

TAX DOCUMENTATION AND COMPLIANCE CERTIFICATION

Document No. TD-39-2024 Effective Date: January 15, 2024

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation with its principal place of business at 2500 Innovation Drive, Suite 400, Wilmington, Delaware 19801 ("Company"), provides artificial intelligence-powered software solutions for industrial process optimization;

WHEREAS, the Company seeks to document and certify its tax treatment of revenue streams, research and development activities, and international operations in accordance with applicable federal, state, and international tax regulations;

NOW, THEREFORE, the Company hereby establishes and certifies the following tax documentation and compliance statements:

1.0 TAX DOCUMENTATION STATEMENT

1.1 Documentation Scope

This tax documentation shall govern the treatment and recognition of all revenue streams, expenses, and taxable activities related to the Company's NexusCore™ Industrial AI Platform and associated services, including but not limited to: (a) Software-as-a-Service (SaaS) subscription revenues; (b) Implementation services; (c) Professional services; (d) Research and development activities; (e) Data processing and storage services; (f) Machine learning model customization; and (g) Technical support and maintenance services.

1.2 Revenue Recognition Principles

The Company hereby adopts and implements revenue recognition principles in accordance with ASC 606, with specific application to: (a) Recurring subscription fees recognized ratably over the subscription term, with consideration for multi-year contracts and early termination provisions; (b) Implementation services recognized upon completion of defined milestones, including system configuration, data migration, and user training; (c) Professional services recognized as services are performed, documented through detailed time tracking and deliverable completion; (d) Usage-based fees recognized when usage occurs, with proper documentation of computational resources utilized; (e) Custom development fees recognized based on percentage of completion methodology; and (f) Training and consultation services recognized upon delivery of specified outcomes.

1.3 State Nexus Determinations

The Company acknowledges and documents economic nexus in jurisdictions where: (a) Annual revenue exceeds state-specific economic nexus thresholds; (b) Cloud-based services are accessed by customers; (c) Implementation or professional services are performed; (d) Data centers or computing infrastructure is maintained; (e) Sales personnel are physically present; or (f) Technical support services are rendered.

1.4 Research and Development Treatment

The Company shall classify and document R&D expenses according to: (a) Direct costs associated with AI algorithm development; (b) Personnel expenses for research staff; (c) Cloud computing and data processing costs; (d) Third-party research partnerships; (e) Patent and intellectual property protection expenses; and (f) Experimental development costs.

1.5 Documentation Requirements

The Company shall maintain comprehensive documentation including: (a) Detailed revenue recognition schedules by product and service type; (b) State-by-state nexus analysis and revenue thresholds; (c) Customer contracts and service level agreements; (d) Implementation milestone completion records; (e) Research and development project documentation; (f) Time tracking records for professional services; (g) Usage metrics for consumption-based billing; and (h) Supporting documentation for tax positions taken.

1.6 Compliance Review

The Company shall conduct quarterly reviews to ensure: (a) Adherence to established revenue recognition principles; (b) Proper documentation of nexus determinations; (c) Accurate classification of R&D expenses; (d) Compliance with state and federal tax regulations; (e) Maintenance of required supporting documentation; and (f) Timely filing of all required tax returns and reports.

2.0 REVENUE CLASSIFICATION AND RECOGNITION

2.1 Subscription Revenue Recognition

(a) **Timing of Recognition** The Company shall recognize subscription revenue ratably over the subscription term in accordance with IRC Section 451(c) and applicable state regulations. Recognition shall commence on the earlier of: (i) The date when the customer gains access to the subscription services; or (ii) The contractually specified start date of the subscription period.

(b) **Multi-State Revenue Allocation** Revenue shall be allocated among states based on: (i) Customer location, as evidenced by billing address and contract documentation; (ii) User

access points, determined through IP address tracking and user authentication logs; (iii) Implementation location, where initial setup and configuration services are performed; and (iv) Service delivery location, including server locations and support service centers.

(c) Allocation Methodology (i) Primary allocation shall be based on customer location unless substantial evidence supports an alternative method; (ii) Secondary factors shall be weighted according to the Company's documented allocation matrix; (iii) Changes in allocation methodology must be approved by the Tax Department and documented with supporting analysis.

2.2 Deferred Revenue Treatment

(a) Advanced payments shall be recognized as deferred revenue and shall be: (i) Recorded as a liability on the balance sheet; (ii) Monitored through detailed subsidiary ledgers; (iii) Reconciled monthly to customer contracts and payment schedules; (iv) Adjusted for changes in subscription terms or early terminations.

