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 proprietary artificial intelligence-powered software solutions for industrial process optimization;

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

WHEREAS, the Company recognizes the need for specific guidance regarding the treatment of software-as-a-service revenue, research and development costs, and other financial matters unique to its artificial intelligence and software development activities;

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

1.0 FINANCIAL REPORTING AND ACCOUNTING STANDARDS

1.1 General Accounting Principles

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

(b) The Company shall maintain its books and records on an accrual basis of accounting, with fiscal years ending December 31.

(c) Financial statements shall be prepared and presented in accordance with the following principles: (i) Consistency in application of accounting policies (ii) Materiality thresholds as defined in the Company's accounting policies (iii) Going concern assumption unless circumstances dictate otherwise (iv) Comparability of financial information across reporting periods

(d) The Company shall maintain adequate internal controls and documentation to support: (i) Segregation of duties in financial processes (ii) Audit trails for all material transactions (iii) Regular reconciliation of accounts (iv) Periodic review of accounting estimates and judgments

1.2 Revenue Recognition Standards

(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 subscriptions: (i) Subscription revenue shall be recognized ratably over the contract term (ii) Implementation services shall be evaluated for distinct performance obligations (iii) Variable consideration shall be estimated using expected value method (iv) Contract modifications shall be evaluated for treatment as separate contracts (v) Non-refundable upfront fees shall be assessed for distinct benefit to customers

(c) Professional services revenue shall be recognized as follows: (i) Time and materials arrangements based on actual hours incurred (ii) Fixed-price contracts using percentage of completion method (iii) Training services upon delivery of instruction (iv) Custom development services based on milestone achievement

1.3 Multi-Element Arrangements

(a) For contracts containing multiple performance obligations, the Company shall: (i) Determine standalone selling prices for each element (ii) Allocate transaction price based on relative standalone selling prices (iii) Apply appropriate recognition criteria to each element

(b) Standalone selling price hierarchy shall be established as follows: (i) Observable prices from standalone sales (ii) Adjusted market assessment approach (iii) Expected cost plus margin approach (iv) Residual approach when criteria are met

(c) Contract combination and modification principles: (i) Evaluation of commercial objective and economic substance (ii) Assessment of interdependencies between contracts (iii) Treatment of contract modifications prospectively or retrospectively

1.4 Software Development Costs

(a) Capitalization of software development costs shall comply with ASC 350-40: (i) Preliminary project stage costs shall be expensed (ii) Application development stage costs shall be capitalized (iii) Post-implementation costs shall be expensed

(b) Specific capitalization criteria for AI development: (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

(c) Amortization of capitalized costs: (i) Commencement upon product release (ii) Straight-line method over estimated useful life (iii) Regular review of amortization period and method (iv) Impairment testing when indicators present

1.5 Disclosure Requirements

(a) Financial statement disclosures shall include: (i) Significant accounting policies and estimates (ii) Disaggregation of revenue streams (iii) Contract assets and liabilities (iv) Performance obligations and timing of satisfaction (v) Significant judgments in revenue recognition (vi) Capitalized software development costs

(b) Quarterly and annual reporting shall address: (i) Changes in accounting policies or estimates (ii) Segment reporting for major product lines (iii) Geographic distribution of revenue (iv) Significant customer concentrations (v) Backlog and remaining performance obligations

2.0 INTERNAL CONTROLS AND COMPLIANCE FRAMEWORK

2.1 Control Environment

(a) The Company shall maintain a comprehensive system of internal controls including: (i) Written policies and procedures, which shall be reviewed and updated annually (ii) Organizational structure with clear reporting lines, documented in formal hierarchical charts (iii) Assignment of authority and responsibility, delineated through written delegation matrices (iv) Human resource policies supporting control objectives, including mandatory training requirements

(b) The control environment shall be supported by: (i) Regular management oversight reviews conducted at least quarterly (ii) Independent internal audit functions reporting directly to the Audit Committee (iii) Documented compliance attestations from department heads (iv) Annual certification of control effectiveness by executive management

2.2 Risk Assessment Procedures

(a) The Company shall conduct quarterly risk assessments addressing: (i) Financial reporting risks, including revenue recognition complexities (ii) Technology and cybersecurity risks, with particular focus on data protection (iii) Regulatory compliance risks, including SOX requirements (iv) Operational risks, including business continuity threats

