FINANCIAL CONTROLS AND REPORTING POLICY

Effective Date: January 15, 2024

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 accounting policies appropriate for its technology-driven business model and recurring revenue streams;

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

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

1.0 FINANCIAL CONTROLS AND REPORTING FRAMEWORK

1.1 Revenue Recognition Standards

(a) The Company shall recognize revenue from its NexusCore™ Industrial AI Platform and related services in accordance with ASC 606, with specific attention to:

(i) Performance obligations for software licensing, implementation services, and ongoing maintenance; (ii) Allocation of transaction price across distinct deliverables; (iii) Recognition timing for recurring subscription revenues.

(b) Multi-element arrangements shall be evaluated to identify distinct performance obligations, with standalone selling prices determined using the Company's established pricing methodology or, where necessary, estimated using the adjusted market assessment approach.

1.2 Technology Asset Valuation

(a) The Company shall maintain documented procedures for valuing its proprietary AI/ML technology assets, including:

(i) Initial recognition criteria for internally developed software; (ii) Capitalization thresholds for development costs; (iii) Regular impairment testing procedures.

1.3 Internal Controls for Cloud Services

(a) The Company shall maintain SOX-compliant controls over its cloud-based service delivery, including:

(i) Access controls and segregation of duties; (ii) Change management procedures; (iii) Service level monitoring and reporting; (iv) Revenue cycle controls specific to subscription services.

1.4 Data Privacy Financial Controls

(a) The Company shall implement and maintain financial controls addressing:

(i) Cost attribution for privacy compliance measures; (ii) Tracking of privacy-related expenditures; (iii) Budgeting for ongoing compliance requirements.

2.0 ACCOUNTING POLICIES AND PROCEDURES

2.1 AI Development Cost Capitalization

(a) The Company shall capitalize eligible AI development costs in accordance with ASC 350-40, including:

(i) Direct labor costs for development personnel, encompassing salaries, benefits, and directly attributable overhead; (ii) Third-party development services, including contracted AI specialists and consultants; (iii) Cloud infrastructure costs directly related to development activities; (iv) Software tools and licenses specifically acquired for development purposes; (v) Data acquisition and preparation costs when directly tied to AI model development.

(b) Capitalization shall commence upon reaching technological feasibility and cease when the software is substantially complete and ready for intended use, wherein:

(i) Technological feasibility is established upon completion of detailed program design or working model; (ii) Substantial completion is defined as all critical features being operational; (iii) Post-implementation costs shall be expensed as incurred.

(c) The Company shall maintain detailed documentation supporting capitalization decisions, including:

(i) Time tracking records for development personnel; (ii) Project milestone documentation; (iii) Technical feasibility assessments; (iv) Completion criteria verification.

2.2 Implementation Revenue Recognition

(a) Implementation services revenue shall be recognized as follows:

(i) Over time when the implementation creates or enhances customer-controlled assets; (ii) Upon completion for standalone implementation services; (iii) In conjunction with software deployment for integrated deliverables.

(b) Performance obligations for implementation services shall be identified and measured based on:

(i) Distinct service components within the contract; (ii) Observable standalone selling prices; (iii) Relative fair value allocations when standalone prices are not available.

(c) Implementation progress shall be measured using:

(i) Input methods based on labor hours expended; (ii) Output methods based on milestones achieved; (iii) Time-elapsed measures when appropriate.

2.3 Subscription Revenue Accounting

(a) Subscription revenue shall be recognized ratably over the contract term, with consideration given to:

(i) Contract inception and termination dates; (ii) Variable consideration components; (iii) Material rights granted to customers; (iv) Usage-based components requiring separate measurement.

(b) The Company shall establish procedures for:

(i) Monthly revenue recognition calculations; (ii) Deferred revenue tracking and amortization; (iii) Variable consideration constraints and reassessment; (iv) Contract asset and liability management.

(c) Special considerations shall apply to:

(i) Multi-year contracts with escalating fees; (ii) Contracts with renewal options; (iii) Hybrid pricing models combining fixed and variable components; (iv) Early termination provisions.

