FINANCIAL REPORTING AND ACCOUNTING POLICIES

Effective Date: January 15, 2024

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation (hereinafter referred to as the "Company"), has established these Financial Reporting and Accounting Policies to ensure compliance with applicable accounting standards and regulatory requirements;

WHEREAS, the Company develops and delivers proprietary artificial intelligence software solutions and requires specific accounting treatments for its technology-based revenue streams and development activities;

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

1.0 FINANCIAL REPORTING STANDARDS AND PROCEDURES

1.1 Generally Accepted Accounting Principles (GAAP) Compliance

The Company shall prepare all financial statements and related disclosures 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 conform to:

(a) ASC 606 Revenue from Contracts with Customers; (b) ASC 350 Intangibles - Goodwill and Other; (c) ASC 985-20 Costs of Software to be Sold, Leased, or Marketed; (d) ASC 340-40 Other Assets and Deferred Costs - Contracts with Customers; (e) ASC 718 Stock-Based Compensation; (f) ASC 842 Leases; and (g) Other applicable accounting standards and updates as promulgated by FASB.

1.2 Revenue Recognition Standards

The Company shall recognize revenue in accordance with ASC 606 using the following five-step model:

(a) Identify customer contracts, including evaluation of contract combinations, modifications, and implicit price concessions; (b) Identify performance obligations, with specific consideration for distinct software licenses, implementation services, maintenance, and support obligations; (c) Determine transaction price, including variable consideration constraints, significant financing components, and non-cash consideration; (d) Allocate transaction price based on relative standalone selling prices, with prescribed methodologies for establishing

observable and estimated prices; (e) Recognize revenue upon satisfaction of performance obligations, applying transfer of control criteria for point-in-time versus over-time recognition.

1.2.1 Contract Modifications

The Company shall evaluate contract modifications according to the following criteria: (a) Separate contract treatment if scope expansion with standalone pricing; (b) Prospective treatment if remaining goods/services are distinct; (c) Cumulative catch-up adjustment if remaining goods/services are not distinct.

1.2.2 Performance Obligation Criteria

Performance obligations shall be considered distinct when both: (a) Customer can benefit from good/service on its own or with readily available resources; (b) Promise to transfer is separately identifiable from other promises.

1.3 Financial Statement Preparation

The Company shall prepare the following financial statements quarterly and annually:

(a) Consolidated Balance Sheet (b) Consolidated Statement of Operations (c) Consolidated Statement of Cash Flows (d) Consolidated Statement of Stockholders' Equity (e) Notes to Consolidated Financial Statements

1.3.1 Reporting Timeline Requirements

(a) Quarterly statements due within 45 days of quarter-end (b) Annual statements due within 90 days of year-end (c) Material subsequent events reported through statement issuance date

1.3.2 Segment Reporting Requirements

The Company shall: (a) Evaluate operating segments according to ASC 280 (b) Report discrete financial information for segments exceeding quantitative thresholds (c) Provide required disclosures for reportable segments

1.4 Internal Control Framework

The Company shall maintain an internal control framework aligned with COSO 2013 Framework including:

(a) Control Environment - Demonstrate commitment to integrity and ethical values - Exercise oversight responsibility - Establish structure, authority, and responsibility - Demonstrate commitment to competence - Enforce accountability

(b) Risk Assessment - Specify suitable objectives - Identify and analyze risks - Assess fraud risk - Identify and analyze significant change

(c) Control Activities - Select and develop control activities - Select and develop general controls over technology - Deploy through policies and procedures

(d) Information and Communication - Use relevant quality information - Communicate internally - Communicate externally

(e) Monitoring Activities - Conduct ongoing and/or separate evaluations - Evaluate and communicate deficiencies

1.5 Technology Cost Accounting

The Company shall capitalize certain technology development costs according to:

(a) ASC 350-40 for internal-use software: - Capitalize application development stage costs - Expense preliminary project and post-implementation costs - Amortize over estimated useful life

(b) ASC 985-20 for software to be sold: - Capitalize costs after technological feasibility - Expense research and development costs - Amortize based on product revenues or straight-line

