

TAX MATTERS POLICY AND PROCEDURES

Effective Date: January 15, 2024

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation (hereinafter referred to as the "Company"), desires to establish comprehensive policies and procedures governing its tax compliance obligations and related matters;

WHEREAS, the Company develops and licenses proprietary artificial intelligence and machine learning solutions through its NexusCore™ Industrial AI Platform and provides related implementation services;

NOW, THEREFORE, the Company hereby adopts the following Tax Matters Policy and Procedures:

1.0 TAX COMPLIANCE AND REPORTING OBLIGATIONS

1.1 Federal Tax Compliance

(a) The Company shall file all required federal tax returns and information returns on a timely basis, including Form 1120 U.S. Corporation Income Tax Return and associated schedules.

(b) Revenue recognition for federal tax purposes shall follow the principles set forth in IRC Section 451 and applicable Treasury Regulations, with specific attention to: (i) SaaS subscription revenue recognition timing (ii) Implementation services revenue recognition (iii) Multi-element arrangement allocation methodology (iv) Performance obligation identification and satisfaction metrics (v) Variable consideration constraints and estimates

(c) The Company shall implement and maintain comprehensive procedures for: (i) Quarterly estimated tax payment calculations (ii) Alternative Minimum Tax (AMT) evaluations (iii) Research and development credit documentation (iv) Capitalization of software development costs pursuant to IRC Section 174 (v) Employee versus contractor classifications for withholding purposes

1.2 State and Local Tax Compliance

(a) The Company shall maintain current registrations in all jurisdictions where required based on nexus determinations pursuant to Section 4.0 hereof.

(b) Sales and use tax collection procedures shall include: (i) Regular review of taxability determinations for SaaS offerings (ii) Documentation of exempt sales (iii) Timely remittance of collected taxes (iv) Maintenance of exemption certificates (v) Economic nexus threshold

monitoring (vi) Marketplace facilitator obligation compliance (vii) Local jurisdiction tax rate updates

(c) State income tax apportionment methodology shall: (i) Follow market-based sourcing rules where applicable (ii) Document user location for digital product delivery (iii) Maintain supporting records for factor calculations (iv) Consider alternative apportionment petitions where beneficial

1.3 International Tax Reporting

(a) For cross-border transactions, the Company shall: (i) File Form 5471 for any controlled foreign corporations (ii) Report international payments on Forms 1042 and 1042-S (iii) Maintain documentation supporting treaty positions (iv) Comply with FATCA reporting obligations where applicable (v) Monitor permanent establishment exposure (vi) Implement transfer pricing documentation procedures (vii) Review withholding tax obligations on royalty payments (viii) Evaluate foreign tax credit positions

(b) Digital services tax compliance shall include: (i) Monitoring jurisdictional DST implementations (ii) Calculating user-based revenue thresholds (iii) Maintaining country-specific revenue attribution records (iv) Documenting digital interface user interactions

1.4 Documentation Requirements

(a) The Company shall maintain the following documentation for a minimum of seven (7) years: (i) Customer contracts and invoices (ii) Revenue recognition calculations and support (iii) Tax filing support documentation (iv) Tax payment records (v) Contemporaneous transfer pricing documentation (vi) Nexus determination worksheets (vii) Tax provision workpapers (viii) ASC 740 support documentation

(b) Electronic records retention shall comply with: (i) IRS Revenue Procedure 98-25 requirements (ii) State electronic record retention mandates (iii) GDPR data protection requirements (iv) Secure access and backup procedures

1.5 Compliance Monitoring and Review

(a) The Company shall establish quarterly review procedures for: (i) Changes in tax law affecting SaaS revenue treatment (ii) Updates to digital service tax obligations (iii) New state economic nexus requirements (iv) International tax treaty modifications (v) Transfer pricing policy updates

(b) Annual compliance reviews shall address: (i) Effectiveness of tax collection procedures (ii) Accuracy of information reporting (iii) Completeness of required filings (iv) Documentation adequacy (v) Risk assessment updates (vi) Process improvement recommendations

(c) The Company shall maintain relationships with qualified tax advisors for: (i) Complex transaction review (ii) International expansion planning (iii) Audit defense support (iv) Legislative update monitoring

2.0 RESEARCH & DEVELOPMENT TAX CREDITS

2.1 Qualified Research Activities

(a) The Company shall document all activities potentially qualifying for the R&D tax credit under IRC Section 41, including: (i) AI/ML algorithm development, encompassing neural network architecture design, model optimization, and training methodology improvements (ii) Computer vision system improvements, including object detection algorithms, image processing enhancements, and real-time analysis capabilities (iii) Edge computing optimization, focusing on distributed processing algorithms and resource allocation mechanisms (iv) Platform integration development, specifically addressing system interoperability and API development