2.4 Contract Modifications

(a) The Company shall account for contract modifications as follows:

(i) As separate contracts when adding distinct services at standalone selling prices; (ii) As termination of existing contract and creation of new contract for material modifications; (iii) Prospectively for non-material changes to existing arrangements.

(b) Modification assessment criteria shall include:

(i) Price changes relative to standalone selling prices; (ii) Scope changes affecting performance obligations; (iii) Impact on remaining performance obligations; (iv) Customer-specific considerations.

2.5 Revenue Allocation and Recognition Timing

(a) The Company shall allocate transaction prices based on:

(i) Relative standalone selling prices; (ii) Residual approaches when appropriate; (iii) Observable pricing from similar transactions.

(b) Recognition timing shall consider:

(i) Transfer of control to customer; (ii) Customer acceptance criteria; (iii) Interdependencies between deliverables.

2.6 Documentation Requirements

(a) The Company shall maintain comprehensive documentation including:

(i) Revenue recognition calculations and support; (ii) Capitalization decisions and supporting evidence; (iii) Contract modification assessments; (iv) Performance obligation identification and measurement.

2.7 Periodic Review and Adjustment

(a) The Company shall conduct quarterly reviews of:

(i) Capitalization policies and application; (ii) Revenue recognition methodologies; (iii) Contract modification treatments; (iv) Documentation completeness.

(b) Adjustments shall be made when:

(i) Accounting standards change; (ii) Business models evolve; (iii) Material errors are identified; (iv) Internal control improvements are needed.

2.8 Disclosure Requirements

(a) The Company shall ensure adequate disclosure of:

(i) Significant accounting policies; (ii) Material judgments and estimates; (iii) Revenue recognition timing; (iv) Contract asset and liability positions; (v) Performance obligation satisfaction methods.

3.0 TECHNOLOGY ASSET MANAGEMENT

3.1 Intellectual Property Valuation

(a) The Company shall value its intellectual property assets using:

(i) Cost approach for internally developed technology, including: - Direct development and programming costs - Employee time and resources allocated - Infrastructure and computing costs - Testing and validation expenses - Documentation and compliance costs

(ii) Market approach for acquired technology assets, considering: - Recent comparable transactions - Industry standard valuations - Market conditions and trends - Technology maturity levels - Competitive landscape analysis

(iii) Income approach for revenue-generating IP, incorporating: - Projected cash flows - Risk-adjusted discount rates - Market penetration estimates - Technology lifecycle assessment - Licensing potential evaluation

3.2 R&D Cost Attribution

(a) Research and development costs shall be attributed as follows:

(i) Direct costs to specific projects, including: - Developer and researcher salaries - Computing resources and infrastructure - Third-party services and consultants - Training data acquisition - Model validation expenses

(ii) Indirect costs allocated based on reasonable metrics, such as: - Computing resource utilization - Staff time allocation - Facility usage - Support service distribution - Quality assurance activities

(iii) General overhead costs expensed as incurred, encompassing: - Administrative support - General infrastructure - Corporate management allocation - Insurance and compliance costs - Professional services

3.3 Technology Depreciation

(a) The Company shall depreciate technology assets using:

(i) Straight-line method over estimated useful life, considering: - Technical obsolescence factors - Market competition dynamics - Industry standards evolution - Regulatory environment changes - Customer adoption patterns

(ii) Regular reassessment of useful life estimates, including: - Quarterly review of depreciation schedules - Annual comprehensive assessment - Technology roadmap alignment - Market condition updates - Performance metric evaluation

(iii) Consideration of technological obsolescence, factoring: - Emerging technology trends - Competitive innovations - Customer requirement changes - Regulatory compliance updates - Performance degradation metrics

3.4 Intangible Asset Recognition

(a) The Company shall recognize intangible assets when:

(i) Technical feasibility is established through: - Proof of concept validation - Performance benchmark achievement - Scalability demonstration - Security requirement compliance - Quality assurance certification

(ii) Intent and ability to complete development exists, evidenced by: - Allocated budget approval - Resource commitment documentation - Project timeline establishment - Risk assessment completion - Stakeholder endorsement

(iii) Future economic benefits are probable, supported by: - Market analysis documentation - Customer demand validation - Revenue projection models - Competitive advantage assessment - Return on investment calculations

