

FINANCIAL AND ACCOUNTING DOCUMENT 34

REVENUE RECOGNITION AND FINANCIAL REPORTING 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 its principal place of business at 2500 Innovation Drive, Wilmington, Delaware 19801 ("Company").

WHEREAS, the Company develops and commercializes proprietary artificial intelligence and machine learning software solutions for industrial applications;

WHEREAS, the Company seeks to establish standardized financial reporting and revenue recognition methodologies in accordance with Generally Accepted Accounting Principles ("GAAP") and applicable accounting standards; and

WHEREAS, the Company desires to document its financial policies and procedures in preparation for potential future public company reporting obligations.

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

1. Revenue Recognition Standards

1.1. Software as a Service (SaaS) Revenue The Company shall recognize revenue from SaaS arrangements in accordance with ASC 606, Revenue from Contracts with Customers, over the contract term on a straight-line basis, commencing upon the date when the customer gains access to the software platform.

1.2. Implementation Services Implementation services revenue shall be recognized over time as these services are performed, measured using input methods based on labor hours expended relative to total estimated hours to completion.

1.3. Professional Services Revenue from professional services, including consulting and training, shall be recognized as services are delivered, either on a time-and-materials basis or fixed-fee basis, as specified in customer contracts.

1. Research and Development Costs

2.1. Capitalization Criteria The Company shall capitalize software development costs incurred during the application development stage in accordance with ASC 350-40. Costs eligible for capitalization include: (a) Direct labor costs of employees devoted to coding and testing (b)

Third-party development fees (c) Materials and supplies directly consumed in development activities

2.2. AI/ML Development Expenses Costs associated with artificial intelligence and machine learning model development shall be: (a) Expensed during the preliminary project stage (b) Capitalized during the application development stage (c) Expensed during the post-implementation stage

1. Financial Statement Presentation

3.1. Balance Sheet Classification The Company shall classify assets and liabilities as current or non-current based on a twelve-month operating cycle, with specific consideration for: (a) Deferred revenue classification (b) Contract asset recognition (c) Capitalized development costs amortization

3.2. Income Statement Presentation Revenue shall be disaggregated into the following categories: (a) Subscription revenue (b) Implementation services (c) Professional services (d) Other revenue

1. Disclosure Requirements

4.1. Revenue Recognition Disclosures The Company shall disclose: (a) Nature of performance obligations (b) Significant payment terms (c) Timing of satisfaction of performance obligations (d) Significant judgments in the application of ASC 606

4.2. Contract Balances Disclosure of contract assets, contract liabilities, and receivables, including: (a) Opening and closing balances (b) Revenue recognized from contract liability balance (c) Significant changes in contract balances

1. Internal Controls and Procedures

5.1. Revenue Recognition Controls The Company shall maintain internal controls over revenue recognition, including: (a) Contract review procedures (b) Performance obligation identification protocols (c) Transaction price allocation methodologies (d) Revenue recognition timing verification

5.2. Documentation Requirements The Company shall maintain detailed documentation supporting: (a) Revenue recognition decisions (b) Capitalization assessments (c) Performance obligation identification (d) Transaction price allocations

1. Periodic Review and Updates

6.1. Annual Review The Company shall conduct annual reviews of: (a) Revenue recognition policies (b) Capitalization criteria (c) Disclosure adequacy (d) Internal control effectiveness

6.2. Policy Updates This Document shall be updated as necessary to reflect: (a) Changes in accounting standards (b) New business models or revenue streams (c) Regulatory requirements (d) Industry best practices

1. Compliance and Reporting

7.1. Quarterly Reporting The Company shall prepare quarterly financial statements in accordance with: (a) GAAP requirements (b) SEC regulations (if applicable) (c) Internal reporting standards (d) Board of Directors' requirements

7.2. Annual Reporting Annual financial statements shall include: (a) Comprehensive revenue recognition disclosures (b) Detailed notes to financial statements (c) Management's discussion and analysis (d) Required supplementary information

This Document shall be interpreted in accordance with GAAP and applicable accounting standards, including but not limited to ASC 606, ASC 350-40, and other relevant pronouncements of the Financial Accounting Standards Board (FASB).

