

FINANCIAL REPORTING AND ACCOUNTING STANDARDS POLICY

Effective Date: January 15, 2024

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

WHEREAS, the Company seeks to establish comprehensive standards for financial reporting, accounting practices, and technology asset valuation in accordance with applicable laws and regulations;

WHEREAS, the Company recognizes the need for specialized treatment of artificial intelligence and software-as-a-service revenue recognition;

NOW, THEREFORE, the Company hereby adopts the following Financial Reporting and Accounting Standards Policy:

1.0 FINANCIAL REPORTING AND ACCOUNTING STANDARDS

1.1 Generally Accepted Accounting Principles (GAAP) Compliance

(a) The Company shall prepare all financial statements and reports in accordance with GAAP as established by the Financial Accounting Standards Board (FASB).

(b) Financial reporting shall comply with ASC 606 Revenue from Contracts with Customers, with particular attention to: (i) Performance obligations in AI software contracts (ii) Allocation of transaction price (iii) Recognition of revenue when performance obligations are satisfied

(c) The Company shall maintain comprehensive documentation demonstrating GAAP compliance, including: (i) Detailed accounting policies and procedures (ii) Internal control frameworks (iii) Audit trails for material transactions (iv) Supporting documentation for significant accounting judgments

(d) Quarterly reviews and annual audits shall be conducted by qualified independent auditors in accordance with: (i) Generally Accepted Auditing Standards (GAAS) (ii) Public Company Accounting Oversight Board (PCAOB) standards, where applicable (iii) Relevant regulatory requirements

1.2 Revenue Recognition Standards

(a) The Company shall recognize revenue upon transfer of promised goods or services to customers in an amount reflecting the consideration expected to be received, applying the following principles: (i) Identification of customer contracts (ii) Identification of performance obligations (iii) Determination of transaction price (iv) Allocation of transaction price to performance obligations (v) Recognition of revenue upon satisfaction of performance obligations

(b) Contract modifications shall be evaluated to determine whether they create: (i) Separate contracts requiring independent accounting treatment (ii) Modifications to existing performance obligations (iii) Changes in transaction price allocation

(c) Variable consideration shall be estimated using either: (i) Expected value method: probability-weighted sum of possible amounts (ii) Most likely amount method: single most likely outcome

1.3 AI Software Revenue Treatment

(a) For the NexusCore™ Industrial AI Platform and related products: (i) License revenue shall be recognized over the subscription term (ii) Implementation services shall be recognized as performed (iii) Machine learning model customization shall be capitalized where appropriate

(b) AI software development costs shall be accounted for pursuant to ASC 350-40, with: (i) Capitalization of qualifying costs during application development stage (ii) Expense recognition for preliminary project and post-implementation stages (iii) Regular impairment assessments of capitalized costs

(c) Cloud computing arrangements shall be evaluated to determine: (i) Whether they include a software license (ii) Appropriate recognition of implementation costs (iii) Treatment of hosting arrangement fees

1.4 Subscription-Based Revenue Policies

(a) Subscription revenue shall be recognized ratably over the contract term (b) Setup fees shall be recognized over the expected customer relationship period (c) Professional services shall be recognized as delivered

(d) Multi-element arrangements shall be analyzed to: (i) Identify distinct performance obligations (ii) Determine standalone selling prices (iii) Allocate transaction price using relative standalone selling price method

(e) Contract assets and liabilities shall be recorded to reflect: (i) Unbilled receivables for satisfied performance obligations (ii) Deferred revenue for advance payments (iii) Contract acquisition costs, amortized over expected customer relationship period

1.5 Disclosure Requirements

- (a) Financial statements shall include comprehensive disclosures regarding: (i) Significant accounting policies and practices (ii) Revenue recognition methods for each major product/service type (iii) Contract assets and liabilities (iv) Performance obligations, including timing of satisfaction (v) Significant judgments in applying revenue recognition principles
- (b) Quantitative and qualitative disclosures shall address: (i) Disaggregation of revenue (ii) Contract balances and significant changes (iii) Performance obligations, including remaining performance obligations (iv) Significant payment terms and financing arrangements (v) Nature, timing, and uncertainty of revenue and cash flows

1.6 Compliance Monitoring

- (a) The Company shall establish procedures for: (i) Regular review of revenue recognition practices (ii) Assessment of new or modified contract terms (iii) Evaluation of emerging accounting standards and guidance (iv) Documentation of significant accounting positions and conclusions

