# FINANCIAL CONTROLS AND REPORTING POLICY

**EFFECTIVE DATE: January 15, 2024**

**DOCUMENT NO.: FIN-2024-001**

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

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

WHEREAS, the Board of Directors has determined it to be in the best interests of the Company to establish standardized procedures for financial reporting, technology asset management, and compliance;

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-as-a-service offerings in accordance with ASC 606, with specific consideration for:

(i) Performance obligations related to software licensing; (ii) Implementation services; (iii) Ongoing maintenance and support; and (iv) Usage-based AI processing fees.

(b) Revenue shall be recognized when control transfers to the customer, which typically occurs:

(i) For subscription licenses: ratably over the contract term (ii) For implementation services: as services are performed (iii) For usage-based AI processing: upon consumption of computing resources

(c) Multi-element arrangements shall be evaluated to:

(i) Identify distinct performance obligations (ii) Determine standalone selling prices (iii) Allocate transaction price according to relative standalone selling prices (iv) Apply appropriate recognition timing for each element

(d) Contract modifications shall be assessed for:

(i) Additional distinct products or services (ii) Price changes affecting remaining performance obligations (iii) Impact on revenue recognition timing (iv) Required amendments to financial statements

## 1.2 AI Technology Asset Valuation Methodology

(a) The Company shall value its proprietary AI models and algorithms using a cost-based approach that incorporates:

(i) Direct development costs (ii) Allocated overhead (iii) Capitalized computing resources (iv) Data acquisition and processing expenses

(b) Valuation assessments shall be conducted quarterly with formal review by the Audit Committee.

(c) Impairment testing shall include:

(i) Assessment of technological obsolescence (ii) Market competition analysis (iii) Revenue generation capability (iv) Development milestone achievement (v) Customer adoption metrics

(d) Capitalization criteria shall consider:

(i) Technical feasibility of completion (ii) Intent and ability to complete development (iii) Ability to use or sell the asset (iv) Mechanism for generating future economic benefits (v) Availability of technical and financial resources

## 1.3 Internal Control Requirements for Cloud-Based Services

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

(i) Access controls (ii) Change management procedures (iii) Data encryption standards (iv) Disaster recovery protocols

(b) Internal controls shall be tested quarterly with results reported to the Audit Committee.

(c) Control documentation shall include:

(i) Control objective definitions (ii) Risk assessment matrices (iii) Test procedures and frequencies (iv) Remediation protocols (v) Evidence retention requirements

(d) Continuous monitoring shall address:

(i) System availability metrics (ii) Security incident response (iii) Data integrity verification (iv) Service level agreement compliance (v) Third-party vendor assessments

### 1.4 Data Privacy Compliance Financial Controls

(a) The Company shall maintain financial controls specific to data privacy compliance, including:

(i) Segregation of EU customer data processing costs (ii) GDPR compliance expense tracking (iii) Privacy impact assessment documentation (iv) Data protection officer resource allocation

(b) Privacy compliance budgeting shall incorporate:

(i) Regional regulatory requirements (ii) Data localization infrastructure (iii) Consent management systems (iv) Privacy training programs (v) Audit and certification costs

(c) Financial reporting shall track:

(i) Privacy-related capital expenditures (ii) Ongoing compliance operational costs (iii) Incident response reserves (iv) Insurance coverage expenses (v) Legal consultation fees

(d) Control effectiveness shall be validated through:

(i) Independent third-party assessments (ii) Internal audit reviews (iii) Regulatory compliance checks (iv) Privacy impact analyses (v) Data protection impact assessments

### 1.5 Reporting Requirements

(a) The Company shall prepare and maintain:

(i) Monthly financial statements (ii) Quarterly compliance reports (iii) Annual SOC 2 attestations (iv) Privacy compliance certifications (v) Technology asset valuations

(b) All reports shall be reviewed and approved by:

(i) Chief Financial Officer (ii) Audit Committee (iii) Board of Directors, as required (iv) Independent auditors, where applicable

## 2.0 ACCOUNTING PROCEDURES AND STANDARDS

### 2.1 Subscription Revenue Recognition Protocol

(a) The Company shall recognize subscription revenue according to the following criteria:

(i) Identification of the contract with customer, including: - Written, oral, or implied agreements - Contracts with commercial substance - Enforceable rights and obligations - Probable collection of consideration - Clear payment terms and conditions

(ii) Identification of performance obligations, encompassing: - Distinct goods or services - Series of distinct goods or services - Integration services - Customization and modification services - Ongoing support and maintenance

(iii) Determination of transaction price, considering: - Fixed consideration components - Variable consideration elements - Significant financing components - Non-cash consideration - Consideration payable to customers

(iv) Allocation of transaction price, incorporating: - Relative standalone selling prices - Market assessment approach - Expected cost plus margin methodology - Residual pricing methods when applicable

(v) Recognition of revenue when performance obligations are satisfied through: - Point-in-time transfer of control - Over-time transfer of benefits - Output or input methods - Milestone achievement verification

