

FINANCIAL AND ACCOUNTING DOCUMENT 36

REVENUE RECOGNITION AND FINANCIAL REPORTING STANDARDS

THIS REVENUE RECOGNITION AND FINANCIAL REPORTING STANDARDS DOCUMENT (this "Document") is made and entered into as of January 15, 2024 (the "Effective Date"), 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 provides artificial intelligence and machine learning software solutions for industrial applications through its proprietary NexusCore™ Platform;

WHEREAS, the Company desires to establish standardized procedures for revenue recognition and financial reporting in accordance with Generally Accepted Accounting Principles ("GAAP") and Accounting Standards Codification 606 ("ASC 606"); and

WHEREAS, the Company seeks to ensure consistent treatment of its various revenue streams including subscription-based, implementation, professional services, and usage-based revenues.

NOW, THEREFORE, the Company hereby adopts the following revenue recognition and financial reporting standards:

1. REVENUE RECOGNITION PRINCIPLES 1.1. The Company shall recognize revenue in accordance with ASC 606's five-step model: (a) Identify customer contracts (b) Identify performance obligations (c) Determine transaction price (d) Allocate transaction price (e) Recognize revenue upon satisfaction of obligations
2. SUBSCRIPTION REVENUE TREATMENT 2.1. Subscription fees for the NexusCore™ Platform shall be recognized ratably over the subscription term 2.2. Multi-year contracts shall be recognized on a straight-line basis unless specifically modified by contract terms 2.3. Usage-based components shall be recognized monthly based on actual customer consumption
3. IMPLEMENTATION AND PROFESSIONAL SERVICES 3.1. Implementation services shall be recognized over the implementation period 3.2. Professional services shall be recognized as services are delivered 3.3. Training services shall be recognized upon completion of each training module

4. CAPITALIZATION OF DEVELOPMENT COSTS 4.1. AI/ML development costs shall be capitalized when: (a) Technical feasibility is established (b) Management commits to completion (c) Resources are available for completion (d) Future economic benefit is probable 4.2. Maintenance and support costs shall be expensed as incurred
5. FINANCIAL REPORTING REQUIREMENTS 5.1. Quarterly financial statements shall include: (a) Revenue disaggregation by type (b) Contract asset and liability balances (c) Performance obligation satisfaction timing (d) Significant judgments in revenue recognition 5.2. Annual reporting shall include: (a) Complete revenue recognition policies (b) Capitalization criteria and methodologies (c) Impact of new accounting standards (d) Five-year historical revenue trends
6. DISCLOSURE REQUIREMENTS 6.1. Material contract modifications 6.2. Significant financing components 6.3. Non-cash consideration 6.4. Customer acquisition costs 6.5. Contract balances and timing differences
7. COMPLIANCE AND REVIEW 7.1. Quarterly review by independent auditors 7.2. Annual assessment of revenue recognition practices 7.3. Regular updates to reflect new accounting guidance 7.4. Documentation of material judgments and estimates

This Document shall be reviewed annually and updated as necessary to maintain compliance with evolving accounting standards and business practices.

1.0 INTRODUCTION AND PARTIES

1.1 This Document (FIN-36) establishes the revenue recognition and financial reporting standards for Nexus Industrial Intelligence, Inc., a Delaware corporation incorporated on March 15, 2018, file number 6789012, hereinafter referred to as "the Company" or "Nexus."

1.2 Principal Place of Business: 2500 Innovation Drive, Wilmington, Delaware 19801. The Company maintains additional operational facilities at registered branch offices in California and Texas.

1.3 Nature of Business: The Company develops and provides enterprise-grade artificial intelligence and machine learning software solutions for industrial process optimization, predictive maintenance, and quality control.

1.4 Legal Authority: This document is executed pursuant to Delaware General Corporation Law, Title 8, and in accordance with the Company's bylaws adopted on March 20, 2018.

1.5 Authorized Representatives: This document shall be binding upon execution by the Chief Financial Officer and Corporate Controller, as designated by the Board of Directors' resolution dated January 15, 2023.

