

FINANCIAL AND ACCOUNTING POLICIES AND PROCEDURES

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

WHEREAS, the Company develops and provides artificial intelligence-powered software solutions for industrial process optimization;

WHEREAS, the Company desires to establish comprehensive financial and accounting policies that address its unique business model and technological offerings;

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 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 presentations and communications

The Company shall maintain documentation of accounting policies, procedures, and internal controls in accordance with Sarbanes-Oxley requirements where applicable.

1.2 Revenue Recognition

(a) SaaS Subscription Revenue. The Company shall recognize revenue from its NexusCore™ Industrial AI Platform subscriptions in accordance with ASC 606, over the term of the subscription agreement. Performance obligations shall be identified and allocated based on standalone selling prices. Specific considerations include: (i) Usage-based components shall be recognized based on actual customer consumption (ii) Setup fees shall be evaluated for distinct performance obligations (iii) Volume discounts shall be accounted for as variable consideration (iv) Contract modifications shall be evaluated for treatment as separate contracts

(b) Implementation Services. Revenue from implementation services shall be recognized over time as services are performed, measured by total hours incurred relative to estimated total

hours. The Company shall: (i) Document project milestones and completion criteria (ii) Maintain detailed time tracking records (iii) Review and update estimates quarterly (iv) Account for change orders as separate performance obligations

(c) Professional Services. Revenue from professional services shall be recognized as services are delivered, based on time and materials or fixed fee arrangements as specified in customer contracts. The Company shall: (i) Establish standard billing rates annually (ii) Document scope changes and approvals (iii) Track deliverables and acceptance criteria (iv) Monitor project profitability

1.3 Multi-Element Arrangements

(a) The Company shall identify distinct performance obligations within multi-element arrangements, including: (i) Software subscription licenses (ii) Implementation services (iii) Professional services (iv) Training services (v) Support and maintenance

(b) Transaction price shall be allocated to performance obligations based on relative standalone selling prices determined through: (i) Observable prices when sold separately (ii) Market assessment approach (iii) Expected cost plus margin approach

(c) Contract Modifications. Changes to multi-element arrangements shall be evaluated to determine whether they should be accounted for as: (i) Separate contracts (ii) Termination of existing contract and creation of new contract (iii) Modification of existing contract

1.4 Software Development Costs

(a) Capitalization Criteria. The Company shall capitalize software development costs in accordance with ASC 350-40 when technological feasibility is established. Qualifying costs include: (i) Direct labor for coding and testing (ii) Third-party development services (iii) Software tools and licenses (iv) Allocated overhead costs

(b) Amortization. Capitalized costs shall be amortized over the estimated useful life of the software, not to exceed 3 years, using: (i) Straight-line method (ii) Beginning upon commercial release (iii) Quarterly review for impairment

1.5 Reporting Requirements

(a) Financial Statement Preparation. The Company shall prepare: (i) Monthly financial statements within 15 business days (ii) Quarterly financial statements within 30 days (iii) Annual audited financial statements within 90 days (iv) Management discussion and analysis for each period

(b) Key Performance Indicators. The Company shall track and report: (i) Annual Recurring Revenue (ARR) (ii) Net Revenue Retention Rate (iii) Customer Acquisition Cost (iv) Customer Lifetime Value (v) Gross and Net Churn Rates

1.6 Audit and Review

(a) Internal Review. The Company shall conduct quarterly reviews of: (i) Revenue recognition policies and procedures (ii) Capitalization decisions and thresholds (iii) Contract terms and conditions (iv) Performance obligation identification and allocation

(b) External Audit. The Company shall engage independent auditors annually to: (i) Review financial statements (ii) Assess internal controls (iii) Validate revenue recognition practices (iv) Evaluate capitalization policies

