

TAX DOCUMENTATION STATEMENT AND CLASSIFICATION OF REVENUE RECOGNITION

Document No. 36 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"), develops and provides proprietary artificial intelligence software solutions and related services;

WHEREAS, the Company seeks to establish comprehensive tax documentation procedures for its revenue streams, research and development activities, and multi-state operations;

NOW, THEREFORE, the Company hereby adopts and implements the following tax documentation procedures and classifications:

1.0 TAX DOCUMENTATION STATEMENT

1.1 Documentation Scope

This Tax Documentation Statement shall govern the classification, recognition, and treatment of all revenue streams, expenses, and tax obligations arising from the Company's NexusCore™ Industrial AI Platform and related service offerings. The scope encompasses all domestic and international transactions, including but not limited to software licensing, subscription services, professional services, and technology development activities.

1.2 Revenue Recognition Principles

(a) The Company shall recognize revenue from its software-as-a-service offerings in accordance with ASC 606, with specific consideration for: (i) Subscription-based revenue streams (ii) Implementation services (iii) Custom AI model development (iv) Professional services and consulting

(b) Performance obligations shall be identified and allocated based on standalone selling prices in accordance with GAAP principles, with consideration for: (i) Multi-element arrangements involving both software and services (ii) Contract modifications and amendments (iii) Variable consideration components (iv) Extended payment terms exceeding twelve months

(c) Revenue recognition timing shall be determined based on the transfer of control to customers, with specific documentation requirements for: (i) Acceptance criteria and testing

periods (ii) Implementation milestones (iii) Service level agreements (iv) Performance guarantees

1.3 Technology Development Classification

(a) The Company shall classify its artificial intelligence and machine learning development activities in accordance with applicable provisions of the Internal Revenue Code and Treasury Regulations governing software development, including: (i) Research and experimental expenditures under Section 174 (ii) Software development costs under Rev. Proc. 2000-50 (iii) Cloud computing implementation costs under ASU 2018-15 (iv) Platform enhancement and maintenance activities

(b) Documentation requirements shall include: (i) Contemporary records of development activities (ii) Technical specifications and project plans (iii) Time tracking for qualified research personnel (iv) Allocation methodologies for mixed-purpose activities

1.4 State Tax Considerations

(a) Cloud-based service delivery shall be evaluated for tax nexus implications across all jurisdictions where the Company maintains: (i) Customer relationships (ii) Employee presence (iii) Technical infrastructure (iv) Data storage facilities

(b) State-specific documentation requirements shall address: (i) Economic nexus thresholds (ii) Market-based sourcing rules (iii) Digital service tax provisions (iv) Local tax obligations

1.5 Compliance and Reporting

(a) The Company shall maintain comprehensive documentation supporting: (i) Revenue recognition decisions (ii) Technology development classifications (iii) State tax positions (iv) Transfer pricing methodologies

(b) Documentation review and updates shall occur: (i) Quarterly for revenue recognition matters (ii) Annually for technology development classifications (iii) Upon material changes in tax law or regulations (iv) When entering new jurisdictions or markets

2.0 REVENUE CLASSIFICATION AND RECOGNITION

2.1 Subscription Revenue Recognition

(a) The Company shall recognize subscription revenue ratably over the term of each customer contract in accordance with ASC 606 and applicable accounting standards.

(b) Multi-year contracts shall be recognized as follows: (i) Annual subscription fees shall be recognized over each 12-month period (ii) Upfront payments shall be recorded as deferred revenue and amortized systematically (iii) Volume-based pricing adjustments shall be

recognized when triggered (iv) Early termination provisions shall not affect the recognition schedule unless activated (v) Contract modifications shall be evaluated for treatment as separate contracts

(c) Enterprise subscription agreements shall be subject to: (i) Detailed performance obligation analysis (ii) Allocation of transaction price among distinct deliverables (iii) Regular review of variable consideration estimates (iv) Documentation of stand-alone selling price methodology (v) Quarterly assessment of contract asset impairment

