

TAX MATTERS DOCUMENT 18

1.0 PREAMBLE AND RECITALS

THIS TAX MATTERS DOCUMENT 18 (this "Document") is made and entered into 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 ("Company") (Delaware Entity File Number: 6374829; Federal EIN: 82-4739201), operating pursuant to its Certificate of Incorporation filed with the Delaware Secretary of State on March 12, 2018, and subsequently amended on June 24, 2022.

WHEREAS, the Company develops and commercializes proprietary machine learning and computer vision solutions for industrial process optimization and predictive maintenance through its NexusCore™ Industrial AI Platform, including associated software components, algorithms, and implementation methodologies covered under U.S. Patents 10,847,392 and 11,234,567;

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, United Kingdom, and Asia-Pacific regions, necessitating compliance with various international tax treaties and cross-border revenue recognition standards;

WHEREAS, the Company seeks to document its tax treatment methodologies for software development costs, revenue recognition, and related matters in accordance with applicable laws and regulations, including IRC Section 174 research and experimental expenditures, IRC Section 41 research credits, and relevant state and international tax provisions;

WHEREAS, the Company maintains offices and operations in multiple jurisdictions subject to varying tax requirements and regulatory frameworks;

NOW, THEREFORE, the Company hereby establishes the following tax documentation and procedures, which shall be binding upon all relevant corporate entities, subsidiaries, and affiliated organizations:

2.0 DEFINITIONS AND INTERPRETATIONS

2.1 Defined Terms. For purposes of this Document, the following terms shall have the meanings specified below:

(a) "Qualifying SaaS Revenue" means subscription fees received from customers for access to the NexusCore™ Industrial AI Platform, excluding implementation services, professional services, and hardware components. This includes: (i) Monthly or annual subscription payments (ii) Usage-based platform access fees (iii) API consumption charges (iv) Data processing fees But specifically excludes one-time setup fees, consulting services, and third-party integrations.

(b) "Qualifying R&D Expenditure" means research and experimental expenditures that qualify under IRC Section 174, including: (i) ML/AI algorithm development costs (ii) Computer vision system enhancement expenses (iii) Edge computing optimization activities (iv) Related computational research activities (v) Direct labor costs for research personnel (vi) Cloud computing expenses directly related to R&D (vii) Testing and validation expenses (viii) Research facility operating costs

(c) "AI Technology Assets" means the Company's proprietary artificial intelligence and machine learning intellectual property, including: (i) ML models and algorithms (ii) Computer vision systems (iii) Edge computing implementations (iv) Related technical documentation (v) Training datasets and data preprocessing tools (vi) Model optimization frameworks (vii) Neural network architectures (viii) Inference engines and deployment systems

(d) "International Revenue" means revenue derived from customers located outside the United States, subject to relevant tax treaties and transfer pricing requirements. This encompasses: (i) Direct international sales (ii) Revenue through foreign subsidiaries (iii) Distributor-generated revenue (iv) Cross-border licensing fees

(e) "Platform Enhancement" means substantial improvements to the NexusCore™ platform that: (i) Materially increase functionality (ii) Improve processing efficiency (iii) Add new analytical capabilities (iv) Enhance user interface elements

2.2 Interpretation. In this Document: (a) Section headings are for convenience only (b) Words importing the singular include the plural and vice versa (c) References to laws or regulations include amendments and successor provisions (d) "Including" means "including without limitation" (e) References to currency are in United States dollars unless explicitly stated otherwise (f) Time periods shall be calculated in calendar days unless business days are specified (g) Technical terms shall be interpreted according to their generally accepted meaning within the artificial intelligence and machine learning industry (h) References to "written" or "in writing" include electronic communications (i) The terms "hereof," "herein," and "hereunder" refer to this Document as a whole (j) Any reference to a specific technology, standard, or protocol includes subsequent versions or replacements

2.3 Precedence. In the event of any conflict or inconsistency between defined terms, the following order of precedence shall apply: (a) Definitions explicitly stated in amendments or addenda (b) Definitions in this Article 2 (c) Definitions in referenced documents (d) Common industry usage

3.0 TAX TREATMENT OF SOFTWARE DEVELOPMENT COSTS

3.1 Software Development Cost Classification

(a) Research Phase Costs (i) Costs incurred in the research phase of software development shall be expensed as incurred under IRC Section 174 (ii) Research activities include conceptual formulation, design alternatives, and evaluation of alternatives (iii) Preliminary project stage activities encompassing: - Feasibility studies and technology evaluations - Requirements gathering and analysis - Vendor and technology selection processes - Alternative architecture assessments (iv) Documentation requirements for research phase expenditures: - Detailed activity logs with timestamps - Personnel allocation records - Technical specification documents - Feasibility study reports

