

FINANCIAL REPORTING AND ACCOUNTING STANDARDS POLICY

Effective Date: January 15, 2024

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

WHEREAS, the Company desires to establish comprehensive standards for financial reporting, accounting procedures, and valuation methodologies appropriate for its technology-driven business model;

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 all quarterly and annual financial statements, including:

- (a) **Balance Sheet Requirements.** Presenting assets, liabilities, and stockholders' equity with appropriate classification of current and non-current items.
- (b) **Income Statement Standards.** Detailed presentation of revenue, cost of revenue, operating expenses, and other income/expense items in accordance with ASC 205.
- (c) **Cash Flow Reporting.** Statement of cash flows shall be prepared using the indirect method, categorizing activities as operating, investing, or financing in accordance with ASC 230.

1.2 Revenue Recognition Standards

- (a) **SaaS Subscription Revenue.** The Company shall recognize revenue from its NexusCore™ platform subscriptions in accordance with ASC 606, over the term of the subscription agreement. Revenue recognition shall commence upon providing customer access to the platform, subject to: (i) Verification of collectibility criteria (ii) Establishment of enforceable

rights and obligations (iii) Documentation of payment terms and conditions (iv) Determination of transaction price certainty

(b) **Implementation Services.** Professional services revenue related to implementation shall be recognized over the implementation period based on the percentage of completion method, with consideration for: (i) Clearly defined project milestones (ii) Measurable progress indicators (iii) Customer acceptance criteria (iv) Resource allocation tracking

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

1.3 Software Development Costs

(a) Research and development costs shall be expensed as incurred, except for: (i) Costs incurred for internal-use software development after technological feasibility (ii) Costs directly related to production of identifiable AI algorithms (iii) Quality assurance and testing expenses post-feasibility (iv) Direct labor costs for coding and testing

(b) Capitalized development costs shall be amortized over the estimated useful life of the software, not to exceed 5 years, considering: (i) Expected product lifecycle (ii) Technological obsolescence factors (iii) Market conditions and competition (iv) Historical usage patterns

1.4 Financial Controls and Procedures

(a) **Documentation Requirements.** The Company shall maintain detailed documentation supporting: (i) Revenue recognition decisions (ii) Capitalization assessments (iii) Performance obligation identification (iv) Standalone selling price calculations

(b) **Review Procedures.** Regular reviews shall be conducted to ensure: (i) Consistent application of accounting policies (ii) Accuracy of revenue recognition timing (iii) Proper capitalization of development costs (iv) Compliance with disclosure requirements

1.5 Disclosure Requirements

(a) **Revenue Disclosures.** Financial statements shall include: (i) Disaggregation of revenue streams (ii) Significant judgments in revenue recognition (iii) Contract asset and liability balances (iv) Performance obligation descriptions

(b) **Development Cost Disclosures.** Notes to financial statements shall detail: (i) Capitalization policy and criteria (ii) Amortization methods and periods (iii) Carrying amounts of capitalized costs (iv) Impairment assessments and charges

1.6 Periodic Review and Updates

(a) The Company shall review these standards annually to ensure: (i) Continued compliance with GAAP updates (ii) Alignment with industry best practices (iii) Effectiveness of internal controls (iv) Adequacy of documentation procedures

(b) Updates to these standards shall be: (i) Approved by the Chief Financial Officer (ii) Reviewed by external auditors (iii) Communicated to relevant personnel (iv) Implemented with appropriate training

2.0 INTERNAL CONTROLS AND COMPLIANCE FRAMEWORK

2.1 Control Environment

(a) The Company shall maintain comprehensive internal controls in compliance with Sarbanes-Oxley Act Section 404 requirements, including: (i) Documentation of all significant processes, including detailed flowcharts, narratives, and process maps for all material financial and operational procedures (ii) Risk assessment procedures incorporating both quantitative and qualitative factors (iii) Control activity design and implementation with clear segregation of duties (iv) Monitoring procedures with defined testing schedules and reporting mechanisms

(b) The Control Environment shall be subject to: (i) Annual review by independent auditors (ii) Quarterly internal assessments by the Compliance Committee (iii) Regular updates to reflect changes in business operations or regulatory requirements (iv) Documentation retention for a minimum period of seven (7) years

