

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 develops and provides artificial intelligence-powered software solutions for industrial process optimization, including its NexusCore™ Industrial AI Platform;

WHEREAS, the Company desires to establish comprehensive financial reporting standards and accounting procedures aligned with its business model and regulatory requirements; and

WHEREAS, this Document sets forth the Company's policies regarding financial reporting, internal controls, revenue recognition, and cost allocation methodologies.

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"). All accounting policies, procedures, and financial reporting shall comply with: (a) ASC 606 - Revenue from Contracts with Customers (b) ASC 350-40 - Internal-Use Software (c) ASC 985-20 - Costs of Software to be Sold, Leased, or Marketed (d) Other applicable accounting standards and updates as issued

The Company shall maintain comprehensive documentation of its compliance with these standards, including: (e) Detailed mapping of revenue streams to applicable GAAP guidelines (f) Regular review and updates of accounting policies to reflect new FASB pronouncements (g) Quarterly attestation of GAAP compliance by the Chief Financial Officer

1.2 Revenue Recognition for Software Subscriptions

(a) The Company shall recognize revenue from its NexusCore™ platform subscriptions over time as performance obligations are satisfied, in accordance with ASC 606.

(b) Subscription fees shall be recognized ratably over the contract term, beginning on the date the platform is made available to the customer.

(c) Usage-based components shall be recognized based on actual customer usage, measured using objective metrics defined in customer agreements.

(d) Implementation and customization services shall be evaluated to determine whether they constitute: (i) Distinct performance obligations recognized separately (ii) Combined performance obligations recognized with the subscription (iii) Setup activities that do not transfer a service to the customer

(e) Non-refundable upfront fees shall be: (i) Evaluated for distinct performance obligations (ii) Recognized over the expected customer relationship period if no distinct obligation exists (iii) Amortized according to the pattern of benefit transfer to the customer

1.3 Multi-Year Contract Treatment

(a) For multi-year contracts, the Company shall: (i) Identify distinct performance obligations (ii) Allocate transaction price based on standalone selling prices (iii) Recognize revenue as each obligation is satisfied

(b) Contract modifications shall be evaluated to determine whether they constitute: (i) Separate contracts (ii) Termination of existing and creation of new contracts (iii) Modifications to existing contracts

(c) Material rights granted to customers shall be: (i) Identified and valued as separate performance obligations (ii) Recognized when the customer exercises the right or when it expires (iii) Measured based on the relative standalone selling price

1.4 Capitalization of AI Development Costs

(a) The Company shall capitalize qualifying costs related to internal-use software development, including: (i) External direct costs of materials and services (ii) Payroll and payroll-related costs for employees directly involved in development (iii) Interest costs incurred during development

(b) Research costs and costs incurred in the preliminary project and post-implementation stages shall be expensed as incurred.

(c) Capitalization criteria for AI development costs shall include: (i) Technical feasibility of completion (ii) Intent and ability to complete development (iii) Probability of future economic benefit (iv) Availability of adequate technical, financial, and other resources (v) Ability to reliably measure development costs

1.5 Disclosure Requirements

(a) The Company shall provide detailed disclosures regarding: (i) Significant judgments in determining performance obligations (ii) Methods used to recognize revenue for performance

obligations satisfied over time (iii) Transaction price allocation methodologies (iv) Contract asset and liability balances and significant changes therein

(b) Quarterly and annual financial reports shall include: (i) Disaggregated revenue information (ii) Contract balances and significant changes (iii) Performance obligations, including description and timing of satisfaction (iv) Significant payment terms and related policies

1.6 Internal Controls and Procedures

(a) The Company shall maintain robust internal controls over financial reporting, including: (i) Documented procedures for revenue recognition (ii) Regular review of contract terms and conditions (iii) Systematic tracking of performance obligations (iv) Periodic assessment of capitalization criteria (v) Regular reconciliation of contract assets and liabilities

(b) The Company shall conduct quarterly reviews of: (i) Revenue recognition policies and procedures (ii) Capitalization decisions and related documentation (iii) Contract modification assessments (iv) Performance obligation satisfaction status

2.0 INTERNAL CONTROLS AND COMPLIANCE FRAMEWORK

2.1 Sarbanes-Oxley Compliance

(a) The Company shall maintain internal controls in accordance with SOX Section 404, including: (i) Documentation of control procedures and process workflows (ii) Regular testing and monitoring of control effectiveness (iii) Remediation of identified deficiencies within prescribed timeframes (iv) Maintenance of audit trails and supporting documentation (v) Implementation of segregation of duties protocols

