FINANCIAL REPORTING AND ACCOUNTING STANDARDS POLICY

Document No. FIN-2024-001

Effective Date: January 15, 2024

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

WHEREAS, the Company seeks to establish comprehensive standards for financial reporting, internal controls, intellectual property valuation, and revenue recognition in accordance with applicable laws and regulations;

WHEREAS, the Board of Directors has determined it to be in the best interests of the Company to adopt formal policies governing these matters;

NOW, THEREFORE, the Company hereby adopts the following Financial Reporting and Accounting Standards Policy (this "Policy"):

1.0 FINANCIAL REPORTING STANDARDS AND PROCEDURES

1.1 GAAP Compliance Requirements

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

(b) Financial statements shall include: (i) Balance Sheet (ii) Income Statement (iii) Statement of Cash Flows (iv) Statement of Shareholders' Equity (v) Notes to Financial Statements

(c) The Company shall maintain comprehensive documentation supporting: (i) Internal control frameworks (ii) Accounting policies and procedures (iii) Material judgments and estimates (iv) Reconciliations of all significant accounts (v) Supporting schedules for complex transactions

(d) Quarterly reviews and annual audits shall be conducted by independent certified public accountants in accordance with: (i) Public Company Accounting Oversight Board (PCAOB) standards (ii) Securities and Exchange Commission (SEC) requirements (iii) Applicable state regulatory requirements

1.2 Revenue Recognition Standards

(a) The Company shall recognize revenue in accordance with ASC 606, Revenue from Contracts with Customers, following the five-step model: (i) Identify customer contracts (ii) Identify performance obligations (iii) Determine transaction price (iv) Allocate transaction price (v) Recognize revenue upon satisfaction of obligations

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

(c) Performance obligations shall be identified based on: (i) Distinct goods or services (ii) Series of distinct goods or services (iii) Material rights (iv) Customer options for additional goods or services

1.3 AI-Specific Revenue Attribution

(a) For the NexusCore™ Industrial AI Platform and related offerings: (i) Subscription revenue shall be recognized ratably over the contract term (ii) Implementation services shall be recognized as performed (iii) Usage-based AI processing fees shall be recognized monthly based on actual customer consumption

(b) AI Platform revenue recognition shall consider: (i) Multi-tenant hosting arrangements (ii) Custom algorithm development (iii) Data processing services (iv) Professional services (v) Training and support services

(c) Contract consideration shall be allocated based on: (i) Standalone selling prices (ii) Residual approach for highly variable components (iii) Observable price adjustments (iv) Cost plus margin methodology

1.4 SaaS Metrics Reporting

(a) The Company shall track and report key SaaS metrics including: (i) Annual Recurring Revenue (ARR) (ii) Net Revenue Retention (NRR) (iii) Customer Acquisition Cost (CAC) (iv) Lifetime Value (LTV)

(b) Operational metrics shall be calculated and reported monthly: (i) Customer churn rate (ii) Gross margin by product line (iii) Sales efficiency metrics (iv) Customer engagement metrics (v) Platform utilization rates

1.5 Disclosure Requirements

(a) The Company shall provide detailed disclosures regarding: (i) Significant accounting policies (ii) Revenue recognition methodology (iii) Contract assets and liabilities (iv) Remaining performance obligations (v) Significant judgments in revenue recognition

(b) Segment reporting shall include: (i) Geographic revenue distribution (ii) Product line revenue (iii) Customer concentration (iv) Contract duration analysis

1.6 Internal Controls

(a) The Company shall maintain robust internal controls over: (i) Revenue recognition processes (ii) Contract management (iii) Billing and collections (iv) Financial reporting systems (v) Data security and privacy

(b) Regular monitoring and testing shall include: (i) Quarterly control assessments (ii) Annual control testing (iii) Independent audit validation (iv) Remediation tracking (v) Management certification

1.7 Compliance Review

(a) The Company shall conduct quarterly reviews to ensure: (i) Adherence to GAAP standards (ii) Compliance with regulatory requirements (iii) Accuracy of financial reporting (iv) Completeness of disclosures (v) Effectiveness of internal controls

