

FINANCIAL REPORTING AND ACCOUNTING STANDARDS POLICY

Effective Date: January 15, 2024

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation (the "Company"), develops and provides artificial intelligence-powered software solutions for industrial process optimization; and

WHEREAS, the Company desires to establish comprehensive standards for financial reporting and accounting practices that align with its business model and regulatory requirements;

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

1.0 FINANCIAL REPORTING AND ACCOUNTING STANDARDS

1.1 Generally Accepted Accounting Principles

The Company shall prepare all financial statements and related disclosures in accordance with Generally Accepted Accounting Principles ("GAAP") as established by the Financial Accounting Standards Board ("FASB") and other relevant regulatory bodies. All accounting policies, procedures, and financial reporting practices shall conform to these standards.

(a) Compliance Requirements: (i) Quarterly and annual financial statements shall be prepared in accordance with GAAP (ii) Internal controls shall be maintained pursuant to Sarbanes-Oxley Act requirements (iii) Material accounting policies shall be documented and consistently applied (iv) Changes in accounting policies shall require Board approval and appropriate disclosures

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

1.2 Revenue Recognition Methodology

(a) The Company shall recognize revenue in accordance with ASC 606, Revenue from Contracts with Customers, applying the following 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 performance obligations

(b) For the NexusCore™ Industrial AI Platform and related subscription services, revenue shall be recognized ratably over the subscription term, commencing upon customer access activation.

(c) Contract Modifications: (i) Material modifications shall be evaluated to determine whether they create new contracts (ii) Price adjustments shall be allocated according to standalone selling prices (iii) Service upgrades shall be assessed for distinct performance obligations

(d) Performance Obligation Satisfaction: (i) Platform access obligations satisfied over time (ii) Implementation services recognized upon completion (iii) Professional services recognized as delivered (iv) Training services recognized upon completion

1.3 Software Development Costs

(a) Capitalization of software development costs shall comply with ASC 350-40, Internal-Use Software, with specific consideration for: (i) Application development stage costs (ii) AI/ML model development and training costs (iii) Cloud computing implementation costs

(b) Research and development costs shall be expensed as incurred, except for costs meeting capitalization criteria under applicable accounting standards.

(c) Capitalization Criteria: (i) Technical feasibility of completion (ii) Intent and ability to complete development (iii) Ability to use or sell the software (iv) Generation of probable future economic benefits (v) Availability of technical and financial resources (vi) Reliable measurement of attributable expenditure

(d) Amortization Requirements: (i) Capitalized costs shall be amortized over estimated useful life (ii) Amortization begins when software is ready for intended use (iii) Regular impairment assessments shall be performed (iv) Changes in estimated useful life shall be accounted for prospectively

1.4 Specific Industry Considerations

(a) AI/ML Development Costs: (i) Model training costs shall be evaluated for capitalization (ii) Data acquisition costs shall be expensed as incurred (iii) Infrastructure costs shall be allocated appropriately (iv) Ongoing maintenance costs shall be expensed

(b) Cloud Computing Arrangements: (i) Implementation costs shall be capitalized when appropriate (ii) Service contracts shall be evaluated for lease components (iii) Hosting arrangements shall be assessed under ASC 350-40 (iv) Platform-as-a-Service costs shall be evaluated separately

1.5 Disclosure Requirements

- (a) Revenue Recognition: (i) Significant judgments in applying ASC 606 (ii) Timing of performance obligation satisfaction (iii) Transaction price allocation methodologies (iv) Contract asset and liability balances
- (b) Software Development: (i) Capitalization policies and thresholds (ii) Amortization methods and useful life estimates (iii) Research and development expenses (iv) Impairment assessments and charges
- (c) Industry-Specific Disclosures: (i) AI/ML development activities (ii) Cloud computing arrangements (iii) Subscription-based revenue models (iv) Technical infrastructure investments

2.0 INTERNAL CONTROL FRAMEWORK

2.1 Control Environment

- (a) The Company shall maintain a comprehensive system of internal controls in compliance with Sarbanes-Oxley Act Section 404 requirements, including: (i) Organizational structure and reporting lines, with clearly documented hierarchies and segregation of duties (ii) Assignment of authority and responsibility, including detailed delegation matrices and approval thresholds (iii) Human resources policies and procedures, encompassing recruitment, training, performance evaluation, and succession planning (iv) Code of conduct and ethics guidelines that establish behavioral expectations and compliance requirements (v) Board oversight mechanisms and committee structures for governance effectiveness
- (b) The Control Environment shall be subject to: (i) Annual review and certification by executive management (ii) Independent assessment by internal audit function (iii) Regular updates to reflect organizational changes and regulatory requirements (iv) Documentation of control design and operating effectiveness