(b) Documentation requirements for qualified activities shall include: (i) Detailed project specifications and technical requirements (ii) Source code version control records (iii) Development environment configurations (iv) Technical documentation of implemented solutions (v) Performance benchmarking results

2.2 Technical Uncertainty Documentation

(a) For each research project, documentation must establish: (i) Capability uncertainty, demonstrating limitations in current technological capabilities (ii) Methodology uncertainty, identifying unknown approaches to achieve desired outcomes (iii) Design uncertainty, documenting architectural and implementation challenges

(b) Technical uncertainty documentation shall include: (i) Pre-development feasibility studies (ii) Risk assessment matrices (iii) Technical limitation analyses (iv) Alternative approach evaluations (v) Industry standard comparisons

2.3 Process of Experimentation

(a) Documentation shall demonstrate systematic evaluation of alternatives through: (i) Hypothesis formation with clearly stated technical objectives (ii) Testing procedures, including test cases and validation protocols (iii) Results evaluation with quantitative metrics (iv) Refinement processes and iteration documentation

(b) Experimental process records must contain: (i) Laboratory notebooks or digital equivalents (ii) Test data and analysis results (iii) Failed approaches and lessons learned (iv) Modification history and justifications (v) Final implementation decisions

2.4 Personnel Time Tracking

- (a) Qualified research expenses shall be supported by: (i) Contemporaneous time tracking records with daily or weekly granularity (ii) Project assignment documentation linking personnel to specific R&D activities (iii) Technical role descriptions detailing research responsibilities (iv) Supervisor certifications validating time allocations
- (b) Time tracking requirements shall include: (i) Minimum 80% accuracy in allocation reporting (ii) Monthly supervisor review and approval (iii) Separation of qualified and non-qualified activities (iv) Documentation of direct support activities

2.5 Expense Classification and Allocation

- (a) The Company shall maintain detailed records of: (i) Direct research expenses, including materials and supplies (ii) Contract research expenses with third-party providers (iii) Cloud computing and data processing costs (iv) Research equipment depreciation
- (b) Expense allocation methodology must: (i) Clearly distinguish between qualified and non-qualified expenses (ii) Apply consistent allocation methods across projects (iii) Document basis for partial allocations (iv) Maintain supporting calculations and assumptions

2.6 Compliance and Reporting

- (a) The Company shall establish procedures for: (i) Quarterly review of R&D documentation completeness (ii) Annual validation of qualified research expenses (iii) Maintenance of supporting documentation for seven years (iv) Regular updates to documentation procedures based on IRS guidance
- (b) Compliance documentation shall include: (i) Internal control procedures (ii) Documentation retention policies (iii) Audit trail maintenance (iv) Regular staff training on documentation requirements

3.0 TRANSFER PRICING POLICIES

3.1 Intercompany Transactions

- (a) All intercompany transactions shall be priced according to the arm's length standard under IRC Section 482 and associated Treasury Regulations.
- (b) Transfer pricing documentation shall include: (i) Functional analysis detailing the economic functions performed, risks assumed, and assets employed by each party (ii) Comparability analysis identifying reliable comparable transactions or companies (iii) Best method determination with supporting rationale for selected methodology (iv) Supporting calculations demonstrating arm's length nature of pricing (v) Annual updates to reflect material changes in business operations or market conditions

(c) Acceptable transfer pricing methods shall include: (i) Comparable Uncontrolled Price (CUP) method (ii) Resale Price Method (RPM) (iii) Cost Plus Method (iv) Comparable Profits Method (CPM) (v) Profit Split Method (vi) Other methods that achieve an arm's length result

3.2 IP Licensing Arrangements

(a) Licensing of AI/ML technology between affiliates shall be supported by: (i) Comprehensive valuation analysis incorporating both qualitative and quantitative factors (ii) Comparable uncontrolled transactions with appropriate adjustments (iii) Profit split calculations where appropriate (iv) Documentation of development costs and expected economic benefits

(b) Royalty rates shall be: (i) Established at inception of the license agreement (ii) Reviewed annually for continued arm's length status (iii) Adjusted as necessary to reflect technological developments (iv) Supported by industry benchmarks where available

3.3 Cost Sharing Arrangements

(a) Any cost sharing arrangements shall comply with Treas. Reg. 1.482-7 including: (i) Written agreements executed prior to arrangement commencement (ii) Economic substance documentation demonstrating business purpose (iii) Buy-in payment calculations with supporting valuation (iv) Annual reporting requirements and compliance certification

(b) Cost sharing participants shall: (i) Maintain contemporaneous documentation of all shared costs (ii) Document reasonably anticipated benefits (iii) Implement monitoring procedures for actual benefit sharing (iv) Conduct periodic reviews of arrangement effectiveness

