

# **TAX MATTERS CERTIFICATE AND COMPLIANCE DECLARATION**

THIS TAX MATTERS CERTIFICATE AND COMPLIANCE DECLARATION (this "Certificate") is made and executed 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 (the "Company").

WHEREAS, the Company develops and licenses proprietary artificial intelligence software solutions for industrial applications;

WHEREAS, the Company desires to certify certain tax matters relating to its business operations, revenue characterization, and compliance status;

NOW, THEREFORE, the Company hereby certifies and declares as follows:

## **1.0 TAX MATTERS CERTIFICATE**

### **1.1 Entity Classification**

The Company hereby certifies that it has not filed IRS Form 8832 (Entity Classification Election) and is properly classified as a C-corporation for U.S. federal income tax purposes. The Company further acknowledges its obligation to maintain this classification unless explicitly modified through appropriate IRS filings and shareholder approvals.

### **1.2 Tax Residency**

The Company is a tax resident of the United States and maintains its principal place of management and control within the United States. The Company conducts all board meetings, maintains corporate records, and executes major business decisions within U.S. jurisdiction, thereby establishing substantial physical presence for tax purposes.

### **1.3 FATCA Status**

The Company certifies its status as a U.S. Person as defined under Section 7701(a)(30) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not subject to FATCA withholding. The Company maintains appropriate documentation to substantiate this status and complies with all related reporting requirements under Chapter 4 of the Code.

## **1.4 Software Revenue Characterization**

(a) The Company's NexusCore™ Industrial AI Platform and related software offerings generate revenue primarily through: (i) Software-as-a-Service (SaaS) subscription fees characterized as services income under IRC Section 861; (ii) License fees for on-premises software deployment treated as royalty income; and (iii) Implementation and support services classified as services income.

(b) The Company applies Revenue Procedure 2000-50 to the development costs of its software products and maintains detailed documentation of: (i) Research and experimental expenditures under Section 174; (ii) Software development costs eligible for capitalization; and (iii) Cloud computing arrangement implementation costs under Revenue Procedure 2018-29.

## **1.5 State Tax Nexus**

The Company acknowledges and maintains compliance with state tax obligations in jurisdictions where it has established economic nexus through: (a) Digital service delivery; (b) Remote software access; and (c) Cloud-based subscription services.

## **1.6 Transfer Pricing**

The Company maintains appropriate transfer pricing documentation for all intercompany transactions involving software licensing, technical services, and intellectual property rights, in accordance with IRC Section 482 and related Treasury Regulations.

# **2.0 TAX REPRESENTATIONS AND WARRANTIES**

## **2.1 Filing Compliance**

The Company represents and warrants that: (a) All required federal, state, and local tax returns have been timely filed, including but not limited to income tax returns, sales and use tax returns, employment tax returns, and information returns; (b) All tax returns are true, complete, and accurate in all material respects, with supporting documentation maintained for a minimum of seven (7) years; (c) The Company maintains adequate books and records supporting all tax positions, including contemporaneous documentation of transfer pricing methodologies, R&D activities, and nexus determinations; (d) All electronic filing requirements have been met, including proper retention of e-file acknowledgments and digital signatures.

## **2.2 Payment of Taxes**

(a) All taxes shown as due on filed returns have been paid or adequately reserved for on the Company's financial statements; (b) The Company maintains sufficient cash reserves for anticipated tax obligations; (c) No liens for taxes have been filed against any Company assets;

(d) All estimated tax payments have been made timely and in appropriate amounts; (e) The Company has complied with all tax deposit requirements for employment taxes and withholding obligations.

## **2.3 Audits and Examinations**

(a) No federal, state, or local tax audits are currently in progress; (b) No written notice of any pending audit has been received within the past twenty-four (24) months; (c) No waiver of any statute of limitations is currently in effect; (d) The Company has responded timely to all information document requests from taxing authorities; (e) All prior audits have been closed with no material adjustments or have been properly disclosed; (f) The Company maintains an audit response protocol and document retention policy.

## **2.4 R&D Tax Credits**

The Company claims R&D tax credits under IRC Section 41 for: (a) Development of machine learning algorithms, including documentation of technical uncertainty and systematic investigation; (b) Computer vision system improvements, with contemporaneous documentation of development processes; (c) Edge computing optimization activities, supported by time tracking and project documentation; (d) Integration architecture development, including detailed records of qualified research expenses; (e) The Company maintains contemporaneous documentation supporting: (i) The technical nature of development activities; (ii) Employee time allocation to qualified research; (iii) Contractor agreements specifying research parameters; (iv) Project progression and testing protocols.

## **2.5 State Tax Nexus**

The Company maintains sales tax nexus in the following jurisdictions: (a) Delaware (commercial domicile): (i) Principal place of business; (ii) Corporate headquarters operations; (b) California (sales office and technical staff): (i) Permanent sales office in San Francisco; (ii) Remote development team of twelve (12) employees; (c) Texas (sales representatives): (i) Three (3) full-time sales representatives; (ii) Regular customer training activities; (d) Massachusetts (development center): (i) Research and development facility; (ii) Twenty (20) technical employees; (e) The Company conducts periodic nexus reviews and maintains documentation supporting nexus determinations in each jurisdiction.