1.6 Compliance Review and Updates

The Company shall: (a) Review accounting policies quarterly for GAAP compliance (b) Update procedures for new accounting pronouncements (c) Document technical accounting positions (d) Maintain accounting policy manual (e) Provide training on significant accounting policies

2.0 REVENUE RECOGNITION AND CONTRACT ACCOUNTING

2.1 Performance Obligations

The Company shall identify distinct performance obligations within its contracts including:

(a) NexusCore™ platform subscription licenses, encompassing both standard and enterprise-level access tiers (b) Implementation services, including system configuration, data migration, and integration setup (c) Professional services, comprising consulting, customization, and development work (d) Maintenance and support, covering technical assistance, bug fixes, and platform updates (e) Training services, including both standard and customized training programs

Each performance obligation shall be evaluated independently based on the following criteria: (i) The customer can benefit from the good or service on its own (ii) The promise to transfer the good or service is separately identifiable (iii) The obligation represents a distinct deliverable within the context of the contract

2.2 Contract Modification Procedures

Any modification to existing customer contracts shall be evaluated to determine whether it creates:

(a) A separate contract, when additional distinct products or services are added at their standalone selling prices (b) Termination of existing contract and creation of new contract, when remaining goods or services are distinct (c) Modification of existing contract, when remaining goods or services are not distinct

Contract modifications shall be documented through formal amendments and must include: (i) Detailed description of modified terms (ii) Pricing adjustments and allocation methodology (iii) Updated performance obligation schedule (iv) Signatures from authorized representatives of both parties

2.3 Multi-element Arrangement Accounting

For arrangements with multiple performance obligations, the Company shall:

(a) Determine standalone selling prices through: (i) Direct observation of prices when sold separately (ii) Adjusted market assessment approach (iii) Expected cost plus margin approach (iv) Residual approach (when applicable)

(b) Allocate transaction price using relative standalone selling price method: (i) Calculate ratio of individual standalone prices to total (ii) Apply ratio to total contract consideration (iii) Document allocation methodology and calculations

(c) Apply appropriate recognition method for each obligation based on: (i) Nature of the performance obligation (ii) Timing of transfer of control (iii) Pattern of delivery or consumption

2.4 Subscription Revenue Treatment

Subscription revenue shall be recognized:

(a) Over time using a time-elapsed output method, with recognition occurring: (i) Monthly for standard subscriptions (ii) Quarterly for enterprise agreements (iii) Annually for prepaid contracts

(b) Beginning when the customer obtains access to the NexusCore™ platform, specifically: (i) Upon completion of implementation requirements (ii) When access credentials are provided (iii) When customer acceptance is received, if required

(c) Net of any service level credits or refunds, including: (i) Uptime guarantee credits (ii) Performance-based adjustments (iii) Early termination refunds (iv) Volume-based rebates

2.5 Revenue Recognition Documentation Requirements

The Company shall maintain comprehensive documentation supporting revenue recognition decisions, including:

(a) Contract analysis worksheets (b) Performance obligation identification support (c) Standalone selling price calculations (d) Transaction price allocation schedules (e) Recognition

timing determinations (f) Service level agreement compliance records (g) Customer acceptance documentation (h) Contract modification analyses

All revenue recognition determinations shall be reviewed quarterly by the Finance Department and validated annually through external audit procedures.

3.0 RESEARCH AND DEVELOPMENT COST ACCOUNTING

3.1 Software Development Costs

The Company shall capitalize software development costs that meet the following criteria:

(a) Technological feasibility has been established through detailed program design (b) All planning, designing, and testing activities have been completed to satisfaction (c) Resources are available to complete the project, including personnel and funding (d) The Company can demonstrate the ability to produce the product to market standards (e) Economic viability has been validated through market analysis

Software development costs eligible for capitalization shall include: (i) Direct labor costs of programmers and developers (ii) Associated employee benefits and payroll taxes (iii) Third-party contractor fees directly related to development (iv) Software tools and licenses used exclusively for development (v) Cloud infrastructure costs during the development phase