2.2 Implementation Services

(a) Revenue from implementation services shall be recognized as follows: (i) Setup and configuration services recognized upon completion (ii) Training services recognized as delivered (iii) Data migration services recognized based on milestone completion (iv) Project management services recognized over the implementation period (v) Technical consultation hours recognized as consumed

(b) Implementation service contracts shall include: (i) Clearly defined scope of work and deliverables (ii) Specific acceptance criteria for each milestone (iii) Time and materials billing arrangements where applicable (iv) Change order procedures and pricing (v) Service level agreements and performance metrics

2.3 Custom Development Services

(a) Revenue from custom AI model development shall be recognized based on: (i) Development milestones achieved (ii) Acceptance criteria met (iii) Control transfer to customer (iv) Intellectual property rights conveyance (v) Ongoing maintenance obligations

(b) Development contracts shall specify: (i) Model performance requirements (ii) Testing and validation procedures (iii) Data ownership and usage rights (iv) Source code delivery terms (v) Warranty provisions and limitations

(c) Recognition considerations shall include: (i) Progress measurement methodologies (ii) Customer acceptance procedures (iii) Milestone payment schedules (iv) Performance obligation satisfaction criteria (v) Contract modification impacts

2.4 International Revenue Treatment

(a) The Company shall apply appropriate transfer pricing methodologies for all international transactions in accordance with: (i) OECD guidelines (ii) Local country requirements (iii) Bilateral tax treaties (iv) Regional trade agreements (v) Foreign exchange regulations

(b) International revenue documentation shall include: (i) Contemporaneous transfer pricing studies (ii) Intercompany service agreements (iii) Cost allocation methodologies (iv) Profit level indicators (v) Comparable company analyses

2.5 Revenue Adjustments and Modifications

- (a) The Company shall maintain procedures for: (i) Credit memo issuance and processing (ii) Refund request evaluation (iii) Contract modification assessment (iv) Revenue reversal documentation (v) Dispute resolution protocols
- (b) Adjustment documentation requirements: (i) Written authorization from designated personnel (ii) Supporting documentation retention (iii) Accounting impact analysis (iv) Customer communication records (v) Compliance review documentation

2.6 Revenue Recognition Controls

- (a) The Company shall maintain internal controls including: (i) Regular review of revenue recognition policies (ii) Documentation of significant judgments (iii) Periodic assessment of recognition timing (iv) Monitoring of contract modifications (v) Validation of system calculations
- (b) Control activities shall include: (i) Monthly revenue reconciliations (ii) Quarterly review of significant contracts (iii) Annual policy compliance audits (iv) Regular staff training programs (v) Documentation retention procedures

3.0 RESEARCH & DEVELOPMENT TAX TREATMENT

3.1 R&D Tax Credit Qualification

- (a) The Company shall document all qualified research expenses under IRC Section 41, including: (i) Wages for qualified services, encompassing direct supervision and support of research activities (ii) Supply costs directly attributable to research conduct (iii) Contract research expenses, limited to 65% of amounts paid to third parties (iv) Cloud computing costs for AI model development and testing
- (b) To qualify for R&D tax credits, activities must satisfy the following criteria: (i) Technical uncertainty regarding capability, methodology, or design (ii) Systematic process of experimentation (iii) Technological in nature, relying on physical, biological, engineering, or computer sciences (iv) Qualified purpose related to new or improved functionality, performance, reliability, or quality
- (c) Documentation requirements shall include: (i) Contemporary laboratory notebooks or development logs (ii) Project timelines and milestone achievements (iii) Employee time tracking specific to qualified activities (iv) Detailed records of experimental protocols and outcomes

3.2 Software Development Capitalization

(a) The Company shall capitalize software development costs in accordance with ASC 350-40, including: (i) Application development stage costs (ii) AI model training infrastructure expenses (iii) Testing and deployment expenses (iv) Direct labor costs for coding and configuration

(b) Capitalization shall commence when: (i) Preliminary project stage is completed (ii) Management authorizes and commits to funding (iii) It is probable that development will be completed (iv) Software will be used to perform intended function

(c) Excluded from capitalization are: (i) Preliminary design and planning costs (ii) Post-implementation training expenses (iii) Maintenance and debugging after deployment (iv) Research costs prior to technological feasibility

