

# **FINANCIAL REPORTING AND ACCOUNTING STANDARDS POLICY**

**Effective Date: January 15, 2024**

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation (the "Company"), develops and provides artificial intelligence-powered software solutions for industrial process optimization;

WHEREAS, the Board of Directors (the "Board") deems it necessary and advisable to establish comprehensive standards for financial reporting, accounting practices, and internal controls;

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

## **1.0 FINANCIAL REPORTING AND ACCOUNTING STANDARDS**

### **1.1 Generally Accepted Accounting Principles**

The Company shall prepare all financial statements and reports in accordance with United States Generally Accepted Accounting Principles ("GAAP") as established by the Financial Accounting Standards Board ("FASB"). Compliance shall extend to:

(a) Quarterly and annual financial statements (b) Internal management reports (c) Regulatory filings and disclosures (d) Investor communications and presentations

The Company shall maintain documentation of accounting policies, procedures, and internal controls sufficient to demonstrate GAAP compliance and facilitate external audit procedures.

### **1.2 Revenue Recognition Standards**

(a) The Company shall recognize revenue in accordance with ASC 606 - Revenue from Contracts with Customers, applying the following five-step model: (i) Identify customer contracts (ii) Identify performance obligations (iii) Determine transaction price (iv) Allocate transaction price (v) Recognize revenue upon satisfaction of performance obligations

(b) For the NexusCore™ Industrial AI Platform and related offerings, revenue shall be recognized as follows: (i) Subscription fees shall be recognized ratably over the subscription term (ii) Implementation services shall be recognized as performed (iii) Professional services shall be recognized on a time and materials basis

(c) Contract Modifications and Changes: (i) Material modifications shall be evaluated to determine whether they create new or modify existing performance obligations (ii) Price adjustments shall be allocated to remaining performance obligations (iii) Contract extensions shall be treated as separate contracts when appropriate

### **1.3 Software Revenue Treatment**

(a) Software license revenue shall be recognized at the point of delivery when: (i) Evidence of arrangement exists (ii) Delivery has occurred (iii) Fee is fixed or determinable (iv) Collection is probable

(b) AI-specific revenue elements shall be treated as follows: (i) Machine learning model customization fees shall be recognized upon deployment (ii) Algorithm training services shall be recognized as performed (iii) Data processing fees shall be recognized monthly based on usage

### **1.4 Subscription Revenue Policies**

(a) Subscription-based revenue shall be subject to the following treatments: (i) Setup fees shall be recognized over the expected customer relationship period (ii) Usage-based fees shall be recognized based on actual consumption (iii) Platform access fees shall be recognized ratably over the subscription period (iv) Volume discounts shall be accounted for as variable consideration

(b) Multi-year contracts shall be handled as follows: (i) Prepaid amounts shall be recorded as contract liabilities (ii) Future price escalations shall be included in transaction price calculations (iii) Early termination provisions shall be evaluated for material rights

### **1.5 Cost Recognition and Matching**

(a) Direct costs associated with revenue generation shall be: (i) Capitalized when meeting specified criteria (ii) Amortized over the same period as related revenue (iii) Reviewed quarterly for impairment (iv) Adjusted for changes in estimated useful life

(b) Implementation costs shall be treated as follows: (i) Initial setup costs shall be capitalized when recoverable (ii) Training costs shall be expensed as incurred (iii) Configuration costs shall be evaluated for capitalization (iv) Integration costs shall be assessed based on future benefit

### **1.6 Reporting Requirements**

(a) The Company shall maintain detailed records of: (i) Contract assets and liabilities (ii) Deferred revenue balances (iii) Unbilled receivables (iv) Customer acquisition costs (v) Commission expenses and related amortization

(b) Disclosures shall include: (i) Disaggregation of revenue streams (ii) Significant judgments in revenue recognition (iii) Contract balances and related changes (iv) Performance obligation satisfaction timing (v) Transaction price allocation methodologies

### **1.7 Audit and Review Procedures**

(a) The Company shall establish procedures for: (i) Regular review of revenue recognition practices (ii) Documentation of significant judgments and estimates (iii) Periodic assessment of capitalization policies (iv) Evaluation of contract modification impacts (v) Monitoring of performance obligation satisfaction

(b) Internal controls shall be maintained to ensure: (i) Accurate revenue recognition timing (ii) Proper allocation of transaction prices (iii) Consistent application of accounting policies (iv) Compliance with disclosure requirements

## **2.0 INTERNAL CONTROLS AND PROCEDURES**

### **2.1 Sarbanes-Oxley Compliance Framework**

(a) The Company shall maintain internal controls in accordance with Section 404 of the Sarbanes-Oxley Act, including: (i) Documentation of control processes and procedures through detailed flowcharts, narratives, and risk matrices (ii) Regular testing and monitoring of control effectiveness on a quarterly basis (iii) Annual effectiveness assessment conducted by internal audit department (iv) Independent auditor verification and attestation of control framework