(b) Multi-year contracts shall be recognized with consideration for:

(i) Material rights, including: - Renewal options - Future discounts - Additional product rights - Service level guarantees

(ii) Contract modifications addressing: - Scope changes - Price adjustments - Service level modifications - Term extensions or reductions

(iii) Variable consideration constraints applied to: - Usage-based fees - Performance bonuses - Volume discounts - Service credits

(iv) Time value of money adjustments incorporating: - Significant financing components - Present value calculations - Discount rate determinations - Payment timing impacts

## 2.2 R&D Expense Capitalization Criteria

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

(i) Technical feasibility is established through: - Working prototype completion - Successful testing results - Architecture approval - Performance criteria achievement

(ii) Management commits to completion via: - Formal project approval - Budget allocation - Resource assignment - Timeline establishment

(iii) Resources are available for completion, including: - Technical expertise - Financial resources - Infrastructure capacity - Third-party support

(iv) Future economic benefit is probable based on: - Market analysis - Customer commitments - Competition assessment - Revenue projections

(b) Capitalized costs shall include:

(i) Direct labor encompassing: - Developer salaries - Quality assurance personnel - Project management - Technical architects

(ii) Cloud computing resources, including: - Infrastructure as a Service (IaaS) - Platform as a Service (PaaS) - Development environments - Testing platforms

(iii) Third-party development services covering: - Specialized programming - Security testing - Performance optimization - Integration services

(iv) Allocated overhead comprising: - Facility costs - Equipment depreciation - Software licenses - Support services

## 2.3 Revenue Allocation for Multi-Element Arrangements

(a) Revenue from multi-element arrangements shall be allocated based on:

(i) Standalone selling prices determined through: - Direct observation - Adjusted market assessment - Expected cost plus margin - Residual estimation

(ii) Observable market data including: - Competitor pricing - Industry benchmarks - Historical transactions - Market studies

(iii) Expected cost plus margin approach utilizing: - Direct costs - Indirect costs - Standard margin rates - Market adjustments

(iv) Residual approach when appropriate, considering: - Highly variable pricing - Uncertain standalone values - Bundle discounts - Market positioning

## 2.4 Contract Asset Recognition Standards

(a) Contract assets shall be recognized when:

(i) Performance obligations are satisfied through: - Service delivery - Product transfer - Feature implementation - Milestone achievement

(ii) Payment is not yet due according to: - Contract terms - Payment schedules - Milestone completion - Acceptance criteria

(iii) Right to consideration is conditional upon: - Customer acceptance - Performance verification - Usage measurement - Time passage

(b) Contract asset measurement shall incorporate:

(i) Initial recognition at: - Transaction price allocation - Direct cost basis - Fair value determination - Present value calculation

(ii) Subsequent measurement considering: - Impairment assessment - Time value adjustments - Contract modifications - Performance updates

# 3.0 TECHNOLOGY ASSET MANAGEMENT

## 3.1 IP Valuation Standards

(a) Intellectual property shall be valued considering:

(i) Development costs, including: - Direct labor and contractor expenses - Research and development expenditures - Patent and licensing fees - Testing and validation costs - Documentation and compliance expenses

(ii) Market comparables, incorporating: - Recent industry transactions - Licensing agreements for similar technologies - Published royalty rates - Competitive technology valuations - Geographic market considerations

(iii) Future revenue potential, assessed through: - Projected cash flow analysis - Market penetration forecasts - Technology adoption curves - Customer contract pipeline - Scalability assessments

(iv) Technological obsolescence risk, evaluated by: - Industry innovation rates - Competitive technology landscape - Patent expiration timelines - Regulatory environment changes - Technical debt considerations

## 3.2 Software Development Cost Accounting

(a) Software development costs shall be:

(i) Capitalized during application development stage, including: - Design of chosen path - Coding and configuration - Installation of hardware - Testing and parallel processing phases - Data conversion costs

(ii) Expensed during preliminary project stage, encompassing: - Conceptual formulation - Technology alternatives evaluation - Vendor selection - Resource needs assessment - Project planning activities

(iii) Tracked by project and feature through: - Detailed time tracking systems - Cost allocation matrices - Sprint-based accounting - Feature-specific budgeting - Milestone-based reporting

(iv) Reviewed quarterly for impairment considering: - Market conditions - Technical performance metrics - User adoption rates - Revenue generation capability - Maintenance requirements

## 3.3 Cloud Infrastructure Cost Attribution

(a) Cloud infrastructure costs shall be allocated based on:

(i) Direct usage metrics, including: - Compute resources consumed - Storage utilization - Network bandwidth - API calls and transactions - Database operations

(ii) Customer contracts, considering: - Service level agreements - Resource reservation commitments - Usage guarantees - Multi-tenant arrangements - Custom infrastructure requirements

(iii) Development activities, allocated through: - Environment segregation - Development team assignments - Project-specific resources - Testing environments - Staging infrastructure

(iv) Administrative overhead, comprising: - Security and compliance costs - Monitoring and alerting - Backup and recovery - System administration - Technical support services

