclosure of material events.

### **4.2 Venture Capital Reporting**

- (a) Monthly reporting package to include: (i) Financial statements with variance analysis against budget; (ii) Key performance indicators as defined in Schedule A; (iii) Rolling 13-week cash flow projections with sensitivity analysis; (iv) Customer metrics including churn rate, customer acquisition cost, and lifetime value; (v) Sales pipeline analysis and conversion metrics; (vi) Product development milestones and roadmap updates.
- (b) Quarterly board materials to include: (i) Detailed financial analysis and commentary; (ii) Market analysis and competitive positioning; (iii) Strategic initiatives progress report; (iv) Risk assessment and mitigation strategies.

### **4.3 Regulatory Compliance**

- (a) The Company shall maintain compliance with: (i) Data privacy regulations including GDPR and CCPA; (ii) Industry-specific regulations applicable to technology companies; (iii) State and federal employment laws; (iv) Intellectual property protection requirements.
- (b) Compliance monitoring shall include: (i) Quarterly compliance reviews by department heads; (ii) Annual third-party compliance audits; (iii) Regular updates to compliance policies and procedures; (iv) Employee training on compliance requirements.

### **4.4 Additional Reporting Requirements**

- (a) The Company shall prepare and maintain: (i) Tax compliance documentation and filings; (ii) Environmental, Social, and Governance (ESG) reports; (iii) Regulatory filings for each jurisdiction of operation; (iv) Investor communications and updates as required by financing agreements.
- (b) All reports shall be reviewed and approved by appropriate management personnel prior to distribution.