(b) Management shall conduct quarterly assessments of control effectiveness, encompassing: (i) Review of control design and operating effectiveness (ii) Documentation of test results and findings (iii) Implementation of corrective actions (iv) Reporting to the Audit Committee and Board of Directors

2.2 AI Algorithm Validation Controls

(a) The Company shall implement controls specific to AI/ML development: (i) Version control and change management procedures, including Git-based repositories (ii) Testing and validation protocols for both training and inference phases (iii) Documentation requirements for algorithm modifications and parameter updates (iv) Bias detection and mitigation procedures (v) Performance monitoring and degradation detection systems

(b) All material changes to core algorithms shall require: (i) Technical review and approval by qualified personnel (ii) Impact assessment on financial reporting and operational outcomes (iii) Documentation of validation procedures and test results (iv) Risk assessment and mitigation strategies (v) Rollback procedures and contingency plans

(c) Algorithm deployment controls shall include: (i) Staged deployment procedures (ii) A/B testing protocols where applicable (iii) Performance monitoring thresholds (iv) Incident response procedures (v) Regular model retraining schedules

2.3 Data Security and Privacy Controls

(a) The Company shall maintain controls ensuring: (i) Protection of customer data through encryption and access controls (ii) Compliance with GDPR, CCPA, and other applicable regulations (iii) Secure handling of proprietary algorithms and models (iv) Data retention and destruction procedures (v) Third-party data handling requirements

(b) Regular audits shall be conducted to verify compliance, including: (i) Quarterly security assessments (ii) Annual penetration testing (iii) Continuous monitoring of access logs (iv) Regular privacy impact assessments (v) Vendor security evaluations

2.4 Financial Risk Management Controls

(a) The Company shall implement controls addressing: (i) Revenue recognition specific to AI-based products (ii) Cost allocation for research and development (iii) Capitalization of algorithm development costs (iv) Valuation of AI-related intellectual property (v) Recognition of impairment indicators

(b) Financial reporting controls shall include: (i) Reconciliation procedures for AI-generated data (ii) Review procedures for automated calculations (iii) Documentation of key assumptions and methodologies (iv) Monitoring of regulatory compliance requirements (v) Periodic review of control effectiveness

2.5 Documentation and Reporting Requirements

(a) The Company shall maintain comprehensive documentation including: (i) Control matrices and process narratives (ii) Test plans and results (iii) Remediation plans and status reports (iv) Training records and certifications (v) Incident reports and resolution documentation

(b) Regular reporting shall be provided to: (i) Executive management (ii) Audit Committee (iii) Board of Directors (iv) External auditors (v) Regulatory authorities as required

3.0 REVENUE RECOGNITION PROCEDURES

3.1 Performance Obligation Identification

(a) The Company shall identify distinct performance obligations including: (i) Software subscription access (ii) Implementation services (iii) Professional services (iv) Support and maintenance (v) Data migration services (vi) Custom development work (vii) Training services

(b) Each obligation shall be evaluated based on: (i) Customer's ability to benefit from the good or service (ii) Distinct nature within the context of the contract (iii) Integration requirements with other services (iv) Customization level required (v) Interdependencies with other performance obligations

(c) Bundled services shall be assessed for separation when: (i) Components have standalone value (ii) Multiple vendors could provide individual components (iii) Services are not significantly modified or customized for integration

3.2 Contract Modification Procedures

(a) Contract modifications shall be evaluated to determine: (i) Impact on transaction price (ii) Additional performance obligations (iii) Treatment of undelivered elements (iv) Materiality of changes to existing obligations (v) Effect on revenue recognition timing

(b) Revenue adjustments shall be recorded in the period of modification, considering: (i) Prospective versus cumulative catch-up treatment (ii) Impact on deferred revenue balances (iii) Changes to standalone selling prices (iv) Contract combination effects

(c) Documentation requirements for modifications include: (i) Written authorization from authorized parties (ii) Updated performance obligation analysis (iii) Revised pricing calculations (iv) Amendment to original agreement terms

3.3 Usage-Based Billing

(a) Usage-based revenue components shall be: (i) Measured using automated monitoring tools (ii) Recorded monthly based on actual usage (iii) Reconciled to customer agreements (iv) Validated through system-generated reports (v) Adjusted for any service level agreement credits

(b) Variable consideration constraints shall be applied as appropriate, including: (i) Historical usage patterns analysis (ii) Minimum commitment levels (iii) Volume-based pricing tiers (iv) Seasonal fluctuation adjustments