2.0 INTERNAL CONTROLS AND RISK MANAGEMENT

2.1 SOX Compliance Framework

(a) The Company shall maintain internal controls in accordance with Sarbanes-Oxley Act Section 404, including: (i) Control environment assessment, encompassing organizational structure, management philosophy, integrity standards, and ethical values (ii) Risk assessment procedures, including identification, analysis, and management of risks relevant to financial reporting (iii) Control activities documentation, detailing policies, procedures, and mechanisms that enforce management directives (iv) Information and communication protocols ensuring timely capture and dissemination of relevant information (v) Monitoring activities through ongoing evaluations and separate assessments

(b) Documentation Requirements: (i) Quarterly internal control certification by process owners (ii) Annual management assessment of control effectiveness (iii) External auditor attestation of internal control framework (iv) Remediation plans for identified control deficiencies (v) Regular updates to control documentation reflecting organizational changes

2.2 Technology Risk Controls

(a) AI/ML Platform Security: (i) Regular security audits of AI models and algorithms, conducted at least quarterly (ii) Version control and change management procedures, including documentation of all model iterations (iii) Access controls and authentication protocols, implementing multi-factor authentication (iv) Data encryption standards for both at-rest and in-

transit data (v) Model validation procedures and bias testing protocols (vi) Automated monitoring of model performance and drift detection

(b) Infrastructure Security: (i) Cloud security protocols aligned with ISO 27001 standards (ii) Network security measures including firewall configuration and intrusion detection (iii) Disaster recovery procedures with maximum 4-hour recovery time objective (iv) Regular penetration testing and vulnerability assessments (v) Redundancy requirements for critical systems (vi) Geographic distribution of backup systems

(c) Development Environment Controls: (i) Segregation of development, testing, and production environments (ii) Code review requirements and approval workflows (iii) Security testing integration in CI/CD pipeline (iv) Access management for development tools and repositories

2.3 Data Security Protocols

(a) The Company shall maintain comprehensive data security measures including: (i) Data classification standards categorizing information sensitivity levels (ii) Access control matrices defining role-based permissions (iii) Encryption requirements for data at rest and in transit (iv) Retention policies aligned with regulatory requirements (v) Disposal procedures ensuring secure data destruction

(b) Data Privacy Compliance: (i) GDPR compliance measures for European data subjects (ii) CCPA compliance for California residents (iii) Industry-specific privacy requirements (HIPAA, FERPA, etc.) (iv) Data processing agreements with third-party vendors (v) Privacy impact assessments for new processing activities

(c) Data Incident Response: (i) Incident classification and escalation procedures (ii) Notification requirements and timelines (iii) Investigation and documentation protocols (iv) Remediation and prevention measures (v) Post-incident review requirements

2.4 Financial Authorization Matrix

(a) Expenditure Approval Levels: (i) Up to $10,000: Department Manager (ii) Up to $50,000: Vice President (iii) Up to $250,000: CFO (iv) Over $250,000: CEO and Board approval

(b) Contract Authorization Requirements: (i) Up to $25,000: Department Director (ii) Up to $100,000: Vice President (iii) Up to $500,000: CFO (iv) Over $500,000: CEO and Board approval

(c) Special Authorization Requirements: (i) Capital expenditures exceeding $100,000 require business case approval (ii) Technology purchases exceeding $50,000 require CTO review (iii) Marketing expenditures exceeding $75,000 require CMO approval (iv) Professional services contracts require Legal Department review

2.5 Risk Assessment and Monitoring

(a) Quarterly Risk Assessment Requirements: (i) Technology infrastructure vulnerability assessment (ii) Financial control effectiveness review (iii) Compliance obligation updates (iv) Vendor risk assessment (v) Market risk evaluation

(b) Monitoring and Reporting: (i) Monthly risk metrics dashboard (ii) Quarterly risk committee meetings (iii) Annual comprehensive risk review (iv) Regular updates to Board of Directors (v) Independent third-party assessments

(c) Risk Mitigation Strategies: (i) Insurance coverage requirements (ii) Business continuity planning (iii) Crisis management procedures (iv) Stakeholder communication protocols (v) Regular employee training and awareness programs

