

# **FINANCIAL AND ACCOUNTING POLICIES AND PROCEDURES**

THIS FINANCIAL AND ACCOUNTING POLICIES AND PROCEDURES DOCUMENT (this "Document") is adopted as of January 15, 2024 (the "Effective Date") by NEXUS INDUSTRIAL INTELLIGENCE, INC., a Delaware corporation (the "Company").

WHEREAS, the Company desires to establish comprehensive financial and accounting policies and procedures governing its operations and financial reporting;

WHEREAS, the Company recognizes the importance of maintaining accurate financial records and implementing robust internal controls in connection with its artificial intelligence and machine learning software business; and

WHEREAS, the Board of Directors has determined it to be in the best interests of the Company to adopt this Document to ensure compliance with applicable accounting standards, securities laws, and regulatory requirements.

NOW, THEREFORE, the Company hereby adopts the following policies and procedures:

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

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

The Company shall prepare its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") as established by the Financial Accounting Standards Board ("FASB"). All accounting policies, procedures, and financial reporting shall comply with the FASB Accounting Standards Codification ("ASC"). The Company shall maintain comprehensive documentation of its compliance with these standards and submit to regular internal audits to ensure adherence.

### **1.2 Revenue Recognition**

(a) The Company shall recognize revenue from its NexusCore™ Industrial AI Platform and related software solutions in accordance with ASC 606, Revenue from Contracts with Customers, applying the following five-step model: (i) Identify the contract with a customer (ii) Identify performance obligations (iii) Determine transaction price (iv) Allocate transaction price (v) Recognize revenue when/as performance obligations are satisfied

(b) For subscription-based services, revenue shall be recognized ratably over the subscription term, commencing when the customer obtains access to the NexusCore™ platform. The

Company shall maintain detailed records of: (i) Subscription start and end dates (ii) Service level specifications (iii) Usage metrics and performance indicators (iv) Customer-specific customizations and configurations

(c) Implementation services and professional consulting fees shall be recognized as performed, based on time and materials or fixed fee arrangements as specified in customer contracts. Documentation requirements include: (i) Detailed time tracking records (ii) Project milestone completion evidence (iii) Customer acceptance documentation (iv) Change order authorizations

### **1.3 Multi-Year Contracts**

(a) For contracts with terms exceeding twelve (12) months, the Company shall: (i) Recognize the total contract value as deferred revenue (ii) Amortize revenue recognition over the contract term (iii) Account for any non-standard payment terms or financing components (iv) Review annually for potential price adjustments or modifications

(b) Multi-year contract management shall include: (i) Quarterly review of performance obligations (ii) Documentation of material contract modifications (iii) Assessment of customer credit risk (iv) Monitoring of service delivery metrics (v) Evaluation of termination clauses and penalties

### **1.4 Software Development Costs**

(a) Internal-use software development costs shall be capitalized in accordance with ASC 350-40 when the preliminary project stage is complete and management authorizes funding.

(b) Capitalized costs shall include: (i) External direct costs of materials and services (ii) Payroll and payroll-related costs for employees directly associated with development (iii) Interest costs incurred during development (iv) Costs of testing and deployment

(c) The Company shall maintain detailed documentation of: (i) Project authorization and funding approvals (ii) Development phase classifications (iii) Time tracking for development personnel (iv) Vendor invoices and contracts (v) Testing protocols and results

### **1.5 Financial Controls and Reporting**

(a) The Company shall implement and maintain internal controls including: (i) Segregation of duties in financial processes (ii) Regular reconciliation procedures (iii) Authorization matrices for expenditures (iv) Documentation requirements for material transactions

(b) Quarterly financial reporting shall include: (i) Revenue recognition schedules (ii) Deferred revenue analysis (iii) Capitalized development cost details (iv) Contract backlog reports (v) Customer concentration analysis

## **1.6 Audit and Compliance**

(a) The Company shall: (i) Undergo annual external audits by certified public accountants (ii) Maintain supporting documentation for seven (7) years (iii) Implement audit recommendations within specified timeframes (iv) Report material changes in accounting policies to the Board (v) Conduct quarterly internal control reviews

(b) Compliance monitoring shall include: (i) Regular review of FASB updates and new standards (ii) Assessment of impact on existing policies (iii) Training programs for accounting staff (iv) Documentation of policy exceptions and approvals

