

TAX DOCUMENTATION AND COMPLIANCE FRAMEWORK

Document No. TD-37-2024

EFFECTIVE DATE: January 15, 2024

THIS TAX DOCUMENTATION AND COMPLIANCE FRAMEWORK (this "Framework") is established 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, Suite 400, Wilmington, Delaware 19801 ("Company").

WHEREAS, the Company develops and provides artificial intelligence-powered software solutions for industrial process optimization, including its proprietary NexusCore™ Industrial AI Platform;

WHEREAS, the Company generates revenue through software licensing, subscription services, and implementation services across multiple jurisdictions;

WHEREAS, the Company seeks to establish comprehensive documentation of its tax treatment and compliance obligations relating to its various revenue streams and business operations;

NOW, THEREFORE, the Company hereby establishes the following Framework:

1.0 TAX DOCUMENTATION PURPOSE AND SCOPE

1.1 Purpose

This Framework establishes comprehensive documentation requirements and procedures for tax-related matters pertaining to the Company's artificial intelligence software and technology services operations. The documentation standards herein are designed to ensure compliance with federal, state, and international tax regulations while maintaining accurate records of all taxable transactions and obligations arising from the Company's technological offerings.

1.2 Scope of Coverage

(a) This Framework shall apply to all revenue-generating transactions involving: (i) NexusCore™ Platform licensing and subscriptions (ii) Implementation and professional services (iii) Maintenance and support services (iv) Custom development services (v) Training and consultation services (vi) Data processing and analytics services (vii) Algorithm development and deployment (viii) Machine learning model optimization services

(b) Geographic and Jurisdictional Coverage: (i) All U.S. states where the Company maintains tax nexus (ii) International jurisdictions where the Company conducts business (iii) Federal tax matters (iv) State and local tax obligations (v) Cross-border transactions and international tax considerations (vi) Special economic zones and tax-advantaged regions

1.3 Treatment of Revenue Streams

(a) Subscription Revenue: (i) Recurring revenue from software-as-a-service offerings (ii) Usage-based pricing models (iii) Tiered subscription plans (iv) Enterprise licensing agreements (v) Volume-based pricing arrangements

(b) Professional Services: (i) Implementation, training, and consulting fees (ii) Project-based service contracts (iii) Time and materials billing (iv) Fixed-price engagements (v) Milestone-based payment structures

(c) License Fees: (i) Perpetual and term-based software licensing (ii) Node-based licensing models (iii) User-based licensing arrangements (iv) Enterprise-wide licenses

(d) Maintenance: (i) Ongoing support and maintenance fees (ii) Service level agreement commitments (iii) Technical support services (iv) Software updates and upgrades

1.4 Software Licensing Tax Implications

The Company shall document and track tax implications for: (a) Cloud-based software delivery: (i) Multi-tenant deployments (ii) Private cloud instances (iii) Hybrid cloud configurations

(b) On-premises software installations: (i) Physical media delivery (ii) Electronic software distribution (iii) Network-based installations

(c) Hybrid deployment models: (i) Combined cloud and on-premises solutions (ii) Edge computing implementations (iii) Distributed processing systems

1.5 Documentation Requirements

(a) Transaction Records: (i) Detailed invoicing requirements (ii) Revenue allocation methodologies (iii) Tax jurisdiction determination procedures (iv) Supporting documentation retention standards

(b) Compliance Documentation: (i) Tax nexus documentation (ii) Registration and filing requirements (iii) Exemption certificate management (iv) Audit trail maintenance

2.0 DEFINITIONS AND TAX CLASSIFICATIONS

2.1 Defined Terms

For purposes of this Framework:

"SaaS" means software-as-a-service delivery model where software is licensed on a subscription basis and centrally hosted, including all associated maintenance, updates, security provisions, and access protocols delivered via cloud infrastructure.

"Recurring Revenue" means predictable revenue streams generated from ongoing subscription or service contracts, including but not limited to monthly subscriptions, annual licenses, maintenance fees, and regularly scheduled service payments.

"R&D Activities" means qualified research activities as defined under IRC Section 41 and related regulations, specifically encompassing systematic, investigative activities intended to discover technological information for new or improved business components.

"Nexus" means sufficient physical or economic presence in a jurisdiction to create tax obligations, as determined by applicable state and federal laws, court decisions, and regulatory guidance.

"NexusCore™ Platform" means the Company's proprietary industrial AI software platform and related components, including all machine learning algorithms, data processing modules, user interfaces, and associated intellectual property.

"AI Components" means any artificial intelligence or machine learning elements integrated into the software platform, including neural networks, deep learning models, and predictive analytics engines.

"Edge Computing Services" means computational and data storage capabilities deployed at or near the source of data generation, including industrial IoT devices and local processing units.