(b) Revenue Recognition Schedule (i) Recognition shall occur ratably over the subscription term; (ii) Monthly recognition entries shall be automated where possible; (iii) Manual adjustments require documented approval; (iv) Recognition schedules shall be reviewed quarterly for accuracy.

(c) Tax Treatment (i) Book-tax conformity shall be maintained where permitted under IRC Section 451(c); (ii) Differences between book and tax treatment shall be tracked and documented; (iii) State-specific modifications shall be applied as required by local regulations; (iv) Annual reconciliation of book and tax treatment shall be performed.

2.3 Professional Services Classification

(a) Service Categories Professional services revenue shall be categorized as: (i) Implementation services; (ii) Custom development; (iii) Training services; (iv) Consulting services; (v) Support services beyond standard subscription support.

(b) Recognition Criteria Professional services revenue shall be: (i) Separately stated from subscription revenue in all customer contracts; (ii) Recognized as services are performed based on completion percentage; (iii) Supported by detailed time and activity records; (iv) Verified through customer acceptance documentation where applicable.

(c) Documentation Requirements The Company shall maintain: (i) Detailed time tracking records for all billable services; (ii) Project completion status reports; (iii) Customer acceptance certificates; (iv) Service delivery location records.

2.4 Special Considerations

(a) Bundle Arrangements When subscription and professional services are bundled: (i) Separate performance obligations shall be identified; (ii) Revenue shall be allocated based on

standalone selling prices; (iii) Recognition timing may differ for each component; (iv) Documentation must support the allocation methodology.

(b) Contract Modifications (i) Changes to subscription terms shall be evaluated for revenue impact; (ii) Modification effective dates shall be clearly documented; (iii) System updates shall reflect modified terms; (iv) Revenue recognition schedules shall be adjusted accordingly.

(c) Compliance Requirements The Company shall: (i) Maintain documentation supporting revenue classification decisions; (ii) Review revenue recognition policies annually; (iii) Update procedures based on regulatory changes; (iv) Conduct quarterly compliance reviews; (v) Engage external advisors for complex revenue arrangements.

2.5 Reporting and Review

(a) Regular reporting shall include: (i) Monthly revenue recognition schedules; (ii) Quarterly state allocation analyses; (iii) Annual revenue classification summaries; (iv) Compliance certification documentation.

(b) Internal reviews shall be conducted: (i) Monthly for recognition accuracy; (ii) Quarterly for state allocation compliance; (iii) Annually for policy updates and regulatory changes.

3.0 R&D TAX CREDIT DOCUMENTATION

3.1 Qualified Research Activities

The Company documents the following activities as qualified research under IRC Section 41:

(a) Development of machine learning algorithms, including: (i) Neural network architecture design and optimization; (ii) Feature extraction methodology development; (iii) Model training and validation protocols; and (iv) Performance metric enhancement procedures; (b) Computer vision system improvements, encompassing: (i) Image processing algorithm development; (ii) Object detection and classification systems; (iii) Real-time processing optimization; and (iv) Accuracy enhancement methodologies; (c) Edge computing optimization, including: (i) Distributed processing frameworks; (ii) Resource allocation algorithms; (iii) Latency reduction techniques; and (iv) Power consumption optimization; and (d) Process automation enhancements, comprising: (i) Workflow optimization systems; (ii) Automated decision-making protocols; (iii) Integration architecture development; and (iv) Performance monitoring systems.

3.2 Technical Uncertainty Documentation

For each qualified research project, the Company maintains comprehensive documentation of:

(a) Technical challenges and uncertainties, including: (i) Detailed problem statements; (ii) Capability limitations of existing technologies; (iii) Performance constraints; and (iv) Resource utilization barriers; (b) Alternative approaches considered, documenting: (i) Comparative

analysis of potential solutions; (ii) Technical feasibility assessments; (iii) Risk evaluation matrices; and (iv) Cost-benefit analyses; (c) Testing and validation procedures, encompassing: (i) Test case development; (ii) Performance benchmarking protocols; (iii) Quality assurance methodologies; and (iv) Validation criteria; and (d) Resolution methodology, including: (i) Implementation strategies; (ii) Technical specifications; (iii) Success metrics; and (iv) Documentation of outcomes.