2.0 DEFINITIONS AND INTERPRETATION

2.1 "NexusCore™ Platform" means the Company's proprietary software platform that combines computer vision, machine learning, and edge computing capabilities to deliver real-time analytics and automated decision support for manufacturing operations. This includes all associated software components, APIs, user interfaces, and underlying technological infrastructure required for platform functionality.

2.2 "Recurring Revenue" means: (a) "Subscription Revenue" - Revenue derived from recurring subscription fees for access to and use of the NexusCore™ Platform, including both standard and enterprise licensing tiers; (b) "Usage-Based Revenue" - Revenue based on actual customer consumption of AI/ML processing capabilities, measured in compute hours, API calls, or other quantifiable metrics; (c) "Maintenance Revenue" - Revenue from ongoing platform support and maintenance services, including technical support, updates, and system monitoring.

2.3 "AI/ML Service Components" means: (a) "Model Training Services" - Services related to training customer-specific AI/ML models, including data preparation, model optimization, and validation procedures; (b) "Algorithm Customization" - Services for customizing core algorithms for customer use cases, including feature engineering and performance tuning; (c) "Edge Deployment" - Services related to deploying AI/ML capabilities to edge devices, including optimization for specific hardware configurations and network conditions.

2.4 "Performance Obligations" means distinct promises to transfer products or services to customers as defined in ASC 606, including but not limited to: (a) Platform access and core functionality delivery (b) Implementation and integration services (c) Training and knowledge transfer (d) Ongoing support and maintenance (e) Custom development and enhancement services

2.5 "Revenue Recognition Criteria" means the five-step model established under ASC 606: (a) Identify customer contracts - Including written, oral, and implied arrangements (b) Identify performance obligations - Determining distinct deliverables within contracts (c) Determine transaction price - Including variable consideration and significant financing components (d) Allocate transaction price - Based on relative standalone selling prices (e) Recognize revenue upon satisfaction of performance obligations - According to transfer of control

2.6 For interpretation purposes: (a) References to "Platform" include all versions, updates, and modifications (b) Technical terms shall be interpreted according to industry standards (c) Revenue classifications shall align with GAAP principles (d) Time periods are calculated in accordance with the Gregorian calendar (e) All monetary amounts are in United States Dollars unless otherwise specified

3.0 FINANCIAL REPORTING STANDARDS

3.1 GAAP Compliance (a) All financial statements shall be prepared in accordance with GAAP. (b) The Company shall maintain accounting records in sufficient detail to enable preparation of financial statements in accordance with GAAP.

3.2 ASC 606 Revenue Recognition Standards (a) The Company shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled. (b) Revenue shall be recognized when (or as) the Company satisfies a performance obligation by transferring a promised good or service to a customer.

3.3 SaaS Revenue Recognition Methodology (a) Subscription revenue shall be recognized ratably over the contract term. (b) Implementation services shall be evaluated for distinct performance obligations. (c) Usage-based revenue shall be recognized based on actual customer consumption.

3.4 AI/ML Development Cost Capitalization (a) Research costs shall be expensed as incurred. (b) Development costs shall be capitalized when technological feasibility is established. (c) Capitalized costs shall be amortized over the estimated useful life.

4.0 REVENUE RECOGNITION PROCEDURES

4.1 Subscription Revenue Recognition (a) Identify subscription term and fees in customer contracts through detailed review of executed agreements, including: (i) Base subscription fees and any variable components (ii) Contract start and end dates (iii) Auto-renewal provisions and associated terms (iv) Multi-year contract considerations (b) Recognize revenue ratably over the subscription period, ensuring: (i) Daily proration of fees for partial periods (ii) Proper allocation of prepaid amounts (iii) Recognition of discounts and credits systematically (c) Account for contract modifications per Section 4.4, including: (i) Evaluation of material changes to scope (ii) Assessment of pricing adjustments (iii) Documentation of modification effective dates

4.2 Implementation Services (a) Evaluate whether implementation services are distinct by assessing: (i) Customer's ability to benefit from the service independently (ii) Integration requirements with other services (iii) Interdependency with subscription services (b) If distinct, recognize revenue as services are performed: (i) Track completion percentage using milestone method (ii) Document customer acceptance of deliverables (iii) Maintain time and materials records (c) If not distinct, recognize revenue over subscription term: (i) Combine with subscription performance obligation (ii) Allocate total transaction price appropriately (iii) Apply consistent recognition methodology