2.2 Revenue Classifications

(a) Subscription Revenue Classification: (i) Monthly recurring revenue from software access and usage (ii) Annual contract value, including all platform features and capabilities (iii) Multi-year agreements with predetermined escalation clauses (iv) Usage-based pricing components and consumption metrics (v) Add-on module subscriptions and feature upgrades

(b) Service Revenue Classification: (i) Implementation services, including system configuration and deployment (ii) Professional services, encompassing consulting and custom development (iii) Training services, both remote and on-site delivery (iv) Support services, including tier-1 through tier-3 technical support (v) Data migration and integration services (vi) Custom algorithm development and optimization services

2.3 R&D Tax Credit Eligibility

(a) Qualified Research Activities: (i) Algorithm development and optimization (ii) Software architecture design and implementation (iii) Testing and validation procedures (iv) Process improvements and efficiency enhancements (v) Machine learning model development and

training (vi) Edge computing optimization research (vii) Data processing and analytics innovation (viii) Security protocol development

(b) Documentation Requirements: (i) Time tracking records with detailed activity descriptions (ii) Project documentation including technical specifications (iii) Research objectives and hypothesis documentation (iv) Experimental results and validation metrics (v) Development iteration records and version control (vi) Technical uncertainty documentation (vii) Innovation process documentation (viii) Research team qualifications and roles

2.4 State Nexus Determinations

(a) Physical Presence Nexus: (i) Employee location and remote worker considerations (ii) Property location, including servers and equipment (iii) Office locations and temporary workspaces (iv) Data center locations and cloud infrastructure (v) On-site customer training locations (vi) Hardware deployment locations

(b) Economic Nexus: (i) Revenue thresholds by jurisdiction (ii) Transaction volumes and frequency (iii) Customer locations and service delivery points (iv) Digital goods and services delivery (v) Virtual presence considerations (vi) Marketplace facilitator obligations

2.5 Special Tax Considerations

(a) Cloud Computing Tax Treatment: (i) Data center equipment depreciation (ii) Software development costs (iii) Cross-border data transfer implications (iv) Virtual property characterization

(b) AI-Specific Tax Implications: (i) Intellectual property valuation (ii) Algorithm development costs (iii) Training data acquisition expenses (iv) Model deployment considerations

3.0 REVENUE RECOGNITION AND TAX TREATMENT

3.1 Subscription Revenue Recognition

(a) Recognition Criteria: (i) Contract execution shall be evidenced by fully executed agreements, including electronic signatures compliant with applicable e-signature laws (ii) Service commencement occurs upon activation of customer access credentials or the contractually specified start date, whichever is earlier (iii) Payment terms must be clearly defined, including payment schedules, methods, and currency specifications (iv) Performance obligations shall be identified and documented in accordance with ASC 606 guidelines

(b) Tax Treatment: (i) State sales tax applicability shall be determined based on nexus requirements and specific state regulations governing Software-as-a-Service (SaaS) (ii) Use tax obligations must be monitored and reported in jurisdictions where sales tax was not collected at point of sale (iii) International VAT considerations shall include registration requirements, reverse charge mechanisms, and compliance with local digital service tax regulations

3.2 Implementation Services

(a) Revenue Recognition: (i) Milestone-based recognition shall be supported by clearly defined, measurable completion criteria and customer acceptance documentation (ii) Time and materials billing must be documented through detailed time records, approved expense reports, and itemized invoicing (iii) Fixed fee arrangements shall include specific deliverables, acceptance criteria, and payment schedules aligned with completion stages

(b) Tax Implications: (i) Service-based taxation shall be calculated according to jurisdiction-specific rules for professional services (ii) Mixed services treatment must address bundled offerings of software and professional services, with appropriate allocation methodologies (iii) Cross-border considerations shall include service permanent establishment risks and withholding tax obligations

3.3 Multi-State Allocation

(a) Revenue Allocation Methodology: (i) User location shall be determined through IP address tracking, user authentication data, and system access logs (ii) Server location considerations must include primary and backup server locations, data centers, and content delivery networks (iii) Customer billing address verification through standardized postal databases and periodic validation (iv) Benefit received location shall be documented through customer usage patterns and service delivery metrics

(b) Documentation Requirements: (i) Allocation calculations must be maintained in accordance with state-specific rules and market-based sourcing requirements (ii) Supporting records shall include detailed transaction logs, customer location data, and usage reports (iii) State-specific adjustments must be documented with citations to applicable regulations and methodologies

3.4 International Revenue

(a) Transfer Pricing: (i) Arm's length principles shall be documented through contemporaneous transfer pricing studies and benchmarking analyses (ii) Documentation requirements include functional analyses, risk assessments, and intercompany agreements (iii) Intercompany transactions must be supported by detailed transfer pricing policies and regular review procedures

(b) Foreign Tax Considerations: (i) Withholding requirements shall be monitored and documented for each jurisdiction where services are provided (ii) Treaty applications must be supported by valid tax residency certificates and beneficial ownership documentation (iii) Permanent establishment risk assessments shall be conducted annually and documented for each foreign jurisdiction

3.5 Special Revenue Considerations

- (a) Multi-Year Contracts: (i) Revenue recognition for multi-year agreements shall follow specific allocation methodologies (ii) Price escalation clauses must be accounted for in accordance with ASC 606 (iii) Early termination provisions shall be evaluated for revenue recognition impact
- (b) Volume-Based Pricing: (i) Usage-based revenue shall be monitored through automated tracking systems (ii) Threshold calculations must be documented and regularly reviewed (iii) True-up provisions shall be clearly defined and systematically implemented

