

# **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; and

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 treated as a C-corporation for U.S. federal income tax purposes. The Company further acknowledges its obligation to maintain such classification unless explicitly modified through proper filing procedures with the Internal Revenue Service.

### **1.2 Tax Residency**

The Company is a U.S. person within the meaning of Section 7701(a)(30) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not subject to backup withholding. The Company maintains its principal place of business within the United States and conducts substantial business operations therein.

### **1.3 FATCA Status**

The Company certifies its status as a U.S. person exempt from FATCA reporting and withholding requirements under Chapter 4 of the Code. The Company acknowledges its ongoing obligation to notify relevant parties of any change in FATCA status within 30 days of such change.

## **1.4 Software Revenue Characterization**

(a) The Company's NexusCore™ Industrial AI Platform generates revenue primarily through:

- (i) Software-as-a-Service (SaaS) subscriptions characterized as services income under IRC Section 861; (ii) Perpetual software licenses treated as sales of copyrighted articles under Treas. Reg. 1.861-18; (iii) Implementation services classified as personal services income.

(b) The Company maintains that its AI-driven software solutions constitute: (i) Qualified technology services under IRC Section 41(d)(4) for R&D credit purposes; (ii) Computer software as defined in Treas. Reg. 1.197-2(c)(4) for amortization purposes.

## **1.5 State Tax Compliance**

The Company acknowledges its obligation to collect and remit sales tax on software licenses and SaaS subscriptions in jurisdictions where such transactions are deemed taxable. The Company maintains nexus determination procedures compliant with *South Dakota v. Wayfair, Inc.*, 138 S. Ct. 2080 (2018).

## **1.6 Transfer Pricing**

The Company certifies that all intercompany transactions involving software licensing and services are conducted at arm's length in accordance with IRC Section 482 and applicable Treasury Regulations.

# **2.0 TAX REPRESENTATIONS AND WARRANTIES**

## **2.1 Filing Compliance**

The Company represents and warrants that: (a) All required federal, state, local, and foreign tax returns have been timely filed in accordance with applicable deadlines, including any properly obtained extensions; (b) All tax returns are true, complete, and accurate in all material respects, prepared in accordance with applicable tax regulations and supported by appropriate documentation; (c) All taxes shown as due have been paid in full, including but not limited to income taxes, payroll taxes, sales and use taxes, property taxes, and any other applicable taxes or assessments; (d) The Company maintains comprehensive records of all tax filings, payments, and supporting documentation for the statutory retention period required by relevant jurisdictions.

## **2.2 Research & Development Tax Credits**

(a) The Company maintains contemporaneous documentation supporting R&D tax credit claims under IRC Section 41, including: (i) Records of qualified research expenses related to AI algorithm development, including detailed time tracking of technical personnel; (ii) Documentation of technical uncertainty resolution activities through project plans and

technical specifications; (iii) Evidence of systematic experimentation in software development through version control systems and testing protocols; (iv) Documentation demonstrating the process of evaluating alternatives through computational analysis and iterative testing; (b) The Company implements specific procedures to identify and track qualifying research expenses, including: (i) Segregation of qualifying research activities from routine software development; (ii) Documentation of direct supervision and support activities; (iii) Allocation methodologies for mixed-use equipment and facilities; (iv) Verification procedures for contracted research expenses.

### **2.3 Tax Audits and Proceedings**

The Company certifies that: (a) No tax audits are currently pending or threatened by any taxing authority; (b) No tax liens exist against Company assets or intellectual property; (c) No tax sharing agreements are in effect with any related entities; (d) The Company has not received any notices of deficiency or proposed adjustments from any taxing authority within the past three years; (e) All prior tax audits have been fully resolved with no outstanding obligations.

### **2.4 International Tax Compliance**

The Company warrants that: (a) All international transactions are conducted at arm's length and properly documented; (b) Transfer pricing documentation complies with OECD guidelines and local requirements; (c) The Company maintains records of all cross-border payments and withholding obligations; (d) All permanent establishment obligations are properly addressed and documented.

### **2.5 State and Local Tax Matters**

The Company represents that: (a) Nexus determinations have been properly conducted for all jurisdictions; (b) Sales tax collection and remittance procedures are compliant with applicable state laws; (c) Property tax assessments and payments are current and accurate; (d) All state tax incentives and credits are properly documented and validated.

### **2.6 Tax Reserves and Provisions**

The Company maintains: (a) Adequate reserves for current and potential tax liabilities; (b) Documentation supporting uncertain tax positions under ASC 740; (c) Regular reviews of tax positions and exposure assessments; (d) Procedures for identifying and addressing emerging tax risks.

