

# **FINANCIAL REPORTING AND ACCOUNTING POLICIES**

**Effective Date: January 15, 2024**

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation (the "Company"), has established these Financial Reporting and Accounting Policies (this "Policy") to document and formalize its accounting standards, internal controls, revenue recognition procedures, and intellectual property accounting treatment; and

WHEREAS, the Company desires to ensure compliance with generally accepted accounting principles, securities laws, and industry standards while maintaining appropriate controls over its artificial intelligence and software development operations;

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

## **1.0 FINANCIAL REPORTING AND ACCOUNTING STANDARDS**

### **1.1 GAAP Compliance**

The Company shall prepare its financial statements 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 GAAP requirements and applicable Securities and Exchange Commission ("SEC") regulations.

(a) The Company shall maintain a comprehensive system of internal controls designed to ensure the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

(b) Any departures from GAAP must be disclosed in the notes to financial statements, including the reason for and financial impact of such departures.

(c) The Company shall engage independent auditors registered with the Public Company Accounting Oversight Board ("PCAOB") to conduct annual audits of its 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 to the platform.

(c) Multi-element arrangements shall be evaluated to determine whether they contain separate performance obligations. The Company shall: (i) Assess whether promised goods or services are distinct (ii) Identify standalone selling prices for each distinct element (iii) Allocate transaction price based on relative standalone selling prices (iv) Apply appropriate revenue recognition criteria to each element

### **1.3 Deferred Revenue Treatment**

(a) Advance payments received for subscription services shall be recorded as deferred revenue and recognized as earned over the subscription period.

(b) Professional services revenue shall be deferred until services are delivered, unless such services have standalone value to the customer.

(c) The Company shall maintain detailed schedules of deferred revenue, including: (i) Contract inception and termination dates (ii) Total contract value and allocation among performance obligations (iii) Recognition schedule and methodology (iv) Reconciliation to general ledger balances

### **1.4 Software Development Costs**

(a) Research and development costs shall be expensed as incurred in accordance with ASC 985-20, except for costs incurred during the application development stage, which shall be capitalized when technological feasibility is established.

(b) Capitalized software development costs shall be amortized over the estimated useful life of the software, not to exceed three (3) years.

(c) The Company shall maintain detailed documentation supporting: (i) Determination of technological feasibility (ii) Classification of development activities by stage (iii) Allocation of personnel costs to capitalizable activities (iv) Periodic assessment of recoverability

### **1.5 Financial Statement Presentation**

(a) The Company's financial statements shall include: (i) Balance sheet (ii) Statement of operations (iii) Statement of cash flows (iv) Statement of stockholders' equity (v) Notes to financial statements

(b) Supplementary disclosures shall address: (i) Significant accounting policies (ii) Revenue recognition practices (iii) Capitalization policies (iv) Related party transactions (v) Subsequent events

## **1.6 Periodic Review and Updates**

- (a) The Company shall review its accounting policies and procedures annually to ensure continued compliance with: (i) GAAP updates and interpretations (ii) SEC regulations and guidance (iii) Industry best practices (iv) Internal control requirements
- (b) Material changes in accounting policies or estimates shall be: (i) Documented and supported by appropriate analysis (ii) Approved by the Audit Committee (iii) Disclosed in financial statements (iv) Applied consistently across reporting periods

## **2.0 INTERNAL CONTROLS AND PROCEDURES**

### **2.1 Control Environment**

- (a) The Company shall maintain a comprehensive system of internal controls designed to provide reasonable assurance regarding: (i) Effectiveness and efficiency of operations (ii) Reliability of financial reporting (iii) Compliance with applicable laws and regulations (iv) Safeguarding of assets (v) Data integrity and protection (vi) Business continuity and disaster recovery
- (b) The control environment shall incorporate the COSO Internal Control Framework components, including: (i) Control activities at all organizational levels (ii) Documented policies and procedures (iii) Regular management oversight and review (iv) Independent internal audit functions (v) Periodic external compliance assessments
- (c) Management responsibilities shall include: (i) Annual review and certification of control effectiveness (ii) Quarterly reporting to the Board of Directors (iii) Implementation of remediation measures (iv) Staff training and awareness programs

### **2.2 Risk Assessment Procedures**

- (a) The Company shall conduct quarterly risk assessments addressing: (i) Operational risks (ii) Financial reporting risks (iii) Technology and cybersecurity risks (iv) Regulatory compliance risks (v) Third-party vendor risks (vi) Environmental and sustainability risks (vii) Reputational risks
- (b) Risk mitigation strategies shall be documented and reviewed semi-annually by management, including: (i) Detailed action plans for high-priority risks (ii) Resource allocation requirements (iii) Implementation timelines (iv) Success metrics and monitoring procedures (v) Contingency planning measures
- (c) Risk assessment methodology shall incorporate: (i) Quantitative and qualitative analysis (ii) Historical incident data (iii) Industry benchmarking (iv) Emerging risk factors (v) Stakeholder feedback