3.4 Documentation Requirements

(a) Transfer pricing documentation shall be: (i) Prepared contemporaneously with transactions (ii) Updated annually or upon material changes (iii) Maintained for minimum of seven years (iv) Available for audit review within 30 days of request

(b) Required documentation includes: (i) Master file containing group-wide information (ii) Local file with entity-specific analysis (iii) Country-by-country reporting where applicable (iv) Intercompany agreements and contracts (v) Financial data supporting transfer pricing analysis

3.5 Compliance and Monitoring

(a) Regular monitoring shall include: (i) Quarterly review of transfer pricing results (ii) Annual compliance certification (iii) Independent review every three years (iv) Adjustment procedures for identified deviations

(b) Risk assessment procedures shall evaluate: (i) Changes in business structure or operations (ii) New intercompany transactions (iii) Market conditions affecting comparability (iv) Regulatory developments in relevant jurisdictions

4.0 STATE TAX NEXUS DETERMINATIONS

4.1 Economic Nexus Analysis

- (a) The Company shall monitor sales by state against economic nexus thresholds including: (i) Revenue thresholds, which shall be evaluated on a quarterly basis against each state's specific dollar amount requirements (ii) Transaction count thresholds, including both the number of separate transactions and recurring subscription payments (iii) Combined group considerations, accounting for affiliated entities and consolidated reporting requirements
- (b) The Company shall maintain detailed documentation of: (i) Monthly revenue calculations by state (ii) Historical threshold analyses (iii) Contemporaneous documentation supporting nexus determinations (iv) Prospective threshold monitoring procedures
- (c) Upon reaching 80% of any state's economic nexus threshold, the Company shall: (i) Initiate registration preparation procedures (ii) Review collection and remittance obligations (iii) Implement necessary system modifications (iv) Document threshold breach dates

4.2 Physical Presence Analysis

- (a) Documentation of physical presence indicators including: (i) Employee location tracking, including remote workers and temporary assignments (ii) Property locations, both owned and leased (iii) On-site implementation activities exceeding de minimis thresholds (iv) Server locations and cloud infrastructure considerations
- (b) The Company shall maintain records of: (i) Employee travel logs for sales and technical personnel (ii) Independent contractor relationships and activities by state (iii) Inventory storage locations, including third-party fulfillment centers (iv) Equipment deployment and maintenance activities
- (c) Physical presence monitoring shall include: (i) Quarterly reviews of employee residence changes (ii) Annual assessment of property deployments (iii) Documentation of temporary project locations (iv) Analysis of affiliate relationships and shared resources

4.3 Revenue Sourcing

- (a) SaaS revenue shall be sourced according to state-specific rules considering: (i) User location, as determined by IP address or user registration data (ii) Benefit received location, documented through customer contracts (iii) Market-based sourcing requirements per state regulations
- (b) The Company shall implement procedures for: (i) Primary use location determination (ii) Multiple user location allocation methodologies (iii) Documentation of sourcing determinations (iv) Periodic review of sourcing methodologies

4.4 Compliance Requirements

- (a) The Company shall establish procedures for: (i) Regular nexus review meetings with tax department personnel (ii) Documentation retention requirements (iii) State registration and compliance timelines (iv) Voluntary disclosure agreement evaluations
- (b) Upon nexus determination, the Company shall: (i) Register for applicable tax accounts within 30 days (ii) Implement collection procedures within 60 days (iii) Configure billing systems for proper tax calculation (iv) Establish filing calendars and deadlines

4.5 Periodic Review and Updates

- (a) The Company shall conduct: (i) Quarterly reviews of nexus thresholds and triggers (ii) Annual comprehensive nexus studies (iii) Updates to nexus determination procedures (iv) Documentation of methodology changes
- (b) Review procedures shall include: (i) Changes in state nexus standards (ii) Updates to Company business activities (iii) New product or service offerings (iv) Changes in customer location patterns

GENERAL PROVISIONS

Force Majeure

Neither party shall be liable for any failure or delay in performance due to circumstances beyond its reasonable control, including acts of God, war, strikes, pandemics, or changes in applicable law.

Confidentiality

All tax-related information shall be maintained as confidential and disclosed only as required by law or to authorized representatives.

Governing Law

This Policy shall be governed by and construed in accordance with the laws of the State of Delaware.

Severability

If any provision hereof is found to be invalid or unenforceable, the remaining provisions shall continue in full force and effect.

Entire Agreement

This Policy constitutes the entire agreement regarding the subject matter herein and supersedes all prior agreements or understandings.

IN WITNESS WHEREOF, this Policy has been adopted effective as of the date first written above.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: _____ Name: James Wilson Title: Chief Financial Officer

EXHIBIT A: Required Tax Documentation Schedule EXHIBIT B: R&D Credit Qualification Checklist EXHIBIT C: Transfer Pricing Documentation Requirements EXHIBIT D: State Nexus Determination Flowchart

[Exhibits to follow]