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 proprietary artificial intelligence and machine learning solutions for industrial applications;

WHEREAS, the Company seeks to establish comprehensive financial controls and reporting standards that address the unique aspects of its technology-driven business model;

WHEREAS, the Company must ensure compliance with Generally Accepted Accounting Principles ("GAAP"), Securities and Exchange Commission ("SEC") requirements, and industry-specific accounting standards;

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 for SaaS Licensing

(a) The Company shall recognize revenue from its NexusCore™ Industrial AI Platform and related software services in accordance with ASC 606, Revenue from Contracts with Customers, under the following criteria:

(i) Identification of customer contracts meeting enforceability and commercial substance requirements; (ii) Recognition of distinct performance obligations within each contract; (iii) Determination of transaction price, including variable consideration constraints; (iv) Allocation of transaction price to performance obligations; and (v) Recognition of revenue when performance obligations are satisfied.

(b) Subscription-based revenue shall be recognized ratably over the contract term, commencing upon customer access to the platform.

(c) Multi-element arrangements shall be evaluated to determine whether they contain:

(i) Implementation services; (ii) Professional consulting services; (iii) Training and support services; and (iv) Custom development components.

(d) Contract modifications shall be assessed to determine whether they constitute:

(i) Separate contracts requiring independent revenue recognition; (ii) Termination of existing contract and creation of new contract; or (iii) Modification of existing contract requiring prospective or cumulative adjustment.

1.2 AI Technology Asset Valuation

(a) Proprietary artificial intelligence and machine learning assets shall be valued according to:

(i) Direct development costs; (ii) Allocated overhead costs; (iii) Capitalized research and development expenses meeting recognition criteria; and (iv) Fair market value assessments for acquired technology.

(b) Impairment testing shall be conducted quarterly, considering:

(i) Changes in technological feasibility; (ii) Market conditions affecting asset value; (iii) Performance metrics and utilization rates; and (iv) Expected future economic benefits.

(c) Amortization of AI assets shall follow:

(i) Straight-line methodology over estimated useful life; (ii) Regular reassessment of amortization period; (iii) Documentation of technological obsolescence factors; and (iv) Adjustment for material changes in estimated useful life.

1.3 Internal Control Requirements

(a) The Company shall maintain SOC 2 Type II compliance for cloud-based operations, including:

(i) Security controls for data protection; (ii) Availability monitoring and disaster recovery; (iii) Processing integrity verification; and (iv) Confidentiality and privacy safeguards.

(b) Internal control framework shall incorporate:

(i) Segregation of duties within financial operations; (ii) Multi-level approval workflows for material transactions; (iii) Automated reconciliation processes; and (iv) Regular control effectiveness testing.

(c) Change management procedures shall require:

(i) Documentation of all system modifications; (ii) Testing protocols for financial impact; (iii) Approval from authorized personnel; and (iv) Audit trail maintenance.

1.4 Financial Data Security Protocols

(a) All financial data shall be protected through:

(i) Encryption at rest and in transit; (ii) Role-based access controls; (iii) Audit logging and monitoring; and (iv) Regular security assessments.

(b) Data retention policies shall specify:

(i) Minimum retention periods for financial records; (ii) Secure disposal procedures; (iii) Backup and recovery requirements; and (iv) Compliance with regulatory obligations.

(c) Third-party service provider management shall include:

(i) Security assessment prior to engagement; (ii) Contractual data protection requirements; (iii) Regular compliance monitoring; and (iv) Incident response protocols.

1.5 Reporting Requirements

(a) Financial reporting shall adhere to:

(i) Generally Accepted Accounting Principles (GAAP); (ii) SEC reporting requirements for public companies; (iii) Industry-specific disclosure standards; and (iv) Internal reporting deadlines.

(b) Key performance indicators shall be monitored and reported:

(i) Monthly recurring revenue (MRR); (ii) Customer acquisition costs; (iii) Lifetime value metrics; and (iv) AI platform utilization rates.

(c) Variance analysis shall be performed for:

(i) Budget versus actual results; (ii) Prior period comparisons; (iii) Industry benchmark analysis; and (iv) Forecasting accuracy assessment.

2.0 ACCOUNTING PROCEDURES AND STANDARDS

2.1 Subscription Revenue Recognition

(a) The Company shall apply the following criteria for subscription revenue:

(i) Contract inception date determination, which shall be established as the earlier of: - The date of formal contract execution - The date when performance obligations commence - The date of initial payment receipt

(ii) Performance obligation identification, including: - Core subscription services - Implementation and setup services - Training and support services - Additional feature sets or modules - Custom development work

(iii) Transaction price allocation methodology, incorporating: - Standalone selling price determination - Variable consideration constraints - Material rights assessment - Volume discount implications - Multi-year contract considerations

(iv) Recognition timing based on service delivery, considering: - Time-based recognition patterns - Usage-based recognition metrics - Milestone completion events - Customer acceptance criteria - Service level agreement compliance

2.2 R&D Capitalization Rules

(a) Research and development costs shall be capitalized when:

(i) Technical feasibility is established through: - Working prototype completion - Successful testing documentation - Architecture design approval - Core functionality demonstration - Performance benchmark achievement

(ii) Management demonstrates commitment to completion via: - Formal project approval documentation - Budget allocation confirmation - Resource assignment plans - Project timeline approval - Risk mitigation strategies

(iii) Resources are available for completion, evidenced by: - Allocated development team capacity - Infrastructure availability - Third-party vendor agreements - Quality assurance resources - Project management oversight

(iv) Future economic benefits are probable, supported by: - Market analysis documentation - Customer commitment letters - Revenue projections - Competitive advantage assessment - Return on investment calculations

2.3 Contract Assets and Liabilities

(a) The Company shall recognize:

(i) Contract assets for satisfied performance obligations pending billing, including: - Completed implementation services - Delivered custom development - Earned but unbilled usage fees - Performance-based incentives - Contract modification value

(ii) Contract liabilities for advance payments received, encompassing: - Prepaid subscription fees - Implementation deposits - Customer credits - Refundable deposits - Unearned revenue components

(iii) Implementation costs as specified in ASC 340-40, including: - Setup and configuration expenses - Data migration costs - Integration development - Testing and validation expenses - Training program delivery

(iv) Contract modification impacts per ASC 606-10-25-10, addressing: - Scope changes - Price adjustments - Service level modifications - Term extensions or reductions - Performance obligation alterations

2.4 Performance Obligation Identification

(a) Distinct performance obligations shall be identified based on:

(i) Capability of being distinct, evaluated through: - Independent utility assessment - Standalone value proposition - Market availability analysis - Customer benefit evaluation - Technical independence verification

(ii) Separately identifiable nature, determined by: - Distinct delivery patterns - Independent pricing structures - Separate acceptance criteria - Unique service level agreements - Individual performance metrics

(iii) Integration with other goods or services, considering: - Technical dependencies - Functional relationships - Implementation requirements - Operational interconnections - Support service integration

(iv) Significant modification or customization requirements, including: - Custom development scope - Configuration complexity - Integration requirements - Data transformation needs - Business process adaptation

2.5 Documentation Requirements

(a) The Company shall maintain comprehensive documentation for:

(i) Revenue recognition decisions (ii) Capitalization assessments (iii) Contract asset and liability calculations (iv) Performance obligation determinations

(b) Documentation must include:

(i) Supporting analysis and calculations (ii) Management approvals and sign-offs (iii) External auditor consultations (iv) Periodic review documentation (v) Policy exception justifications

2.6 Periodic Review and Updates

(a) The Company shall conduct quarterly reviews of:

(i) Revenue recognition patterns (ii) Capitalization decisions (iii) Contract asset and liability balances (iv) Performance obligation assessments

(b) Annual updates shall address:

(i) Accounting policy compliance (ii) Industry standard alignment (iii) Regulatory requirement changes (iv) Process improvement opportunities

3.0 TECHNOLOGY ASSET MANAGEMENT

3.1 Intellectual Property Valuation

(a) The Company shall value intellectual property using:

(i) Cost approach for internally developed assets, including: - Direct development costs - Allocated overhead expenses - Research and experimentation expenditures - Documentation and testing costs - Professional service fees

(ii) Market approach for comparable technology, considering: - Recent market transactions - Industry-standard licensing rates - Comparable asset sales within the sector - Geographic market adjustments - Technology maturity factors

(iii) Income approach for revenue-generating assets, incorporating: - Projected cash flows - Risk-adjusted discount rates - Market growth assumptions - Competition analysis - Technology obsolescence factors

(iv) Relief from royalty method where applicable, based on: - Industry standard royalty rates - Market-based licensing terms - Territory considerations - Usage rights scope - Duration of protection

3.2 Software Development Capitalization

(a) Software development costs shall be capitalized when:

(i) Preliminary project stage is complete, evidenced by: - Formal project charter - Technical feasibility assessment - Resource allocation plan - Risk assessment documentation

(ii) Application development stage begins, including: - Design of chosen path - Software configuration - Interface development - Coding and testing - Installation to hardware

(iii) Management authorizes funding through: - Written approval documentation - Budget allocation - Resource commitment - Project milestone approval - Performance metrics establishment

(iv) Completion is probable, demonstrated by: - Technical capability confirmation - Resource availability - Timeline feasibility - Market demand validation - Risk mitigation plans

3.3 AI Model Development Treatment

(a) Artificial intelligence model development shall be accounted for through:

(i) Training data acquisition costs, including: - Data licensing fees - Collection infrastructure - Storage and processing - Quality assurance - Privacy compliance measures

(ii) Model development labor costs, comprising: - Data scientist time - Engineering resources - Quality assurance testing - Documentation efforts - Project management allocation

(iii) Computing resource allocation, accounting for: - Cloud service expenses - Hardware depreciation - Energy consumption - Network infrastructure - Security measures

(iv) Ongoing model maintenance expenses, including: - Performance monitoring - Retraining costs - Version control - Compliance updates - Technical debt management

3.4 Technology Infrastructure Depreciation

(a) The Company shall depreciate technology infrastructure using:

(i) Straight-line method over useful life, considering: - Hardware specifications - Software versions - Industry standards - Technological obsolescence - Maintenance requirements

(ii) Component-based depreciation where appropriate, addressing: - Individual asset components - Replacement cycles - Upgrade schedules - Integration dependencies - Performance requirements

(iii) Regular impairment assessments, evaluating: - Market conditions - Technical obsolescence - Performance degradation - Regulatory changes - Business needs evolution

(iv) Residual value considerations, including: - Secondary market analysis - Disposal costs - Environmental factors - Recycling requirements - Data security measures

3.5 Compliance and Reporting Requirements

(a) The Company shall maintain comprehensive documentation of:

(i) Valuation methodologies and assumptions (ii) Capitalization decisions and supporting evidence (iii) Depreciation schedules and adjustments (iv) Impairment assessments and conclusions

(b) Regular reviews shall be conducted to ensure:

(i) Compliance with accounting standards (ii) Accuracy of asset valuations (iii) Appropriateness of capitalization decisions (iv) Effectiveness of depreciation policies

(c) Annual reporting shall include:

(i) Technology asset portfolio summary (ii) Significant valuation changes (iii) Capitalization activity (iv) Depreciation and impairment status

4.0 COMPLIANCE AND RISK MANAGEMENT

4.1 SOX Compliance Requirements

(a) The Company shall maintain controls satisfying Sarbanes-Oxley Section 404, including:

(i) Documentation of control processes through detailed narratives, flowcharts, and risk matrices; (ii) Testing of control effectiveness on a quarterly and annual basis; (iii) Remediation of control deficiencies within prescribed timeframes; and (iv) Management certification requirements as mandated by Sections 302 and 906.

(b) The Company shall establish an internal control framework that:

(i) Implements COSO 2013 framework components; (ii) Maintains segregation of duties across critical functions; (iii) Documents change management procedures; and (iv) Conducts periodic control environment assessments.

4.2 Revenue Recognition Risk Controls

(a) Risk controls shall address:

(i) Contract terms and conditions, including identification of performance obligations; (ii) Performance obligation satisfaction criteria and documentation; (iii) Variable consideration constraints and probability assessments; and (iv) Contract modification impacts on revenue recognition timing.

(b) The Company shall implement specific procedures for:

(i) Multi-element arrangement accounting; (ii) Customer acceptance criteria verification; (iii) Stand-alone selling price determination; and (iv) Contract combination and modification assessments.

4.3 Technology Asset Risk Management

(a) The Company shall implement controls for:

(i) Intellectual property protection, including patent and trade secret safeguards; (ii) Technology obsolescence assessment on a semi-annual basis; (iii) Cybersecurity risk mitigation through multi-layered security protocols; and (iv) Disaster recovery planning with regular testing requirements.

(b) Technology asset management shall include:

(i) Regular vulnerability assessments and penetration testing; (ii) Access control monitoring and authentication protocols; (iii) Data encryption standards for transmission and storage; and (iv) Third-party vendor security assessments.

4.4 Financial Reporting Controls

(a) Controls shall ensure:

(i) Accurate financial statement preparation through multi-level review processes; (ii) Timely disclosure requirements compliance with SEC deadlines; (iii) Supporting documentation retention for statutory periods; and (iv) Review and approval procedures at appropriate authority levels.

(b) Additional financial control requirements include:

(i) Reconciliation procedures for all material accounts; (ii) Journal entry approval and documentation standards; (iii) Periodic financial close process assessments; and (iv) Audit trail maintenance requirements.

4.5 Compliance Monitoring and Reporting

(a) The Company shall maintain:

(i) Quarterly compliance assessments and reporting; (ii) Independent testing of control effectiveness; (iii) Regular updates to control documentation; and (iv) Compliance training programs for relevant personnel.

(b) Reporting requirements shall include:

(i) Material weakness and significant deficiency notifications; (ii) Remediation status updates to management; (iii) Quarterly certification procedures; and (iv) Annual compliance attestation requirements.

4.6 Risk Assessment and Management

(a) The Company shall conduct:

(i) Annual enterprise-wide risk assessments; (ii) Quarterly updates to risk matrices; (iii) Impact analysis of regulatory changes; and (iv) Emerging risk identification procedures.

(b) Risk management protocols shall address:

(i) Risk appetite determination and monitoring; (ii) Risk response strategy development; (iii) Control activity alignment with risk assessment; and (iv) Ongoing risk monitoring and reporting requirements.

EXHIBITS

Exhibit A: Revenue Recognition Decision Tree

Exhibit B: Technology Asset Valuation Methodology

Exhibit C: Control Testing Templates

Exhibit D: Risk Assessment Matrix

SIGNATURE AND APPROVAL

IN WITNESS WHEREOF, this Financial Controls and Reporting Policy has been adopted by the Board of Directors of Nexus Industrial Intelligence, Inc. as of January 15, 2024.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: ___ ____ Name: Dr. Sarah Chen Title: Chief Executive Officer

By: ___ ____ Name: David Kumar Title: Chief Financial Officer

ATTEST:

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Corporate Secretary