## **2.0 INTERNAL CONTROLS AND COMPLIANCE**

### **2.1 Control Environment**

(a) The Company shall maintain a comprehensive system of internal controls based on the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework, including: (i) Demonstrated commitment to integrity and ethical values through documented policies, procedures, and regular employee training (ii) Independent board oversight with quarterly reviews and annual attestations (iii) Clear organizational structure and reporting lines, documented in organizational charts updated quarterly (iv) Commitment to competence through established job descriptions, performance metrics, and professional development requirements (v) Accountability enforcement through documented disciplinary procedures and remediation protocols

(b) The Control Environment shall be subject to annual review and certification by: (i) Chief Executive Officer (ii) Chief Financial Officer (iii) Board Audit Committee (iv) External compliance auditors

### **2.2 Risk Assessment**

(a) The Company shall conduct quarterly risk assessments addressing: (i) Financial reporting risks, including revenue recognition, asset valuation, and financial statement preparation (ii) Technology and cybersecurity risks, with particular emphasis on AI/ML system vulnerabilities (iii) Operational risks, including business continuity and disaster recovery (iv) Compliance risks, including regulatory changes and reporting requirements (v) Strategic risks, including market conditions and competitive landscape

(b) Risk assessment procedures shall include: (i) Documented risk scoring methodology (ii) Risk materiality thresholds (iii) Mitigation strategy requirements (iv) Quarterly review and updates (v) Annual independent validation

## **2.3 IT General Controls**

(a) For the NexusCore™ platform and supporting systems, the Company shall maintain: (i) Access controls and segregation of duties, including: - Role-based access management - Quarterly access reviews - Privileged account monitoring - Authentication protocols (ii) Change management procedures, incorporating: - Development environment controls - Testing requirements - Approval workflows - Implementation protocols (iii) Data backup and recovery protocols, including: - Daily incremental backups - Weekly full backups - Monthly recovery testing - Offsite storage requirements (iv) System development life cycle controls, with: - Documentation requirements - Quality assurance procedures - User acceptance testing - Production deployment controls (v) AI/ML model validation procedures, including: - Algorithm verification - Training data validation - Output testing protocols - Bias detection measures

## **2.4 Monitoring Activities**

(a) The Company shall implement continuous monitoring procedures including: (i) Internal audit reviews conducted quarterly, addressing: - Control effectiveness - Compliance adherence - Process efficiency - Risk mitigation (ii) External audit coordination, including: - Annual SOC reports - Regulatory examinations - Third-party assessments (iii) Control testing and validation through: - Automated monitoring tools - Manual testing procedures - Exception reporting - Remediation tracking (iv) Compliance assessments covering: - Regulatory requirements - Industry standards - Internal policies - Contractual obligations (v) Management review controls, including: - Monthly control dashboards - Quarterly certification requirements - Annual effectiveness reviews - Continuous improvement programs

## **3.0 FINANCIAL PERFORMANCE METRICS**

### **3.1 SaaS Metrics**

(a) Annual Recurring Revenue ("ARR") shall be calculated as: (i) Monthly recurring revenue multiplied by twelve (12) (ii) Excluding one-time fees and professional services (iii) Adjusted for customer upgrades/downgrades (iv) Normalized for annual contract values (v) Including committed revenue from signed contracts (vi) Adjusted for multi-year contract provisions on a straight-line basis

(b) Gross Revenue Retention ("GRR") shall be measured as: (i) Revenue retained from existing customers (ii) Excluding upsells and expansions (iii) Calculated on a trailing twelve-month basis (iv) Adjusted for currency fluctuations where applicable

### **3.2 Customer Metrics**

(a) Customer Acquisition Cost ("CAC") shall be computed as: (i) Total sales and marketing expenses (ii) Divided by number of new customers acquired (iii) Measured on a trailing twelve-month basis (iv) Including allocated overhead costs (v) Incorporating direct marketing expenditures (vi) Factoring in sales team compensation and commissions

(b) Net Revenue Retention ("NRR") shall be calculated as: (i) Current period revenue from existing customers (ii) Divided by prior period revenue from same customers (iii) Including expansions and contractions (iv) Expressed as a percentage (v) Adjusted for customer segmentation (vi) Normalized for seasonal variations