# **3.0 INTERNATIONAL TAX MATTERS**

## **3.1 Transfer Pricing**

(a) The Company maintains comprehensive transfer pricing documentation for all material intercompany transactions, including detailed functional analyses, economic studies, and benchmarking reports; (b) All cross-border transactions are conducted at arm's length in

accordance with IRC Section 482 and OECD Transfer Pricing Guidelines; (c) Annual reviews of transfer pricing methodologies are conducted to ensure continued compliance with applicable regulations; (d) Contemporary documentation is maintained to support the selection of comparable transactions and profit level indicators.

### **3.2 Withholding Obligations**

The Company implements robust procedures for tax documentation collection and verification, including: (a) Forms W-8BEN-E for entity customers, with renewal tracking systems; (b) Tax residency certificates where required by treaty, validated annually; (c) VAT registration numbers for EU customers, verified through VIES; (d) Forms W-8IMY for intermediary entities acting on behalf of beneficial owners; (e) Documentation of reduced treaty rates applied to payments; (f) Quarterly reconciliation of withholding tax payments and deposits.

### **3.3 Permanent Establishment**

(a) The Company's cloud-based service delivery model is structured to avoid creating permanent establishments in customer jurisdictions; (b) Regular assessments are conducted to evaluate activities that could trigger permanent establishment status; (c) Server locations and data center operations are strategically managed to minimize tax nexus risks; (d) Technical service arrangements are structured to avoid fixed place of business characterization; (e) Employee travel and activities are monitored to prevent inadvertent permanent establishment creation.

### **3.4 Digital Services Tax**

(a) The Company maintains active monitoring systems for emerging digital services tax obligations in all jurisdictions where services are provided; (b) Registration and compliance procedures are established for jurisdictions implementing digital services taxes; (c) Revenue tracking systems segregate digital service revenue by jurisdiction; (d) Quarterly assessments of digital service tax exposure are conducted; (e) Tax provision calculations incorporate projected digital services tax obligations.

### **3.5 International Tax Reporting**

(a) Country-by-Country Reporting requirements are monitored and fulfilled where applicable; (b) Master File and Local File documentation is maintained in accordance with BEPS Action 13; (c) Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) obligations are regularly reviewed; (d) Automated systems track revenue thresholds for various international tax reporting requirements; (e) Annual certifications of tax compliance are obtained from relevant jurisdictions.

## **4.0 SPECIAL TAX CONSIDERATIONS**

### **4.1 AI/ML Development Costs**

(a) Internal-use software development costs are capitalized in accordance with ASC 350-40, specifically: (i) Preliminary project stage costs are expensed as incurred; (ii) Application development stage costs are capitalized; (iii) Post-implementation stage costs are expensed as incurred; (b) Research costs for AI/ML algorithms are currently deducted under IRC Section 174, including: (i) Algorithm development and testing expenses; (ii) Data acquisition and preprocessing costs; (iii) Cloud computing expenses directly related to R&D activities; (c) Mixed-use development environments shall be allocated between capitalizable and deductible portions based on documented usage patterns.

### **4.2 Software Capitalization**

The Company follows a software capitalization policy that: (a) Capitalizes development costs after technological feasibility, as evidenced by: (i) Detailed program design documentation; (ii) Working model demonstration; (iii) Completion of planning phase deliverables; (b) Expenses research and maintenance costs, including: (i) Conceptual formulation of alternatives; (ii) Bug fixes and minor enhancements; (iii) User support and training materials; (c) Amortizes capitalized costs over 36 months using the straight-line method.

### **4.3 Revenue Recognition**

Revenue is recognized in accordance with ASC 606 based on: (a) Identification of performance obligations, considering: (i) Distinct goods or services; (ii) Series of distinct items; (iii) Implementation services; (b) Determination of transaction price, including: (i) Variable consideration estimates; (ii) Significant financing components; (iii) Non-cash consideration; (c) Allocation of price to obligations using: (i) Standalone selling prices; (ii) Residual approaches where appropriate; (d) Recognition upon transfer of control, measured by: (i) Customer acceptance criteria; (ii) Usage-based metrics; (iii) Time-elapsed measures.

### **4.4 Sales Tax Collection**

The Company: (a) Collects and remits sales tax on taxable transactions through: (i) Real-time calculation systems; (ii) Periodic compliance reviews; (iii) Jurisdictional registration maintenance; (b) Maintains exemption certificates for exempt customers by: (i) Digital certificate management system; (ii) Annual validation procedures; (iii) Automated renewal tracking; (c) Uses automated tax calculation software for compliance, ensuring: (i) Rate table updates; (ii) Nexus monitoring; (iii) Filing schedule adherence.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the Effective Date.

[Signature block and exhibits remain as in original]