

FINANCIAL AND ACCOUNTING DOCUMENT 22

FINANCIAL REPORTING AND CONTROL STANDARDS

THIS FINANCIAL AND ACCOUNTING DOCUMENT (this "Document"), dated as of January 15, 2024 (the "Effective Date"), is established by NEXUS INDUSTRIAL INTELLIGENCE, INC., a Delaware corporation with registration number DE-845721, having its principal place of business at 2200 Innovation Drive, Suite 400, Wilmington, Delaware 19801 (the "Company").

WHEREAS, the Company develops and deploys artificial intelligence and machine learning solutions for industrial applications through its proprietary NexusCore™ Platform;

WHEREAS, the Company seeks to establish standardized financial reporting and control procedures appropriate for its business operations and technology infrastructure;

WHEREAS, the Company must ensure compliance with applicable accounting standards, securities regulations, and industry-specific requirements;

NOW, THEREFORE, the Company hereby adopts and establishes the following financial and accounting standards:

1.0 INTRODUCTION AND PARTIES

1.1 Document Classification This Document shall be classified as FIN-22 within the Company's documentation system and shall govern all financial reporting and control procedures. This classification supersedes all previous financial control documents and shall be referenced in all related corporate communications.

1.2 Corporate Authority The Company, through its Board of Directors and Chief Financial Officer, David Kumar, maintains ultimate authority and responsibility for the standards set forth herein. Nexus Industrial Intelligence, Inc., a Delaware corporation (Registration #DE-847392), with its principal place of business at 1200 Corporate Drive, Suite 400, Wilmington, DE 19801, acts through its duly authorized representatives.

1.3 Scope of Application These standards shall apply to all financial operations, reporting processes, and control systems of the Company, including all subsidiaries and controlled entities. This encompasses domestic and international operations, joint ventures where the Company maintains controlling interest, and all affiliated business units operating under the Company's federal tax identification number 83-2947583.

1.4 Effective Date and Duration This Document becomes effective upon execution by the Board of Directors on January 15, 2024, and shall remain in force until formally superseded or amended by subsequent board resolution. All parties acknowledge their understanding and acceptance of these terms through their continued engagement with the Company's financial operations.

2.0 DEFINITIONS AND INTERPRETATIONS

2.1 Defined Terms For purposes of this Document, the following terms shall have the meanings specified:

(a) "NexusCore™ Platform" means the Company's proprietary software platform that combines computer vision, machine learning, and edge computing technologies for industrial process optimization, including all associated modules, APIs, user interfaces, and documentation developed by the Company.

(b) "Recurring Revenue" means subscription fees, maintenance fees, and other regularly scheduled revenue from software licenses and services, calculated on a monthly or annual basis, excluding one-time charges and implementation fees.

(c) "Implementation Revenue" means one-time fees associated with customer onboarding, configuration, deployment, and initial training, including but not limited to system integration, data migration, and customization services.

(d) "Material Financial Event" means any transaction or occurrence exceeding \$500,000 in value or 2% of annual revenue, whichever is lower, including acquisitions, divestitures, contracts, settlements, or capital expenditures.

2.2 Technical Classifications

(a) "AI/ML Assets" means proprietary algorithms, models, and related intellectual property developed by the Company, including: (i) Machine learning models and training datasets (ii) Computer vision algorithms and pattern recognition systems (iii) Predictive maintenance algorithms (iv) Process optimization frameworks (v) Custom neural network architectures

(b) "Edge Computing Infrastructure" means distributed computing resources deployed at customer facilities, including: (i) Local processing units and sensors (ii) Data collection and preprocessing systems (iii) Network connectivity components (iv) Local storage and caching mechanisms

2.3 Revenue Recognition Categories

(a) "SaaS Subscription Revenue" shall be recognized ratably over the subscription term, with the following specifications: (i) Monthly subscriptions recognized on a 30-day basis (ii) Annual subscriptions recognized over 365 days (iii) Multi-year contracts amortized over the full term (iv) Usage-based components recognized upon consumption

(b) "Professional Services Revenue" shall be recognized as services are delivered, including: (i) Time and materials billing (ii) Fixed-price project milestones (iii) Training and consultation services (iv) Custom development work

2.4 Performance Metrics

(a) "System Uptime" means the percentage of time the NexusCore™ Platform is available for customer use, excluding scheduled maintenance windows.

