

FINANCIAL AND ACCOUNTING POLICIES AND PROCEDURES

EFFECTIVE DATE: January 15, 2024

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation (the "Company"), desires to establish comprehensive financial and accounting policies and procedures appropriate for its business operations;

WHEREAS, the Company recognizes the need for standardized financial reporting and control procedures given its status as a venture-backed growth stage technology company; and

WHEREAS, the Board of Directors has determined it to be in the best interests of the Company to adopt these Financial and Accounting Policies and Procedures (this "Policy").

NOW, THEREFORE, the Company hereby adopts the following Policy:

1.0 FINANCIAL REPORTING AND ACCOUNTING STANDARDS

1.1 Generally Accepted Accounting Principles

The Company shall prepare its financial statements in accordance with United States Generally Accepted Accounting Principles ("GAAP") as established by the Financial Accounting Standards Board ("FASB"). All accounting policies, procedures, and financial reporting shall comply with ASC 606, Revenue from Contracts with Customers, and other applicable accounting standards. The Company shall maintain comprehensive documentation of its accounting policies and procedures, including:

(a) **Internal Controls.** A system of internal controls that ensures the accuracy, completeness, and timeliness of financial reporting, including: (i) Segregation of duties; (ii) Authorization hierarchies; (iii) Reconciliation procedures; and (iv) Documentation requirements.

(b) **Reporting Timeline.** Financial statements shall be prepared and reviewed according to the following schedule: (i) Monthly statements within 15 business days of month-end; (ii) Quarterly statements within 30 days of quarter-end; (iii) Annual statements within 60 days of fiscal year-end.

1.2 Revenue Recognition

(a) **SaaS Subscription Revenue.** The Company shall recognize revenue from its NexusCore™ Industrial AI Platform subscriptions over the term of the customer contract, beginning when the customer obtains access to the platform. Revenue recognition shall occur on a straight-line

basis unless usage-based pricing components require a different allocation methodology. The Company shall: (i) Document the subscription start date and term; (ii) Calculate and record deferred revenue for advance payments; (iii) Monitor and account for contract modifications; (iv) Track usage-based components separately from fixed fees.

(b) **Professional Services Revenue.** Implementation, configuration, and consulting services revenue shall be recognized as services are performed, based on actual hours incurred at contractual rates. The Company shall: (i) Maintain detailed time records for all billable services; (ii) Document completion of project milestones; (iii) Record work-in-progress for partially completed services; (iv) Recognize revenue only for services that provide standalone value.

(c) **Multi-Element Arrangements.** For contracts containing multiple performance obligations, the Company shall: (i) Identify distinct performance obligations; (ii) Determine standalone selling prices; (iii) Allocate transaction price using relative standalone selling price method; (iv) Recognize revenue when each performance obligation is satisfied; (v) Document the basis for allocation methodologies; (vi) Maintain evidence supporting standalone selling prices.

1.3 Software Development Costs

(a) **Capitalization Criteria.** The Company shall capitalize software development costs in accordance with ASC 350-40 when technological feasibility is established. Costs eligible for capitalization include: (i) Direct labor costs of software engineers; (ii) Third-party development contractors; (iii) Software tools and licenses directly related to development; (iv) Quality assurance and testing costs; (v) Documentation costs directly related to software development.

(b) **Amortization.** Capitalized costs shall be amortized over the estimated useful life of the software, not to exceed 3 years, using the straight-line method. The Company shall: (i) Review amortization periods annually; (ii) Adjust for changes in estimated useful life; (iii) Test for impairment when indicators exist.

1.4 Financial Statement Presentation

(a) **Balance Sheet Classification.** The Company shall classify assets and liabilities as follows: (i) Current assets shall include items expected to be converted to cash within 12 months; (ii) Deferred revenue shall be separated between current and non-current portions; (iii) Capitalized software costs shall be presented net of accumulated amortization.

(b) **Income Statement Presentation.** Revenue shall be disaggregated and presented as follows: (i) Subscription revenue; (ii) Professional services revenue; (iii) Usage-based revenue; (iv) Other revenue streams.

1.5 Disclosures

The Company shall provide comprehensive disclosures in its financial statements regarding: (a) Significant accounting policies; (b) Revenue recognition methods; (c) Performance obligations and timing of satisfaction; (d) Contract assets and liabilities; (e) Significant judgments in applying accounting policies; (f) Capitalized software development costs and amortization; (g) Changes in accounting estimates or principles.