3.2 AI Model Development Expenses

Costs related to artificial intelligence and machine learning development shall be:

(a) Expensed as incurred during the research phase, including: - Initial concept development and feasibility studies - Data collection and preprocessing activities - Preliminary model architecture design - Research into potential algorithms and approaches

(b) Capitalized during development phase when the following criteria are met: - Model architecture has been finalized - Training datasets have been validated - Performance metrics have been established - Commercial viability has been demonstrated

(c) Amortized over estimated useful life upon completion, considering: - Expected technological obsolescence - Market conditions and competitive landscape - Planned upgrade cycles - Customer contract terms

3.3 Patent and IP-related Costs

The Company shall account for intellectual property costs as follows:

(a) Legal costs for patent applications shall be capitalized, including: - Patent search and preparation fees - Filing fees and examination costs - Professional services related to prosecution - International filing fees and translations

(b) Maintenance fees shall be expensed as incurred, encompassing: - Annual patent maintenance payments - Trademark renewal fees - Geographic registration maintenance - Portfolio management costs

(c) Defense costs shall be expensed as incurred, including: - Litigation expenses - Settlement payments - Expert witness fees - Documentary evidence preparation

3.4 General R&D Cost Provisions

The Company shall maintain the following practices:

(a) Regular review of capitalized costs for impairment (b) Documentation of capitalization decisions and supporting rationale (c) Quarterly assessment of amortization periods and useful life estimates (d) Clear segregation of research and development activities in accounting records (e) Consistent application of capitalization thresholds across projects

3.5 Reporting Requirements

The Company shall prepare and maintain:

(a) Detailed project-level cost tracking (b) Quarterly capitalization summaries (c) Annual review of R&D accounting policies (d) Documentation supporting capitalization decisions (e) Regular reports to management on R&D expenditures and their treatment

4.0 FINANCIAL CONTROLS AND COMPLIANCE

4.1 SOX Compliance Procedures

The Company shall maintain comprehensive controls satisfying Sarbanes-Oxley requirements including:

(a) Documentation of control design and operation, with quarterly updates and annual comprehensive reviews (b) Regular testing of control effectiveness through both automated and manual verification processes (c) Remediation of identified deficiencies within prescribed timeframes: (i) Critical deficiencies: 24-48 hours (ii) Significant deficiencies: 5 business days (iii) Minor deficiencies: 30 calendar days (d) Implementation of continuous monitoring systems for key control points (e) Quarterly certification by process owners and department heads

4.2 Audit Trail Requirements

The Company shall maintain complete and verifiable audit trails for:

(a) All journal entries and adjustments, including: (i) Original transaction details (ii) Supporting documentation (iii) Approval timestamps (iv) User identification (b) Revenue recognition determinations, documenting: (i) Contract terms analysis (ii) Performance

obligation identification (iii) Transaction price allocation (iv) Recognition timing decisions (c) Capitalization decisions, supported by: (i) Technical feasibility assessments (ii) Cost-benefit analyses (iii) Useful life determinations (d) System access and changes, recording: (i) Login attempts and duration (ii) Transaction modifications (iii) Configuration changes (iv) Error logs and exception reports

4.3 Access Control Protocols

The Company shall implement the following access controls:

(a) Role-based access to financial systems, including: (i) Hierarchical approval levels (ii) Function-specific permissions (iii) Time-bound access grants (b) Segregation of duties ensuring: (i) Transaction initiation separation (ii) Authorization independence (iii) Record-keeping segregation (iv) Asset custody separation (c) Regular access reviews conducted: (i) Monthly for critical systems (ii) Quarterly for general access (iii) Upon personnel changes (d) Change management procedures requiring: (i) Documented change requests (ii) Impact assessments (iii) Testing protocols (iv) Rollback procedures (e) Multi-factor authentication for: (i) Remote access (ii) Administrative functions (iii) Critical system changes

4.4 Compliance Monitoring

The Company shall establish:

(a) Monthly compliance dashboards (b) Quarterly control effectiveness assessments (c) Annual comprehensive compliance reviews (d) Independent third-party evaluations (e) Regular staff training and certification