

FINANCIAL CONTROLS AND REVENUE RECOGNITION POLICY

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

WHEREAS, the Company desires to establish comprehensive financial controls and revenue recognition procedures in accordance with Generally Accepted Accounting Principles ("GAAP") and Accounting Standards Codification 606 ("ASC 606");

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

1.0 FINANCIAL CONTROLS AND REPORTING FRAMEWORK

1.1 Revenue Recognition Standards

(a) The Company shall recognize revenue in accordance with ASC 606 when control of promised goods or services transfers to customers in an amount reflecting the consideration the Company expects to receive.

(b) For each customer contract, the Company shall: (i) Identify the contract with a customer (ii) Identify the performance obligations (iii) Determine the transaction price (iv) Allocate the transaction price to performance obligations (v) Recognize revenue when performance obligations are satisfied

(c) Contract modifications shall be evaluated to determine whether they create: (i) A separate contract (ii) A termination of the existing contract and creation of a new contract (iii) A modification of the existing contract (iv) Changes to the transaction price only

1.2 Subscription Revenue Procedures

(a) NexusCore™ Platform subscription revenue shall be recognized ratably over the subscription term, commencing when the customer obtains access to the platform.

(b) Usage-based components shall be recognized based on actual customer usage, measured through automated monitoring systems.

(c) Subscription billing procedures shall adhere to the following requirements: (i) Annual subscriptions shall be invoiced in advance (ii) Monthly subscriptions shall be billed on the first day of each service period (iii) Usage-based charges shall be calculated and billed monthly in arrears (iv) Volume discounts shall be applied according to established thresholds

(d) Subscription renewals shall be processed as follows: (i) Automatic renewals shall be confirmed 60 days prior to term expiration (ii) Price adjustments shall be communicated 90 days before renewal (iii) Early renewal incentives shall be recognized over the new term

1.3 Professional Services Revenue

(a) Implementation services revenue shall be recognized over time as services are delivered, using input methods to measure progress.

(b) Training services shall be recognized upon completion of each discrete training session.

(c) Professional services delivery shall be documented through: (i) Detailed statement of work (ii) Project milestone tracking (iii) Time and materials records (iv) Customer acceptance certificates

(d) Fixed-price professional services arrangements shall: (i) Include clearly defined deliverables (ii) Establish measurable completion criteria (iii) Specify payment schedules aligned with milestones (iv) Document scope change procedures

1.4 Multi-element Arrangements

(a) For contracts containing multiple performance obligations, the Company shall: (i) Determine standalone selling prices using observable evidence (ii) Allocate transaction price using the relative standalone selling price method (iii) Apply appropriate recognition methods to each distinct obligation

(b) Standalone selling price hierarchy shall follow: (i) Observable prices from standalone sales (ii) Market assessment approach (iii) Expected cost plus margin approach (iv) Residual approach (when criteria are met)

1.5 Contract Asset and Liability Management

(a) Contract assets shall be recognized when: (i) Performance obligations are satisfied but billing has not occurred (ii) Revenue recognition exceeds customer billings (iii) Setup activities create transferable value

(b) Contract liabilities shall be recorded when: (i) Customer payments are received in advance of performance (ii) Billing occurs before revenue recognition criteria are met (iii) Refund obligations exist

1.6 Revenue Adjustments and Modifications

(a) The Company shall account for the following adjustments: (i) Volume discounts and rebates (ii) Service level credits (iii) Usage estimate revisions (iv) Contract modification impacts

(b) Revenue recognition policies shall address: (i) Cancellation and refund rights (ii) Customer acceptance criteria (iii) Performance guarantee provisions (iv) Variable consideration constraints

1.7 Documentation Requirements

(a) The Company shall maintain comprehensive documentation including: (i) Revenue recognition calculations and support (ii) Contract analysis and performance obligation identification (iii) Standalone selling price documentation (iv) Contract modification assessments (v) Customer acceptance records (vi) Service delivery evidence

2.0 TECHNOLOGY ASSET VALUATION METHODOLOGY

2.1 Capitalization of Development Costs

(a) The Company shall capitalize costs associated with developing internal-use AI software when: (i) The preliminary project stage is completed (ii) Management authorizes funding (iii) It is probable that development will be completed (iv) The Company intends to use the software (v) Technical feasibility has been demonstrated through proof-of-concept (vi) Resources are available to complete development

(b) Capitalized costs shall include: (i) Direct labor for coding and testing (ii) Third-party development services (iii) Software purchased for integration (iv) Interest costs incurred during development (v) Direct overhead costs specifically attributable to development (vi) Data acquisition costs for training AI models (vii) Cloud computing resources directly used in development (viii) Quality assurance and validation testing costs

