

# **FINANCIAL CONTROLS AND ACCOUNTING STANDARDS POLICY**

**Effective Date: January 15, 2024**

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation (hereinafter referred to as the "Company"), develops and provides proprietary artificial intelligence software solutions for industrial applications;

WHEREAS, the Company seeks to establish comprehensive standards for financial controls, accounting procedures, and reporting mechanisms in accordance with Generally Accepted Accounting Principles ("GAAP") and applicable regulations;

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

## **1.0 FINANCIAL CONTROLS AND REPORTING STANDARDS**

### **1.1 GAAP Compliance Requirements**

(a) The Company shall prepare all financial statements and reports in accordance with GAAP, as established by the Financial Accounting Standards Board ("FASB").

(b) Financial statements shall include, at minimum: (i) Balance Sheet (ii) Income Statement (iii) Statement of Cash Flows (iv) Statement of Shareholders' Equity (v) Comprehensive notes and disclosures as required by GAAP (vi) Management Discussion and Analysis (MD&A) for public filings

(c) Materiality thresholds shall be established and documented annually, with consideration for: (i) Quantitative factors, including percentage of revenue, assets, or earnings (ii) Qualitative factors, including regulatory requirements and operational impact (iii) Industry-specific considerations and peer benchmarking

### **1.2 Internal Control Systems**

(a) The Company shall maintain a comprehensive system of internal controls that includes: (i) Segregation of duties (ii) Authorization hierarchies (iii) Documentation requirements (iv) Reconciliation procedures (v) System access controls and audit trails (vi) Regular testing and validation protocols (vii) Automated control mechanisms and monitoring systems

(b) All material transactions shall require dual approval in accordance with the Company's authorization matrix, which shall: (i) Define approval thresholds based on transaction type and

amount (ii) Specify authorized approvers by role and department (iii) Include escalation procedures for exceptional circumstances (iv) Be reviewed and updated annually

(c) The Company shall implement specific controls for technology-related expenditures: (i) Capitalization criteria for software development costs (ii) Amortization schedules for intangible assets (iii) Valuation methodologies for AI and machine learning assets (iv) Cloud computing arrangement accounting treatments

### **1.3 Financial Reporting Cadence**

(a) Monthly closing procedures shall be completed within ten (10) business days of month-end, including: (i) Revenue recognition calculations and validations (ii) Expense accruals and deferrals (iii) Intercompany reconciliations (iv) Management reporting packages

(b) Quarterly financial statements shall be prepared within thirty (30) days of quarter-end, incorporating: (i) Detailed variance analysis against budget and prior periods (ii) Key performance indicator (KPI) reporting (iii) Segment reporting as required (iv) Compliance certifications

(c) Annual audited financial statements shall be completed within ninety (90) days of fiscal year-end, including: (i) External auditor coordination and support (ii) Comprehensive disclosure reviews (iii) Board and audit committee presentations (iv) Regulatory filing preparations

### **1.4 Revenue Recognition Protocols**

(a) Software as a Service ("SaaS") revenue shall be recognized in accordance with ASC 606, with specific consideration for: (i) Identification of performance obligations (ii) Determination of transaction price (iii) Allocation of transaction price (iv) Recognition of revenue when performance obligations are satisfied

(b) Subscription-based revenue recognition shall address: (i) Multi-year contract treatment and modifications (ii) Usage-based pricing components (iii) Contract renewal options and incentives (iv) Customer acceptance criteria (v) Implementation and professional services revenue

(c) Contract modification procedures shall include: (i) Assessment of distinct performance obligations (ii) Price allocation methodologies (iii) Impact on recognized and deferred revenue (iv) Documentation requirements

### **1.5 Special Accounting Considerations**

(a) The Company shall maintain specific policies for: (i) Research and development cost treatment (ii) Stock-based compensation accounting (iii) Foreign currency translation (iv) Intercompany transaction elimination (v) Business combination accounting

(b) Technology asset accounting shall address: (i) Capitalization thresholds for internal-use software (ii) Cloud computing arrangement classification (iii) AI model development costs (iv) Data acquisition and processing expenses

(c) The Company shall document and regularly review: (i) Significant accounting policies and estimates (ii) Changes in accounting principles (iii) Industry-specific guidance applications (iv) Emerging accounting standards impact assessments

## **2.0 TECHNOLOGY ASSET ACCOUNTING**

### **2.1 R&D Capitalization Criteria**

(a) Research and development costs shall be evaluated for capitalization under ASC 350-40, with specific criteria for: (i) Technical feasibility, as demonstrated through working prototypes or completed beta testing (ii) Intent and ability to complete, supported by approved budgets and resource allocation plans (iii) Ability to use or sell, evidenced by market analysis and commercialization strategy (iv) Future economic benefit, documented through financial projections and market studies

(b) The Company shall maintain detailed documentation supporting the capitalization decision, including: (i) Technical specifications and development milestones (ii) Project authorization documents (iii) Market feasibility studies (iv) Financial models demonstrating expected return on investment