(c) Management Responsibilities shall include: (i) Establishing and maintaining effective internal control over financial reporting (ii) Conducting regular effectiveness assessments (iii) Providing written attestations regarding control effectiveness (iv) Implementing remediation plans for identified deficiencies

2.2 Technology Controls

(a) **AI Algorithm Controls.** The Company shall maintain: (i) Version control systems for all AI/ML models, including: - Complete deployment history - Change management documentation - Performance metrics tracking - Rollback procedures (ii) Audit trails of model training and deployment, documenting: - Training data sources and versions - Model parameters and hyperparameters - Validation results - Production deployment approvals (iii) Documentation of model validation procedures, including: - Bias testing protocols - Performance benchmarking - Security vulnerability assessments - Compliance verification checks

(b) **Data Governance.** Controls shall include: (i) Data quality assessment procedures: - Data accuracy verification protocols - Completeness checks - Consistency validation - Timeliness

monitoring (ii) Access controls and authentication protocols: - Role-based access management - Multi-factor authentication requirements - Regular access reviews - Privilege escalation procedures (iii) Data privacy compliance mechanisms: - GDPR compliance measures - CCPA compliance procedures - Data minimization protocols - Privacy impact assessments

2.3 Compliance Monitoring and Reporting

(a) The Company shall establish: (i) Quarterly compliance reporting requirements (ii) Real-time monitoring systems for critical controls (iii) Escalation procedures for control breaches (iv) Regular compliance training programs

(b) Documentation Requirements: (i) Maintenance of control matrices (ii) Regular updates to process documentation (iii) Evidence retention procedures (iv) Incident response documentation

(c) Review Procedures: (i) Monthly control testing schedules (ii) Independent verification procedures (iii) Management review protocols (iv) Board oversight requirements

2.4 Remediation and Enhancement

(a) The Company shall implement: (i) Formal remediation procedures for control deficiencies (ii) Continuous improvement protocols (iii) Change management procedures (iv) Regular control enhancement reviews

(b) Reporting Requirements: (i) Quarterly status updates on remediation efforts (ii) Annual effectiveness assessments (iii) Regulatory compliance reports (iv) Stakeholder communications protocols

3.0 FINANCIAL PLANNING AND FORECASTING

3.1 Annual Budget Process

(a) The Company shall prepare annual operating budgets including: (i) Revenue projections by product line, with detailed segmentation across enterprise, mid-market, and small business customers (ii) Cost allocations for R&D activities, including AI model development, infrastructure scaling, and technical debt reduction (iii) Sales and marketing expenditures, segregated by channel, region, and campaign type (iv) General and administrative expenses, including personnel, facilities, and professional services

(b) Budget Development Timeline: (i) Initial departmental submissions due 90 days prior to fiscal year end (ii) Executive review and consolidation within 60 days of fiscal year end (iii) Board approval required minimum 30 days before fiscal year end (iv) Final budget distribution within 5 business days of approval

(c) Budget Variance Management: (i) Variances exceeding 10% of budgeted amounts require written explanation (ii) Material variances exceeding 20% require corrective action plans (iii) Quarterly reforecast obligations for departments exceeding budget (iv) Monthly variance analysis reports to executive team

3.2 Rolling Forecast Requirements

(a) The Company shall maintain 18-month rolling forecasts, updated quarterly, including: (i) Cash flow projections with 90-day detailed views (ii) Pipeline-to-revenue conversion assumptions (iii) Headcount planning and resource allocation (iv) Capital expenditure requirements

(b) Forecast Methodology: (i) Bottom-up forecasting from department leaders (ii) Market condition adjustments by executive team (iii) Scenario planning for optimistic, base, and conservative cases (iv) Integration with strategic planning objectives

3.3 Key Performance Indicators

(a) **SaaS Metrics.** The Company shall track and report: (i) Annual Recurring Revenue (ARR), calculated monthly (ii) Net Revenue Retention (NRR), with cohort analysis (iii) Customer Acquisition Cost (CAC), segmented by customer type (iv) Lifetime Value (LTV), with churn probability modeling (v) Gross and net dollar retention rates (vi) Monthly Recurring Revenue (MRR) growth rates