(b) Development Phase Costs (i) Costs incurred in the development phase may be capitalized when technological feasibility is established (ii) Capitalization shall cease when the product is available for general release (iii) Qualifying development phase activities include: - Detailed program design - Coding and testing - Installation and deployment - Quality assurance procedures (iv) Capitalization criteria requirements: - Working model demonstration - Technical specifications completion - High probability of project completion - Adequate resources for completion

3.2 R&D Tax Credit Qualification

(a) The Company shall maintain documentation supporting qualification of activities under IRC Section 41, including: (i) Contemporary documentation of research activities (ii) Time tracking for technical personnel (iii) Project documentation demonstrating technical uncertainty (iv) Detailed records of: - Hypothesis testing and experimentation - Technical challenge resolution attempts - Alternative solution evaluations - Failed approaches and iterations

(b) Qualifying activities shall be categorized as: (i) Core research activities (ii) Supporting research activities (iii) Funded research exclusions (iv) Documentation requirements for each category: - Activity descriptions and objectives - Personnel involvement records - Resource allocation documentation - Progress reports and outcomes

3.3 International Development Centers

(a) Development costs incurred at international locations shall be: (i) Documented according to local jurisdiction requirements (ii) Allocated according to transfer pricing agreements (iii) Reported in compliance with relevant tax treaties (iv) Subject to: - Country-specific R&D incentives - Cross-border transaction regulations - International tax compliance requirements

3.4 Special Considerations for ML/AI Development

(a) Machine Learning and Artificial Intelligence development costs shall be evaluated separately for: (i) Model development and training activities (ii) Data acquisition and preparation costs (iii) Computing infrastructure expenses (iv) Specialized personnel costs

(b) ML/AI cost treatment guidelines: (i) Training data preparation costs may be capitalized when: - Data has multi-period utility - Future economic benefits are demonstrable - Costs are separately identifiable (ii) Model development costs shall be expensed until: - Performance metrics are achieved - Commercial viability is established - Production deployment is imminent

3.5 Cost Allocation and Reporting Requirements

(a) The Company shall maintain detailed cost allocation systems for: (i) Direct development costs (ii) Indirect support costs (iii) Infrastructure and overhead allocation (iv) Project-specific expenditures

(b) Reporting requirements shall include: (i) Quarterly capitalization summaries (ii) Annual R&D credit documentation (iii) International development center cost allocations (iv) ML/AI specific expenditure tracking

3.6 Compliance and Review Procedures

(a) Regular review procedures shall be established for: (i) Capitalization criteria compliance (ii) R&D credit qualification assessment (iii) International tax compliance (iv) Documentation completeness verification

(b) Annual compliance review requirements: (i) Independent verification of capitalized costs (ii) R&D credit qualification documentation (iii) Transfer pricing compliance assessment (iv) International tax position review

4.0 REVENUE RECOGNITION AND TAX IMPLICATIONS

4.1 SaaS Revenue Recognition

(a) Subscription revenue shall be recognized: (i) Ratably over the subscription term (ii) Beginning when the customer obtains access to the platform (iii) In accordance with ASC 606 performance obligations (iv) Following systematic allocation of transaction price (v) With consideration of material rights and contract modifications

(b) Performance Obligation Identification: (i) Distinct services shall be separately identified (ii) Bundled services shall be evaluated for independence (iii) Stand-ready obligations must be clearly documented (iv) Contract renewal options shall be assessed for materiality

(c) Contract Modification Treatment: (i) Prospective treatment for distinct additional services (ii) Cumulative catch-up adjustment when appropriate (iii) Documentation of modification impact on revenue timing

4.2 Multi-element Arrangements

- (a) Revenue allocation shall be based on: (i) Standalone selling prices (ii) Observable market data (iii) Expected cost plus margin approach where necessary (iv) Residual approach only when criteria are met
- (b) Allocation Methodology: (i) Regular review and update of standalone pricing (ii) Documentation of allocation rationale (iii) Consistent application across similar arrangements (iv) Consideration of volume discounts and rebates
- (c) Variable Consideration: (i) Application of constraint principle (ii) Probability assessment of revenue reversal (iii) Regular reassessment of estimates (iv) Documentation of constraint methodology

