TAX MATTERS DOCUMENT

Effective Date: January 15, 2024

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation with its principal place of business at 2500 Innovation Drive, Wilmington, Delaware 19801 (the "Company"), develops and provides proprietary artificial intelligence and machine learning solutions for industrial applications;

WHEREAS, the Company desires to establish comprehensive guidelines for the treatment of tax matters relating to its operations, intellectual property, and revenue recognition; and

WHEREAS, this Tax Matters Document shall govern the Company's approach to tax compliance, reporting, and related matters across all applicable jurisdictions.

NOW, THEREFORE, the Company hereby adopts and implements the following tax matters provisions:

1.0 PURPOSE AND SCOPE

1.1 This Tax Matters Document (the "Document") establishes the framework for all tax-related matters and obligations of the Company, including but not limited to federal, state, local, and international tax considerations. The Document serves as the authoritative source for tax compliance, reporting requirements, and strategic tax planning initiatives.

1.2 **Scope of Coverage**. This Document shall apply to: (a) All revenue generated through the NexusCore™ Industrial AI Platform, including subscription fees, usage-based charges, and platform customization revenues; (b) Research and development activities related to artificial intelligence and machine learning technologies, encompassing both capitalized and expensed development costs; (c) Software-as-a-Service (SaaS) subscription revenues, including recurring and non-recurring components; (d) Implementation services and professional services revenue, including consulting, training, and support services; and (e) All intellectual property development and commercialization activities, including patents, trade secrets, and proprietary algorithms.

1.3 **Jurisdictional Applicability**. These provisions shall apply to: (a) United States federal tax matters, including specialized provisions for technology companies; (b) State and local tax obligations in all jurisdictions where the Company maintains nexus, including economic and physical presence considerations; (c) International tax considerations for European operations, including permanent establishment implications; and (d) Cross-border transactions and transfer pricing matters, with particular attention to intellectual property valuation.

1.4 **SaaS Revenue Recognition**. The Company shall recognize revenue from its SaaS offerings in accordance with: (a) ASC 606 requirements, specifically addressing performance obligations and contract modifications; (b) State-specific software and digital goods tax provisions, including marketplace facilitator laws; and (c) International VAT and digital services tax regulations, including EU VAT MOSS requirements.

1.5 **Special Considerations for AI Technology**. The Document specifically addresses: (a) Tax treatment of machine learning model development costs; (b) Allocation of research and experimental expenditures under IRC Section 174; (c) Classification of AI-driven analytics as either services or licensed technology; and (d) Treatment of data acquisition and processing costs for tax purposes.

1.6 **Compliance Requirements**. The Company shall maintain comprehensive documentation supporting: (a) Technical development activities qualifying for R&D tax credits; (b) Revenue allocation methodologies across jurisdictions; and (c) Transfer pricing policies for intercompany transactions.

2.0 TAX COMPLIANCE AND REPORTING

2.1 **Federal Tax Compliance** (a) The Company shall file all required federal tax returns and information returns on a timely basis, including Forms 1120, 941, 940, 1099, and W-2. (b) Research and Development tax credits shall be documented and claimed in accordance with IRC Section 41, including: (i) Contemporaneous documentation of qualified research expenses (ii) Time tracking records for technical personnel (iii) Project documentation demonstrating systematic experimentation (iv) Documentation of technological uncertainty resolution (c) The Company shall maintain contemporaneous documentation supporting all tax positions, including: (i) Technical memoranda for uncertain tax positions (ii) Supporting calculations and methodologies (iii) Third-party validations where applicable

2.2 **State Tax Compliance** (a) The Company shall conduct quarterly nexus reviews to determine tax filing obligations, considering: (i) Physical presence in each jurisdiction (ii) Economic nexus thresholds for sales and revenue (iii) Employee activities and remote worker locations (b) Economic nexus thresholds shall be monitored for all state jurisdictions, with specific attention to: (i) Sales volume by state (ii) Transaction counts (iii) Digital product delivery locations (c) Software and digital goods shall be taxed according to each state's specific provisions, including: (i) Software-as-a-Service (SaaS) characterization (ii) Electronic delivery methods (iii) User location determination methodology

2.3 **International Tax Considerations** (a) Transfer pricing documentation shall be maintained for all cross-border transactions, including: (i) Functional and risk analysis (ii) Comparable company analysis (iii) Intercompany agreements (iv) Annual transfer pricing studies (b) Permanent establishment analysis shall be conducted annually, examining: (i) Fixed place of business activities (ii) Agency relationships (iii) Server and data center locations (c) VAT registration and compliance shall be maintained where required, including: (i) Digital service provisions (ii) One-Stop-Shop (OSS) registration (iii) Local invoice requirements

2.4 **Documentation Requirements** (a) All tax positions shall be supported by contemporaneous documentation, including: (i) Technical analysis and research (ii) External advisor opinions (iii) Internal control procedures (b) Records shall be retained for a minimum of seven (7) years, encompassing: (i) Original source documents (ii) Electronic transaction records (iii) Tax calculation worksheets (iv) Correspondence with tax authorities (c) Electronic records shall be maintained in accordance with IRS requirements, ensuring: (i) Accessibility throughout the retention period (ii) Adequate backup and recovery systems (iii) Audit trail preservation (iv) Data integrity verification procedures