(c) Costs eligible for capitalization shall include: (i) Direct labor costs of employees engaged in coding and technical development (ii) Third-party contractor fees directly related to development (iii) Material costs specifically attributable to the project (iv) Overhead costs directly traceable to development activities

### **2.2 Intellectual Property Valuation**

(a) The Company's proprietary artificial intelligence technology shall be valued considering: (i) Development costs, including both capitalized and expensed components (ii) Expected useful life, determined through technical obsolescence analysis (iii) Market comparables, based on similar technology transactions (iv) Future revenue potential, supported by documented use cases

(b) Valuation methodologies shall incorporate: (i) Cost approach, reflecting replacement cost new less depreciation (ii) Market approach, utilizing comparable transaction multiples (iii) Income approach, based on discounted cash flow analysis (iv) Relief from royalty method, where applicable

(c) Annual impairment testing shall be conducted, considering: (i) Changes in technology landscape (ii) Market adoption rates (iii) Competition analysis (iv) Revenue performance against projections

## **2.3 Software Development Cost Treatment**

(a) Software development costs shall be capitalized when technological feasibility is established, as evidenced by: (i) Completed program design (ii) Working model demonstration (iii) Beta testing results (iv) Documentation of technical specifications

(b) Cloud computing arrangements shall be accounted for in accordance with ASC 350-40, with consideration for: (i) Implementation costs (ii) Data conversion expenses (iii) Training and maintenance costs (iv) Ongoing subscription fees

## **2.4 AI Model Development Accounting**

(a) Artificial intelligence model development costs shall be tracked separately, including: (i) Data acquisition and preparation costs (ii) Model training and validation expenses (iii) Testing and deployment costs (iv) Ongoing model maintenance and refinement

(b) The Company shall establish specific thresholds for: (i) Minimum project size for capitalization consideration (ii) Development phase classification (iii) Useful life determination (iv) Amortization schedules

(c) Regular review and documentation requirements shall include: (i) Quarterly assessment of capitalized costs (ii) Annual useful life evaluation (iii) Performance metric tracking (iv) Technical debt analysis

# **3.0 REVENUE RECOGNITION AND CONTRACT ACCOUNTING**

## **3.1 Performance Obligation Identification**

(a) Each contract shall be analyzed to identify distinct performance obligations, including: (i) Software licenses (ii) Implementation services (iii) Maintenance and support (iv) Professional services

(b) Determination of distinct performance obligations shall consider: (i) Whether the customer can benefit from the good or service on its own (ii) Whether the promise to transfer the good or service is separately identifiable (iii) The degree of integration, modification, or customization between components (iv) Whether the goods or services significantly affect each other

(c) Documentation requirements for performance obligation identification: (i) Written analysis supporting the identification of distinct obligations (ii) Evidence of standalone value assessment (iii) Technical dependency analysis (iv) Customer usage patterns and benefit analysis

### **3.2 Contract Modification Procedures**

- (a) Contract modifications shall be evaluated to determine whether they create: (i) Separate contracts (ii) Modifications to existing contracts (iii) Termination and creation of new contracts
- (b) Assessment criteria for contract modifications: (i) Scope of additional products or services (ii) Pricing relative to standalone selling prices (iii) Impact on remaining performance obligations (iv) Materiality of modification
- (c) Documentation requirements for contract modifications: (i) Written assessment of modification impact (ii) Price adjustment calculations (iii) Revenue recognition timing adjustments (iv) Customer acknowledgment documentation

### **3.3 Multi-element Arrangement Accounting**

- (a) Revenue from multi-element arrangements shall be allocated based on: (i) Standalone selling prices (ii) Relative fair value (iii) Residual method when appropriate
- (b) Determination of standalone selling prices: (i) Observable prices when sold separately (ii) Estimated prices using market assessment approach (iii) Expected cost plus margin approach (iv) Residual approach when criteria are met
- (c) Allocation methodology requirements: (i) Documentation of pricing inputs (ii) Regular review and update of pricing assumptions (iii) Consistency in application across similar arrangements (iv) Adjustment procedures for market changes

### **3.4 Subscription Revenue Recognition**

- (a) Subscription revenue shall be recognized: (i) Over time as services are delivered (ii) Based on customer usage patterns (iii) According to contractual billing schedules (iv) With consideration for variable components
- (b) Measurement criteria for subscription revenue: (i) Identification of service period (ii) Usage-based metrics and monitoring (iii) Variable consideration constraints (iv) Customer termination rights

### **3.5 Special Considerations**

- (a) Treatment of implementation services: (i) Assessment of distinct performance obligation status (ii) Recognition timing relative to software access (iii) Integration with other services (iv) Customer acceptance criteria
- (b) Recognition of professional services revenue: (i) Time and materials billing arrangements (ii) Fixed price project milestones (iii) Performance obligation satisfaction criteria (iv) Progress measurement methods

