

Section 174 Research Expense Allocation Worksheet

Confidential Document - Nexus Intelligent Systems, Inc.

PRELIMINARY STATEMENT

This Section 174 Research Expense Allocation Worksheet ("Worksheet") is prepared by Nexus Intelligent Systems, Inc., a Delaware corporation (the "Company"), for the purpose of documenting and substantiating research and experimental expenditure allocations in compliance with Internal Revenue Code Section 174 and applicable Treasury Regulations.

1. DEFINITIONS

1 "Qualified Research Expenses" (QRE) shall mean direct and indirect research expenditures meeting the criteria established under IRC 174 and applicable IRS guidance.

2 "Research Period" shall refer to the fiscal year ending December 31, 2023.

3 "Eligible Research Activities" shall include technological innovation projects directly related to the Company's enterprise AI services and predictive analytics platform development.

2. RESEARCH EXPENSE CATEGORIZATION

1 Direct Research Expenses

- Salaries and wages for research personnel: \$2,347,500
- Direct material costs: \$456,200
- Contracted research services: \$612,300
- Prototype development expenses: \$378,900

2 Indirect Research Expenses

- Overhead allocation: \$1,124,600
- Facilities and equipment depreciation: \$687,300
- Research management and administrative support: \$412,700

3. EXPENSE ALLOCATION METHODOLOGY

1 The Company shall utilize the following allocation principles:

- a) Direct traceability to specific research projects

- b) Proportional allocation based on documented time and resource commitments
- c) Consistent application of allocation methodologies across research initiatives

2 Allocation Percentages

- Machine Learning Diagnostic Tools: 42%
- Predictive Maintenance Platforms: 33%
- Enterprise Digital Transformation R&D: 25%

4. DOCUMENTATION REQUIREMENTS

1 The Company maintains comprehensive documentation supporting these research expense allocations, including:

- Detailed project timesheets
- Research project milestone documentation
- Technical design specifications
- Budget and expenditure tracking records

2 Supporting documentation shall be retained for a minimum of seven (7) years from the date of this Worksheet.

5. COMPLIANCE REPRESENTATIONS

1 The Company represents that:

- a) All reported research expenses meet the definitional requirements of IRC 174
- b) Expenses have been calculated using consistent and reasonable methodologies
- c) No expenses have been double-counted or improperly allocated

6. TAX TREATMENT ELECTION

1 The Company elects to treat research expenses as deductible current period expenditures in accordance with IRC 174(a).

7. LIMITATIONS AND DISCLAIMERS

1 This Worksheet represents management's best estimate and is subject to potential review, modification, or adjustment based on:

- Internal audit findings

- External tax authority examination
- Changes in applicable tax regulations

2 The Company reserves the right to amend this Worksheet as necessary to ensure ongoing compliance with applicable tax laws and regulations.

8. AUTHORIZATION

Executed this 22nd day of January, 2024.

Authorized Signatures:

Dr. Elena Rodriguez
Chief Executive Officer
Nexus Intelligent Systems, Inc.

Michael Chen
Chief Technology Officer
Nexus Intelligent Systems, Inc.

Sarah Williamson
Chief Strategy Officer
Nexus Intelligent Systems, Inc.

[Corporate Seal]