(b) "Processing Efficiency" means the measured improvement in customer operations attributable to the Platform's optimization algorithms.

2.5 Compliance and Security

(a) "Security Standards" means the comprehensive set of security protocols, including: (i) Data encryption requirements (ii) Access control mechanisms (iii) Audit logging procedures (iv) Incident response protocols

(b) "Regulatory Compliance" means adherence to applicable industry standards and regulations, including data protection, privacy, and industrial safety requirements.

2.6 Interpretation

Terms defined herein shall be given their plain meaning within the context of industrial AI/ML applications and SaaS business models. Technical terms not specifically defined shall be interpreted according to generally accepted industry standards and practices.

3.0 FINANCIAL REPORTING STANDARDS

3.1 General Accounting Principles

(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, at minimum: (i) Balance Sheet (ii) Income Statement (iii) Statement of Cash Flows (iv) Statement of Shareholders' Equity (v) Accompanying notes and disclosures

(c) Revenue recognition shall comply with ASC 606, with specific attention to: (i) Identification of performance obligations in customer contracts (ii) Allocation of transaction price to performance obligations (iii) Recognition of revenue when performance obligations are satisfied (iv) Contract modification treatments (v) Variable consideration measurements

(d) Materiality assessments shall be conducted quarterly, with documentation of: (i) Quantitative thresholds (ii) Qualitative factors (iii) Cumulative impact analysis (iv) Disclosure requirements

3.2 SaaS Revenue Recognition

- (a) Subscription revenue shall be recognized ratably over the contract term beginning on the commencement date of the subscription.
- (b) Implementation services shall be evaluated for distinct performance obligations and recognized accordingly, considering: (i) Technical integration requirements (ii) Customer-specific customizations (iii) Training services (iv) Data migration services
- (c) Multi-element arrangements shall be analyzed to: (i) Identify distinct performance obligations (ii) Determine standalone selling prices (iii) Allocate transaction price using relative standalone selling price method (iv) Document allocation methodology
- (d) 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

3.3 Research and Development

- (a) R&D expenses related to AI/ML development shall be expensed as incurred unless they meet all criteria for capitalization under ASC 350-40, including: (i) Technological feasibility establishment (ii) Probable future economic benefit (iii) Reasonable cost recovery expectation (iv) Adequate resources to complete development
- (b) Capitalized software development costs shall be amortized over the estimated useful life of the software, not to exceed 3 years, with: (i) Quarterly impairment assessments (ii) Documentation of useful life assumptions (iii) Regular review of amortization methods (iv) Disclosure of significant changes

3.4 Internal Controls and Documentation

- (a) The Company shall maintain comprehensive documentation supporting: (i) Revenue recognition decisions (ii) Capitalization assessments (iii) Performance obligation identification (iv) Contract modification treatments
- (b) Internal control procedures shall include: (i) Regular review of revenue recognition policies (ii) Quarterly assessment of capitalization criteria (iii) Documentation of key judgments and estimates (iv) Independent verification of calculations

3.5 Disclosure Requirements

- (a) Financial statement disclosures shall include: (i) Significant accounting policies (ii) Revenue recognition methods (iii) Capitalization criteria (iv) Contract asset and liability balances
- (b) Quarterly and annual reports shall provide: (i) Disaggregation of revenue (ii) Contract balances and significant changes (iii) Performance obligation descriptions (iv) Significant judgments in revenue recognition

3.6 Compliance and Review

- (a) The Company shall establish procedures for: (i) Regular review of accounting policies (ii) Assessment of new accounting standards (iii) Implementation of required changes (iv) Documentation of compliance
- (b) External auditor coordination shall include: (i) Regular communication of significant judgments (ii) Documentation of key assumptions (iii) Support for revenue recognition decisions (iv) Evidence of internal control effectiveness