### **3.6 Documentation and Compliance**

- (a) Required revenue recognition documentation: (i) Contract analysis worksheets (ii) Performance obligation identification support (iii) Allocation calculations and methodologies (iv) Timing of revenue recognition determinations
- (b) Periodic review requirements: (i) Quarterly assessment of revenue recognition policies (ii) Annual review of standalone selling prices (iii) Documentation of significant judgments (iv) Compliance with accounting standards updates

### **3.7 Reporting and Disclosure**

- (a) Revenue recognition disclosures shall include: (i) Significant judgments in determining performance obligations (ii) Timing of satisfaction of performance obligations (iii) Transaction price allocation methodologies (iv) Contract asset and liability positions
- (b) Internal reporting requirements: (i) Monthly revenue recognition schedules (ii) Contract modification impact analyses (iii) Performance obligation status reports (iv) Revenue forecast reconciliations

### **3.8 Exceptions and Special Cases**

- (a) Treatment of non-standard arrangements: (i) Custom development projects (ii) Hybrid delivery models (iii) Extended payment terms (iv) Multiple delivery locations
- (b) Revenue recognition considerations for: (i) Early termination provisions (ii) Performance guarantees (iii) Acceptance criteria (iv) Contract renewals and extensions

## **4.0 COMPLIANCE AND AUDIT PROCEDURES**

### **4.1 SOX Compliance Procedures**

- (a) The Company shall maintain controls in compliance with Sarbanes-Oxley Act requirements, including: (i) Implementation of internal control frameworks (ii) Regular assessment of control effectiveness (iii) Prompt remediation of identified deficiencies (iv) Documentation of control modifications
- (b) Management shall conduct quarterly evaluations of internal controls and submit certification of: (i) Design adequacy (ii) Operational effectiveness (iii) Disclosure controls (iv) Material changes in internal controls

### **4.2 Audit Trail Requirements**

- (a) All financial transactions shall maintain complete audit trails including: (i) Transaction documentation (ii) Approval records (iii) System logs (iv) Time stamps and user identification (v) Supporting documentation retention

(b) Electronic systems shall maintain comprehensive audit logs documenting: (i) User access and authentication (ii) Data modifications (iii) System configuration changes (iv) Error reports and exception handling

(c) Audit trails for AI-driven decision systems must include: (i) Algorithm version control (ii) Training data documentation (iii) Decision parameters (iv) Override justifications (v) Validation procedures

#### **4.3 Documentation Standards**

(a) All accounting policies and procedures shall be documented and regularly updated, including: (i) Standard operating procedures (ii) Control narratives (iii) Risk assessments (iv) Policy exceptions

(b) Documentation must be: (i) Clear and comprehensible (ii) Version controlled (iii) Readily accessible (iv) Reviewed annually (v) Protected from unauthorized modification

#### **4.4 Internal Review Processes**

(a) The Company shall establish regular internal review procedures including: (i) Quarterly control testing (ii) Annual policy reviews (iii) Risk-based assessments (iv) Compliance monitoring

(b) Review findings shall be: (i) Documented promptly (ii) Reported to appropriate management (iii) Tracked through resolution (iv) Incorporated into control updates

#### **4.5 Compliance Monitoring and Reporting**

(a) The Company shall maintain ongoing compliance monitoring through: (i) Automated control testing (ii) Regular compliance assessments (iii) Independent verification (iv) Management oversight

(b) Compliance reports shall be generated: (i) Monthly for operational metrics (ii) Quarterly for management review (iii) Annually for board oversight (iv) Ad hoc for specific investigations

#### **4.6 Remediation Requirements**

(a) Control deficiencies shall be addressed through: (i) Root cause analysis (ii) Corrective action plans (iii) Implementation timelines (iv) Effectiveness testing

(b) Material weaknesses require: (i) Immediate management notification (ii) Board reporting (iii) Remediation prioritization (iv) Independent validation

## **5.0 GENERAL PROVISIONS**

### **5.1 Amendments**

This Policy may be amended only by written instrument executed by the Chief Financial Officer and approved by the Board of Directors.

### **5.2 Governing Law**

This Policy shall be governed by and construed in accordance with the laws of the State of Delaware.

### **5.3 Severability**

If any provision of this Policy is held invalid or unenforceable, the remainder shall remain in full force and effect.

IN WITNESS WHEREOF, this Policy has been executed as of the date first above written.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: \_\_\_\_\_ Name: David Kumar Title: Chief Financial Officer

APPROVED:

By: \_\_\_\_\_ Name: Dr. Sarah Chen Title: Chief Executive Officer

**EXHIBIT A** Authorization Matrix [Detailed matrix of approval authorities and thresholds]

**EXHIBIT B** Revenue Recognition Decision Tree [Flowchart for revenue recognition determination]

**APPENDIX 1** Defined Terms [Glossary of technical accounting and AI-related terms]