2.2 Risk Assessment and Monitoring

- (a) Regular risk assessments shall be conducted to identify and evaluate risks affecting financial reporting accuracy, including: (i) Quarterly risk assessment meetings with key stakeholders (ii) Documentation of identified risks in a centralized risk register (iii) Prioritization of risks based on impact and likelihood matrices (iv) Development of mitigation strategies for identified risks (v) Regular reporting to the Audit Committee on risk status
- (b) AI System Controls shall include: (i) Automated monitoring of AI model performance with defined tolerance thresholds (ii) Version control and change management procedures for all AI systems (iii) Data quality and integrity controls with automated validation checks (iv) Regular calibration of AI models against established benchmarks (v) Documentation of AI system architecture and control points

2.3 Control Activities

(a) The Company shall implement and maintain control activities that: (i) Address identified risks through preventive and detective controls (ii) Operate at various levels within the organization (iii) Incorporate both manual and automated control procedures (iv) Include appropriate segregation of duties (v) Maintain audit trails for all significant transactions

(b) Technology-enabled controls shall encompass: (i) Access controls and user authentication protocols (ii) System change management procedures (iii) Data backup and recovery processes (iv) Cybersecurity measures and incident response procedures (v) Regular testing of control effectiveness

2.4 Information and Communication

(a) The Company shall maintain information systems that: (i) Capture and process relevant data accurately and timely (ii) Support the functioning of internal controls (iii) Provide appropriate reporting capabilities (iv) Enable effective communication across the organization

(b) Communication protocols shall include: (i) Regular updates to the Board and management on control effectiveness (ii) Channels for reporting control deficiencies (iii) Training programs on internal control requirements (iv) Documentation of control-related communications

2.5 Monitoring Activities

(a) The Company shall conduct ongoing and separate evaluations to: (i) Assess the quality of internal control performance over time (ii) Identify and report deficiencies to appropriate parties (iii) Monitor remediation of identified control weaknesses (iv) Ensure continuous improvement of the control framework

(b) Monitoring procedures shall include: (i) Regular control self-assessments by process owners (ii) Independent testing by internal and external auditors (iii) Periodic review of control documentation and updates (iv) Tracking of key performance indicators related to control effectiveness (v) Regular reporting to management on monitoring results

3.0 REVENUE RECOGNITION PROCEDURES

3.1 Subscription Revenue

(a) NexusCore™ Platform subscription revenue shall be recognized according to the following criteria: (i) Contract term identification, including explicit and implicit renewal terms (ii) Performance obligation satisfaction through continuous service delivery (iii) Variable consideration measurement, including usage-based components

(b) Subscription billing periods shall be administered as follows: (i) Annual subscriptions shall be recognized ratably over twelve (12) months (ii) Monthly subscriptions shall be recognized

within the billing month (iii) Multi-year contracts shall be recognized over the respective term length

(c) Revenue recognition timing shall commence upon: (i) Customer access provision to the NexusCore™ Platform (ii) Completion of essential implementation requirements (iii) Receipt of customer acceptance documentation, where applicable

3.2 Implementation Services

(a) Implementation service revenue shall be recognized as follows: (i) Over time using percentage of completion method (ii) Based on measurable implementation milestones (iii) In accordance with customer acceptance criteria

(b) Implementation milestone documentation must include: (i) Detailed project timeline with specific deliverables (ii) Customer sign-off requirements for each phase (iii) Resource allocation and utilization metrics (iv) Contingency procedures for milestone delays

(c) Revenue recognition for implementation services shall consider: (i) Direct labor hours expended (ii) Third-party integration costs (iii) Customer-specific customization requirements (iv) Training and knowledge transfer components

3.3 Multi-Element Arrangements

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

(b) Standalone selling price determination shall follow: (i) Observable price methodology when sold separately (ii) Adjusted market assessment approach (iii) Expected cost plus margin analysis (iv) Residual approach when appropriate

(c) Contract modification procedures shall address: (i) Scope changes affecting performance obligations (ii) Price adjustments and their allocation (iii) Treatment of undelivered elements

3.4 Special Considerations

(a) Treatment of non-refundable upfront fees: (i) Assessment of distinct performance obligations (ii) Recognition period determination (iii) Material right evaluation

(b) Variable consideration constraints: (i) Usage-based fees (ii) Performance bonuses (iii) Service level credits (iv) Volume discounts