(b) Management shall establish and maintain: (i) Written policies and procedures for all material financial processes (ii) Clear delegation of authority and responsibility matrices (iii) Documented remediation procedures for control deficiencies (iv) Quarterly certification of control effectiveness by process owners

(c) Control documentation shall include: (i) Detailed process narratives and flowcharts (ii) Risk and control matrices identifying key controls (iii) Testing schedules and methodologies (iv) Evidence retention requirements and protocols

### **2.2 AI System Audit Protocols**

(a) AI-driven financial systems shall be subject to: (i) Quarterly algorithm performance audits with documented testing parameters (ii) Monthly data integrity checks using automated validation tools (iii) Continuous monitoring of machine learning models with alert thresholds (iv) Annual security penetration testing by certified third-party providers

(b) AI system governance shall include: (i) Documented model validation procedures (ii) Regular bias testing and fairness assessments (iii) Version control and change management protocols (iv) Performance metric tracking and reporting

(c) AI risk management requirements: (i) Quarterly risk assessments of AI systems (ii) Documented contingency plans for system failures (iii) Regular testing of fallback procedures (iv) Independent validation of risk controls

### **2.3 Financial Data Security**

(a) The Company shall implement: (i) End-to-end encryption for financial data using industry-standard protocols (ii) Multi-factor authentication for system access with biometric options (iii) Comprehensive audit logging of all transactions and system access (iv) Strict segregation of duties in financial systems and processes

(b) Data protection measures shall include: (i) Regular backup procedures with offsite storage (ii) Disaster recovery protocols with defined RTOs and RPOs (iii) Data classification and handling procedures (iv) Access control reviews conducted quarterly

### **2.4 Authorization Matrix**

(a) The Company shall maintain: (i) Documented approval hierarchies for financial transactions (ii) System-enforced authorization limits (iii) Regular review and updates of access rights (iv) Automated workflow controls

(b) Authorization requirements shall specify: (i) Dollar thresholds for different approval levels (ii) Delegation of authority procedures (iii) Emergency override protocols (iv) Documentation requirements for approvals

### **2.5 Monitoring and Reporting**

(a) The Company shall establish: (i) Monthly control monitoring procedures (ii) Quarterly compliance reporting requirements (iii) Annual control effectiveness assessments (iv) Regular updates to the Board of Directors

(b) Reporting requirements shall include: (i) Control deficiency tracking and remediation status (ii) AI system performance metrics (iii) Security incident reports and resolution status (iv) Compliance certification status

## **3.0 RISK MANAGEMENT AND COMPLIANCE**

### **3.1 Technology Risk Assessment**

(a) The Company shall conduct quarterly risk assessments addressing: (i) AI model accuracy and reliability, including validation of model outputs against established benchmarks, performance degradation monitoring, and bias detection protocols (ii) Data quality and integrity, encompassing data source verification, cleansing procedures, and version control mechanisms (iii) System availability and performance metrics, including uptime guarantees, response time measurements, and load capacity thresholds (iv) Cybersecurity threats,

incorporating penetration testing results, vulnerability assessments, and threat intelligence reports

(b) Risk Assessment Procedures shall include: (i) Documentation of assessment methodologies and findings (ii) Executive summary reports for Board review (iii) Remediation plans for identified risks (iv) Implementation timelines for corrective actions (v) Post-implementation effectiveness reviews

(c) Critical Risk Thresholds: (i) Model accuracy deviation exceeding 2% from baseline (ii) System downtime exceeding 0.1% per quarter (iii) Data integrity issues affecting more than 0.01% of records (iv) Security incidents rated "High" or "Critical"

### **3.2 Intellectual Property Protection**

(a) The Company shall maintain: (i) Patent protection for core AI algorithms, including regular patent portfolio reviews and international filing strategies (ii) Trade secret protocols for proprietary methods, encompassing employee confidentiality agreements, access controls, and information classification systems (iii) Copyright registration for software code, including automated code scanning for unauthorized use (iv) Trademark protection for NexusCore™ and associated brands

(b) IP Protection Measures shall include: (i) Quarterly IP portfolio reviews (ii) Employee training on IP protection protocols (iii) Vendor and contractor IP agreements (iv) Digital rights management systems (v) Regular IP valuation assessments

(c) IP Enforcement Procedures: (i) Monitoring for potential infringement (ii) Documentation of suspected violations (iii) Cease and desist protocols (iv) Litigation preparation procedures

### **3.3 Regulatory Compliance**

(a) The Company shall comply with: (i) SEC reporting requirements, including quarterly and annual filings, material event disclosures, and insider trading regulations (ii) GDPR and CCPA data privacy standards, including data subject rights management, consent mechanisms, and breach notification procedures (iii) Industry-specific regulations applicable to AI deployment (iv) State and federal securities laws governing corporate operations

(b) Compliance Documentation Requirements: (i) Maintenance of compliance registers (ii) Regular updates to policies and procedures (iii) Training records retention (iv) Audit trail preservation (v) Incident response documentation