3.3 Cloud Computing Treatment

(a) Cloud computing expenses shall be classified as follows: (i) Implementation costs capitalized per ASU 2018-15 (ii) Ongoing subscription costs expensed as incurred (iii) Development environment costs allocated to R&D (iv) Data storage and processing fees properly segregated

(b) Capitalized implementation costs include: (i) Integration services (ii) Configuration and customization (iii) Testing of cloud connectivity (iv) Data migration expenses

(c) Amortization of capitalized costs shall: (i) Begin when the cloud computing arrangement is ready for intended use (ii) Occur over the term of the hosting arrangement (iii) Include reasonably certain renewal periods (iv) Be reviewed periodically for impairment

3.4 AI Model Development Classification

(a) AI model development costs shall be categorized as follows: (i) Initial research phase expenses (ii) Model architecture design costs (iii) Training data acquisition and preparation expenses (iv) Validation and testing expenditures

(b) Special considerations for AI development include: (i) Treatment of computational resources (ii) Data licensing and usage rights (iii) Model optimization costs (iv) Ongoing model maintenance expenses

(c) The Company shall maintain detailed records of: (i) Development phase transitions (ii) Technical feasibility assessments (iii) Resource allocation methodologies (iv) Success criteria and validation metrics

4.0 STATE TAX NEXUS DECLARATIONS

4.1 Economic Nexus Thresholds

The Company shall monitor and comply with economic nexus thresholds in all jurisdictions where: (a) Annual revenue exceeds state-specific thresholds (b) Transaction volumes meet nexus criteria (c) Physical or economic presence is established (d) Marketplace facilitation occurs (e) Digital product delivery creates taxable events

The Company shall implement automated monitoring systems to track: (i) Gross receipts by jurisdiction (ii) Transaction frequency and volume (iii) Customer location data (iv) Digital goods delivery metrics (v) Service utilization patterns

4.2 Software as a Service Treatment

(a) The Company shall apply appropriate sales tax treatment for SaaS offerings based on: (i) State-specific characterization of cloud services (ii) Location of benefit receipt (iii) Customer usage patterns (iv) Data storage locations (v) Server deployment configurations

(b) The Company shall maintain documentation evidencing: (i) Primary use location of services (ii) Multiple points of use determinations (iii) Billing address verification procedures (iv) IP address tracking protocols (v) Customer attestation forms

4.3 Remote Employee Considerations

(a) The Company shall maintain compliance with state tax obligations arising from remote employee locations and activities, including: (i) Payroll tax registration requirements (ii) Income tax withholding obligations (iii) Unemployment insurance requirements (iv) Workers' compensation coverage (v) Local tax obligations

(b) The Company shall document and track: (i) Primary work location designations (ii) Cross-border work arrangements (iii) Temporary relocations (iv) Home office stipend programs

4.4 Data Center and Infrastructure

(a) The Company shall assess tax implications of: (i) Server locations and configurations (ii) Network infrastructure deployment (iii) Backup and redundancy systems (iv) Content delivery networks

4.5 Compliance Documentation

(a) The Company shall maintain records demonstrating: (i) Nexus determination methodologies (ii) Tax calculation procedures (iii) Filing frequency determinations (iv) Exemption certificate management (v) Audit trail documentation (vi) State registration documentation (vii) Annual compliance reviews (viii) Historical nexus analyses

4.6 Remediation Procedures

The Company shall establish procedures for addressing: (a) Historical non-compliance discovery (b) Voluntary disclosure agreements (c) Amnesty program participation (d) Audit response protocols (e) Notice and appeals procedures

EXHIBITS

Exhibit A: State-by-State Nexus Analysis

[Detailed nexus analysis by state omitted for brevity]

Exhibit B: Revenue Recognition Examples

[Revenue recognition scenarios omitted for brevity]

IN WITNESS WHEREOF, this Tax Documentation Statement has been duly executed as of the Effective Date first above written.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: _____ Name: David Kumar Title: Chief Financial Officer

ATTEST:

Corporate Secretary

[Corporate Seal]