

TAX MATTERS DOCUMENT 15

1.0 PREAMBLE AND RECITALS

THIS TAX MATTERS 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 (the "Company").

WHEREAS, the Company is engaged in the development and commercialization of proprietary machine learning and computer vision solutions for industrial process optimization and predictive maintenance, including its NexusCore™ Industrial AI Platform and associated technological implementations;

WHEREAS, the Company generates revenue through enterprise software-as-a-service licensing and related implementation services, with annual recurring revenue exceeding \$25,000,000, comprising subscription fees, maintenance charges, and professional services compensation;

WHEREAS, the Company conducts significant research and development activities in artificial intelligence and machine learning technologies, including but not limited to deep learning algorithms, neural network architectures, and advanced data analytics methodologies;

WHEREAS, the Company maintains operations and customers in multiple jurisdictions, including throughout North America and Europe, necessitating compliance with various international tax treaties, transfer pricing regulations, and cross-border revenue recognition standards;

WHEREAS, the Company holds substantial intellectual property rights, including patents, trademarks, and trade secrets related to its proprietary technologies, requiring specific tax consideration and treatment; and

WHEREAS, the Company desires to establish comprehensive tax treatment guidelines for its operations, revenue recognition, and research activities, in accordance with applicable domestic and international tax regulations, accounting standards, and best practices.

NOW, THEREFORE, the Company hereby establishes the following tax matters provisions:

2.0 DEFINITIONS AND INTERPRETATIONS

2.1 Defined Terms. For purposes of this Document, the following terms shall have the meanings specified below:

(a) "Artificial Intelligence Development Activities" means the Company's development of proprietary machine learning algorithms, computer vision systems, and related artificial intelligence technologies, including but not limited to neural network architectures, deep learning models, natural language processing systems, and automated decision-making frameworks.

(b) "Implementation Services" means professional services provided by the Company to customers for the implementation, configuration, and optimization of the NexusCore™ Platform, including system integration, data migration, custom feature development, training, and ongoing technical support services.

(c) "License Revenue" means recurring revenue generated from subscription-based licensing of the NexusCore™ Platform, including enterprise licenses, module-specific licenses, and API access fees.

(d) "Qualified Research Expenses" means expenses that qualify for research tax credits under Section 41 of the Internal Revenue Code and applicable state provisions, including wages for qualified services, supplies used in research, contract research expenses, and basic research payments.

(e) "SaaS Revenue" means revenue generated from software-as-a-service delivery of the NexusCore™ Platform, including subscription fees, usage-based charges, and platform access fees.

2.2 Revenue Recognition Principles

(a) SaaS revenue shall be recognized ratably over the subscription term, with consideration given to: (i) Multi-year contract provisions (ii) Usage-based component calculations (iii) Service level agreement adjustments (iv) Early termination provisions

(b) Implementation Services revenue shall be recognized as services are performed, subject to: (i) Milestone completion verification (ii) Customer acceptance criteria (iii) Time and materials billing arrangements (iv) Fixed-price project completion percentages

2.3 International Revenue Classifications

(a) "European Market Revenue" means revenue generated from customers located within the European Economic Area, including: (i) Direct sales to EU-based entities (ii) Revenue through European subsidiaries (iii) Marketplace transactions processed within the EEA (iv) Cross-border service provisions

(b) "Transfer Pricing Arrangements" means methodologies established for pricing intercompany transactions between jurisdictions, including: (i) Cost-plus pricing methods (ii) Comparable uncontrolled price methods (iii) Profit split methodologies (iv) Resale price mechanisms

2.4 Technical Service Classifications

(a) "Machine Learning Operations" means activities related to the deployment, monitoring, and maintenance of machine learning models in production environments.

(b) "Data Processing Services" means services related to the collection, cleaning, transformation, and storage of customer data within the Platform.

2.5 Interpretation Principles

(a) Technical terms shall be interpreted in accordance with industry standards and best practices in the artificial intelligence and machine learning sector.

(b) Revenue classification disputes shall be resolved by reference to GAAP principles and relevant regulatory guidance.

(c) Geographic revenue attribution shall follow established OECD guidelines and applicable tax treaties.

(d) Service classification ambiguities shall be resolved in favor of the most specific applicable category.

3.0 TAX TREATMENT OF CORE BUSINESS OPERATIONS

3.1 SaaS Revenue Classification

(a) The Company's NexusCore™ Platform shall be classified as a software-as-a-service offering for tax purposes.

(b) Subscription fees shall be treated as service revenue rather than software license revenue.

(c) Revenue recognition shall follow ASC 606 principles for cloud-based software arrangements.

(d) Multi-element arrangements involving both SaaS and professional services shall be evaluated for distinct performance obligations.