2.0 INTERNAL CONTROLS AND PROCEDURES

2.1 SOX Compliance Framework

- (a) The Company shall maintain internal controls in accordance with Sarbanes-Oxley Act Section 404, including: (i) Documentation of control processes through standardized templates and workflows (ii) Regular testing and monitoring on a quarterly basis (iii) Annual effectiveness assessment with documented remediation plans (iv) Independent auditor verification and certification
- (b) Control documentation requirements shall encompass: (i) Detailed process narratives and flowcharts (ii) Risk and control matrices (iii) Evidence of management review and approval (iv) Change management documentation (v) Exception handling procedures
- (c) Testing protocols shall include: (i) Automated control testing where applicable (ii) Sample-based testing of manual controls (iii) Continuous monitoring systems (iv) Deviation tracking and resolution

2.2 AI System Audit Controls

- (a) Specialized controls for AI systems shall include: (i) Algorithm version control with complete revision history (ii) Model validation procedures including bias testing (iii) Training data integrity verification protocols (iv) Output accuracy monitoring and benchmarking (v) Regular model performance assessments

(b) AI governance requirements shall encompass: (i) Documentation of model development methodology (ii) Risk assessment frameworks for AI deployments (iii) Change management procedures for model updates (iv) Regular review of AI decision boundaries (v) Compliance with regulatory AI guidelines

(c) Model validation requirements shall include: (i) Independent validation of critical AI models (ii) Documentation of validation methodologies (iii) Performance metric tracking and reporting (iv) Regular revalidation schedules

2.3 Data Security Protocols

(a) The Company shall maintain robust security measures including: (i) Encryption of financial data at rest and in transit (ii) Multi-factor authentication and access controls (iii) Comprehensive audit logging and monitoring (iv) Documented incident response procedures (v) Regular security assessments

(b) Data protection requirements shall include: (i) Data classification and handling procedures (ii) Retention and disposal policies (iii) Third-party data security assessments (iv) Privacy impact analyses (v) Data breach notification procedures

2.4 Control Environment Maintenance

(a) The Company shall establish: (i) Clear organizational structure and reporting lines (ii) Documented policies and procedures (iii) Regular employee training programs (iv) Whistleblower mechanisms (v) Ethics and compliance frameworks

(b) Control monitoring shall include: (i) Regular control effectiveness reviews (ii) Key performance indicator tracking (iii) Issue management and escalation procedures (iv) Quarterly control attestations (v) Annual control environment assessments

2.5 Reporting Requirements

(a) The Company shall maintain: (i) Regular internal control reporting to management (ii) Documentation of control deficiencies (iii) Remediation tracking and status reporting (iv) Board oversight reporting procedures (v) Regulatory compliance reporting

(b) Documentation requirements shall include: (i) Control testing results and conclusions (ii) Evidence of management review (iii) Issue resolution documentation (iv) Control environment assessments (v) Annual certification materials

3.0 INTELLECTUAL PROPERTY VALUATION

3.1 AI Algorithm Valuation Methods

(a) The Company shall value proprietary AI algorithms using: (i) Cost approach for development expenses, including: - Direct programming and engineering costs - Data acquisition and preparation expenses - Infrastructure and computing resources - Personnel costs for specialized AI expertise - Testing and validation expenditures

(ii) Market approach for comparable technologies, considering: - Recent transactions of similar AI systems - Industry-standard pricing metrics - Technological differentiation factors - Market penetration potential - Competitive positioning analysis

(iii) Income approach for future revenue potential, incorporating: - Projected cash flows from licensing - Implementation service revenues - Maintenance and support income - Risk-adjusted discount rates - Terminal value calculations

(b) Valuation adjustments shall account for: (i) Technical obsolescence risk (ii) Market adoption uncertainty (iii) Regulatory compliance requirements (iv) Scalability potential (v) Integration capabilities

3.2 Patent Portfolio Assessment

(a) Patent valuation shall consider: (i) Development costs, including: - Research expenditures - Patent filing and prosecution fees - Legal opinion costs - Maintenance fees - Prior art search expenses

(ii) Market potential, evaluated through: - Industry growth projections - Technology adoption rates - Geographic coverage - Licensing opportunities - Cross-licensing potential

(iii) Competitive advantage factors: - Scope of claims - Technological barriers to entry - Alternative solutions - Strategic positioning - Portfolio synergies

(iv) Remaining useful life considerations: - Patent term duration - Technical relevance period - Commercial viability timeline - Obsolescence factors - Continuation opportunities

(b) Portfolio strength indicators: (i) Citation analysis (ii) Claim scope assessment (iii) Jurisdictional coverage (iv) Enforcement history (v) Industry recognition

3.3 R&D Capitalization Rules

(a) Research and development costs shall be: (i) Expensed as incurred for research activities: - Basic research initiatives - Conceptual investigations - Technical feasibility studies - Preliminary design work - Data gathering activities

(ii) Capitalized for development meeting specific criteria: - Technical feasibility demonstrated - Commercial intent established - Adequate resources available - Reliable cost measurement - Future economic benefits probable

(iii) Amortized over estimated useful life based on: - Technology lifecycle analysis - Market demand projections - Competitive landscape - Regulatory environment - Implementation timeline