## **2.3 Information Systems Controls**

- (a) Access Controls: (i) Role-based access control (RBAC) implementation (ii) Multi-factor authentication requirements (iii) Regular access reviews and attestation (iv) Segregation of duties enforcement (v) Privileged account management (vi) Remote access security protocols
- (b) Change Management: (i) Documented change control procedures (ii) Testing requirements for system modifications (iii) Approval workflows for production deployments (iv) Version control and documentation (v) Rollback procedures (vi) Post-implementation review requirements
- (c) System Monitoring and Maintenance: (i) Real-time security monitoring (ii) Performance metrics tracking (iii) Capacity planning (iv) Patch management procedures (v) Backup and recovery protocols

## **2.4 AI Platform Security Protocols**

- (a) The Company shall maintain SOC 2 Type II compliance for the NexusCore™ platform, including: (i) Annual third-party audits (ii) Continuous monitoring systems (iii) Documentation of control objectives (iv) Regular penetration testing (v) Vulnerability assessments
- (b) AI model training and deployment shall follow documented security procedures including: (i) Data encryption requirements (ii) Model validation protocols (iii) Audit logging requirements (iv) Access controls for training data (v) Model performance monitoring (vi) Bias detection and mitigation
- (c) AI Governance Framework: (i) Ethics committee oversight (ii) Model risk management procedures (iii) Transparency requirements (iv) Fairness metrics and monitoring (v) Incident response protocols

## **2.5 Compliance Monitoring and Reporting**

- (a) Regular Assessments: (i) Monthly control testing (ii) Quarterly compliance reviews (iii) Annual comprehensive audits (iv) Independent third-party evaluations
- (b) Documentation Requirements: (i) Control activity evidence (ii) Test results and findings (iii) Remediation plans (iv) Management attestations (v) Regulatory filings
- (c) Reporting Structure: (i) Monthly management reports (ii) Quarterly board updates (iii) Annual compliance certification (iv) Regulatory disclosure requirements (v) Stakeholder communications

## **2.6 Training and Awareness**

- (a) Mandatory Training Programs: (i) New hire orientation (ii) Annual compliance refresher (iii) Role-specific security training (iv) AI ethics awareness (v) Incident response procedures

(b) Documentation and Tracking: (i) Training completion records (ii) Competency assessments (iii) Certification maintenance (iv) Continuing education requirements (v) Performance metrics

## **2.7 Continuous Improvement**

(a) Review and Updates: (i) Annual policy review (ii) Procedure optimization (iii) Control enhancement (iv) Technology upgrades (v) Best practice adoption

(b) Feedback Mechanisms: (i) Employee suggestions (ii) Audit findings (iii) Incident lessons learned (iv) Industry developments (v) Regulatory changes

## **3.0 REVENUE RECOGNITION AND CONTRACT MANAGEMENT**

### **3.1 Subscription Revenue Recognition**

(a) Subscription fees shall be recognized ratably over the contract term, beginning on the date the customer gains access to the NexusCore™ platform.

(b) Usage-based components shall be recognized based on actual customer consumption, measured monthly and reconciled within five (5) business days of the subsequent month.

(c) Annual subscription commitments shall be invoiced in advance, with revenue recognized monthly over the subscription term, unless otherwise specified in the customer agreement.

(d) Free trial periods shall not be included in revenue recognition calculations, and revenue recognition shall commence upon conversion to a paid subscription.

(e) Volume-based pricing tiers shall be evaluated monthly, with any pricing adjustments applied prospectively from the date of tier qualification.

### **3.2 Professional Services Revenue**

(a) Implementation services revenue shall be recognized as services are delivered, based on the following criteria: (i) Completion of defined project milestones (ii) Acceptance of deliverables by the customer (iii) Time and materials expended, when applicable

(b) Training services shall be recognized upon completion of each training session, with the following considerations: (i) Virtual training sessions shall be recognized on the date of delivery (ii) On-site training shall include travel time and expenses (iii) Custom training development shall be recognized over the development period

(c) Consulting services shall be recognized based on: (i) Actual hours worked at contracted rates (ii) Completion of specified deliverables (iii) Achievement of defined outcomes

### **3.3 Multi-element Arrangements**

- (a) The Company shall allocate transaction price to performance obligations based on standalone selling prices, determined through: (i) Direct observation of prices charged to similarly situated customers (ii) Published price lists, adjusted for market conditions (iii) Historical pricing practices
- (b) Where standalone selling prices are not directly observable, the Company shall estimate prices using: (i) Adjusted market assessment approach (ii) Expected cost plus margin approach (iii) Residual approach (when criteria are met)
- (c) Bundle discounts shall be allocated proportionally across all performance obligations unless evidence supports allocation to specific elements.
- (d) Contract renewal options shall be evaluated for material rights and accounted for separately when appropriate.

### **3.4 Contract Modifications**

- (a) Contract modifications shall be evaluated to determine whether they create: (i) Separate contracts (ii) Termination of existing contract and creation of new contract (iii) Modification of existing contract
- (b) Price adjustments shall be recognized prospectively or through cumulative catch-up adjustment based on modification type.

