# TAX MATTERS DOCUMENT 19

## 1.0 PREAMBLE AND RECITALS

THIS TAX MATTERS DOCUMENT (this "Document"), dated as of January 15, 2024 (the "Effective Date"), is executed and acknowledged by Nexus Industrial Intelligence, Inc., a Delaware corporation with its principal place of business at 2500 Innovation Drive, Suite 400, Wilmington, Delaware 19801 ("Company"), Federal Employer Identification Number 81-3456789, registered with the Delaware Secretary of State under file number 7654321.

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 through its NexusCore<sup>TM</sup> Industrial AI Platform, as registered under U.S. Patent No. 11,234,567 and related intellectual property filings;

WHEREAS, the Company generates revenue through enterprise SaaS licensing and implementation services across multiple tax jurisdictions, including but not limited to the United States, European Union, and Asia-Pacific regions, necessitating compliance with various international tax treaties and conventions;

WHEREAS, the Company seeks to establish comprehensive documentation regarding the tax treatment of its various revenue streams, intellectual property assets, and research and development activities, in accordance with Internal Revenue Code Sections 41, 174, and 197;

WHEREAS, the Company maintains offices and operations in multiple jurisdictions, creating nexus considerations for state and international tax purposes, and engages in cross-border transactions requiring specific transfer pricing considerations;

WHEREAS, the Company has obtained qualified tax counsel opinions regarding its tax positions and maintains contemporaneous documentation of all material tax matters;

NOW, THEREFORE, the Company hereby documents and declares the following tax matters:

### 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 Solutions" means the Company's proprietary machine learning algorithms, computer vision systems, and related technological solutions incorporated into the NexusCore<sup>TM</sup> Platform, including but not limited to neural networks, deep learning models, and predictive analytics engines.

- (b) "Implementation Services" means professional services provided by the Company for the deployment, configuration, and integration of the NexusCore<sup>TM</sup> Platform, including installation, customization, data migration, training, and ongoing technical support.
- (c) "Intellectual Property" means all patents, copyrights, trade secrets, trademarks, know-how, proprietary methodologies, algorithms, source code, documentation, and other intellectual property rights owned by the Company related to the NexusCore™ Platform and Artificial Intelligence Solutions, whether registered or unregistered.
- (d) "NexusCore™ Platform" means the Company's flagship software-as-a-service platform for industrial process optimization and predictive maintenance, including all updates, modifications, enhancements, and derivative works thereof.
- (e) "Qualified Research Expenses" means research and development costs that qualify for federal and state tax credits under applicable law, including wages, supplies, contract research expenses, and cloud computing costs directly related to qualified research activities.
- (f) "SaaS Revenue" means subscription fees received from customers for access to and use of the NexusCore<sup>TM</sup> Platform, including recurring license fees, usage-based charges, and platform access fees.
- (g) "Cross-Border Transactions" means any revenue, expenses, or transfers of intellectual property between jurisdictions involving the Company's operations in multiple tax territories.
- (h) "Machine Learning Components" means specific algorithmic elements within the Artificial Intelligence Solutions that automatically improve through experience and data analysis.
- (i) "Technical Documentation" means all user manuals, technical specifications, API documentation, and other materials describing the functionality and operation of the NexusCore<sup>TM</sup> Platform.
- (j) "Territory-Specific Revenue" means income generated within specific geographic regions or tax jurisdictions, subject to local tax regulations and international tax treaties.
- 2.2 Interpretation. In this Document:
- (a) References to "Sections" are to sections of this Document unless otherwise specified.
- (b) The words "include," "includes," and "including" shall be deemed to be followed by "without limitation."
- (c) All monetary amounts are expressed in United States dollars.
- (d) References to laws, regulations, or standards include all amendments, modifications, and replacements as of the effective date.
- (e) Technical terms not specifically defined shall have the meanings commonly understood in the software and artificial intelligence industries.
- (f) References to time periods shall be calculated according to the Gregorian calendar.

- (g) Any reference to "writing" or "written" includes electronic communications and digital signatures compliant with applicable electronic transaction laws.
- (h) The division of this Document into sections and subsections is for convenience only and shall not affect its interpretation.
- (i) Words importing the singular include the plural and vice versa, and words importing gender include all genders.
- (j) The headings in this Document are for reference purposes only and shall not affect the interpretation of any provision.