(b) **Operational Metrics.** Regular monitoring of: (i) AI model performance metrics, including accuracy and processing efficiency (ii) Customer implementation timelines and milestone achievement rates (iii) Platform utilization rates and capacity planning metrics (iv) System availability and performance standards (v) Technical support response times and resolution rates

3.4 Reporting Requirements

(a) Monthly Financial Package: (i) Income statement, balance sheet, and cash flow statement (ii) Budget vs. actual analysis with variance explanations (iii) KPI dashboard with trend analysis (iv) Sales pipeline and conversion metrics

(b) Quarterly Board Reports: (i) Financial performance summary (ii) Strategic initiative updates (iii) Market analysis and competitive positioning (iv) Risk assessment and mitigation strategies

(c) Annual Financial Review: (i) Audited financial statements (ii) Long-term financial model updates (iii) Strategic plan alignment assessment (iv) Capital structure recommendations

4.0 INTELLECTUAL PROPERTY VALUATION

4.1 AI Asset Valuation

- (a) The Company shall value AI/ML assets using: (i) Cost approach for internally developed algorithms, incorporating: - Direct development costs - Allocated overhead expenses - Research personnel compensation - Computing infrastructure investments - Data acquisition and preparation costs
- (ii) Market approach for acquired technology, considering: - Comparable transaction analyses - Industry-standard multiples - Recent market valuations - Technology obsolescence factors - Competitive positioning
- (iii) Income approach for revenue-generating models, including: - Projected cash flow calculations - Risk-adjusted discount rates - Market penetration estimates - Technology lifecycle assessment - Maintenance cost projections

4.2 Impairment Testing

- (a) Annual impairment testing shall be conducted for: (i) Capitalized software development costs, examining: - Technical feasibility - Market viability - Economic performance - Competitive displacement - Technological obsolescence
- (ii) AI/ML algorithms and models, evaluating: - Prediction accuracy metrics - Processing efficiency - Data relevance - Operational stability - Maintenance requirements
- (iii) Patent portfolio assets, assessing: - Legal enforceability - Commercial applicability - Remaining useful life - Market protection value - Licensing potential

4.3 Valuation Review and Documentation

- (a) The Company shall maintain comprehensive documentation of: (i) Valuation methodologies employed (ii) Key assumptions and inputs utilized (iii) Market data sources referenced (iv) Expert opinions obtained (v) Sensitivity analyses performed
- (b) Independent third-party validation shall be obtained for: (i) Material acquisitions exceeding \$5,000,000 (ii) Novel technology implementations (iii) Complex valuation scenarios

4.4 Periodic Reassessment

- (a) The Company shall conduct quarterly reviews of: (i) Market conditions affecting IP values (ii) Technology evolution impacts (iii) Competitive landscape changes (iv) Regulatory environment shifts
- (b) Material changes requiring immediate revaluation include: (i) Significant market disruptions (ii) Patent challenges or invalidations (iii) Technological breakthroughs (iv) Regulatory framework changes (v) Substantial customer losses

4.5 Reporting Requirements

(a) Valuation results shall be reported: (i) Quarterly to the Board of Directors (ii) Annually to shareholders (iii) As required by regulatory authorities (iv) Upon material value changes (v) In conjunction with financial statements

DEFINITIONS

"AI/ML Assets" means the Company's proprietary artificial intelligence and machine learning algorithms, models, and related intellectual property.

"ARR" means Annual Recurring Revenue, calculated as the value of contracted recurring revenue components normalized to a one-year period.

"NexusCore™" means the Company's flagship industrial AI platform and related modules.

EXHIBITS

Exhibit A: Revenue Recognition Decision Tree Exhibit B: Internal Control Documentation Templates Exhibit C: KPI Calculation Methodologies

SIGNATURE

IN WITNESS WHEREOF, this Policy has been adopted as of the Effective Date first written above.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

APPENDIX A: Accounting Treatment Examples APPENDIX B: Control Testing Procedures

APPENDIX C: Valuation Methodology Details

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