(c) Usage measurement procedures shall include: (i) Daily automated data collection (ii) Monthly validation processes (iii) Quarter-end reconciliation (iv) Dispute resolution procedures (v) Audit trail maintenance

3.4 Professional Services Revenue

(a) Revenue from professional services shall be recognized: (i) Over time as services are delivered (ii) Based on percentage of completion for fixed-fee arrangements (iii) As time and materials are incurred for T&M arrangements (iv) According to milestone completion where applicable

(b) Progress measurement shall be based on: (i) Input methods (labor hours, costs incurred) (ii) Output methods (deliverables completed) (iii) Customer acceptance criteria (iv) Project milestone achievement

(c) Documentation requirements include: (i) Detailed time records (ii) Progress reports (iii) Customer sign-offs (iv) Milestone completion evidence

3.5 Hybrid Deployment Recognition

(a) For hybrid deployment models, revenue shall be allocated based on: (i) Relative standalone selling prices (ii) Observable market prices (iii) Expected cost plus margin approach (iv) Residual approach when appropriate

(b) Recognition timing shall consider: (i) On-premises component delivery (ii) Cloud service activation (iii) Integration completion (iv) Customer acceptance criteria

3.6 Revenue Recognition Constraints

(a) Recognition shall be constrained when: (i) Collection probability is uncertain (ii) Future performance obligations exist (iii) Return rights remain outstanding (iv) Price concessions are likely

(b) Constraint release criteria include: (i) Resolution of uncertainty (ii) Historical experience analysis (iii) Customer-specific factors (iv) Market conditions assessment

3.7 Documentation Requirements

(a) Revenue recognition files must maintain: (i) Contract analysis documentation (ii) Performance obligation identification (iii) Transaction price calculations (iv) Allocation methodologies (v) Recognition timing support (vi) Modification assessments (vii) Constraint analysis

(b) Review and approval procedures require: (i) Monthly revenue recognition review (ii) Quarterly assessment of estimates (iii) Annual evaluation of policies (iv) Independent verification of material transactions

4.0 COST ALLOCATION AND REPORTING

4.1 Research and Development Costs

(a) R&D costs shall be allocated between: (i) Capitalizable development activities, including software development that results in new functionality (ii) Research expenses encompassing exploratory activities and proof-of-concept work (iii) Maintenance and support activities related to existing products

(b) Allocation methodologies shall be documented and consistently applied, with: (i) Time tracking at the project and feature level (ii) Quarterly review of allocation percentages (iii) Documentation of technical feasibility assessments (iv) Clear delineation between enhancement and maintenance work

(c) Machine learning and AI development costs shall be specifically tracked: (i) Model training and optimization activities (ii) Data preparation and cleansing efforts (iii) Algorithm development and testing (iv) Computing resource utilization

4.2 Infrastructure Cost Attribution

(a) Cloud infrastructure costs shall be allocated based on: (i) Direct customer usage, measured through resource consumption metrics (ii) Shared platform components, allocated by customer volume (iii) Development and testing environments, tracked by project

(b) Infrastructure cost allocation shall include: (i) Monthly reconciliation of usage metrics (ii) Separate tracking of production and non-production environments (iii) Attribution of security and compliance-related costs (iv) Documentation of capacity planning assumptions

4.3 Customer Success Costs

(a) Customer success costs shall be allocated to: (i) Implementation projects, tracked by customer engagement (ii) Ongoing support activities, measured by service level (iii) Customer training and enablement programs (iv) Account management and relationship maintenance

(b) Success metrics shall be maintained for: (i) Time-to-value measurements (ii) Customer satisfaction scores (iii) Implementation milestone achievement (iv) Support ticket resolution times

4.4 Segment Reporting

(a) The Company shall maintain segment reporting aligned with: (i) Product lines, including detailed feature sets (ii) Geographic regions, considering local regulatory requirements (iii) Customer industries, with specific vertical analysis (iv) Distribution channels and partnership arrangements

(b) Segment reporting shall include: (i) Quarterly profitability analysis (ii) Customer acquisition costs by segment (iii) Lifetime value calculations (iv) Churn rate analysis

4.5 Reporting Requirements

(a) Cost allocation reports shall be generated: (i) Monthly for operational review (ii) Quarterly for board presentation (iii) Annually for audit purposes

(b) Reports shall include: (i) Variance analysis against budgets (ii) Trend analysis of key metrics (iii) Exception reporting for significant deviations (iv) Reconciliation to financial statements

(c) All cost allocation methodologies shall be reviewed annually and updated as necessary to reflect changes in business operations or accounting standards.