## 3.0 TAX CLASSIFICATIONS AND TREATMENTS

- 3.1 SaaS Revenue Classification
- (a) The Company's SaaS Revenue shall be classified as services income for federal and state tax purposes.
- (b) Revenue recognition for tax purposes shall occur ratably over the subscription term as services are delivered.
- (c) Multi-component SaaS arrangements shall be evaluated to determine: (i) Separate performance obligations for tax purposes; (ii) Allocation of transaction price among components; (iii) Timing of revenue recognition for each component.
- (d) Platform usage fees, maintenance fees, and support services shall be treated as integrated components of the SaaS offering unless specifically contracted separately.
- 3.2 Implementation Services Treatment
- (a) Implementation Services revenue shall be classified as services income and recognized when such services are performed.
- (b) Direct costs associated with Implementation Services shall be deducted in the period incurred.
- (c) Implementation Services shall be evaluated for: (i) Separate performance obligation status;
- (ii) Nexus implications in customer jurisdictions; (iii) State and local tax applicability.
- (d) Training services, data migration, and customization work shall be separately tracked and documented for tax purposes.
- 3.3 Intellectual Property Tax Treatment
- (a) Research and development costs related to the Artificial Intelligence Solutions shall be: (i) Capitalized where required by applicable tax law; (ii) Expensed where permitted under Section 174 of the Internal Revenue Code.

- (b) The Company shall maintain detailed documentation of all research and development activities to support: (i) Tax deduction claims; (ii) R&D tax credit applications.
- (c) Software development costs shall be categorized as follows: (i) New functionality development; (ii) Platform enhancement and optimization; (iii) Bug fixes and maintenance; (iv) Third-party integration development.
- (d) Artificial Intelligence model training costs shall be: (i) Separately tracked and documented;
- (ii) Evaluated for appropriate tax treatment based on purpose and outcome; (iii) Allocated between jurisdictions where appropriate.

#### 3.4 International Revenue Allocation

- (a) Revenue from customers outside the United States shall be allocated based on: (i) Location of customer usage; (ii) Location of Implementation Services delivery; (iii) Economic substance of the transaction.
- (b) Transfer pricing documentation shall be maintained for all international transactions.
- (c) International revenue allocation shall consider: (i) Permanent establishment implications;
- (ii) Treaty obligations and limitations; (iii) Value-added tax requirements; (iv) Digital services tax applicability.

#### 3.5 State Tax Considerations

- (a) The Company shall maintain documentation of: (i) Economic nexus thresholds by state; (ii) Physical presence activities; (iii) State-specific sourcing rules.
- (b) State tax obligations shall be evaluated based on: (i) Customer location; (ii) Service delivery location; (iii) Revenue thresholds; (iv) Nature of services provided.

#### 3.6 Tax Compliance Documentation

- (a) The Company shall maintain comprehensive documentation including: (i) Customer contracts and invoices; (ii) Service delivery records; (iii) Implementation project documentation; (iv) Research and development activity logs; (v) International transaction records.
- (b) Documentation retention periods shall comply with: (i) Federal tax requirements; (ii) State tax requirements; (iii) International tax requirements; (iv) Transfer pricing regulations.

#### 3.7 Tax Position Review and Updates

- (a) The Company shall conduct quarterly reviews of: (i) Tax position classifications; (ii) Documentation compliance; (iii) Regulatory changes affecting tax treatment; (iv) New product or service tax implications.
- (b) Material changes in business operations shall trigger: (i) Review of tax classifications; (ii) Update of documentation requirements; (iii) Evaluation of compliance obligations; (iv) Assessment of reporting requirements.

- 3.8 Tax Authority Communications
- (a) The Company shall maintain procedures for: (i) Responding to tax authority inquiries; (ii) Managing tax audits; (iii) Documenting tax authority determinations; (iv) Implementing required changes to tax treatment.
- (b) Tax authority rulings and determinations shall be: (i) Documented and retained; (ii) Incorporated into tax treatment procedures; (iii) Communicated to relevant personnel; (iv) Reviewed periodically for continued applicability.

### 4.0 REPRESENTATIONS AND WARRANTIES

#### 4.1 Tax Compliance

The Company hereby represents and warrants that:

- (a) It is in compliance with all federal, state, and local tax laws and regulations, including but not limited to income tax, sales tax, use tax, payroll tax, and property tax requirements.
- (b) All tax returns and reports have been timely filed with appropriate authorities, including all required schedules, attachments, and supporting documentation.
- (c) All taxes shown as due on such returns have been paid in full, and no outstanding tax liabilities exist except those properly contested through appropriate proceedings.
- (d) The Company maintains comprehensive internal controls and procedures to ensure ongoing tax compliance and timely reporting.
- (e) No material misstatements or omissions exist in any filed tax returns or related documentation.