(c) Customer Lifetime Value ("CLV") shall be determined by: (i) Average revenue per customer (ii) Multiplied by gross margin percentage (iii) Divided by customer churn rate (iv) Adjusted for customer cohort performance (v) Including upsell probability factors

### **3.3 Research and Development**

(a) R&D investment metrics shall track: (i) Capitalized development costs (ii) Period expenses (iii) Headcount allocation (iv) Project-specific investments (v) Patent and intellectual property costs (vi) Third-party technology licenses

(b) R&D Efficiency Metrics shall include: (i) Development cycle time measurements (ii) Resource utilization rates (iii) Innovation output metrics (iv) Return on R&D investment calculations

### **3.4 Operating Metrics**

(a) Gross Margin Calculations shall incorporate: (i) Direct hosting and infrastructure costs (ii) Customer support expenses (iii) Professional services delivery costs (iv) Third-party software licenses (v) Data center operations expenses

(b) Operating Leverage shall be measured through: (i) Revenue growth versus operating expense growth (ii) Fixed versus variable cost analysis (iii) Scalability metrics (iv) Productivity measurements (v) Resource utilization efficiency

### **3.5 Reporting Requirements**

(a) All metrics shall be: (i) Reported monthly to the Board of Directors (ii) Calculated using consistent methodologies (iii) Subject to quarterly review and validation (iv) Maintained in accordance with GAAP principles (v) Documented with supporting calculations (vi) Benchmarked against industry standards

## **4.0 INTELLECTUAL PROPERTY VALUATION**

### **4.1 Capitalization Policy**

(a) The Company shall capitalize intellectual property costs when: (i) Technical feasibility is established through documented proof of concept and validation testing (ii) Management commits to completion via formal project authorization (iii) Resources are available as evidenced by approved budgets and staffing plans (iv) Future economic benefit is probable based on market analysis and revenue projections (v) Development costs can be reliably measured and segregated

(b) Qualifying Expenditures for Capitalization: (i) Direct labor costs for IP development (ii) Third-party consulting and professional services (iii) Patent and trademark registration fees (iv) Testing and validation expenses (v) Direct materials and specialized equipment (vi) Allocated overhead directly attributable to IP development

### **4.2 Amortization**

(a) Capitalized IP shall be amortized: (i) Over estimated useful life, not to exceed fifteen (15) years (ii) Using straight-line method unless another method better reflects consumption pattern (iii) Beginning when asset is ready for intended use (iv) Subject to periodic review and adjustment

(b) Useful Life Determination: (i) Technical obsolescence factors (ii) Legal and regulatory constraints (iii) Industry standards and competitive landscape (iv) Historical experience with similar assets (v) Contractual limitations or restrictions

(c) Amortization Review Requirements: (i) Annual review of amortization period and method (ii) Documentation of any changes in estimates (iii) Prospective adjustment of amortization schedules (iv) Disclosure of material changes in financial statements

### **4.3 Impairment Testing**

(a) The Company shall assess IP assets for impairment: (i) Annually at minimum, during fourth quarter (ii) Upon triggering events as defined below (iii) Using fair value measurements (iv) Following ASC 350 guidance

(b) Triggering Events shall include: (i) Significant adverse changes in legal factors or business climate (ii) Unanticipated competition or technological obsolescence (iii) Loss of key personnel (iv) Decline in actual or projected revenue (v) Changes in strategy affecting asset utilization

(c) Fair Value Measurement Methodology: (i) Primary reliance on market approach when observable (ii) Income approach using discounted cash flows (iii) Cost approach when appropriate (iv) Consideration of market participant assumptions

#### **4.4 Documentation Requirements**

(a) The Company shall maintain: (i) Detailed cost accumulation records (ii) Technical feasibility assessments (iii) Fair value measurement documentation (iv) Periodic impairment test results (v) Amortization schedules and calculations

#### **4.5 Reporting and Disclosure**

(a) Financial statement disclosures shall include: (i) Capitalization policy and thresholds (ii) Amortization methods and periods (iii) Carrying amounts by major IP class (iv) Accumulated amortization and impairment (v) Material changes in estimates or methodology

#### **4.6 Review and Approval**

(a) All material IP valuations shall require: (i) Review by qualified internal personnel (ii) Approval by Chief Financial Officer (iii) Independent verification when exceeding established thresholds (iv) Documentation of key assumptions and conclusions (v) Periodic audit committee review