2.0 INTERNAL CONTROLS AND COMPLIANCE

2.1 Control Framework

The Company shall maintain an internal control framework aligned with COSO 2013 Internal Control-Integrated Framework, including:

- (a) Control Environment (i) Established organizational structure with clear reporting lines (ii) Written policies and procedures governing financial operations (iii) Documented delegation of authority matrix (iv) Regular ethics and compliance training programs (v) Performance evaluation metrics incorporating control responsibilities
- (b) Risk Assessment (i) Annual enterprise-wide risk assessment procedures (ii) Quarterly updates to risk registers (iii) Impact and probability analysis for identified risks (iv) Emerging technology risk evaluation protocol (v) Third-party vendor risk assessment program
- (c) Control Activities (i) Segregation of duties matrix (ii) Automated system controls and validations (iii) Manual review and approval procedures (iv) Reconciliation requirements and schedules (v) Exception handling protocols
- (d) Information and Communication (i) Structured internal reporting mechanisms (ii) Documentation requirements for control activities (iii) Escalation procedures for control breaches (iv) Stakeholder communication protocols (v) Regular updates to control documentation
- (e) Monitoring Activities (i) Continuous monitoring programs (ii) Independent internal audit function (iii) Control testing schedules (iv) Management review procedures (v) External audit coordination protocols

2.2 SOX Compliance Procedures

In preparation for potential future public offering, the Company shall maintain controls meeting Sarbanes-Oxley Act requirements, including:

- (a) Documentation of all significant processes (i) Process narratives and flowcharts (ii) Control matrices with risk and control mapping (iii) System configuration documentation (iv) Evidence retention requirements

- (b) Risk-based testing program (i) Annual testing schedule (ii) Sample selection methodology (iii) Documentation standards for test results (iv) Quality assurance review procedures
- (c) Quarterly control effectiveness assessments (i) Self-assessment protocols (ii) Management certification requirements (iii) Deficiency evaluation criteria (iv) Reporting templates and procedures
- (d) Remediation tracking system (i) Issue logging and classification (ii) Root cause analysis requirements (iii) Corrective action planning (iv) Status monitoring and reporting

2.3 Technology Controls

- (a) Access Controls (i) User access review procedures (ii) Privileged access management (iii) Password and authentication standards (iv) System access termination protocols
- (b) Change Management (i) Change request documentation requirements (ii) Testing and validation procedures (iii) Approval matrix for system changes (iv) Emergency change protocols
- (c) Data Security (i) Data classification standards (ii) Encryption requirements (iii) Data retention and disposal procedures (iv) Privacy compliance controls
- (d) Disaster Recovery (i) Recovery time objectives (ii) Backup procedures and testing (iii) Business impact analysis requirements (iv) Emergency response protocols

2.4 SaaS-Specific Controls

- (a) Cloud Service Provider Controls (i) Vendor SOC report review requirements (ii) Service level agreement monitoring (iii) Data residency compliance (iv) Multi-tenant security controls
- (b) API Security Controls (i) Authentication protocols (ii) Rate limiting requirements (iii) Encryption standards (iv) Activity monitoring procedures

3.0 FINANCIAL PLANNING AND BUDGETING PROCEDURES

3.1 Annual Budget Process

- (a) **Timeline.** Annual budget preparation shall commence no later than October 1 for the following fiscal year, with final approval required by December 15. (i) Department submissions due by October 31 (ii) Executive review period: November 1-15 (iii) Board presentation: December 1 (iv) Implementation planning: December 16-31
- (b) **Components.** Budget shall include: (i) Detailed revenue forecasts by product line, including recurring and non-recurring revenue streams (ii) Operating expenses by department, with quarterly allocation schedules (iii) Headcount plan, including contractor and full-time employee ratios (iv) Capital expenditure requirements, segregated by maintenance and growth

initiatives (v) Working capital requirements and cash flow projections (vi) Contingency reserves of 5-10% of operating expenses

3.2 R&D Investment Guidelines

(a) **Allocation.** The Company shall target R&D investment of 30-35% of revenue. (i) Minimum floor of 28% during economic downturns (ii) Maximum ceiling of 40% for strategic initiatives (iii) Quarterly rebalancing permitted within prescribed ranges