3.0 INTELLECTUAL PROPERTY VALUATION

3.1 AI Algorithm Valuation Methods

(a) The Company shall value proprietary AI algorithms using: (i) Cost approach - development costs, including: - Direct labor and materials - Overhead allocation - Third-party licensing fees - Testing and validation expenses - Documentation and compliance costs (ii) Market approach - comparable transactions, considering: - Recent industry acquisitions - Licensing agreements - Strategic partnerships - Market multiples for similar technologies (iii) Income approach - projected revenue streams, incorporating: - Expected future cash flows - Risk-adjusted discount rates - Market penetration estimates - Technology obsolescence factors - Competitive displacement probability

(b) Valuation adjustments shall account for: (i) Algorithm maturity level (ii) Market readiness status (iii) Scalability potential (iv) Implementation complexity (v) Data dependencies

3.2 Patent Portfolio Assessment

(a) Patent valuation shall consider: (i) Development costs, including: - Research expenditures - Patent filing and maintenance fees - Legal prosecution expenses - Prior art searches - Expert consultation fees (ii) Market potential, evaluated through: - Addressable market size - Growth projections - Geographic coverage - Industry adoption rates - Licensing opportunities (iii) Competitive advantage, measured by: - Technical superiority - Market barriers - Alternative solutions - Cross-licensing potential - Strategic positioning (iv) Remaining useful life, considering: - Patent term - Technology lifecycle - Market evolution - Regulatory changes - Innovation pace

(b) Portfolio strength indicators shall include: (i) Citation analysis (ii) Claim scope assessment (iii) Jurisdictional coverage (iv) Enforceability analysis (v) Freedom to operate status

3.3 R&D Capitalization Rules

(a) Research costs shall be expensed as incurred, including: (i) Basic research activities (ii) Conceptual formulation (iii) Alternative searches (iv) Initial testing (v) Preliminary design work

(b) Development costs shall be capitalized when technological feasibility is established, requiring: (i) Working prototype existence (ii) Completion of planning phase (iii) Resource commitment (iv) Market validation (v) Management approval

(c) Capitalization criteria shall include: (i) Technical feasibility of completion (ii) Intention to complete development (iii) Ability to use or sell the asset (iv) Probable future economic benefits (v) Adequate technical and financial resources (vi) Reliable measurement of attributable costs

3.4 Technology Stack Depreciation

(a) Software development costs shall be amortized over: (i) Core platform: 5 years - System architecture - Database structures - Security frameworks - API foundations (ii) Individual modules: 3 years - Feature implementations - Integration components - User interfaces - Analytics engines (iii) Custom implementations: Contract term - Client-specific modifications - Bespoke features - Integration adaptations

(b) Depreciation methodology shall incorporate: (i) Straight-line depreciation as default method (ii) Accelerated depreciation when technologically warranted (iii) Periodic reassessment of useful life (iv) Impairment testing triggers (v) Residual value considerations

(c) Special considerations for: (i) Cloud-based implementations (ii) Hybrid solutions (iii) Third-party dependencies (iv) Legacy system integration (v) Regulatory compliance requirements

3.5 Valuation Review and Adjustment

(a) Annual review requirements: (i) Market conditions assessment (ii) Technology evolution impact (iii) Competition analysis (iv) Performance metrics evaluation (v) Value driver validation

(b) Adjustment triggers shall include: (i) Material market changes (ii) Technical obsolescence (iii) Regulatory modifications (iv) Performance variations (v) Strategic repositioning

(c) Documentation requirements: (i) Valuation methodology updates (ii) Assumption modifications (iii) Market data sources (iv) Expert opinions (v) Board approvals

4.0 REVENUE RECOGNITION AND CONTRACT MANAGEMENT

4.1 Multi-element Arrangement Accounting

(a) Revenue allocation shall be based on: (i) Standalone selling prices determined through observable evidence of sales to similarly situated customers (ii) Relative fair value methodology when standalone prices are not directly observable (iii) Residual method when appropriate, subject to the following conditions: - Highly variable or uncertain standalone selling prices - Limited pricing history for new products or services - Demonstrable evidence supporting residual approach

