

# FINANCIAL CONTROLS AND REPORTING POLICY

## NEXUS INDUSTRIAL INTELLIGENCE, INC.

**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; and

WHEREAS, the Company seeks to establish comprehensive financial controls and reporting standards for its technology-driven revenue streams and intellectual property assets;

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

### 1.0 FINANCIAL CONTROLS AND REPORTING POLICY

#### 1.1 Revenue Recognition Standards

(a) **SaaS Platform Revenue.** The Company shall recognize revenue from the NexusCore™ Industrial AI Platform in accordance with ASC 606, with the following specifications:

(i) Subscription fees shall be recognized ratably over the contract term; (ii) Usage-based components shall be recognized based on actual customer consumption; (iii) Implementation services shall be evaluated for distinct performance obligations; (iv) Multi-year contracts shall be assessed for significant financing components; (v) Variable consideration shall be estimated using expected value or most likely amount methods.

(b) **Performance Obligations.** The Company shall identify and account for the following distinct performance obligations:

(i) Platform access and core functionality; (ii) Implementation and configuration services; (iii) Technical support and maintenance; (iv) Professional services and consulting; (v) Custom development and integration services; (vi) Training and enablement services.

#### 1.2 AI Platform Usage Metrics

(a) The Company shall maintain detailed records of:

(i) Active user counts by customer deployment; (ii) API calls and computational resource utilization; (iii) Model training and inference activities; (iv) Edge device connections and data

throughput; (v) Storage consumption and data processing volumes; (vi) Custom model deployment instances.

**(b) Usage Monitoring Requirements.** The Company shall:

(i) Implement automated usage tracking systems; (ii) Maintain audit trails of all billable activities; (iii) Conduct monthly reconciliation of usage data; (iv) Generate detailed usage reports for customer billing; (v) Archive usage data for a minimum of seven (7) years.

### **1.3 Subscription Revenue Accounting**

**(a) Contract Terms.** All subscription agreements shall specify:

(i) Base platform access fees; (ii) Usage-based pricing components; (iii) Service level commitments; (iv) Renewal terms and conditions; (v) Payment terms and billing frequency; (vi) Early termination provisions.

**(b) Revenue Recognition Timing.** The Company shall:

(i) Recognize subscription revenue on the first day of each billing period; (ii) Defer revenue for advance payments; (iii) Amortize setup fees over the expected customer relationship period; (iv) Account for contract modifications in accordance with ASC 606-10-25-10.

### **1.4 Professional Services Revenue**

**(a) Service Categories.** Professional services revenue shall be categorized as:

(i) Implementation services; (ii) Custom development; (iii) Training and education; (iv) Strategic consulting; (v) Managed services.

**(b) Revenue Recognition Criteria.** Professional services revenue shall be recognized:

(i) Over time when services create custom assets with no alternative use; (ii) Upon completion for discrete deliverables; (iii) Using percentage of completion for long-term projects.

### **1.5 Financial Reporting Requirements**

**(a) Monthly Reporting.** The Company shall prepare:

(i) Revenue recognition schedules; (ii) Deferred revenue reconciliations; (iii) Usage-based revenue calculations; (iv) Customer contract asset and liability summaries.

**(b) Quarterly Analysis.** Management shall review:

(i) Revenue recognition compliance; (ii) Contract asset impairment assessments; (iii) Performance obligation satisfaction status; (iv) Variable consideration estimates.

### **1.6 Internal Controls**

**(a) Revenue Process Controls.** The Company shall maintain controls over:

(i) Contract review and approval; (ii) Performance obligation identification; (iii) Transaction price allocation; (iv) Revenue recognition timing; (v) Usage data accuracy; (vi) Billing and collections.

(b) **Documentation Requirements.** The Company shall maintain:

(i) Revenue recognition policies and procedures; (ii) Contract review documentation; (iii) Performance obligation assessments; (iv) Revenue calculations and support; (v) System configuration records.

## **1.7 Audit and Compliance**

(a) **Regular Reviews.** The Company shall conduct:

(i) Quarterly revenue recognition reviews; (ii) Annual control testing; (iii) Independent auditor assessments; (iv) Compliance monitoring activities.

(b) **Documentation Retention.** All revenue-related documentation shall be retained for a minimum of seven (7) years from the date of the transaction.