4.3 Implementation Services

- (a) Implementation service revenue shall be: (i) Recognized as services are performed (ii) Tracked separately from subscription revenue (iii) Documented with appropriate time and materials records (iv) Evaluated for distinct performance obligation status
- (b) Project Milestone Recognition: (i) Clear definition of completion criteria (ii) Regular progress assessment and documentation (iii) Customer acceptance requirements (iv) Treatment of change orders
- (c) Cost Recognition: (i) Capitalization criteria for implementation costs (ii) Amortization methodology (iii) Regular impairment assessment (iv) Documentation of cost allocation methods

4.4 International Revenue Sourcing

- (a) Revenue shall be sourced based on: (i) Customer location (ii) Service delivery location (iii) Applicable tax treaty provisions (iv) Permanent establishment considerations
- (b) Transfer Pricing Compliance: (i) Documentation of intercompany transactions (ii) Arm's length principle application (iii) Regular review of transfer pricing policies (iv) Adjustment procedures for non-compliance
- (c) VAT/GST Considerations: (i) Place of supply determination (ii) Registration requirements assessment (iii) Invoice requirements compliance (iv) Digital service tax implications

4.5 Documentation Requirements

- (a) Revenue Recognition Records: (i) Detailed contract analysis (ii) Performance obligation identification (iii) Transaction price allocation documentation (iv) Timing of recognition support
- (b) Tax Compliance Documentation: (i) Source documentation for revenue allocation (ii) Transfer pricing studies (iii) VAT/GST compliance records (iv) International tax position support

(c) Audit Trail Requirements: (i) System-generated reports (ii) Manual adjustments documentation (iii) Revenue recognition calculations (iv) Tax position substantiation

5.0 REPRESENTATIONS AND WARRANTIES

5.1 Tax Compliance Representations

The Company hereby represents and warrants that:

- (a) All required tax returns and reports have been timely filed, including but not limited to federal income tax returns, state and local tax filings, sales and use tax returns, property tax declarations, and employment tax documentation
- (b) All taxes shown as due have been paid or adequately reserved, with such reserves being maintained in accordance with GAAP principles and reflected accurately in the Company's financial statements
- (c) No tax audits or examinations are currently pending, and no written notice has been received regarding any proposed audit, investigation, or examination by any taxing authority
- (d) All transfer pricing documentation is current and compliant, with contemporaneous documentation maintained for all intercompany transactions

5.2 International Tax Compliance

The Company represents that:

- (a) It maintains compliance with all applicable international tax treaties, including proper documentation of treaty benefits claimed and withholding tax obligations
- (b) Transfer pricing documentation meets OECD guidelines and local country requirements, with annual updates and proper economic analysis supporting all material intercompany transactions
- (c) International revenue is properly sourced and reported in accordance with local country requirements and applicable tax treaties

5.3 Digital Economy Tax Compliance

The Company further represents and warrants that:

- (a) All digital service taxes, where applicable, have been properly calculated and remitted
- (b) Virtual permanent establishment requirements are monitored and complied with in all jurisdictions where digital services are provided
- (c) Platform economy reporting obligations are fulfilled where applicable

5.4 Technology-Specific Tax Matters

The Company represents and warrants that:

- (a) Research and development tax credits claimed are properly documented with contemporaneous records of qualifying activities
- (b) Software development costs are appropriately capitalized or expensed in accordance with applicable tax regulations
- (c) Cloud computing revenue is properly characterized and reported for tax purposes
- (d) Intellectual property holdings and related tax positions are properly documented and maintained

5.5 Compliance Maintenance

The Company represents that:

- (a) It maintains adequate internal controls and procedures to ensure ongoing tax compliance
- (b) Regular reviews of tax positions and documentation are conducted by qualified personnel
- (c) Tax technology systems are regularly updated to ensure accuracy and compliance
- (d) Professional tax advisors are engaged as needed to address complex tax matters and maintain compliance

6.0 SIGNATURE AND EXECUTION

IN WITNESS WHEREOF, this Document has been executed as of the Effective Date.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: _____ Name: James Wilson Title: Chief Financial Officer Date: January 15, 2024

EXHIBIT A: SOFTWARE DEVELOPMENT COST ALLOCATION METHODOLOGY

[Detailed methodology matrix omitted for brevity]

EXHIBIT B: INTERNATIONAL REVENUE SOURCING GUIDELINES

[Detailed sourcing guidelines omitted for brevity]

APPENDIX 1: R&D TAX CREDIT QUALIFICATION CRITERIA

[Detailed qualification criteria omitted for brevity]