(b) Documentation Requirements: (i) Detailed pricing analysis for each element (ii) Market comparables and pricing methodologies (iii) Regular review and updates of pricing assumptions (iv) Written justification for allocation methods

(c) Timing Considerations: (i) Revenue recognition timing for each element (ii) Dependencies between deliverables (iii) Impact of customer acceptance criteria (iv) Treatment of contingent revenue

4.2 Performance Obligation Identification

(a) Distinct performance obligations include: (i) Software licenses, including: - Perpetual licenses - Term-based licenses - User-based licenses - Module-specific licenses (ii) Implementation services, comprising: - System configuration - Data migration - Integration services - User training (iii) Maintenance and support, encompassing: - Technical support - Software updates - Bug fixes - Security patches (iv) Professional services, including: - Consulting services - Custom development - Business process optimization - Project management

(b) Obligation Assessment Criteria: (i) Capability of being distinct (ii) Separately identifiable from other promises (iii) Customer's ability to benefit from the good or service (iv) Integration requirements with other deliverables

4.3 Contract Modification Procedures

(a) Contract modifications shall be evaluated to determine: (i) Separate contract treatment when: - Additional distinct goods or services are added - Pricing reflects standalone selling prices - Modification is substantially independent (ii) Prospective modification treatment when: - Remaining goods or services are distinct - Pricing does not reflect standalone selling prices - Future performance is substantially different (iii) Cumulative catch-up adjustment when: - Remaining goods or services are not distinct - Modification affects previously recognized revenue - Performance obligations are partially satisfied

(b) Documentation Requirements: (i) Written modification agreements (ii) Pricing analysis for modified elements (iii) Impact assessment on revenue recognition (iv) Approval documentation

4.4 Subscription Revenue Treatment

(a) Subscription revenue shall be: (i) Recognized ratably over service period, considering: - Contract start and end dates - Service activation dates - Billing cycles - Usage-based components (ii) Adjusted for service level credits through: - Monthly performance monitoring - Credit calculation methodology - Customer notification procedures - Credit application timing (iii) Prorated for partial periods based on: - Daily rate calculations - Actual days of service - Billing adjustments - Term modifications

4.5 Revenue Recognition Timing

(a) Recognition criteria must include: (i) Identification of contract with customer (ii) Performance obligations satisfaction (iii) Transaction price determination (iv) Allocation of transaction price (v) Transfer of control assessment

(b) Special Considerations: (i) Customer acceptance provisions (ii) Right of return provisions (iii) Variable consideration constraints (iv) Significant financing components

4.6 Contract Asset and Liability Management

(a) Contract assets shall be recorded when: (i) Performance occurs before billing (ii) Conditional rights to consideration exist (iii) Revenue recognition precedes invoicing

(b) Contract liabilities shall be recorded when: (i) Payment is received before performance (ii) Advance billing occurs (iii) Deferred revenue conditions exist

4.7 Documentation and Compliance

(a) Required documentation includes: (i) Revenue recognition calculations (ii) Contract summary sheets (iii) Performance obligation tracking (iv) Modification documentation (v) Pricing analyses

(b) Compliance requirements: (i) Regular review of revenue recognition policies (ii) Internal control procedures (iii) Audit trail maintenance (iv) Regulatory compliance verification

4.8 Dispute Resolution

(a) Revenue-related disputes shall be addressed through: (i) Formal dispute resolution procedures (ii) Documentation of customer communications (iii) Resolution tracking and reporting (iv) Impact assessment on revenue recognition

EXHIBITS

Exhibit A: Chart of Accounts Exhibit B: Revenue Recognition Decision Tree Exhibit C: Internal Control Documentation Templates Exhibit D: Financial Authorization Matrix

SIGNATURE PAGE

IN WITNESS WHEREOF, this Policy has been executed as of the date first written above.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: _____ Name: Dr. Sarah Chen Title: Chief Executive Officer

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

ATTEST:

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Corporate Secretary