(b) Risk assessment methodology shall include: (i) Structured risk identification workshops with key stakeholders (ii) Quantitative and qualitative risk evaluation metrics (iii) Documentation of risk mitigation strategies and controls (iv) Regular monitoring of risk indicators and control effectiveness

2.3 Information System Controls

(a) Controls over financial systems shall include: (i) Access controls and segregation of duties, enforced through role-based authentication (ii) Change management procedures, including

mandatory testing protocols (iii) Data backup and recovery protocols, tested quarterly (iv) System audit trails maintained for seven years

(b) Additional system control requirements: (i) Regular penetration testing and vulnerability assessments (ii) Encryption of sensitive financial data in transit and at rest (iii) Automated monitoring of system access and usage patterns (iv) Incident response procedures with defined escalation paths

2.4 AI Algorithm Controls

(a) The Company shall maintain documentation of: (i) Algorithm development and deployment, including design specifications (ii) Testing and validation procedures, with documented success criteria (iii) Version control and change management, including rollback procedures (iv) Performance monitoring metrics and threshold alerts

(b) AI-specific control requirements: (i) Bias testing and fairness assessments for all algorithms (ii) Regular calibration of machine learning models (iii) Audit trails of training data and model modifications (iv) Documentation of algorithm decision-making processes

2.5 Monitoring and Reporting

(a) The Company shall establish: (i) Continuous monitoring procedures for control effectiveness (ii) Regular reporting to management and the Board of Directors (iii) Independent verification of control operation (iv) Remediation tracking for identified control deficiencies

(b) Reporting requirements shall include: (i) Monthly control performance dashboards (ii) Quarterly compliance certificates (iii) Annual control effectiveness assessments (iv) Immediate notification of material control breaches

2.6 Documentation Requirements

(a) The Company shall maintain: (i) Current control matrices mapping risks to specific controls (ii) Evidence of control operation and testing (iii) Training records for control operators (iv) Annual updates to control documentation

3.0 REVENUE RECOGNITION PROCEDURES

3.1 Subscription Revenue

(a) NexusCore™ platform subscription revenue shall be recognized: (i) Over the term of the subscription agreement (ii) Beginning on the date access is provided to customer (iii) Net of any service level credits or adjustments

(b) Multi-year subscription agreements shall be subject to: (i) Annual review of performance obligations (ii) Adjustment for any price escalators or volume discounts (iii) Proration calculations for partial period recognition (iv) Documentation of material contract modifications

(c) Variable consideration components shall be evaluated: (i) Using expected value or most likely amount method (ii) With periodic reassessment of estimates (iii) Subject to constraint until uncertainty resolution (iv) Including usage-based fees and performance bonuses

3.2 Implementation Services

(a) Revenue from implementation services shall be recognized: (i) Over time as services are performed (ii) Based on percentage of completion method (iii) With progress measured using input methods

(b) Implementation service measurement shall include: (i) Direct labor hours expended (ii) Resources consumed in service delivery (iii) Milestone achievement documentation (iv) Customer acceptance signatures

(c) Implementation revenue recognition constraints: (i) Minimum progress thresholds for recognition (ii) Documentation of scope changes (iii) Treatment of cost overruns (iv) Handling of customer-caused delays

3.3 Custom Development

(a) Custom development revenue shall be recognized: (i) Upon acceptance of deliverables (ii) According to milestone completion (iii) With consideration for customer acceptance terms

(b) Custom development projects shall be monitored for: (i) Scope modifications affecting revenue recognition (ii) Change orders and their revenue impact (iii) Customer acceptance criteria satisfaction (iv) Integration with existing performance obligations

(c) Revenue recognition criteria for custom development: (i) Documented customer specifications (ii) Acceptance testing procedures (iii) Warranty obligations (iv) Post-delivery support requirements

3.4 Performance Obligations

(a) The Company shall identify and track: (i) Distinct performance obligations (ii) Stand-ready obligations (iii) Material rights (iv) Contract modifications

(b) Performance obligation assessment shall include: (i) Evaluation of bundled services (ii) Allocation of transaction price (iii) Treatment of discounts and rebates (iv) Recognition timing determination

(c) Documentation requirements for performance obligations: (i) Written evidence of delivery or performance (ii) Customer acceptance documentation (iii) Time and materials records (iv) Progress reports and status updates

3.5 Contract Modifications

(a) Contract modifications shall be evaluated for: (i) Creation of new performance obligations (ii) Impact on transaction price (iii) Effect on revenue recognition timing (iv) Treatment as separate contract determination