## **2.0 TECHNOLOGY ASSET VALUATION**

### **2.1 Intellectual Property Capitalization**

(a) **Capitalization Criteria.** The Company shall capitalize costs related to:

(i) AI/ML model development meeting technological feasibility standards; (ii) Core platform software development; (iii) Patent and intellectual property registration; (iv) Acquired technology assets.

(b) **Valuation Methodology.** The Company shall employ the following methods for technology asset valuation:

(i) Income approach utilizing discounted cash flow analysis; (ii) Market approach comparing similar technology transactions; (iii) Cost approach considering replacement value; (iv) Risk-adjusted net present value calculations.

(c) **AI/ML Asset Specifics.** For artificial intelligence and machine learning assets:

(i) Training data sets shall be valued separately from algorithms; (ii) Model accuracy and performance metrics shall be documented; (iii) Retraining costs shall be considered in ongoing valuations; (iv) Edge computing implementations shall be valued distinctly.

### **2.2 R&D Cost Treatment**

(a) Research costs shall be expensed as incurred.

(b) Development costs shall be capitalized when technological feasibility is established, including:

(i) Detailed program design completion; (ii) Working model validation; (iii) Beta testing completion.

(c) **Documentation Requirements.** Development cost capitalization requires:

(i) Technical specification documentation; (ii) Project milestone achievement records; (iii) Resource allocation tracking; (iv) Quality assurance test results; (v) Management approval documentation.

## **2.3 Impairment Testing**

(a) The Company shall conduct quarterly impairment testing of capitalized technology assets, considering:

(i) Market conditions and competitive developments; (ii) Technical obsolescence risk; (iii) Customer adoption metrics; (iv) Revenue generation capacity.

(b) **Testing Procedures.** Impairment testing shall include:

(i) Cash flow projection analysis; (ii) Market value comparison; (iii) Technical performance assessment; (iv) Customer feedback evaluation; (v) Competitive positioning analysis.

## **2.4 Amortization Guidelines**

(a) **Standard Amortization Periods:**

(i) AI/ML models: 3-5 years; (ii) Core software platforms: 5-7 years; (iii) Patents: Legal life or economic life, whichever is shorter; (iv) Acquired technology: Based on useful life assessment.

(b) **Amortization Review.** The Company shall:

(i) Annually review amortization periods; (ii) Adjust for technological changes; (iii) Document period modification rationale; (iv) Obtain appropriate approvals for changes.

## **2.5 Fair Value Measurements**

(a) **Hierarchy Levels:**

(i) Level 1: Observable market prices; (ii) Level 2: Similar asset comparisons; (iii) Level 3: Unobservable inputs and internal models.

(b) **Valuation Inputs.** Fair value calculations shall consider:

(i) Market participant assumptions; (ii) Industry standard methodologies; (iii) Risk-adjusted discount rates; (iv) Growth projections and terminal values.

## **2.6 Reporting Requirements**

(a) **Quarterly Reporting.** The Company shall prepare:

(i) Detailed asset valuation schedules; (ii) Impairment test results; (iii) Capitalization activity summaries; (iv) Fair value measurement documentation.

(b) **Annual Review.** Management shall conduct:

(i) Comprehensive portfolio assessment; (ii) Valuation methodology evaluation; (iii) Amortization schedule review; (iv) External auditor consultation.

## **3.0 COMPLIANCE AND RISK MANAGEMENT**

### **3.1 SOC 2 Compliance**

(a) The Company shall maintain SOC 2 Type II compliance covering:

(i) Security controls, including perimeter security, access management, and threat detection; (ii) Availability measures, ensuring 99.9% system uptime and disaster recovery capabilities; (iii) Processing integrity, with validation of data inputs and outputs; (iv) Confidentiality safeguards, including data classification and handling procedures; (v) Privacy protections, encompassing data subject rights and consent management.

(b) Annual SOC 2 audits shall be conducted by an independent third-party auditor, with reports made available to customers upon written request.

### **3.2 AI Ethics and Liability**

(a) **Risk Management Framework.** The Company shall maintain:

(i) AI model governance procedures, including version control and deployment approval processes; (ii) Bias testing protocols, with quarterly assessments of model outputs for demographic fairness; (iii) Decision audit trails, maintaining comprehensive logs of AI system decisions; (iv) Customer notification procedures regarding significant model updates or changes.