## 3.4 Technology Asset Depreciation Schedule

(a) Technology assets shall be depreciated according to:

(i) Expected useful life, determined by: - Historical performance data - Vendor support timelines - Technology refresh cycles - Industry benchmarks - Asset category standards

(ii) Obsolescence factors, including: - Technical advancement rates - Market demand changes - Compatibility requirements - Security vulnerability exposure - Performance degradation

(iii) Customer contract terms, considering: - Service commitments - Technology requirements - Upgrade obligations - Support requirements - End-of-life provisions

(iv) Industry standards, incorporating: - GAAP guidelines - Regulatory requirements - Industry best practices - Audit considerations - Tax implications

## 3.5 Compliance and Reporting Requirements

(a) Technology asset management shall maintain:

(i) Regular reporting schedules for: - Asset inventory updates - Valuation adjustments - Depreciation calculations - Cost allocation reviews - Performance metrics

(ii) Documentation requirements including: - Asset acquisition records - Maintenance histories - Depreciation schedules - Disposal documentation - Audit trails

(iii) Compliance verification through: - Periodic internal audits - External assessments - Regulatory reviews - Security evaluations - Performance testing

(iv) Risk management protocols addressing: - Technology obsolescence - Security vulnerabilities - Vendor dependencies - Market conditions - Regulatory changes

# 4.0 COMPLIANCE AND AUDIT PROCEDURES

## 4.1 AI Algorithm Audit Standards

(a) AI algorithms shall be audited for:

(i) Performance metrics, including accuracy rates, response times, and error margins as measured against established industry benchmarks (ii) Bias detection across protected characteristics, demographic distributions, and outcome fairness metrics (iii) Resource utilization, including computational efficiency, storage requirements, and infrastructure costs (iv) Revenue attribution methodologies and financial impact assessment

(b) Audit frequency requirements:

(i) Quarterly algorithmic performance reviews (ii) Monthly bias detection scans (iii) Weekly resource utilization assessments (iv) Daily revenue attribution reconciliation

(c) Documentation requirements shall include:

(i) Detailed audit trails of all algorithm modifications (ii) Version control documentation (iii) Change management records (iv) Performance deviation reports

## 4.2 Data Privacy Financial Controls

(a) Privacy controls shall include:

(i) Cost segregation by jurisdiction, including detailed allocation methodologies for multi-jurisdictional operations (ii) Compliance expense tracking with itemized categorization of direct and indirect costs (iii) Risk assessment procedures incorporating both quantitative and qualitative metrics (iv) Incident response protocols with defined escalation pathways and response timelines

(b) Financial reporting requirements:

(i) Monthly privacy compliance cost reports (ii) Quarterly risk assessment summaries (iii) Annual privacy budget forecasting (iv) Incident-related expense tracking

(c) Control documentation shall maintain:

(i) Audit trails for all privacy-related expenditures (ii) Compliance cost allocation methodologies (iii) Risk assessment matrices (iv) Incident response cost tracking

## 4.3 SOC 2 Compliance Requirements

(a) SOC 2 compliance shall be maintained through:

(i) Regular attestation with semi-annual review cycles (ii) Control testing according to AICPA Trust Services Criteria (iii) Documentation updates reflecting operational changes (iv) Remediation tracking with defined timelines

(b) Control environment requirements:

(i) Designated compliance officers for each trust principle (ii) Documented control procedures (iii) Regular staff training programs (iv) Compliance monitoring systems

(c) Testing protocols shall include:

(i) Automated control monitoring (ii) Manual testing procedures (iii) Third-party assessments (iv) Continuous compliance verification

## 4.4 Revenue Verification Procedures

(a) Revenue shall be verified through:

(i) System-generated reports with automated reconciliation (ii) Customer acceptance documentation including digital signatures (iii) Usage metrics with detailed activity logs (iv) Contract compliance review against established terms

(b) Verification frequency requirements:

(i) Daily revenue reconciliation (ii) Weekly usage metric analysis (iii) Monthly contract compliance review (iv) Quarterly revenue audit

(c) Documentation requirements:

(i) Detailed transaction logs (ii) Customer acceptance records (iii) Usage analytics reports (iv) Compliance verification certificates

(d) Dispute resolution procedures:

(i) Revenue discrepancy investigation protocols (ii) Customer communication requirements (iii) Resolution documentation standards (iv) Escalation procedures

## SIGNATURE AND APPROVAL

IN WITNESS WHEREOF, this Financial Controls and Reporting Policy has been approved and adopted by the Board of Directors of the Company as of the Effective Date first written above.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

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

## EXHIBITS

Exhibit A: Revenue Recognition Decision Tree Exhibit B: Technology Asset Valuation Matrix Exhibit C: Compliance Control Framework Exhibit D: Audit Procedures Checklist

## APPENDICES

Appendix 1: Defined Terms Appendix 2: Reference Standards Appendix 3: Required Forms and Templates Appendix 4: Revision History