3.5 Documentation Requirements

(a) Revenue recognition documentation shall include: (i) Contract summary sheets (ii) Performance obligation identification (iii) Transaction price calculations (iv) Recognition timing support

(b) Periodic review requirements: (i) Quarterly assessment of recognition patterns (ii) Annual review of standalone selling prices (iii) Documentation of significant judgments

3.6 Contract Modifications

(a) Modification assessment criteria: (i) Determination of distinct additional services (ii) Price adjustment evaluation (iii) Impact on existing performance obligations

(b) Recognition adjustment procedures: (i) Prospective treatment methodology (ii) Cumulative catch-up calculations (iii) Contract combination considerations

3.7 Compliance and Monitoring

(a) Regular monitoring procedures shall include: (i) Monthly revenue recognition reviews (ii) Quarterly compliance assessments (iii) Annual audit preparation procedures

(b) Internal control requirements: (i) Segregation of duties (ii) Review and approval workflows (iii) Documentation retention policies (iv) System access controls

3.8 Disclosure Requirements

(a) Financial statement disclosures shall address: (i) Significant judgments in determining performance obligations (ii) Timing of satisfaction of performance obligations (iii) Transaction price allocation methodologies (iv) Contract asset and liability balances

(b) Supplementary disclosures shall include: (i) Remaining performance obligations (ii) Significant financing components (iii) Contract modification impacts (iv) Customer concentration metrics

4.0 COST ALLOCATION AND RECOGNITION

4.1 Research and Development

(a) R&D costs shall be allocated according to: (i) Direct labor costs, including salaries, benefits, and contractor compensation (ii) Infrastructure and computing resources utilized in development activities (iii) Third-party technology licenses and intellectual property rights

(b) R&D cost recognition shall adhere to the following principles: (i) Development costs shall be capitalized only upon meeting technological feasibility criteria (ii) Research costs shall be expensed as incurred (iii) Mixed-use resources shall be allocated based on documented usage patterns

(c) Project-specific allocations must: (i) Maintain detailed time-tracking records (ii) Document resource consumption metrics (iii) Establish clear delineation between research and development phases

4.2 Sales and Marketing

- (a) Commission costs shall be capitalized and amortized over the expected customer relationship period, determined by: (i) Historical customer retention data (ii) Contract term analysis (iii) Industry benchmarks
- (b) Marketing expenditures shall be categorized as follows: (i) Direct campaign costs (ii) Brand development expenses (iii) Market research and analysis costs
- (c) Recognition criteria shall include: (i) Immediate expensing of general marketing costs (ii) Capitalization of customer-specific acquisition costs (iii) Amortization schedules aligned with benefit periods

4.3 Cloud Infrastructure

- (a) Cloud computing costs shall be allocated based on: (i) Customer usage metrics and consumption patterns (ii) Platform maintenance requirements (iii) Development environment consumption (iv) Disaster recovery and redundancy provisions
- (b) Cost attribution methodology shall consider: (i) Direct instance costs (ii) Shared resource allocation (iii) Storage and data transfer expenses (iv) Security and compliance overhead
- (c) Recognition timing shall follow: (i) Monthly consumption patterns (ii) Prepaid resource amortization (iii) Reserved instance cost distribution

4.4 Personnel Cost Attribution

- (a) Employee costs shall be allocated according to: (i) Time allocation records (ii) Project assignment documentation (iii) Functional role distribution
- (b) Overhead allocation shall include: (i) Administrative support costs (ii) Facility expenses (iii) Equipment and technology provisions

4.5 Compliance and Documentation

- (a) All cost allocations must be: (i) Documented in accordance with GAAP principles (ii) Supported by verifiable metrics (iii) Reviewed quarterly for accuracy (iv) Approved by appropriate financial authority
- (b) Regular audits shall verify: (i) Allocation methodology compliance (ii) Documentation completeness (iii) Calculation accuracy (iv) Policy adherence
- (c) Adjustments and corrections shall be: (i) Implemented within the current fiscal period (ii) Documented with justification (iii) Reported to appropriate oversight committees

EXHIBITS

Exhibit A: Materiality Thresholds

[Detailed materiality threshold matrix by transaction type]

Exhibit B: Control Documentation Templates

[Standard templates for control documentation]

APPENDICES

Appendix 1: Data Retention Schedule

[Detailed retention requirements by record type]

Appendix 2: System Access Control Matrix

[Access control requirements and authorization levels]

IN WITNESS WHEREOF, this Policy has been adopted as of the Effective 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:

Corporate Secretary