(b) **Liability Management.** The Company shall:

(i) Maintain professional liability insurance covering AI-related incidents; (ii) Implement incident response procedures for AI system malfunctions; (iii) Document all model training data sources and validation procedures; (iv) Establish clear chains of responsibility for AI system outcomes.

### **3.3 Data Protection Standards**

(a) The Company shall implement controls ensuring:

(i) Data encryption in transit and at rest using industry-standard protocols; (ii) Access control and authentication using multi-factor authentication; (iii) Data retention and disposal procedures aligned with regulatory requirements; (iv) Breach notification protocols with defined response timelines.

**(b) Data Processing Requirements:**

(i) Regular data protection impact assessments; (ii) Documented data flow mapping and classification; (iii) Vendor security assessments for third-party processors; (iv) Regular penetration testing and vulnerability assessments.

### **3.4 Regulatory Compliance**

(a) The Company shall maintain compliance with:

(i) Applicable AI regulations in deployment jurisdictions; (ii) Industry-specific standards for manufacturing environments; (iii) Export control regulations for AI technologies; (iv) Local data protection and privacy laws.

### **3.5 Monitoring and Reporting**

(a) The Company shall establish:

(i) Quarterly compliance monitoring and reporting procedures; (ii) Regular risk assessments and mitigation planning; (iii) Compliance training programs for relevant personnel; (iv) Documentation of all compliance-related activities.

(b) Annual compliance reports shall be prepared and submitted to:

(i) Company leadership and board of directors; (ii) Relevant regulatory authorities as required; (iii) Customers as specified in service agreements; (iv) Independent auditors for verification purposes.

## **4.0 PERFORMANCE METRICS AND KPIS**

### **4.1 Financial Metrics**

(a) **Annual Recurring Revenue (ARR).** Calculated as the sum of:

(i) Contracted subscription value, including all active license agreements and committed renewals; (ii) Normalized usage-based revenue, averaged over the preceding twelve (12) month period; (iii) Recurring professional services, excluding one-time implementation fees.

(b) **Revenue Recognition Methodology.** The Company shall:

(i) Apply GAAP-compliant revenue recognition principles; (ii) Document all material revenue adjustments; (iii) Maintain detailed subscription revenue schedules; (iv) Report revenue variances exceeding 10% of projected values.

## 4.2 Operational Metrics

(a) The Company shall track and report the following metrics quarterly:

- (i) Customer acquisition costs, including: - Direct sales and marketing expenses - Commission structures - Implementation costs - Customer onboarding expenses
- (ii) Net revenue retention, calculated as: - Starting period revenue - Plus expansion revenue - Less contraction revenue - Less churned revenue - Divided by starting period revenue
- (iii) Platform utilization rates, including: - API call volumes - Computing resource consumption - Storage utilization - Peak usage patterns - System availability percentage
- (iv) Customer churn metrics, comprising: - Logo churn rate - Revenue churn rate - Time-to-churn analysis - Churn reason categorization

## 4.3 Reporting Requirements

(a) **Measurement Period.** All metrics shall be calculated and reported on a quarterly basis, with year-over-year comparisons.

(b) **Data Quality.** The Company shall:

- (i) Maintain accurate and auditable data sources; (ii) Document all calculation methodologies;
- (iii) Implement data validation procedures; (iv) Retain supporting documentation for seven (7) years.

(c) **Performance Benchmarks.** The Company shall:

- (i) Establish annual performance targets for each metric; (ii) Compare results against industry standards; (iii) Provide variance analyses for significant deviations; (iv) Implement corrective actions when targets are not met.

## 4.4 Audit Rights

(a) The Board reserves the right to:

- (i) Audit any reported metrics; (ii) Request supporting documentation; (iii) Engage third-party verification; (iv) Require methodology adjustments if deemed necessary.

## **EXHIBITS**

**Exhibit A: Revenue Recognition Examples**

**Exhibit B: Capitalization Decision Tree**

**Exhibit C: Compliance Checklist**

## **SIGNATURE PAGE**

IN WITNESS WHEREOF, this Policy has been adopted 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

ATTEST:

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Corporate Secretary

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