3.4 Valuation Review and Adjustment

(a) Annual review requirements: (i) Technical assessment of continued relevance (ii) Market condition updates (iii) Competition analysis (iv) Performance metrics evaluation (v) Value impairment testing

(b) Adjustment triggers: (i) Significant market changes (ii) Technical breakthroughs (iii) Regulatory modifications (iv) Competitive developments (v) Performance variations

3.5 Documentation Requirements

(a) Valuation documentation shall include: (i) Detailed methodology descriptions (ii) Supporting calculations and assumptions (iii) Market research and comparables (iv) Risk assessment analysis (v) Expert opinions and certifications

(b) Record retention requirements: (i) Seven-year minimum retention period (ii) Electronic and physical backup systems (iii) Access control protocols (iv) Audit trail maintenance (v) Regular documentation reviews

3.6 Third-Party Validation

(a) Independent validation required for: (i) Material IP transactions (ii) Annual financial reporting (iii) Merger and acquisition activities (iv) Financing arrangements (v) Regulatory compliance

(b) Qualified validator criteria: (i) Relevant industry expertise (ii) Professional certifications (iii) Independence requirements (iv) Documentation standards (v) Quality control procedures

4.0 REVENUE RECOGNITION PROCEDURES

4.1 SaaS Revenue Recognition

(a) The Company shall recognize SaaS revenue: (i) Over the subscription term on a straight-line basis (ii) Beginning when access is provided to the customer (iii) Net of any discounts, credits, or promotional offerings (iv) In accordance with performance obligations specified in the contract (v) Subject to collectibility being reasonably assured

(b) Multi-year SaaS contracts shall be: (i) Recognized ratably over the contract term (ii) Adjusted for any escalation clauses or pricing modifications (iii) Reviewed annually for changes in contract terms or scope (iv) Subject to periodic revenue recognition assessments

(c) Usage-based components shall be: (i) Measured monthly based on actual customer consumption (ii) Recognized when usage occurs and is measurable (iii) Reconciled against minimum commitment levels (iv) Documented with detailed usage reports and calculations

4.2 Professional Services Revenue

(a) Professional services revenue shall be recognized: (i) As services are performed and delivered (ii) Based on percentage of completion methodology (iii) Upon customer acceptance where contractually required (iv) Using time and materials or fixed-fee arrangements as applicable

(b) Project-based services shall be monitored through: (i) Detailed project milestone tracking (ii) Regular progress assessments and documentation (iii) Customer sign-off on deliverables (iv) Periodic review of estimated costs to complete

(c) Time and materials arrangements shall: (i) Be recognized based on billable hours incurred (ii) Include approved overtime and expenses (iii) Be supported by detailed time records (iv) Reflect agreed-upon billing rates

4.3 Implementation Revenue

(a) Implementation services shall be: (i) Recognized as performed using appropriate methodology (ii) Tracked separately from subscription revenue (iii) Allocated based on standalone selling price (iv) Documented with detailed project plans and timelines

(b) Implementation revenue recognition requires: (i) Clear definition of project scope and deliverables (ii) Established project milestones and acceptance criteria (iii) Regular assessment of project status and completion (iv) Documentation of customer acceptance and sign-off

4.4 Multi-Element Arrangements

(a) For contracts containing multiple performance obligations: (i) Identify distinct performance obligations (ii) Determine standalone selling prices (iii) Allocate transaction price proportionally (iv) Apply appropriate recognition method to each element

(b) Bundle discounts shall be: (i) Allocated based on relative standalone selling prices (ii) Applied consistently across similar arrangements (iii) Documented with pricing analysis (iv) Reviewed periodically for market alignment

4.5 Contract Modifications

(a) Changes to existing contracts shall be evaluated for: (i) Impact on performance obligations (ii) Price adjustments and allocation (iii) Recognition timing modifications (iv) Customer acceptance requirements

4.6 Revenue Recognition Controls

- (a) The Company shall maintain: (i) Detailed revenue recognition policies and procedures (ii) Documentation supporting recognition decisions (iii) Regular review and approval processes (iv) Audit trails for all material transactions
- (b) Revenue recognition determinations shall be: (i) Reviewed by qualified accounting personnel (ii) Supported by appropriate documentation (iii) Consistent with established policies (iv) Subject to periodic internal audit review

4.7 Reporting Requirements

- (a) Revenue recognition reporting shall include: (i) Monthly revenue recognition schedules (ii) Detailed support for material transactions (iii) Reconciliation to general ledger accounts (iv) Documentation of significant judgments and estimates
- (b) Regular reviews shall be conducted to ensure: (i) Compliance with recognition policies (ii) Accuracy of revenue calculations (iii) Completeness of documentation (iv) Appropriate classification of revenue streams