### **3.5 Payment Terms and Conditions**

- (a) Standard payment terms shall be net thirty (30) days from invoice date, unless otherwise specified in the customer agreement.
- (b) Early payment discounts shall be recorded as a reduction of revenue when utilized by customers.
- (c) Late payment penalties shall be recognized as other income when collected.

### **3.6 Revenue Deferral and Recognition Criteria**

- (a) Revenue shall be deferred when: (i) Collection is not reasonably assured (ii) Performance obligations have not been satisfied (iii) The arrangement lacks commercial substance
- (b) Deferred revenue shall be reviewed monthly for recognition eligibility.

### **3.7 Contract Asset and Liability Management**

- (a) Contract assets shall be recorded when revenue is recognized prior to billing.
- (b) Contract liabilities shall be recorded when payment is received prior to revenue recognition.

(c) Contract assets and liabilities shall be netted only when legal right of offset exists.

### **3.8 Documentation Requirements**

(a) The following documentation shall be maintained for all revenue arrangements: (i) Executed contracts and amendments (ii) Performance obligation identification and pricing allocation worksheets (iii) Revenue recognition calculations and support (iv) Customer acceptance documentation (v) Service delivery records

### **3.9 Audit and Compliance**

(a) Revenue recognition practices shall be reviewed quarterly by the Finance Department.  
(b) Internal audit shall conduct annual reviews of revenue recognition compliance.  
(c) External auditors shall be provided with full access to revenue recognition documentation and calculations.

### **3.10 Dispute Resolution**

(a) Revenue-related disputes shall be evaluated by Legal and Finance departments jointly.  
(b) Disputed amounts shall be deferred until resolution is achieved.  
(c) Resolution outcomes shall be documented and reflected in the appropriate accounting period.

## **4.0 INTELLECTUAL PROPERTY ACCOUNTING**

### **4.1 R&D Cost Classification**

(a) Research costs shall be expensed as incurred, including but not limited to: (i) Basic research activities and feasibility studies (ii) Conceptual formulation and design of possible product alternatives (iii) Laboratory testing and experimental protocols (iv) Search for applications of new research findings  
(b) Development costs shall be capitalized when technological feasibility is established and the following criteria are met: (i) Technical feasibility of completion (ii) Intent to complete development (iii) Ability to use or sell the asset (iv) Availability of resources to complete development (v) Ability to measure costs reliably (vi) Demonstration of future economic benefit  
(c) Documentation requirements for development cost capitalization: (i) Detailed project plans with measurable milestones (ii) Budget forecasts and resource allocation schedules (iii) Technical validation reports (iv) Market analysis supporting commercial viability

## **4.2 Patent Capitalization**

- (a) Legal costs directly related to patent applications shall be capitalized, including: (i) Patent application filing fees (ii) Attorney fees for patent prosecution (iii) Professional drawings and documentation (iv) Prior art searches and analysis
- (b) Ongoing patent maintenance costs shall be expensed as incurred, encompassing: (i) Maintenance fees (ii) Renewal costs (iii) Defense of existing patents (iv) Portfolio management expenses
- (c) Patent impairment assessment shall be conducted annually, considering: (i) Technological obsolescence (ii) Market conditions (iii) Legal environment changes (iv) Commercial viability

## **4.3 AI Model Development**

- (a) Costs related to AI model development shall be expensed except when: (i) Technical feasibility is established (ii) Model will generate probable future economic benefits (iii) Company demonstrates intent and ability to complete development (iv) Adequate technical and financial resources exist (v) Costs can be reliably measured and segregated
- (b) Capitalized AI development costs shall be amortized over the estimated useful life of the model, with: (i) Regular reassessment of useful life estimates (ii) Consideration of technological advancement rates (iii) Documentation of amortization methodology (iv) Periodic impairment testing
- (c) Specific cost treatment for AI components: (i) Training data acquisition and preparation costs (ii) Computing infrastructure and cloud services (iii) Model optimization and testing (iv) Integration and deployment expenses

## **4.4 Intellectual Property Valuation**

- (a) Fair value measurement principles shall apply to all acquired intellectual property
- (b) Internal valuation methodologies must consider: (i) Market approach comparables (ii) Income approach projections (iii) Cost approach considerations (iv) Industry-specific factors
- (c) Regular revaluation requirements: (i) Annual impairment testing (ii) Trigger event assessments (iii) Documentation of valuation assumptions (iv) Independent verification when material

## **4.5 Disclosure Requirements**

- (a) Financial statement disclosures shall include: (i) Capitalization policy details (ii) Carrying amounts by IP category (iii) Amortization periods and methods (iv) Material impairment charges (v) Significant judgments and estimates
- (b) Supplementary disclosures must address: (i) Research and development activities (ii) Patent portfolio status (iii) AI development initiatives (iv) Material IP acquisitions or disposals