(c) Costs explicitly excluded from capitalization: (i) General administrative overhead (ii) Training of personnel (iii) Data maintenance and storage (iv) Marketing and promotion (v) Unsuccessful development attempts

2.2 Intellectual Property Valuation

(a) Proprietary AI algorithms and models shall be valued using: (i) Cost approach for internally developed assets - Historical development costs - Replacement cost considerations - Technological obsolescence adjustments (ii) Market approach for acquired technologies - Comparable transaction analysis - Industry benchmarking - Adjustment for unique features (iii)

Income approach for revenue-generating algorithms - Projected cash flow analysis - Risk-adjusted discount rates - Terminal value calculations

(b) Valuation adjustments shall consider: (i) Technological advancement pace (ii) Market competition (iii) Regulatory environment (iv) Commercial viability (v) Scalability potential

2.3 R&D Cost Treatment

(a) Research costs shall be expensed as incurred, including: (i) Conceptual formulation of alternatives (ii) Search for applications of new research findings (iii) Initial prototype development (iv) Alternative system evaluation

(b) Development costs shall be capitalized only upon meeting all criteria specified in Section 2.1, encompassing: (i) Detailed program design (ii) Working model development (iii) Final testing and validation (iv) Implementation planning

2.4 Impairment Testing

(a) Technology assets shall be tested for impairment annually or upon triggering events, including: (i) Significant adverse changes in legal factors (ii) Market value decline (iii) Technological obsolescence (iv) Changes in operating methodology (v) Unexpected competition (vi) Loss of key personnel

(b) Impairment shall be measured as the excess of carrying amount over fair value, considering: (i) Current market conditions (ii) Future revenue potential (iii) Remaining useful life (iv) Replacement cost analysis

(c) Impairment testing procedures shall: (i) Document triggering events (ii) Calculate recoverable amount (iii) Compare to carrying value (iv) Record impairment losses (v) Adjust future depreciation schedules

2.5 Periodic Review Requirements

(a) The Company shall conduct quarterly reviews of: (i) Capitalization criteria compliance (ii) Valuation methodology appropriateness (iii) Impairment indicators (iv) Market conditions affecting asset values

(b) Annual comprehensive review shall include: (i) Technical feasibility reassessment (ii) Market value verification (iii) Useful life estimates (iv) Amortization schedule adjustments

3.0 SUBSCRIPTION REVENUE RECOGNITION PROCEDURES

3.1 Performance Obligation Identification

- (a) Each subscription contract shall be analyzed to identify distinct performance obligations: (i) Software access and usage rights (ii) Maintenance and support services (iii) Professional services (iv) Training and education services
- (b) Performance obligations shall be evaluated based on the following criteria: (i) The customer can benefit from the good or service either on its own or together with other readily available resources (ii) The promise to transfer the good or service is separately identifiable from other promises in the contract (iii) The obligation represents a material right that would not exist without the original contract
- (c) Bundled services shall be assessed for separation when: (i) Services have standalone value to the customer (ii) There is a regular pattern of standalone sales (iii) Different performance periods or delivery schedules exist

3.2 Contract Modifications

- (a) Contract modifications shall be evaluated to determine whether they create: (i) Separate contracts (ii) Termination of existing and creation of new contracts (iii) Modifications to existing contracts
- (b) Modification assessment criteria shall include: (i) Addition of distinct goods or services at standalone selling prices (ii) Changes in scope or price of existing services (iii) Impact on remaining performance obligations
- (c) Documentation requirements for modifications: (i) Written authorization from authorized parties (ii) Revised pricing schedules and payment terms (iii) Updated performance obligation schedules (iv) Amendment effective dates and transition provisions

3.3 Usage-Based Revenue

- (a) Usage-based revenue components shall be: (i) Estimated using historical patterns (ii) Constrained to probable amounts (iii) Trued up based on actual usage
- (b) Usage measurement and verification procedures: (i) Automated usage tracking systems (ii) Monthly reconciliation processes (iii) Customer usage reporting requirements (iv) Variance analysis and investigation protocols
- (c) Revenue constraints shall be applied when: (i) Historical data is limited or unreliable (ii) Usage patterns show significant volatility (iii) External factors may impact future usage (iv) Customer behavior indicates potential changes

3.4 Deferred Revenue

- (a) Advance payments shall be recorded as deferred revenue.
- (b) Recognition shall occur as performance obligations are satisfied.
- (c) Deferred revenue management procedures: (i) Monthly review of deferred balances (ii) Recognition schedules for each contract (iii) Reconciliation with performance obligation delivery (iv) Documentation of recognition triggers