2.0 INTERNAL CONTROLS AND COMPLIANCE FRAMEWORK

2.1 Control Environment

(a) The Company shall maintain comprehensive documentation of internal controls including: (i) Organizational structure and reporting lines (ii) Assignment of authority and responsibility (iii) Human resources policies and procedures (iv) Documentation retention schedules and compliance protocols (v) Cross-departmental communication frameworks (vi) Escalation procedures for control breaches

(b) The Board of Directors shall: (i) Review and approve all material changes to internal control policies (ii) Conduct annual assessments of control effectiveness (iii) Establish oversight committees as necessary (iv) Ensure adequate resources for control implementation

(c) Management responsibilities shall include: (i) Regular monitoring of control performance metrics (ii) Implementation of remediation measures (iii) Staff training on control procedures (iv) Quarterly reporting to the Board on control effectiveness

2.2 Risk Assessment Procedures

(a) The Company shall conduct quarterly risk assessments addressing: (i) Financial reporting risks (ii) Operational risks (iii) Technology and cybersecurity risks (iv) Regulatory compliance risks (v) Third-party vendor risks (vi) Business continuity risks

(b) Risk assessment methodology shall include: (i) Quantitative and qualitative risk metrics (ii) Impact and probability analysis (iii) Risk tolerance thresholds (iv) Mitigation strategy evaluation (v) Documentation of assessment findings

(c) Risk monitoring requirements: (i) Monthly review of key risk indicators (ii) Continuous monitoring of critical control points (iii) Regular updates to risk registers (iv) Annual validation of risk assessment procedures

2.3 Information System Controls

(a) AI System Controls (i) Version control for all AI algorithms (ii) Audit trails for model training and deployment (iii) Data validation procedures (iv) Access controls and

authentication (v) Model performance monitoring protocols (vi) Bias detection and mitigation procedures (vii) Algorithm testing and validation requirements

(b) Financial System Controls (i) Access restrictions and segregation of duties (ii) Change management procedures (iii) Backup and recovery protocols (iv) Transaction verification mechanisms (v) System reconciliation requirements

(c) Data Governance Controls (i) Data classification standards (ii) Privacy protection measures (iii) Data quality assurance procedures (iv) Retention and disposal protocols (v) Cross-border data transfer controls

2.4 Compliance Monitoring and Reporting

(a) Compliance monitoring shall include: (i) Automated compliance checking systems (ii) Regular compliance audits (iii) Exception reporting procedures (iv) Regulatory filing tracking (v) Compliance training documentation

(b) Reporting requirements: (i) Monthly compliance status reports (ii) Quarterly control effectiveness assessments (iii) Annual compliance certification (iv) Immediate notification of material control breaches (v) Documentation of remediation actions

(c) Independent verification: (i) External audit coordination (ii) Third-party control reviews (iii) Regulatory examination support (iv) Compliance testing validation

2.5 Control Documentation Requirements

(a) All control documentation shall: (i) Be maintained in electronic format (ii) Include version history (iii) Specify review and approval authorities (iv) Reference relevant regulatory requirements (v) Detail testing and validation procedures

3.0 FINANCIAL PLANNING AND BUDGETING PROCEDURES

3.1 Annual Budget Development

(a) Timeline (i) Initial departmental submissions due September 30 (ii) Executive review by October 31 (iii) Board approval by December 15 (iv) Implementation commencement January 1 (v) Mid-year review by June 30

(b) Required Components (i) Revenue projections by product line, including historical trend analysis (ii) Operating expenses by department with variance explanations (iii) Capital expenditure plans with ROI calculations (iv) Headcount planning and associated costs (v) Market analysis and competitive positioning (vi) Risk assessment and mitigation strategies

(c) Documentation Requirements (i) Detailed financial models with assumptions (ii) Supporting documentation for major initiatives (iii) Sensitivity analyses for key variables (iv) Compliance certification with accounting standards

