FINANCIAL AND ACCOUNTING POLICIES AND PROCEDURES

Document No. FAP-2024-001

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation (the "Company"), develops and provides proprietary artificial intelligence software solutions and related services;

WHEREAS, the Company requires comprehensive financial and accounting policies to ensure compliance with Generally Accepted Accounting Principles ("GAAP"), Securities and Exchange Commission ("SEC") requirements, and applicable accounting standards;

NOW, THEREFORE, the Company hereby adopts the following Financial and Accounting Policies and Procedures:

1.0 ACCOUNTING POLICIES AND PROCEDURES

1.1 Revenue Recognition Standards

(a) The Company shall recognize revenue in accordance with Accounting Standards Codification 606 ("ASC 606") when control of promised goods or services transfers to customers in an amount reflecting the consideration expected to be received.

(b) Performance obligations shall be identified within each customer contract, including: (i) NexusCore™ platform license and subscription services (ii) Implementation and configuration services (iii) Professional services and consulting (iv) Maintenance and support services

(c) Contract modifications shall be evaluated to determine whether they create: (i) A separate contract requiring independent revenue recognition (ii) A termination of the existing contract and creation of a new contract (iii) A modification to the existing contract treated as part of the original agreement

(d) Variable consideration, including usage-based fees, performance bonuses, and penalties, shall be: (i) Estimated using either the expected value or most likely amount method (ii) Included in the transaction price only to the extent that a significant revenue reversal is not probable (iii) Reassessed at each reporting period

1.2 Subscription Revenue Treatment

(a) Subscription fees for the NexusCore™ platform shall be recognized ratably over the contract term, beginning on the date the platform is made available to the customer.

(b) Setup fees shall be evaluated for distinct performance obligations and recognized accordingly: (i) When representing a material right, amortized over the expected customer relationship period (ii) When not distinct, recognized over the initial contract term

(c) Multi-year subscription agreements shall be subject to the following provisions: (i) Advance payments shall be recorded as contract liabilities (ii) Price escalations shall be recognized on a straight-line basis over the contract term (iii) Early termination clauses shall be evaluated for material rights or penalties

(d) Platform customization services shall be assessed for distinctness from subscription services: (i) When distinct, revenue recognized as services are delivered (ii) When not distinct, combined with subscription performance obligation

1.3 Professional Services Revenue

(a) Revenue from implementation, configuration, and consulting services shall be recognized: (i) Over time when the customer simultaneously receives and consumes benefits (ii) Using input methods based on labor hours expended (iii) Upon completion for distinct deliverable-based services

(b) Time and materials contracts shall be recognized based on: (i) Contractually specified rates for labor hours incurred (ii) Actual costs for materials and expenses (iii) Monthly billing cycles unless otherwise specified

(c) Fixed-price professional services shall be recognized using: (i) Percentage of completion methodology (ii) Cost-to-cost measures of progress (iii) Regular assessment of estimated total project costs

1.4 Software Development Costs

(a) Capitalization of software development costs shall comply with ASC 985-20, with costs capitalized when: (i) Technological feasibility is established (ii) All planning, designing, and testing activities are substantially completed

(b) Amortization shall commence when the software is ready for its intended use, using: (i) The straight-line method (ii) An estimated useful life of 3-5 years

(c) The following costs shall be expensed as incurred: (i) Research and development activities prior to technological feasibility (ii) Maintenance and bug fixes (iii) Training and customer support (iv) General and administrative overhead

(d) Impairment assessment shall be performed: (i) Annually at minimum (ii) Upon occurrence of triggering events (iii) Using projected cash flows and market conditions

1.5 Contract Cost Accounting

(a) Incremental costs of obtaining contracts shall be: (i) Capitalized when expected to be recovered (ii) Amortized over the expected period of benefit (iii) Assessed regularly for impairment

(b) Costs to fulfill contracts shall be capitalized when: (i) Directly related to a specific contract (ii) Generate or enhance resources for future performance (iii) Expected to be recovered through future revenue