(e) Deferred revenue shall be recognized ratably over the subscription period unless evidence supports an alternative pattern.

(f) Implementation fees shall be assessed for distinct functionality and recognized accordingly.

3.2 Machine Learning Model Development

(a) Development costs for proprietary machine learning models shall be capitalized where appropriate under ASC 350-40.

(b) The Company shall maintain detailed documentation of development activities to support tax treatment.

(c) Qualifying costs eligible for capitalization shall include: (i) Direct labor costs for model development (ii) Third-party data acquisition expenses (iii) Cloud computing resources directly attributable to development (iv) Testing and validation expenses

(d) Research phase expenses shall be expensed as incurred, including: (i) Preliminary project planning (ii) Conceptual formulation of alternatives (iii) Early-stage prototyping (iv) Evaluation of competing technologies

(e) Amortization of capitalized costs shall commence when the model is substantially complete and ready for intended use.

3.3 International IP Rights

(a) The Company's intellectual property shall be held by the U.S. parent entity.

(b) Intercompany licensing arrangements shall be established with foreign subsidiaries.

(c) Transfer pricing studies shall be conducted annually to support royalty rates.

(d) Cost sharing arrangements shall be documented through: (i) Detailed functional analysis (ii) Economic substance documentation (iii) Contemporaneous transfer pricing documentation (iv) Periodic benchmarking studies

(e) Foreign subsidiary operations shall be structured to: (i) Maintain appropriate substance in each jurisdiction (ii) Comply with local permanent establishment rules (iii) Support arm's length pricing arrangements (iv) Optimize global effective tax rate within compliance parameters

3.4 State Tax Nexus

(a) The Company shall monitor and comply with economic nexus thresholds in all U.S. states.

(b) Physical presence shall be tracked for all employee and contractor activities.

(c) Nexus-creating activities shall be monitored, including: (i) Employee travel and remote work arrangements (ii) Server and data center locations (iii) Professional service delivery locations (iv) Marketing and sales activities (v) Training and support services

(d) State-specific compliance obligations shall be evaluated for: (i) Sales and use tax collection (ii) Income tax filing requirements (iii) Gross receipts tax obligations (iv) Information reporting requirements

3.5 Tax Treatment of AI Components

(a) Machine learning algorithms shall be classified as intangible property for tax purposes.

(b) Training data sets shall be evaluated for: (i) Capitalization requirements (ii) Useful life determination (iii) Jurisdiction-specific treatment (iv) Transfer pricing implications

(c) Cloud infrastructure costs shall be allocated between: (i) Development activities (ii) Production operations (iii) Customer-specific instances (iv) General administrative functions

3.6 Documentation Requirements

- (a) The Company shall maintain comprehensive documentation including: (i) Technical specifications of ML models (ii) Development timeline and milestone achievements (iii) Capitalization analysis and support (iv) Revenue recognition policies (v) Transfer pricing studies (vi) Nexus determination records
- (b) Documentation retention periods shall comply with: (i) Federal tax requirements (ii) State tax provisions (iii) International tax obligations (iv) Corporate governance standards
- (c) Periodic reviews shall be conducted to ensure: (i) Documentation completeness (ii) Policy compliance (iii) Risk assessment (iv) Process improvement opportunities

4.0 R&D TAX CREDIT PROVISIONS

4.1 Qualified Research Activities

- (a) The following activities shall qualify as research expenses: (i) Development of novel machine learning algorithms (ii) Computer vision system improvements (iii) Edge computing optimization (iv) Predictive maintenance model development (v) Neural network architecture research (vi) Natural language processing advancement (vii) Autonomous system development (viii) Data processing optimization methodologies
- (b) The Company shall maintain contemporaneous documentation of all qualified research activities.
- (c) Research activities must satisfy the following criteria: (i) Technical uncertainty must exist at project outset (ii) Systematic experimentation must be undertaken (iii) Activities must rely on engineering or computer science principles (iv) Purpose must be creation of new or improved functionality

4.2 Documentation Requirements

- (a) Required documentation shall include: (i) Project plans and technical specifications (ii) Development team time tracking records (iii) Test results and validation data (iv) Technical uncertainty documentation (v) Experimentation methodology records (vi) Alternative approaches considered (vii) Failed attempts and iterations (viii) Success criteria and metrics
- (b) Documentation retention requirements: (i) All records must be maintained for minimum seven (7) years (ii) Electronic records must include version control (iii) Access logs must be maintained (iv) Regular backup procedures must be implemented

4.3 Employee Time Tracking

- (a) All technical employees shall track time by project and activity type.
- (b) Non-qualifying activities shall be segregated from qualified research time.