3.5 AI Model Version Management

(a) The Company shall maintain version control for AI models through:

(i) Systematic documentation of: - Model architecture changes - Training data updates - Performance improvements - Bug fixes and patches - Configuration modifications

(ii) Version tracking requirements including: - Unique version identifiers - Change log maintenance - Deployment history - Performance metrics - Compatibility documentation

3.6 Continuous Improvement Cost Management

(a) The Company shall account for continuous improvement costs by:

(i) Categorizing enhancement expenses as: - Model retraining costs - Feature development expenses - Performance optimization costs - Security update expenses - Compliance maintenance costs

(ii) Establishing capitalization criteria for: - Substantial improvements - Performance enhancements - Capability expansions - Security strengthening - Compliance updates

(iii) Maintaining detailed records of: - Development activities - Resource allocation - Cost attribution - Performance impacts - Value realization metrics

4.0 COMPLIANCE AND RISK MANAGEMENT

4.1 AI Ethics Financial Implications

(a) The Company shall maintain reserves and controls for:

(i) AI ethics review procedures, including: - Independent ethics board oversight - Quarterly ethics audits and assessments - Documentation of ethical decision frameworks - Remediation of identified ethical concerns

(ii) Bias testing and mitigation, encompassing: - Regular algorithmic bias assessments - Demographic impact analysis - Third-party validation of fairness metrics - Bias remediation procedures and documentation

(iii) Ethics-related compliance costs, including: - Staff training and certification - External ethics consultancy fees - Compliance monitoring software - Documentation and reporting systems

4.2 Data Privacy Compliance

(a) The Company shall implement financial controls addressing:

(i) GDPR compliance costs, including: - Data Protection Officer appointment - Privacy Impact Assessments - Cross-border data transfer mechanisms - Subject access request management - Breach notification procedures

(ii) State privacy law requirements, encompassing: - CCPA/CPRA compliance measures - State-specific privacy program implementation - Consumer rights management systems - Multi-state compliance harmonization - Regular privacy policy updates

(iii) Industry-specific privacy standards, including: - Sector-specific data protection requirements - Industry certification maintenance - Specialized privacy training programs - Compliance documentation systems

4.3 Risk Assessment

(a) The Company shall conduct regular risk assessments covering:

(i) Technology obsolescence risk, including: - Quarterly technology stack reviews - Competitive analysis of AI capabilities - Legacy system evaluation - Technology upgrade planning - Migration cost assessments

(ii) Regulatory compliance risk, encompassing: - Emerging regulation monitoring - Compliance gap analysis - Implementation timeline planning - Resource allocation assessment - Impact analysis documentation

(iii) Cybersecurity risk, addressing: - Vulnerability assessment protocols - Penetration testing requirements - Security control evaluation - Incident response planning - Recovery procedure documentation

4.4 Regulatory Reporting

(a) The Company shall maintain procedures for:

(i) SEC reporting requirements, including: - AI-related risk disclosures - Material technology impact reporting - Quarterly financial implications - Compliance certification documentation - Board oversight reporting

(ii) Industry-specific regulatory filings, encompassing: - Sector-specific compliance reports - Technical capability certifications - Operational risk assessments - Performance metric reporting - Compliance verification documentation

(iii) Privacy compliance reporting, including: - Data breach notifications - Privacy impact assessments - Cross-border data transfer reports - Consumer rights request metrics - Annual compliance certifications

4.5 Implementation and Review

(a) The Company shall establish:

(i) Quarterly compliance review meetings (ii) Annual risk assessment updates (iii) Regular policy revision procedures (iv) Staff training verification systems (v) Documentation retention protocols

(b) The Company shall maintain:

(i) Updated compliance calendars (ii) Risk management dashboards (iii) Audit trail documentation (iv) Stakeholder communication procedures (v) Remediation tracking systems

EXHIBITS

Exhibit A: Revenue Recognition Decision Tree Exhibit B: Technology Asset Valuation Methodology Exhibit C: Internal Control Documentation Templates

SIGNATURE PAGE

IN WITNESS WHEREOF, this Policy has been executed by the duly authorized officers of the Company as of the date first written above.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

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

ATTEST:

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Corporate Secretary