(c) Practical expedients may be applied for: (i) Contract costs with amortization periods of one year or less (ii) Shipping and handling activities (iii) Sales taxes collected from customers

2.0 FINANCIAL CONTROLS AND REPORTING

2.1 SOX Compliance Framework

(a) The Company shall maintain internal controls in accordance with Sarbanes-Oxley Act Section 404, including: (i) Documentation of control activities through standardized templates and workflows (ii) Regular testing and monitoring on a quarterly basis (iii) Remediation of identified deficiencies within prescribed timeframes (iv) Annual certification of control effectiveness by management (v) Independent external auditor validation of control framework

(b) Control documentation shall encompass: (i) Detailed process narratives and flowcharts (ii) Risk and control matrices (iii) Evidence retention protocols (iv) System access controls and segregation of duties (v) Change management procedures for control modifications

2.2 Financial Statement Preparation

(a) Financial statements shall be prepared monthly, including: (i) Balance Sheet (ii) Income Statement (iii) Statement of Cash Flows (iv) Statement of Stockholders' Equity (v) Supplementary schedules and disclosures (vi) Management discussion and analysis

(b) Preparation procedures shall include: (i) Review of significant estimates and judgments (ii) Analysis of unusual transactions (iii) Reconciliation of all major accounts (iv) Documentation of key assumptions (v) Validation of subscription revenue recognition (vi) Review of AI/ML development cost capitalization criteria

(c) Quality control measures shall incorporate: (i) Multi-level review process (ii) Automated validation checks (iii) Variance analysis against prior periods (iv) Compliance with GAAP/IFRS requirements (v) Documentation of material judgments

2.3 Internal Control Testing

(a) Quarterly testing of key controls shall be performed, addressing: (i) Revenue recognition processes, including subscription-based revenue streams (ii) Software development cost capitalization, particularly AI/ML initiatives (iii) Contract management procedures (iv) Financial close process (v) Information technology general controls (vi) Third-party service provider controls

(b) Testing methodology shall include: (i) Risk-based sampling approaches (ii) Documentation of test procedures (iii) Evidence retention requirements (iv) Exception reporting and escalation (v) Remediation tracking

2.4 Reporting Requirements

(a) Management shall prepare and maintain: (i) Monthly financial performance dashboards (ii) Quarterly control testing results (iii) Annual SOX compliance certifications (iv) Exception reports and remediation status (v) Key performance indicator tracking

(b) Reporting timelines shall adhere to: (i) Monthly close by day 10 (ii) Quarterly filings within SEC deadlines (iii) Annual report preparation schedule (iv) Real-time material event reporting

2.5 Audit Trail Requirements

(a) The Company shall maintain comprehensive audit trails for: (i) All journal entries and adjustments (ii) System access and modifications (iii) Control testing and remediation (iv) Management reviews and approvals (v) External auditor communications

(b) Retention requirements include: (i) Seven-year minimum retention period (ii) Secure electronic storage systems (iii) Regular backup procedures (iv) Access controls and monitoring (v) Legal hold compliance procedures

3.0 CONTRACT REVENUE MANAGEMENT

3.1 Multi-element Arrangements

(a) Revenue from contracts with multiple performance obligations shall be allocated based on: (i) Standalone selling prices (ii) Observable prices from past transactions (iii) Estimated prices using the adjusted market assessment approach (iv) Residual approach only when highly variable or uncertain prices exist

(b) The allocation methodology shall: (i) Reflect the amount of consideration expected in exchange for promised goods or services (ii) Consider market conditions and entity-specific factors (iii) Maintain consistency across similar arrangements (iv) Document all assumptions and methodologies used in price determinations

3.2 Performance Obligations

(a) Distinct performance obligations shall be identified based on: (i) Capability of being distinct (ii) Distinctness within the contract context (iii) Pattern of transfer to customer (iv) Integration with other promised goods or services