3.6 Compliance and Reporting

- (a) Revenue Reporting Requirements: (i) Monthly closing procedures shall include revenue recognition reconciliations (ii) Quarterly revenue certifications must be completed by designated finance personnel (iii) Annual revenue audits shall be conducted by independent auditors
- (b) Tax Compliance: (i) Monthly tax filing obligations shall be tracked through a compliance calendar (ii) Quarterly tax provision calculations must include detailed supporting schedules (iii) Annual tax return positions shall be documented with technical memoranda

3.7 Record Retention

- (a) Revenue Documentation: (i) Contract documents shall be retained for a minimum of seven years (ii) Revenue calculations must be preserved in both native and PDF formats (iii) System-generated reports shall be archived according to the data retention policy
- (b) Tax Records: (i) Tax filing support documentation shall be maintained for the applicable statute of limitations (ii) Transfer pricing documentation must be preserved for a minimum of seven years (iii) International tax records shall be retained according to local jurisdiction requirements

4.0 COMPLIANCE AND REPORTING REQUIREMENTS

4.1 State Filing Requirements

- (a) Sales Tax Returns: (i) Filing deadlines shall be strictly observed according to each jurisdiction's requirements, with monthly returns due by the 20th of the following month and quarterly returns due by the last day of the month following the quarter's end (ii) Payment procedures must comply with electronic funds transfer (EFT) requirements when applicable thresholds are met, typically \$10,000 in annual tax liability (iii) Documentation retention period of seven (7) years for all sales tax records, including exemption certificates, invoices,

and supporting calculations (iv) Nexus determination documentation must be maintained and updated quarterly

(b) Income Tax Returns: (i) Unitary reporting requirements shall include comprehensive documentation of business relationships, control factors, and operational integration (ii) Combined reporting methodologies must be consistently applied across all applicable jurisdictions (iii) Separate company filing elections must be documented with supporting economic substance (iv) State-specific modifications and adjustments must be tracked and documented

4.2 Federal Tax Reporting

(a) Income Tax Returns: (i) Form 1120 requirements include quarterly estimated tax payment calculations, supporting schedules, and reconciliation workpapers (ii) Estimated tax payments must be calculated using one of the following safe harbor methods: - 100% of prior year tax liability - 90% of current year projected tax liability - Annualized income installment method (iii) Extension procedures require Form 7004 filing by original due date with proper payment of estimated tax liability (iv) Documentation of tax positions must include analysis of uncertain tax positions under ASC 740

(b) Information Returns: (i) 1099 reporting requirements include: - Annual vendor analysis for payment classification - TIN matching procedures - Electronic filing requirements when exceeding 250 forms (ii) W-8 documentation must be: - Collected prior to payment - Validated for completeness - Renewed every three years or upon expiration (iii) Foreign information reporting includes: - Form 5471 for foreign corporation ownership - Form 8858 for foreign disregarded entities - FBAR reporting for foreign financial accounts

4.3 R&D Credit Documentation

(a) Required Records: (i) Project documentation must include: - Project plans and technical specifications - Evidence of technical uncertainty - Documentation of systematic approach - Results of testing and evaluation (ii) Employee time tracking requirements: - Contemporary time records - Project-specific coding - Qualification analysis by employee (iii) Contractor agreements must specify: - Rights to research results - Payment terms and conditions - Scope of qualified research activities (iv) Technical documentation requirements: - Design documents and specifications - Test protocols and results - Patent applications and technical reports

(b) Calculation Support: (i) Qualified research expenses must be categorized by: - Wages (W-2 Box 1) - Supplies (directly connected to research) - Contract research (65% limitation) (ii) Base period computations including: - Fixed-base percentage calculations - Average annual gross receipts analysis - Consistency requirements (iii) Alternative simplified credit calculations: - Three-year qualified research expense average - Current year qualified research expenses - Supporting documentation for excluded activities

4.4 Transfer Pricing Documentation

(a) Documentation Requirements: (i) Functional analysis must detail: - Functions performed by each entity - Risks assumed by each party - Assets employed in operations - Value drivers of the business (ii) Economic analysis including: - Selection of transfer pricing method - Comparable company analysis - Financial ratio calculations - Market condition assessments (iii) Comparability analysis requirements: - Industry analysis - Geographic market considerations - Business strategy documentation - Functional equivalency assessment

(b) Annual Updates: (i) Review procedures must include: - Quarterly operational changes assessment - Annual pricing policy review - Intercompany agreement updates (ii) Documentation updates requiring: - Contemporary financial data - Market condition changes - Business restructuring impact (iii) Risk assessment procedures: - Transfer pricing exposure analysis - Penalty protection documentation - Advance pricing agreement consideration

IN WITNESS WHEREOF, this Framework has been executed as of the Effective Date.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

Date: January 15, 2024

[EXHIBITS AND APPENDICES FOLLOW]