3.7 Special Considerations

- (a) For international operations, the Company shall: (i) Document differences between local GAAP and US GAAP (ii) Maintain reconciliation procedures (iii) Ensure consistent application of policies (iv) Monitor regulatory changes
- (b) For emerging technology developments, the Company shall: (i) Assess impact on existing policies (ii) Document treatment of new revenue streams (iii) Update procedures as necessary (iv) Maintain compliance documentation

4.0 INTERNAL CONTROLS AND COMPLIANCE

4.1 Control Framework

- (a) The Company shall maintain a comprehensive system of internal controls in compliance with Sarbanes-Oxley Act Section 404, including: (i) Documentation of all control processes and procedures (ii) Regular testing and validation of control effectiveness (iii) Quarterly assessments of control adequacy (iv) Annual certification by executive management
- (b) Controls shall specifically address: (i) Revenue recognition and billing accuracy, including automated verification systems (ii) AI/ML development cost tracking with granular project allocation (iii) Customer data security protocols and breach prevention (iv) Access controls for critical systems and infrastructure (v) Third-party vendor risk management (vi) Change management procedures (vii) Segregation of duties in critical processes

4.2 AI Governance

- (a) The Company shall maintain an AI Risk Management Framework that includes: (i) Model validation procedures with independent review (ii) Algorithm audit trails documenting all modifications (iii) Performance monitoring protocols with defined metrics (iv) Bias detection and mitigation procedures (v) Regular algorithmic impact assessments (vi) Documentation of training data sources and validation
- (b) AI Development Controls shall incorporate: (i) Version control for all AI/ML models (ii) Testing protocols for model accuracy and reliability (iii) Documentation of model architecture and parameters (iv) Regular review of model outputs and decisions (v) Incident response procedures for AI system failures

4.3 Data Security Controls

- (a) Financial systems shall implement: (i) End-to-end encryption for data at rest and in transit (ii) Multi-factor authentication for all user access (iii) Access logging and continuous monitoring (iv) Regular penetration testing and vulnerability assessments (v) Backup and recovery procedures (vi) Data retention and disposal protocols
- (b) Security measures shall include: (i) Regular security awareness training (ii) Incident response procedures (iii) Business continuity planning (iv) Disaster recovery protocols

4.4 Compliance Monitoring

- (a) The Company shall establish: (i) Quarterly compliance reviews (ii) Annual internal audit programs (iii) Regular risk assessments (iv) Compliance training programs
- (b) Documentation requirements shall include: (i) Control testing results (ii) Remediation plans for identified deficiencies (iii) Executive management reviews (iv) Board oversight documentation

4.5 Reporting Requirements

- (a) The Company shall maintain: (i) Monthly control effectiveness reports (ii) Quarterly compliance dashboards (iii) Annual control certification process (iv) Immediate notification protocols for control breaches
- (b) Reports shall address: (i) Control effectiveness metrics (ii) Identified deficiencies and remediation status (iii) Emerging risks and mitigation strategies (iv) Compliance with regulatory requirements (v) AI system performance and risk metrics

4.6 Review and Updates

- (a) The control framework shall be reviewed: (i) Annually for overall effectiveness (ii) Quarterly for specific risk areas (iii) As needed for emerging risks or regulatory changes (iv) Following significant organizational changes
- (b) Updates shall be documented and approved by: (i) Chief Compliance Officer (ii) Board Risk Committee (iii) External auditors as required (iv) Relevant regulatory authorities

SIGNATURE AND ATTESTATION

IN WITNESS WHEREOF, this Document has been executed by the duly authorized representative of the Company as of the Effective Date.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

EXHIBIT A: REVENUE RECOGNITION METHODOLOGY

[Detailed methodology matrix for different revenue streams]

EXHIBIT B: CONTROL TESTING PROCEDURES

[Internal control testing protocols and schedules]

APPENDIX 1: AI/ML RISK ASSESSMENT FRAMEWORK

[Technical risk assessment criteria and mitigation strategies]