(c) Time tracking requirements: (i) Minimum daily time entry updates (ii) Project code association (iii) Activity type classification (iv) Technical uncertainty notation (v) Supervisor approval within 5 business days

(d) Qualifying employee categories: (i) Research scientists (ii) Software engineers (iii) Data scientists (iv) Machine learning engineers (v) Research directors (vi) Technical project managers

4.4 Technology Development Classification

(a) Development activities shall be classified as either: (i) Qualified research and experimentation (ii) Product enhancement and maintenance (iii) Customer-specific implementation (iv) Platform optimization (v) Technical debt reduction

(b) Classification criteria shall include: (i) Degree of technical uncertainty (ii) Innovation level (iii) Industry standard advancement (iv) Scientific principle application

4.5 Expenditure Tracking

(a) Qualified research expenses shall include: (i) Direct labor costs (ii) Cloud computing resources (iii) Research equipment (iv) Third-party research contracts (v) Technical documentation tools

(b) Cost allocation requirements: (i) Direct cost attribution (ii) Overhead allocation methodology (iii) Mixed-use resource calculations

4.6 Compliance Review

(a) Quarterly internal reviews shall: (i) Validate documentation completeness (ii) Verify time tracking accuracy (iii) Assess qualification criteria (iv) Update project classifications

(b) Annual external review requirements: (i) Independent verification of qualified activities (ii) Documentation audit (iii) Calculation validation (iv) Risk assessment (v) Compliance certification

4.7 Credit Calculation

(a) The Company shall maintain detailed calculations of: (i) Qualified research expenses (ii) Base period computations (iii) Credit utilization tracking (iv) Carryforward amounts

5.0 INTERNATIONAL TAX CONSIDERATIONS

5.1 European Market Operations

(a) The Company shall maintain compliance with EU VAT requirements, including: (i) Registration in relevant EU member states where thresholds are exceeded (ii) Implementation of real-time reporting systems where mandated (iii) Maintenance of digital records for minimum seven-year periods (iv) Appointment of fiscal representatives where legally required

(b) Permanent establishment analysis shall be conducted annually, considering: (i) Physical presence metrics in each jurisdiction (ii) Server and data center locations (iii) Employee activities and duration of assignments (iv) Revenue attribution methodologies (v) Local substance requirements

5.2 IP Transfer Pricing

(a) Intercompany agreements shall document IP ownership and licensing, addressing: (i) Development cost sharing arrangements (ii) Risk allocation between entities (iii) Ownership of future developments (iv) Termination provisions and IP reversion rights (v) Quality control measures and standards

(b) Transfer pricing studies shall support royalty rates through: (i) Functional and risk analysis documentation (ii) Comparable uncontrolled price analysis (iii) Profit split methodologies where appropriate (iv) Contemporary documentation requirements (v) Annual review and adjustment procedures

5.3 International Service Delivery

(a) Cross-border service arrangements shall be documented, including: (i) Service level agreements with specific deliverables (ii) Cost allocation methodologies (iii) Performance metrics and quality standards (iv) Dispute resolution procedures (v) Currency and payment terms

(b) Service permanent establishment risk shall be monitored through: (i) Quarterly assessment of service delivery locations (ii) Employee movement tracking systems (iii) Project duration monitoring (iv) Local registration requirements (v) Contractual risk mitigation measures

5.4 Foreign Tax Credits

(a) The Company shall track foreign source income by jurisdiction, maintaining: (i) Detailed income categorization systems (ii) Source documentation requirements (iii) Currency translation policies (iv) Income allocation methodologies (v) Contemporaneous documentation procedures

(b) Foreign tax credit calculations shall be documented quarterly, including: (i) Credit limitation calculations by category (ii) Carryforward and carryback analyses (iii) Treaty benefit considerations (iv) Foreign tax credit pools by jurisdiction (v) Supporting documentation requirements

5.5 Compliance and Reporting

(a) The Company shall maintain comprehensive compliance procedures: (i) Country-by-country reporting requirements (ii) Master file and local file documentation (iii) Ultimate beneficial ownership reporting (iv) Economic substance requirements (v) Digital services tax obligations

(b) Regular review and updates shall be conducted: (i) Quarterly compliance calendar maintenance (ii) Annual risk assessment procedures (iii) Documentation retention policies (iv) Internal control testing (v) External advisor review procedures

EXHIBITS

Exhibit A: Revenue Recognition Methodology Exhibit B: R&D Documentation Requirements
Exhibit C: Transfer Pricing Guidelines

APPENDICES

Appendix 1: State Nexus Thresholds Appendix 2: Qualified Research Activity Categories
Appendix 3: International Tax Compliance Checklist

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

NEXUS INDUSTRIAL INTELLIGENCE, INC.

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

ATTEST:

Corporate Secretary