3.2 R&D Investment Parameters

- (a) The Company shall allocate 25-30% of annual revenue to R&D activities, including: (i) AI algorithm development and optimization (ii) Platform enhancement and scalability (iii) New product initiatives and prototyping (iv) Research partnerships and academic collaborations
- (b) Investment Allocation Criteria (i) Strategic alignment with corporate objectives (ii) Market potential assessment (iii) Technical feasibility studies (iv) Resource availability and expertise requirements
- (c) Performance Metrics (i) Return on R&D investment (ii) Patent and intellectual property generation (iii) Product development cycle efficiency (iv) Innovation index benchmarking

3.3 Capital Allocation Guidelines

- (a) Investment Priorities (i) Core platform development and maintenance (ii) Sales and marketing expansion initiatives (iii) Infrastructure scaling and optimization (iv) Strategic acquisitions and partnerships
- (b) Evaluation Criteria (i) Minimum IRR threshold of 15% (ii) Payback period not exceeding 36 months (iii) Strategic value assessment (iv) Risk-adjusted return analysis

3.4 Quarterly Review and Adjustment Procedures

- (a) Review Requirements (i) Monthly performance tracking against budget (ii) Quarterly forecast updates (iii) Variance analysis and explanations (iv) Corrective action planning
- (b) Adjustment Authority (i) Variances up to 10% - Department Head approval (ii) Variances 10-20% - CFO approval (iii) Variances exceeding 20% - CEO and Board approval
- (c) Reporting Requirements (i) Monthly financial dashboards (ii) Quarterly performance reports (iii) Annual comprehensive review (iv) Stakeholder communications

3.5 Compliance and Control Measures

- (a) Internal Controls (i) Segregation of duties (ii) Authorization matrices (iii) Audit trail requirements (iv) System access controls
- (b) Monitoring and Oversight (i) Regular internal audits (ii) External audit coordination (iii) Regulatory compliance review (iv) Board oversight procedures

4.0 PERFORMANCE METRICS AND KPI REPORTING

4.1 SaaS Metrics

- (a) Annual Recurring Revenue (ARR) (i) Calculated as monthly recurring revenue multiplied by 12 (ii) Reported monthly with rolling 12-month trend (iii) Segmented by customer tier and

industry vertical (iv) Adjustments for multi-year contracts shall be prorated accordingly (v) Foreign currency conversions calculated at month-end exchange rates

(b) Customer Metrics (i) Customer Acquisition Cost (CAC), calculated quarterly (ii) Lifetime Value (LTV), assessed on 36-month rolling basis (iii) Net Revenue Retention (NRR), reported monthly (iv) Churn Rate, both logo and revenue-based calculations (v) Customer Health Score, comprising usage, support, and payment metrics

4.2 Platform Analytics

(a) Usage Metrics (i) Active users by module, measured daily and averaged monthly (ii) API calls and processing volume, tracked hourly (iii) Model accuracy and performance, evaluated weekly (iv) Feature adoption rates across customer segments (v) Session duration and interaction patterns (vi) Resource utilization by customer instance

(b) Operational Metrics (i) System uptime, measured to four decimal places (ii) Response time, tracked in milliseconds (iii) Error rates, categorized by severity levels (iv) Mean Time to Resolution (MTTR) for incidents (v) Platform scalability metrics under peak load

4.3 Reporting Requirements

(a) Frequency and Format (i) Monthly executive dashboard by the 5th business day (ii) Quarterly detailed analysis by the 15th of the following month (iii) Annual comprehensive review within 45 days of fiscal year-end (iv) Ad-hoc reports as requested by the Board of Directors

(b) Distribution and Access (i) Metrics distributed via secure dashboard access (ii) Role-based permissions for metric visibility (iii) Audit trail of all metric access and modifications

4.4 Compliance and Verification

(a) Data Quality (i) Monthly validation of calculation methodologies (ii) Independent audit of key metrics annually (iii) Retention of supporting documentation for 7 years

(b) Remediation (i) Material variances require written explanation (ii) Correction protocols for identified discrepancies (iii) Stakeholder notification procedures for metric adjustments