4.3 Professional Services (a) Recognize revenue as services are performed through: (i) Time and materials tracking systems (ii) Fixed fee project milestone completion (iii) Customer-approved work orders (b) Track completion of performance obligations by: (i) Maintaining detailed project status reports (ii) Recording billable hours in real-time (iii) Documenting project phase completion (c) Document evidence of service delivery including: (i) Customer acceptance signatures (ii) Completion certificates (iii) Project status reports and approvals

4.4 Usage-Based AI Processing Fees (a) Track actual customer usage of AI/ML processing through: (i) Automated usage monitoring systems (ii) Daily usage logs and reports (iii) Customer-specific consumption metrics (b) Calculate fees based on established pricing tiers: (i) Apply volume-based discounts automatically (ii) Process usage data daily (iii) Generate detailed usage statements (c) Recognize revenue in the period of consumption: (i) Record revenue daily based on actual usage (ii) Reconcile usage data monthly (iii) Apply appropriate rate cards

4.5 General Revenue Recognition Requirements (a) Maintain comprehensive documentation including: (i) Contract review worksheets (ii) Revenue recognition schedules (iii) Supporting calculations (b) Perform monthly revenue reconciliations: (i) Compare recognized revenue to billing records (ii) Review deferred revenue balances (iii) Document material variances (c) Ensure compliance with accounting standards: (i) Regular review of recognition policies (ii) Documentation of judgment areas (iii) Independent verification of calculations

4.6 Special Considerations (a) Multi-element arrangements: (i) Determine standalone selling prices (ii) Allocate transaction price appropriately (iii) Document allocation methodology (b) Contract modifications: (i) Evaluate impact on revenue recognition (ii) Update recognition schedules (iii) Maintain modification documentation (c) Early termination provisions: (i) Calculate termination fees (ii) Recognize remaining deferred revenue (iii) Document termination impact

5.0 COMPLIANCE AND CONTROLS

5.1 SOX Compliance Procedures (a) Maintain comprehensive documentation of internal controls, including system access protocols, segregation of duties, and change management procedures (b) Perform quarterly control testing with documented results and remediation plans (c) Report control deficiencies to management within 48 hours of discovery (d) Implement annual training programs for all personnel involved in control activities (e) Conduct periodic risk assessments to evaluate control effectiveness

5.2 Revenue Recognition Controls (a) Review and approve all customer contracts through a standardized validation process (b) Validate performance obligation satisfaction through objective metrics and milestones (c) Maintain evidence supporting revenue recognition decisions, including: (i) Technical completion certificates (ii) Customer acceptance

documentation (iii) Usage reports and system logs (d) Establish materiality thresholds for contract modifications (e) Document variable consideration constraints and estimates

5.3 Audit Trail Requirements (a) Maintain detailed transaction records for a minimum of seven (7) years (b) Document revenue recognition decisions with supporting analysis (c) Preserve supporting documentation in an authorized document management system (d) Implement version control for all revenue-related documentation (e) Establish clear chain of custody for critical documents (f) Maintain audit logs of all system access and modifications

5.4 Documentation Standards (a) Maintain contract documentation including: (i) Original executed agreements (ii) Amendments and modifications (iii) Communication records (b) Document performance obligation satisfaction through: (i) Delivery acceptance certificates (ii) Implementation milestones (iii) Service level agreement reports (c) Retain evidence of service delivery including: (i) System access logs (ii) Usage reports (iii) Performance metrics

5.5 Control Testing and Monitoring (a) Conduct monthly control effectiveness assessments (b) Perform quarterly compliance reviews (c) Document and track remediation efforts (d) Maintain control testing schedules and results (e) Report significant control deficiencies to the Audit Committee

5.6 Compliance Reporting Requirements (a) Submit quarterly compliance certifications (b) Maintain documentation of control exceptions (c) Prepare annual control effectiveness reports (d) Document regulatory filings and submissions (e) Retain evidence of management review and approval

IN WITNESS WHEREOF, this Document has been executed as of the Effective Date first above written.