2.5 **Reporting Obligations** (a) The Company shall maintain a tax compliance calendar identifying all filing deadlines (b) Quarterly tax provision calculations shall be prepared in accordance with ASC 740 (c) Tax control frameworks shall be reviewed annually and updated as necessary (d) Material tax positions shall be disclosed to external auditors and documented in accordance with FIN 48

3.0 TAX TREATMENT OF INTELLECTUAL PROPERTY

3.1 **IP Development Costs** (a) Research and experimental expenditures shall be capitalized and amortized over five years, subject to: (i) Documentation of direct labor costs (ii) Allocation of overhead expenses (iii) Segregation of qualified research activities (b) Software development costs shall be allocated between: (i) Research phase costs (expensed as incurred) (ii) Development phase costs (capitalized) (iii) Post-implementation costs (expensed as incurred) (c) Machine learning model development expenses shall be categorized as: (i) Initial training data acquisition costs (capitalized) (ii) Model architecture design (research phase) (iii) Training and validation costs (development phase) (iv) Deployment and maintenance costs (post-implementation)

3.2 **Patent Amortization** (a) Patents shall be amortized over the lesser of: (i) Legal life of the patent (ii) Economic useful life (b) Annual impairment testing shall be conducted, considering: (i) Market conditions and technological obsolescence (ii) Revenue-generating potential (iii) Competitive landscape analysis (c) Accelerated amortization may be permitted when: (i) Technological advancement significantly impacts utility (ii) Legal challenges threaten patent validity (iii) Market conditions substantially reduce value

3.3 **Cross-Border IP Licensing** (a) Transfer pricing for IP licenses shall be established using: (i) Comparable uncontrolled price method (ii) Profit split methodology (iii) Cost-plus approach with appropriate markup (b) Cost sharing arrangements shall be: (i) Documented and updated annually (ii) Supported by economic substance (iii) Compliant with BEPS guidelines

3.4 **Special Provisions for AI/ML Assets** (a) Algorithm development costs shall be segregated: (i) Core architecture (capitalized) (ii) Iterative improvements (expensed) (iii) Training data preparation (capitalized) (b) Cloud computing expenses shall be treated as: (i) Operating expenses for standard usage (ii) Capital expenses for dedicated infrastructure (c) Regular valuation assessments required for: (i) Novel AI applications (ii) Proprietary datasets (iii) Custom implementation frameworks

3.5 **Compliance Requirements** (a) Quarterly documentation of: (i) Development stage classification (ii) Capitalization decisions (iii) Amortization schedules (b) Annual review of: (i) Transfer pricing methodologies (ii) Cost allocation procedures (iii) International tax compliance

4.0 REVENUE RECOGNITION AND TAX ACCOUNTING

4.1 **SaaS Revenue Recognition Methodology** (a) Subscription revenue shall be recognized ratably over the contract term, with recognition commencing upon the date when service access is granted to the customer. (b) Implementation services shall be evaluated for distinct performance obligations in accordance with ASC 606 criteria, including but not limited to: (i) Customer's ability to benefit from the service independently (ii) Service is separately identifiable from other promises (iii) Existence of integrated services affecting distinctness (c) Multi-year contracts shall be analyzed for significant financing components when payment timing differs from service delivery by twelve (12) months or more. (d) Variable consideration, including usage-based fees, shall be estimated using either the expected value or most likely amount method, subject to the constraint principle.

4.2 **Deferred Revenue Treatment** (a) Advanced payments shall be recorded as deferred revenue and maintained in separate subsidiary ledgers for each revenue stream. (b) Tax treatment shall follow book treatment unless required otherwise by applicable federal, state, or local tax regulations. (c) State-specific modifications shall be tracked and documented through detailed reconciliation worksheets maintained on a quarterly basis. (d) Deferred revenue balances shall be analyzed monthly for: (i) Foreign currency translation adjustments (ii) Contract modification impacts (iii) Termination provisions (iv) Revenue recognition timing differences

4.3 **Implementation Services** (a) Services shall be analyzed for separate performance obligations based on the following criteria: (i) Technical integration requirements (ii) Customization complexity (iii) Interdependence with subscription services (b) Revenue shall be recognized as obligations are satisfied, with progress measured through: (i) Output methods: milestones, deliverables (ii) Input methods: labor hours, costs incurred (c) State tax treatment shall follow specific state guidelines, with particular attention to: (i) Nexus determination (ii) Service characterization (iii) Sourcing rules (iv) Local tax obligations

4.4 **Documentation Requirements** (a) Revenue recognition policies shall be documented and reviewed annually. (b) Contract analysis worksheets shall be maintained for all material customer arrangements. (c) Performance obligation identification and allocation methodologies shall be consistently applied and documented. (d) Tax position memoranda shall be prepared for material revenue streams and jurisdictions.

4.5 **Compliance and Reporting** (a) Quarterly reviews shall be conducted to ensure compliance with: (i) ASC 606 requirements (ii) State and local tax regulations (iii) International tax obligations (b) Material changes in revenue recognition methodology shall require advance approval from the Chief Financial Officer and notification to the independent auditors.