(b) **Focus Areas.** R&D investments shall prioritize: (i) Core AI/ML capabilities, including model development and training (ii) Industry-specific modules with demonstrable market demand (iii) Platform scalability improvements (iv) Security enhancements and compliance requirements (v) Technical debt reduction initiatives

(c) **ROI Metrics.** R&D investments shall be evaluated against: (i) Revenue generation potential within 24 months (ii) Cost reduction capabilities (iii) Competitive advantage assessment (iv) Patent potential and IP protection

3.3 Venture Capital Reporting

(a) **Monthly Reporting Package** shall include: (i) Key performance indicators (KPIs) (ii) Burn rate analysis with variance explanations (iii) Cash runway projection extending 18 months (iv) Sales pipeline metrics and conversion rates (v) Customer acquisition costs and lifetime value metrics (vi) Market share analysis and competitive positioning

(b) **Quarterly Board Materials** shall include: (i) Strategic initiative progress reports (ii) Risk assessment matrix (iii) Talent acquisition and retention metrics (iv) Product development roadmap updates

3.4 Financial Controls

(a) **Approval Thresholds:** (i) Expenditures exceeding \$50,000 require CFO approval (ii) Expenditures exceeding \$250,000 require CEO approval (iii) Expenditures exceeding \$1,000,000 require Board approval

(b) **Budget Variance Management:** (i) Variances exceeding 10% require written explanation (ii) Remediation plans required for sustained variances (iii) Quarterly reforecast mandatory if cumulative variance exceeds 15%

(c) **Cash Management:** (i) Minimum cash reserves of 6 months operating expenses (ii) Investment of excess cash per Treasury Policy (iii) Monthly cash flow forecasting required (iv) Working capital optimization review quarterly

4.0 TREASURY MANAGEMENT AND CASH CONTROLS

4.1 Cash Management

(a) **Daily Operations.** Treasury staff shall: (i) Monitor cash positions and liquidity levels across all operating accounts (ii) Execute approved transfers in accordance with established authorization matrices (iii) Reconcile bank statements within three (3) business days of receipt (iv) Report significant variances exceeding \$50,000 to the Treasury Director (v) Maintain detailed logs of all cash movements and authorizations (vi) Perform end-of-day position reconciliation across all accounts

(b) **Investment Guidelines.** Excess cash shall be invested in: (i) U.S. Treasury securities with maturities not exceeding 24 months (ii) Money market funds maintaining minimum AUM of \$1 billion (iii) Commercial paper rated A1/P1 with maximum maturity of 270 days (iv) Certificates of deposit from approved banking partners (v) Corporate bonds rated AA- or higher with maturities under 12 months

(c) **Liquidity Requirements.** The Company shall: (i) Maintain minimum operating cash balance of \$5,000,000 (ii) Ensure quick ratio remains above 1.5 at all times (iii) Review liquidity forecasts weekly (iv) Establish contingency funding plans for stress scenarios

4.2 Foreign Currency Management

(a) **Hedging.** The Company shall: (i) Hedge material foreign currency exposures exceeding \$1,000,000 equivalent (ii) Utilize forward contracts, options, or swaps from approved counterparties (iii) Review hedge positions monthly (iv) Document hedge rationale and effectiveness quarterly (v) Maintain maximum hedge duration of 18 months

(b) **Banking Relationships.** The Company shall: (i) Maintain relationships with approved banks having minimum credit ratings of A/A2 (ii) Review bank counterparty limits annually (iii) Diversify banking relationships across minimum three (3) institutions (iv) Conduct formal bank relationship reviews every 24 months

(c) **Reporting Requirements.** Treasury shall provide: (i) Daily cash position reports (ii) Weekly liquidity forecasts (iii) Monthly hedge position summaries (iv) Quarterly investment portfolio reviews (v) Annual treasury strategy updates (vi) Immediate notification of policy violations or unusual activities

(d) **Controls and Compliance.** Treasury shall: (i) Maintain segregation of duties for all transactions (ii) Document all policy exceptions (iii) Conduct quarterly policy compliance reviews (iv) Update procedures annually (v) Ensure staff complete required training programs

SIGNATURE AND APPROVAL

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

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

Approved by Board of Directors Date: January 15, 2024

APPENDIX A: DEFINED TERMS

[Definitions of key terms used throughout the document]

EXHIBIT 1: CONTROL MATRICES

[Detailed control matrices for key processes]

EXHIBIT 2: REPORTING TEMPLATES

[Standard templates for financial reporting]