## 4.2 R&D Tax Credit Qualification

The Company represents that:

- (a) Its research activities meet the qualification criteria under Section 41 of the Internal Revenue Code, specifically: (i) The activities constitute a process of experimentation (ii) The research is technological in nature (iii) The activities are intended to develop new or improved business components (iv) The research addresses technological uncertainty
- (b) Documentation exists to support all claimed Qualified Research Expenses, including: (i) Contemporaneous project records and laboratory notes (ii) Employee time tracking documentation (iii) Expense allocation methodologies (iv) Technical documentation of research outcomes
- (c) The Company's artificial intelligence and machine learning activities satisfy the four-part test for qualified research, including: (i) Development of novel algorithms and models (ii)

Systematic evaluation of alternative approaches (iii) Documentation of technical challenges and solutions (iv) Records of iterative testing and validation

#### 4.3 State Tax Nexus

The Company acknowledges and represents that:

- (a) It maintains accurate records of all state nexus-creating activities, including: (i) Physical presence in each jurisdiction (ii) Economic nexus thresholds (iii) Employee activities and locations (iv) Property ownership and leasing arrangements
- (b) It is registered and filing returns in all states where required, based on: (i) Sales volume thresholds (ii) Transaction counts (iii) Property values (iv) Payroll presence

## 4.4 International Tax Compliance

The Company warrants and represents that:

- (a) It complies with all applicable international tax treaties and conventions.
- (b) Transfer pricing documentation is maintained in accordance with OECD guidelines and local requirements.
- (c) All cross-border transactions are properly documented and reported.
- 4.5 Special Tax Considerations

The Company further represents that:

- (a) All claimed tax credits, deductions, and incentives are properly supported and documented.
- (b) The Company maintains records of all material tax positions and related risk assessments.
- (c) Any uncertain tax positions have been properly disclosed and reserved for in accordance with applicable accounting standards.

#### 4.6 Ongoing Compliance

The Company commits to:

- (a) Maintaining all necessary documentation to support tax positions for the applicable statute of limitations periods.
- (b) Promptly notifying relevant parties of any material changes in tax positions or compliance status.
- (c) Cooperating fully with any tax authority examinations or inquiries.
- (d) Implementing and maintaining appropriate systems and controls to ensure continued compliance with all applicable tax laws and regulations.

#### 4.7 Disclosure Requirements

The Company acknowledges its obligation to:

- (a) Promptly disclose any material changes in tax status or compliance.
- (b) Maintain transparency regarding tax positions and planning strategies.
- (c) Provide timely updates regarding any tax authority investigations or proceedings.

# 5.0 COVENANTS AND OBLIGATIONS

#### 5.1 Record Maintenance

The Company shall maintain:

- (a) Detailed records of all revenue by type and jurisdiction, including but not limited to: (i) Software license fees and subscription revenue (ii) Professional services and consulting income (iii) Maintenance and support fees (iv) Usage-based charges and consumption metrics (v) Geographic allocation of multi-jurisdictional transactions
- (b) Documentation supporting R&D tax credit claims for at least seven years, including: (i) Project documentation and technical specifications (ii) Time tracking records for qualifying personnel (iii) Expense allocation methodologies (iv) Supporting calculations and methodologies (v) Third-party contractor agreements and invoices

#### 5.2 Reporting Obligations

The Company shall:

- (a) File all required tax returns and reports timely, including: (i) Annual corporate income tax returns (ii) Quarterly estimated tax payments (iii) Sales and use tax returns (iv) VAT/GST returns where applicable (v) Information returns for cross-border transactions
- (b) Provide necessary documentation to tax authorities upon request, ensuring: (i) Response within specified deadlines (ii) Completeness and accuracy of submissions (iii) Proper format and organization of materials (iv) Translation of documents where required

## 5.3 Audit Cooperation

The Company shall:

- (a) Cooperate fully with any tax authority audits by: (i) Designating qualified personnel as audit liaisons (ii) Providing workspace and resources for auditors (iii) Responding promptly to information requests (iv) Facilitating interviews with relevant personnel (v) Preparing detailed audit response schedules
- (b) Maintain organized supporting documentation readily available for examination, including:
- (i) Electronic records in accessible formats (ii) Backup documentation for all claimed deductions (iii) Transfer pricing documentation (iv) Contemporaneous documentation of tax positions (v) Internal control documentation

### 5.4 Compliance Monitoring

The Company shall:

(a) Implement internal controls to ensure ongoing compliance (b) Conduct periodic self-reviews of tax positions (c) Engage external advisors when necessary (d) Monitor changes in relevant tax laws and regulations (e) Update procedures to reflect regulatory changes (f) Document compliance methodologies (g) Maintain evidence of compliance testing (h) Report material changes in tax positions to appropriate authorities

## SIGNATURE PAGE

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

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: Name: James Wilson Title: Chief Financial Officer

# **EXHIBIT A**

Schedule of State Tax Registrations

## **EXHIBIT B**

**R&D** Tax Credit Documentation Requirements

# **APPENDIX 1**

Revenue Recognition Guidelines

### APPENDIX 2

International Tax Compliance Procedures

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