3.3 Process of Experimentation

The Company documents its systematic approach to experimentation including: (a) Hypothesis formation, detailing: (i) Research objectives; (ii) Expected outcomes; (iii) Success criteria; and (iv) Technical assumptions; (b) Testing procedures, comprising: (i) Experimental design protocols; (ii) Control parameters; (iii) Data collection methodologies; and (iv) Testing environment specifications; (c) Data analysis, including: (i) Statistical evaluation methods; (ii) Performance metrics; (iii) Comparative analysis procedures; and (iv) Error margin calculations; and (d) Results evaluation, documenting: (i) Outcome assessment; (ii) Success criteria validation; (iii) Implementation recommendations; and (iv) Future research implications.

3.4 Documentation Maintenance

The Company shall maintain all R&D tax credit documentation for a minimum of seven (7) years from the filing date of the tax return claiming such credits. Documentation must be: (a) Contemporaneous with the performance of qualified research activities; (b) Sufficient to establish the amount of qualified research expenses; (c) Organized by project and fiscal year; and (d) Readily available for IRS examination upon request.

3.5 Compliance Review

The Company shall conduct quarterly reviews of R&D documentation to ensure: (a) Adherence to IRC Section 41 requirements; (b) Completeness of technical documentation; (c) Proper allocation of research expenses; and (d) Maintenance of supporting evidence for claimed credits.

4.0 INTERNATIONAL TAX CONSIDERATIONS

4.1 Transfer Pricing Methodology

The Company adopts the following transfer pricing principles: (a) Arm's length standard for intercompany transactions, ensuring compliance with OECD Transfer Pricing Guidelines and local jurisdiction requirements; (b) Cost-plus methodology for development services, with markup rates determined through periodic benchmarking studies; (c) Profit split for technology

licensing, based on relative value contribution analysis; and (d) Regular documentation of comparable transactions, including contemporaneous documentation requirements.

4.2 Digital Services Tax Compliance

The Company shall: (a) Monitor digital services tax obligations in all jurisdictions where services are provided or consumed; (b) Register for applicable digital services taxes within prescribed statutory deadlines; (c) Calculate and remit required payments according to jurisdiction-specific requirements; and (d) Maintain compliance documentation for a minimum period of seven (7) years.

4.3 Revenue Sourcing Rules

The Company shall implement the following revenue sourcing principles: (a) User location-based attribution for digital service revenue; (b) IP utilization tracking for licensing income; (c) Geographic revenue recognition based on customer location; and (d) Documentation of revenue allocation methodologies.

4.4 Permanent Establishment Considerations

The Company shall: (a) Monitor activities that may create permanent establishments; (b) Assess server and data center locations for tax nexus implications; (c) Review employee activities in foreign jurisdictions; and (d) Maintain appropriate substance in jurisdictions where required.

4.5 International Tax Reporting

The Company must: (a) Prepare Country-by-Country Reports when applicable thresholds are met; (b) File Master File and Local File documentation as required; (c) Submit economic substance reports in relevant jurisdictions; and (d) Maintain transfer pricing documentation for all material intercompany transactions.

4.6 Withholding Tax Management

The Company shall: (a) Identify applicable withholding tax obligations on cross-border payments; (b) Apply relevant treaty benefits where available; (c) Maintain valid tax residency certificates; and (d) Document beneficial ownership status for treaty claims.

4.7 VAT/GST Compliance

The Company must: (a) Register for VAT/GST in jurisdictions where thresholds are exceeded; (b) Implement appropriate invoicing procedures; (c) File returns and remit payments within statutory deadlines; and (d) Maintain supporting documentation for input tax credits.

DEFINITIONS

As used in this document: "ASC 606" means Accounting Standards Codification Topic 606. "IRC" means the Internal Revenue Code of 1986, as amended. "NexusCore™" means the Company's proprietary industrial AI platform. "R&D" means research and development activities. "SaaS" means Software-as-a-Service.

EXHIBITS

Exhibit A: State Nexus Analysis Exhibit B: R&D Project Documentation Exhibit C: Transfer Pricing Study

SIGNATURE AND CERTIFICATION

IN WITNESS WHEREOF, the undersigned, being duly authorized, has executed this Tax Documentation and Compliance Certification as of the Effective Date.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: _____ Name: David Kumar Title: Chief Financial Officer Date: January 15, 2024

ATTESTATION:

By: _____ Name: [Tax Director Name] Title: Director of Tax Date: January 15, 2024

[Corporate Seal]