1.0 PREAMBLE AND RECITALS

1.1 Document Identification. This Document shall be referenced as Financial and Accounting Document 34 (FIN-34) within the Company's documentation system. All prior versions of this document are hereby superseded and rendered null and void upon execution of this current version.

1.2 Corporate Authority. This Document is executed by David Kumar, Chief Financial Officer, pursuant to authority granted by the Board of Directors on January 10, 2024. Such authority is evidenced by Board Resolution 2024-003, duly recorded in the corporate minutes and maintained at the Company's principal place of business.

1.3 Corporate Details. The Company was incorporated in the State of Delaware on March 15, 2018, with Delaware Entity Number 6859432. The Company maintains its principal place of business at 4200 Innovation Drive, Suite 300, Austin, Texas 78759, and is authorized to conduct business in all fifty United States and applicable territories.

1.4 Legal Status and Standing. The Company affirms that it is in good standing with the Delaware Secretary of State, maintains all necessary business licenses and permits, and has filed all required annual reports and tax returns as of the date of this Document's execution.

1.5 Document Purpose. This Document establishes standardized procedures and protocols for financial operations, accounting practices, and related corporate governance matters in accordance with applicable state and federal regulations.

2.0 DEFINITIONS AND INTERPRETATIONS

2.1 Defined Terms. The following terms shall have the meanings specified below:

- (a) "Annual Recurring Revenue" or "ARR" means the annualized value of all active subscription contracts as of the measurement date, calculated by multiplying the most recent month's recurring revenue by twelve (12). This calculation shall exclude one-time fees, professional services revenue, and hardware sales.
- (b) "NexusCore™ Platform" means the Company's proprietary software platform that combines computer vision, machine learning, and edge computing capabilities to deliver industrial process optimization solutions. This includes all associated modules, APIs, user interfaces, and documentation.
- (c) "Performance Obligation" means a promise in a customer contract to transfer a distinct good or service to the customer, including but not limited to software licenses, maintenance services, and professional services deliverables.
- (d) "Professional Services" means implementation, configuration, training, and consulting services provided in connection with the NexusCore™ Platform, including custom development, integration services, and technical advisory services.

2.2 Technical Classifications

- (a) "Artificial Intelligence Components" means software modules incorporating machine learning algorithms, neural networks, and other AI technologies, including: (i) Predictive analytics engines (ii) Natural language processing systems (iii) Computer vision algorithms (iv) Automated decision-making systems
- (b) "Edge Computing Elements" means software designed to process data at or near the source of data generation, including on-premise deployments and distributed computing architectures.

2.3 Revenue Recognition Terms

- (a) "Contract Term" means the period during which the customer is entitled to access and use the NexusCore™ Platform, including any renewal periods.
- (b) "Implementation Period" means the duration between contract execution and customer acceptance of the deployed solution.
- (c) "Usage-Based Fees" means variable charges based on actual system utilization, measured by metrics including but not limited to data processing volume, API calls, or user counts.

2.4 Intellectual Property Classifications

- (a) "Background IP" means pre-existing intellectual property owned by either party prior to the execution of any agreement.

(b) "Derivative Works" means modifications, enhancements, or adaptations of the NexusCore™ Platform created during customer engagements.

(c) "Customer Data" means data processed by the NexusCore™ Platform, including raw industrial data, processed outputs, and analytical results.

2.5 Interpretation Rules

(a) Technical terms not specifically defined shall be interpreted according to their commonly understood meaning within the industrial automation industry.

(b) References to standards, protocols, or specifications shall be deemed to include their subsequent amendments and updates.

(c) In the event of conflict between technical specifications and contractual terms, the more specific provision shall prevail.

2.6 Measurement Standards

(a) Performance metrics shall be measured and reported according to ISO/IEC 25023:2016 standards.

(b) System availability calculations shall exclude scheduled maintenance windows and force majeure events.

(c) Data processing volumes shall be measured in standardized units as defined in the applicable service level agreement.

3.0 FINANCIAL REPORTING STANDARDS

3.1 GAAP Compliance

(a) All financial statements shall be prepared in accordance with GAAP as established by the Financial Accounting Standards Board ("FASB").

(b) The Company shall maintain accounting policies, procedures, and internal controls sufficient to ensure compliance with Sarbanes-Oxley Act requirements.