### **3.4 Compliance Monitoring and Reporting**

(a) The Company shall establish: (i) Automated compliance monitoring systems (ii) Regular compliance audits and reviews (iii) Reporting mechanisms for violations (iv) Escalation procedures for serious breaches

(b) Quarterly Compliance Reports shall include: (i) Summary of compliance activities (ii) Identified violations and remediation status (iii) Training completion rates (iv) Regulatory correspondence log (v) Upcoming compliance deadlines

### **3.5 Risk Management Committee**

(a) Committee Composition: (i) Chief Risk Officer (Chair) (ii) Chief Technology Officer (iii) Chief Legal Officer (iv) Chief Compliance Officer (v) Independent risk management experts

(b) Committee Responsibilities: (i) Review of risk assessment findings (ii) Approval of risk mitigation strategies (iii) Oversight of compliance programs (iv) Resource allocation for risk management (v) Regular reporting to Board of Directors

### **3.6 Emergency Response Protocols**

(a) The Company shall maintain: (i) Business continuity plans (ii) Disaster recovery procedures (iii) Crisis communication protocols (iv) Emergency response team assignments

(b) Annual Testing Requirements: (i) Tabletop exercises (ii) Full-scale disaster simulations (iii) Emergency notification systems (iv) Recovery time objectives validation

## **4.0 FINANCIAL PLANNING AND REPORTING**

### **4.1 Budget Planning Procedures**

(a) Annual budget development shall include: (i) Revenue forecasting by product line, incorporating historical growth patterns, market conditions, and competitive analysis (ii) Cost projections for R&D, including personnel expenses, equipment acquisition, and third-party services (iii) Sales and marketing expenditures, segmented by channel, region, and campaign type (iv) Operating expense allocations across departments, facilities, and administrative functions

(b) Budget preparation timeline: (i) Department heads shall submit preliminary budgets 90 days prior to fiscal year-end (ii) Finance team review and consolidation within 30 days of submission (iii) Executive review and adjustment period of 15 days (iv) Board approval required minimum 30 days before fiscal year commencement

(c) Budget modification procedures: (i) Variances exceeding 10% of allocated amounts require written justification (ii) Mid-year adjustments must receive CFO approval for amounts up to \$250,000 (iii) Board approval required for adjustments exceeding \$250,000 (iv) Emergency allocations subject to CEO and CFO joint approval

## **4.2 Performance Metrics**

- (a) The Company shall track and report: (i) Annual Recurring Revenue (ARR), calculated monthly and reported quarterly (ii) Customer Acquisition Cost (CAC), segmented by customer tier and geography (iii) Net Revenue Retention (NRR), including expansion revenue and churn analysis (iv) Gross Margin by Product, incorporating direct costs and allocated overhead
- (b) Operational metrics requirements: (i) Daily active users (DAU) and monthly active users (MAU) (ii) Customer satisfaction scores (CSAT) and Net Promoter Score (NPS) (iii) Platform uptime and service level agreement (SLA) compliance (iv) Feature adoption rates and usage patterns
- (c) Financial efficiency indicators: (i) CAC Payback Period not to exceed 12 months (ii) LTV/CAC ratio minimum threshold of 3:1 (iii) Gross margin targets by product category (iv) Operating leverage metrics and trends

## **4.3 Investor Reporting Requirements**

- (a) Quarterly reports shall include: (i) Financial statements (balance sheet, income statement, cash flow statement) (ii) Key performance indicators as defined in Section 4.2 (iii) Business metrics including pipeline analysis and conversion rates (iv) Growth trajectory analysis and market penetration metrics
- (b) Monthly reporting package: (i) Cash position and burn rate analysis (ii) Revenue recognition schedules (iii) Accounts receivable aging report (iv) Sales pipeline and bookings report
- (c) Annual comprehensive review: (i) Audited financial statements (ii) Management discussion and analysis (iii) Strategic initiatives assessment (iv) Risk management evaluation

## **4.4 Compliance and Control Measures**

- (a) Internal control requirements: (i) Segregation of duties in financial operations (ii) Multi-level approval process for expenditures (iii) Regular reconciliation of accounts (iv) Documentation retention policies
- (b) Audit procedures: (i) Quarterly internal control testing (ii) Annual external audit coordination (iii) Compliance certification requirements (iv) Management representation letters
- (c) Risk management protocols: (i) Financial risk assessment framework (ii) Currency exposure monitoring (iii) Credit risk evaluation procedures (iv) Insurance coverage review

#### **4.5 Technology and Systems**

- (a) Financial systems requirements: (i) Enterprise resource planning (ERP) system maintenance (ii) Regular backup and disaster recovery procedures (iii) Access control and security protocols (iv) Integration with operational systems
- (b) Reporting tools and capabilities: (i) Real-time dashboard requirements (ii) Automated report generation (iii) Data validation procedures (iv) Version control and audit trail maintenance