(b) Assessment criteria for distinctness shall include: (i) Customer's ability to benefit from the good or service (ii) Separability from other promises in the contract (iii) Degree of integration, modification, or customization (iv) Interdependence or interrelation with other goods or services

3.3 Contract Modifications

(a) Changes to contract scope or price shall be evaluated as: (i) Separate contracts when adding distinct services at standalone prices (ii) Termination of existing and creation of new contract (iii) Continuation of existing contract (iv) Combination of prospective and cumulative catch-up adjustments

(b) Modification assessment shall consider: (i) Whether additional goods or services are distinct (ii) Remaining performance obligations (iii) Pricing relative to standalone selling prices (iv) Nature and extent of modifications

3.4 Variable Consideration

(a) Variable consideration shall be estimated using either: (i) Expected value method (ii) Most likely amount method

(b) Constraints on variable consideration recognition: (i) Include amounts only to extent highly probable (ii) Reassess estimates each reporting period (iii) Consider factors affecting probability of revenue reversal

3.5 Recognition Timing

(a) Revenue shall be recognized when (or as) performance obligations are satisfied: (i) Point in time recognition when control transfers (ii) Over time recognition when criteria are met

(b) Progress measurement methods: (i) Output methods based on direct measurements (ii) Input methods based on resources consumed (iii) Time-based methods when appropriate

3.6 Documentation Requirements

(a) Maintain comprehensive documentation of: (i) Performance obligation identification analysis (ii) Transaction price allocation calculations (iii) Variable consideration estimates (iv) Recognition timing determinations (v) Contract modification assessments

(b) Documentation updates required for: (i) Changes in estimates or judgments (ii) Contract modifications (iii) Periodic review of recognition patterns (iv) Compliance with accounting standards

4.0 INTELLECTUAL PROPERTY ACCOUNTING

4.1 R&D Cost Classification

(a) Research and development costs shall be classified as: (i) Research phase costs (expensed as incurred), including: - Conceptual formulation of alternatives - Search for applications of new research findings - Pre-development feasibility studies - Algorithm testing prior to technical feasibility (ii) Development phase costs (capitalized when criteria met), including: - Technical design documentation - Code development post-feasibility - Testing of viable prototypes - Patent application costs (iii) Post-implementation costs (expensed as incurred), including: - Routine updates and maintenance - User training and support - Documentation updates - Minor enhancements

4.2 IP Valuation Methodology

(a) Intellectual property shall be valued using: (i) Cost approach for internally developed IP, considering: - Direct development costs - Allocated overhead costs - Employee compensation related to development - Third-party consulting fees - Testing and validation expenses (ii) Market approach for acquired IP, incorporating: - Recent comparable transactions - Industry-standard multiples - Adjustment factors for market conditions - Technology obsolescence considerations (iii) Income approach for revenue-generating IP, including: - Projected cash flow analysis - Royalty rate calculations - Risk-adjusted discount rates - Terminal value estimations

4.3 Amortization and Impairment

(a) Amortization of capitalized IP shall follow: (i) Straight-line method over estimated useful life: - Software: 3-5 years - Patents: Legal life or economic life, whichever is shorter - Proprietary processes: 5-7 years - AI/ML algorithms: 3-4 years (ii) Regular review of amortization period: - Annual reassessment of useful life - Documentation of changes in estimates - Prospective adjustment of amortization (iii) Annual impairment testing requirements: - Trigger-based assessments - Cash-generating unit identification - Recoverable amount calculations - Recognition of impairment losses

4.4 Documentation Requirements

(a) Maintenance of detailed records for: (i) Capitalization decisions and supporting analysis (ii) Valuation methodology and assumptions (iii) Impairment test results and conclusions (iv)

Changes in useful life estimates (b) Quarterly review and certification of: (i) Capitalization thresholds compliance (ii) Valuation model updates (iii) Impairment indicators assessment