3.2 Revenue Recognition Standards

(a) The Company shall recognize revenue in accordance with ASC 606, Revenue from Contracts with Customers.

(b) Performance obligations shall be identified and allocated based on relative standalone selling prices.

3.3 Research and Development

(a) Research costs shall be expensed as incurred.

(b) Development costs shall be capitalized when technological feasibility is established and all criteria under ASC 985-20 are met.

3.4 AI/ML Development Costs

(a) Costs related to development of AI/ML algorithms shall be evaluated for capitalization based on: (i) Technical feasibility of completion (ii) Intent and ability to complete development (iii) Ability to use or sell the technology (iv) Generation of future economic benefits (v) Availability of technical and financial resources (vi) Ability to measure costs reliably

4.0 REVENUE RECOGNITION METHODOLOGY

4.1 Subscription Revenue

(a) Subscription revenue shall be recognized ratably over the contract term beginning on the commencement date of each subscription, with recognition occurring on a daily basis according to the terms specified in the customer agreement.

(b) Setup fees shall be evaluated for distinct performance obligations and recognized accordingly, wherein: (i) If deemed a separate performance obligation, recognition shall occur upon completion of setup activities; (ii) If not deemed separate, fees shall be recognized over the expected customer relationship period.

(c) Early termination fees shall be recognized when charged, provided there are no remaining performance obligations and collectibility is reasonably assured.

4.2 Professional Services Revenue

(a) Time and materials arrangements shall be recognized as services are performed, subject to: (i) Proper documentation of hours worked and materials consumed; (ii) Customer acceptance of delivered services; (iii) Reasonable assurance of collectibility.

(b) Fixed fee arrangements shall be recognized using percentage of completion method, whereby: (i) Progress shall be measured using input methods, including labor hours expended; (ii) Estimated total costs shall be reviewed and updated quarterly; (iii) Loss provisions shall be recorded when total estimated costs exceed total contract value.

4.3 Multi-element Arrangements

(a) Total consideration shall be allocated to performance obligations based on relative standalone selling prices, determined through: (i) Observable prices when sold separately; (ii) Estimated selling prices if standalone sales are insufficient; (iii) Residual approach only when certain criteria are met.

(b) The Company shall establish and maintain VSOE of fair value for professional services when sold separately, considering: (i) Historical pricing practices; (ii) Geographic and customer-specific variations; (iii) Competitive market conditions.

4.4 Contract Modifications

(a) Material modifications shall be evaluated to determine whether they create: (i) A separate contract; (ii) Termination of existing contract and creation of new contract; (iii) Modification of existing contract.

(b) Price changes shall be allocated between satisfied and unsatisfied performance obligations based on relative standalone selling prices.

4.5 Collectibility Assessment

(a) Revenue recognition shall occur only when collection is probable, considering: (i) Customer's ability and intention to pay; (ii) Past experience with similar contracts; (iii) Current economic conditions.

4.6 Disclosures and Documentation

(a) The Company shall maintain detailed documentation supporting: (i) Performance obligation identification; (ii) Transaction price determination; (iii) Allocation methodologies; (iv) Recognition timing decisions.

(b) Quarterly reviews shall be conducted to ensure: (i) Consistent application of recognition policies; (ii) Appropriate handling of unusual arrangements; (iii) Compliance with applicable accounting standards.

4.7 Special Considerations

(a) Non-refundable upfront fees shall be evaluated for: (i) Material rights granted to customers; (ii) Significant financing components; (iii) Additional performance obligations.

(b) Contract assets and liabilities shall be recorded to reflect: (i) Unbilled receivables for satisfied performance obligations; (ii) Deferred revenue for advance payments; (iii) Contract acquisition costs meeting capitalization criteria.

IN WITNESS WHEREOF, the Company has caused this Document to be executed as of the Effective Date.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

EXHIBIT A

REVENUE RECOGNITION DECISION TREE

[Detailed decision tree diagram for revenue recognition scenarios]

APPENDIX 1

INTERNAL CONTROL CERTIFICATION

The undersigned hereby certifies that the Company maintains effective internal controls over financial reporting as of the Effective Date.

David Kumar Chief Financial Officer