3.5 Allocation of Transaction Price

- (a) Transaction price allocation methodology: (i) Based on relative standalone selling prices (ii) Adjusted for variable consideration (iii) Consideration of material rights (iv) Treatment of non-cash consideration
- (b) Standalone selling price determination: (i) Observable prices when sold separately (ii) Estimated prices using market assessment (iii) Expected cost plus margin approach (iv) Residual approach when appropriate

3.6 Recognition Timing

- (a) Revenue shall be recognized when: (i) Performance obligations are satisfied (ii) Control transfers to the customer (iii) Collection is probable
- (b) Recognition patterns shall be established for: (i) Point in time obligations (ii) Over time obligations (iii) Hybrid recognition patterns

3.7 Documentation Requirements

- (a) Required documentation for each contract: (i) Performance obligation identification analysis (ii) Transaction price allocation calculations (iii) Recognition schedules and triggers (iv) Contract modification assessments
- (b) Periodic review requirements: (i) Quarterly review of recognition patterns (ii) Annual assessment of estimation methodologies (iii) Documentation of significant judgments (iv) Validation of system calculations

3.8 Special Considerations

- (a) Treatment of specific contract elements: (i) Free trials and promotional periods (ii) Setup and implementation fees (iii) Renewal options and incentives (iv) Volume discounts and rebates
- (b) Industry-specific considerations: (i) Regulatory compliance requirements (ii) Market-specific contract terms (iii) Customer-specific arrangements (iv) Geographic variations in practice

4.0 COMPLIANCE AND AUDIT REQUIREMENTS

4.1 SOC 2 Compliance

- (a) The Company shall maintain SOC 2 Type II compliance for: (i) Security (ii) Availability (iii) Processing integrity (iv) Confidentiality (v) Privacy
- (b) Annual SOC 2 attestation reports shall be: (i) Conducted by qualified independent auditors (ii) Completed within 90 days of fiscal year-end (iii) Made available to authorized stakeholders (iv) Accompanied by remediation plans for identified gaps
- (c) Continuous monitoring shall include: (i) Quarterly internal assessments (ii) Automated compliance scanning (iii) Third-party penetration testing (iv) Real-time security monitoring

4.2 Revenue Audit Procedures

- (a) Revenue recognition shall be supported by: (i) Executed customer contracts (ii) System-generated usage reports (iii) Delivery documentation (iv) Customer acceptance records
- (b) AI-specific revenue documentation shall include: (i) Algorithm version control records (ii) Model training validation reports (iii) Performance metric calculations (iv) Usage-based billing reconciliations
- (c) Documentation retention requirements: (i) Primary records: 7 years (ii) Supporting documentation: 5 years (iii) System logs: 3 years (iv) Audit trails: 5 years

4.3 Internal Controls

- (a) The Company shall maintain controls over: (i) Contract approval and execution (ii) Price change authorization (iii) Revenue recognition timing (iv) System access and security
- (b) Control documentation shall include: (i) Detailed process narratives (ii) Risk and control matrices (iii) Test plans and results (iv) Exception handling procedures
- (c) Quarterly control assessments shall: (i) Review control effectiveness (ii) Update risk assessments (iii) Document changes to controls (iv) Report findings to management

4.4 Regulatory Reporting

- (a) The Company shall comply with all applicable SEC reporting requirements.
- (b) Quarterly reviews and annual audits shall be conducted by independent auditors.
- (c) Additional regulatory requirements include: (i) AI transparency reporting (ii) Algorithm bias assessments (iii) Data privacy compliance (iv) Cross-border data transfer documentation

4.5 Compliance Monitoring

- (a) The Company shall establish: (i) Automated compliance monitoring systems (ii) Regular compliance training programs (iii) Incident response procedures (iv) Whistleblower mechanisms
- (b) Quarterly compliance reports shall address: (i) Control exceptions (ii) Regulatory submissions (iii) Audit findings (iv) Remediation status
- (c) Annual compliance review shall include: (i) Policy updates (ii) Risk assessment (iii) Training effectiveness (iv) Control framework evaluation

EXHIBITS

Exhibit A: Revenue Recognition Decision Tree Exhibit B: Capitalization Criteria Checklist
Exhibit C: Performance Obligation Analysis Template

APPENDICES

Appendix 1: Defined Terms Appendix 2: Sample Revenue Calculations Appendix 3: Control Documentation Templates

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

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

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