(b) Modification documentation requirements: (i) Written amendment execution (ii) Pricing adjustment calculations (iii) Revised performance schedules (iv) Updated revenue recognition timelines

3.6 Revenue Recognition Controls

(a) The Company shall maintain controls for: (i) Revenue recognition timing (ii) Performance obligation tracking (iii) Contract modification processing (iv) Variable consideration estimates

(b) Regular review procedures shall include: (i) Monthly revenue recognition assessment (ii) Quarterly contract review (iii) Annual revenue recognition audit (iv) Compliance documentation maintenance

3.7 Special Considerations

(a) Treatment of specific revenue scenarios: (i) Early termination provisions (ii) Service level agreement credits (iii) Multi-currency contracts (iv) Extended payment terms

(b) Revenue recognition adjustments for: (i) Refund obligations (ii) Customer incentives (iii) Volume discounts (iv) Price protection provisions

3.8 Reporting Requirements

(a) Revenue recognition reporting shall include: (i) Detailed revenue categorization (ii) Performance obligation status (iii) Contract asset and liability balances (iv) Significant judgments and estimates

(b) Documentation retention requirements: (i) Seven-year minimum retention period (ii) Electronic and physical record maintenance (iii) Audit trail preservation (iv) Supporting calculation archives

4.0 COST ALLOCATION AND EXPENSE RECOGNITION

4.1 Research and Development

(a) R&D costs shall be: (i) Expensed as incurred unless qualifying for capitalization under applicable accounting standards (ii) Tracked by project and development phase using standardized cost codes (iii) Reviewed quarterly for impairment and potential write-downs (iv) Documented with detailed technical specifications and milestone achievements (v) Segregated between basic research and applied development activities

(b) Capitalization criteria shall include: (i) Technical feasibility of completion (ii) Intent and ability to complete and use or sell the asset (iii) Demonstration of future economic benefits (iv) Availability of adequate resources for completion (v) Reliable measurement of attributable expenditure

4.2 Sales Commissions

(a) Commission costs shall be: (i) Capitalized as contract acquisition costs when incremental (ii) Amortized over expected customer relationship period, not exceeding five years (iii) Reviewed quarterly for recoverability and adjusted as necessary (iv) Documented with detailed commission agreements and calculation methodologies (v) Tracked separately for new contracts versus renewals

(b) Commission structure modifications shall: (i) Be evaluated for accounting impact prior to implementation (ii) Include transition provisions for existing arrangements (iii) Maintain clear audit trails for historical and modified terms

4.3 Infrastructure Costs

(a) Cloud computing and infrastructure costs shall be: (i) Allocated based on verified usage metrics and consumption patterns (ii) Recognized in the period incurred, subject to prepayment provisions (iii) Monitored through automated cost optimization protocols (iv) Segregated between implementation and ongoing operational costs (v) Evaluated annually for commitment term optimization

(b) Implementation costs shall be: (i) Capitalized when meeting specified criteria (ii) Amortized over the shorter of useful life or contract term (iii) Assessed for technological obsolescence quarterly

4.4 Personnel Expenses

(a) Personnel costs shall be: (i) Allocated to appropriate cost centers using documented methodologies (ii) Recognized in the period earned, including accrual for unpaid time (iii) Tracked by function, project, and activity codes (iv) Reviewed monthly for accuracy and completeness (v) Adjusted for changes in organizational structure

(b) Allocation methodologies shall: (i) Be consistently applied across reporting periods (ii) Reflect actual time spent on activities (iii) Include direct and indirect labor costs (iv) Account for different geographic labor markets (v) Consider regulatory requirements by jurisdiction

4.5 Documentation Requirements

(a) All cost allocations shall be: (i) Supported by contemporaneous documentation (ii) Reviewed by appropriate management levels (iii) Maintained in accordance with retention policies (iv) Available for audit and compliance review (v) Updated to reflect organizational changes

(b) Periodic reviews shall: (i) Assess methodology effectiveness (ii) Validate allocation drivers (iii) Ensure compliance with accounting standards (iv) Identify optimization opportunities (v) Document any methodology modifications

EXHIBITS

Exhibit A: Chart of Accounts Exhibit B: Revenue Recognition Examples Exhibit C: Capitalization Thresholds Exhibit D: Control Testing Procedures

SIGNATURE PAGE

IN WITNESS WHEREOF, this Financial Reporting and Accounting Standards Policy has been executed by the duly authorized officers of the Company as of the date first written above.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

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