## **3.0 INTERNATIONAL TAX CONSIDERATIONS**

### **3.1 Transfer Pricing**

(a) The Company maintains transfer pricing documentation compliant with IRC Section 482 for: (i) Cross-border software license arrangements; (ii) Intercompany services agreements; (iii) Cost sharing arrangements for AI technology development.

(b) Transfer pricing methodologies shall be reviewed annually and must incorporate: (i) Comparable uncontrolled price method where market comparables exist; (ii) Cost plus method for routine development services; (iii) Profit split methodology for unique AI technology contributions; (iv) Documentation of economic substance and business purpose.

(c) Advanced Pricing Agreements (APAs) shall be pursued in key jurisdictions where: (i) Annual intercompany transactions exceed \$10 million; (ii) Significant recurring royalty payments exist; (iii) Complex cost sharing arrangements are implemented.

### **3.2 International Revenue Sourcing**

(a) Cloud-based service revenue is sourced based on customer location; (b) Software license revenue is characterized under applicable treaty provisions; (c) Technical service fees are subject to source country withholding where applicable; (d) Revenue allocation methodology must consider: (i) Server and infrastructure location; (ii) Location of technical support services; (iii) User access and consumption patterns; (iv) Digital permanent establishment considerations.

### **3.3 IP Ownership and Taxation**

(a) The Company maintains all material intellectual property rights in the United States with appropriate transfer pricing arrangements for foreign use rights.

(b) IP development and enhancement activities must be documented through: (i) Cost sharing agreements with foreign subsidiaries; (ii) Research and development service arrangements; (iii) Technology license agreements.

### **3.4 Compliance and Reporting**

(a) The Company shall maintain contemporaneous documentation for: (i) Country-by-Country Reporting under BEPS Action 13; (ii) Master File and Local File requirements; (iii) VAT/GST obligations for digital services; (iv) Permanent establishment analysis.

(b) Annual compliance review shall address: (i) Digital services tax obligations; (ii) Economic nexus thresholds; (iii) Treaty qualification requirements; (iv) Foreign tax credit optimization; (v) Withholding tax procedures and documentation.

### **3.5 Risk Management**

(a) Regular monitoring of international tax developments affecting: (i) Digital economy taxation; (ii) AI and software characterization; (iii) Cross-border data flows; (iv) Emerging permanent establishment concepts.

## **4.0 STATE AND LOCAL TAX MATTERS**

### **4.1 Economic Nexus**

The Company acknowledges economic nexus and associated filing obligations in jurisdictions where: (a) Sales exceed state-specific economic nexus thresholds; (b) Software access is provided to in-state users; (c) Implementation services are performed; (d) Physical presence exists through employees, contractors, or property; (e) Direct solicitation activities occur within the jurisdiction.

### **4.2 Sales Tax Collection**

(a) The Company collects and remits sales tax on taxable software and services in applicable jurisdictions; (b) SaaS offerings are evaluated for taxability on a state-by-state basis; (c) Exemption certificates are maintained for exempt transactions; (d) Monthly reconciliation of taxable sales is performed to ensure compliance; (e) Documentation of tax determinations is maintained for audit purposes; (f) Periodic review of state-specific taxability rules is conducted to maintain compliance.

### **4.3 Apportionment Methodology**

(a) The Company applies market-based sourcing rules for revenue apportionment where required by state law; (b) Revenue attribution is determined based on customer location or benefit received; (c) Alternative apportionment methods may be requested where standard methodology distorts tax liability; (d) Documentation supporting sourcing determinations is maintained for seven years.

### **4.4 Local Tax Compliance**

(a) Registration and compliance with local tax jurisdictions where required; (b) Monitoring of local tax rate changes and taxability determinations; (c) Maintenance of jurisdiction-specific tax calendars and filing schedules.

### **4.5 Documentation Requirements**

(a) Maintenance of detailed transaction records supporting nexus determinations; (b) Regular review and updates of customer exemption certificates; (c) Documentation of state-specific

taxability determinations; (d) Records of local tax registration and compliance activities; (e) Annual review of nexus-creating activities in all jurisdictions.

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

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: \_\_\_\_\_ Name: David Kumar Title: Chief Financial Officer

EXHIBIT A: State Tax Registration Schedule EXHIBIT B: R&D Tax Credit Documentation Requirements APPENDIX 1: Revenue Characterization Guidelines

[Exhibits and Appendices to follow]