

TAX MATTERS DOCUMENT 11

THIS TAX MATTERS DOCUMENT (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 (the "Company").

WHEREAS, the Company develops and licenses proprietary artificial intelligence and machine learning solutions for industrial applications through its NexusCore™ Industrial AI Platform;

WHEREAS, the Company desires to establish comprehensive guidelines for the treatment of tax matters relating to its operations, intellectual property, and revenue recognition; and

WHEREAS, the Company seeks to ensure compliance with applicable tax regulations across multiple jurisdictions while optimizing its tax position with respect to research and development activities.

NOW, THEREFORE, the Company hereby adopts and implements the following tax matters provisions:

1.0 PURPOSE AND SCOPE

1.1 This Document establishes the framework for all tax-related matters and obligations of the Company, including but not limited to federal, state, local, and international tax considerations. The provisions contained herein shall serve as the authoritative guidance for tax compliance, reporting, and strategic planning across all business operations and jurisdictions in which the Company maintains a presence or derives revenue.

1.2 The provisions herein shall apply to: (a) All revenue derived from the Company's SaaS licensing model; (b) Implementation services and professional services revenue; (c) Research and development activities related to artificial intelligence and machine learning; (d) Computer vision system development and deployment; (e) Cross-border transactions and international operations; (f) Intellectual property development, licensing, and commercialization; and (g) Any ancillary services, products, or revenue streams that may arise from the Company's core business activities.

1.3 Treatment of SaaS Revenue (a) The Company shall recognize revenue from SaaS subscriptions in accordance with ASC 606; (b) Multi-year contracts shall be analyzed for separate performance obligations; (c) Implementation services shall be evaluated for distinct performance obligations; (d) Revenue recognition timing shall consider: (i) Contract inception

dates; (ii) Service delivery milestones; (iii) Customer acceptance criteria; (iv) Payment terms and conditions.

1.4 Technology Development Cost Allocation (a) Direct costs associated with AI/ML development shall be tracked separately; (b) Allocation methodologies shall consider: (i) Personnel costs for research and development staff; (ii) Computing infrastructure and cloud services costs; (iii) Third-party data acquisition expenses; (iv) Testing and validation expenses; (v) Overhead allocation specific to R&D facilities.

1.5 Jurisdictional Considerations (a) The Company shall maintain compliance with tax regulations in all operating jurisdictions; (b) Special attention shall be given to: (i) Permanent establishment determinations; (ii) Transfer pricing requirements; (iii) VAT and GST obligations; (iv) State and local nexus requirements.

1.6 Documentation Requirements (a) The Company shall maintain comprehensive documentation for: (i) Revenue recognition decisions and methodologies; (ii) Cost allocation calculations and supporting analyses; (iii) Transfer pricing studies and documentation; (iv) Tax positions taken on uncertain matters.

1.7 Periodic Review and Updates (a) This framework shall be reviewed annually to ensure: (i) Compliance with evolving tax regulations; (ii) Alignment with business operations; (iii) Effectiveness of implementation; (iv) Adequacy of documentation requirements.

1.8 Exclusions and Limitations (a) This framework does not address: (i) Employee compensation and benefits taxation; (ii) Investment activities outside core operations; (iii) Merger and acquisition activities; (iv) Extraordinary items requiring separate tax treatment.

1.9 Implementation Authority The Chief Financial Officer, in consultation with the Tax Director, shall have primary authority for implementing and interpreting these provisions, subject to oversight by the Board of Directors' Audit Committee.

2.0 TAX CLASSIFICATIONS AND ELECTIONS

2.1 Federal Tax Classification (a) The Company maintains C-Corporation status for federal tax purposes; (b) The Company shall make appropriate elections under IRC Section 174 for R&D expenses; (c) The Company shall maintain documentation supporting qualified research expenses; (d) The Company shall file Form 8832 for any changes in entity classification; (e) Special purpose entities and subsidiaries shall maintain consistent classification unless explicitly authorized by the Board; (f) Annual review of tax classification optimization shall be conducted by qualified tax professionals.

2.2 State Tax Nexus Determinations (a) The Company acknowledges nexus in jurisdictions where: (i) Physical presence exists through employees or offices; (ii) Economic nexus thresholds are met through revenue or customer base; (iii) Software licensing creates taxable presence; (iv) Cloud computing services are provided to in-state customers; (v) Remote

employees perform substantial work activities; (vi) Digital products are sold to in-state consumers. (b) Nexus Documentation Requirements: (i) Quarterly revenue analysis by jurisdiction; (ii) Employee location tracking and work activity logs; (iii) Server and data center location documentation; (iv) Customer location verification procedures; (v) Digital goods delivery tracking systems. (c) Nexus Response Protocols: (i) Registration within 30 days of nexus determination; (ii) Historical liability assessment and voluntary disclosure evaluation; (iii) Implementation of jurisdiction-specific compliance procedures.

2.3 International Tax Considerations (a) European Operations (i) Permanent establishment analysis for each jurisdiction; (ii) Transfer pricing documentation requirements; (iii) VAT registration and compliance obligations; (iv) Digital services tax evaluation and compliance; (v) Country-by-country reporting requirements; (vi) Base erosion and profit shifting (BEPS) compliance. (b) Cross-Border Transaction Documentation: (i) Intercompany service agreements; (ii) Cost-sharing arrangements; (iii) Intellectual property licensing structures; (iv) Transfer pricing methodologies and documentation; (v) Customs and duty compliance procedures. (c) International Tax Planning: (i) Treaty benefit qualification assessment; (ii) Holding company structure optimization; (iii) Intellectual property migration strategies; (iv) Foreign tax credit planning and documentation.

2.4 R&D Tax Credit Qualification (a) The Company shall maintain contemporaneous documentation of: (i) Technical uncertainty elimination efforts; (ii) Systematic research process; (iii) Technological in nature activities; (iv) Business component development; (v) Alternative testing procedures and outcomes; (vi) Failed research attempts and iterations. (b) Qualified Research Expenses (QRE) Documentation: (i) Employee time tracking by qualified research activity; (ii) Contractor research agreements and invoices; (iii) Supply expenses directly related to research; (iv) Cloud computing costs for research activities; (v) Equipment depreciation allocations. (c) Research Activity Classification: (i) Machine learning algorithm development; (ii) Natural language processing improvements; (iii) Computer vision research initiatives; (iv) Neural network architecture optimization; (v) Data processing efficiency enhancements.

2.5 Special Tax Elections and Considerations (a) Method of Accounting: (i) Revenue recognition policies for digital goods; (ii) Treatment of prepaid platform subscriptions; (iii) Software development cost capitalization; (iv) Cloud computing implementation costs. (b) Foreign Tax Compliance: (i) GILTI inclusion calculations; (ii) Subpart F income determinations; (iii) Foreign-derived intangible income (FDII) documentation; (iv) Foreign tax credit optimization strategies. (c) State-Specific Elections: (i) Combined reporting elections; (ii) Alternative apportionment methodologies; (iii) Economic incentive qualification; (iv) Technology investment credits.

2.6 Documentation Retention Requirements (a) The Company shall maintain all tax-related documentation for a minimum of seven years; (b) Electronic records shall be backed up in

multiple secure locations; (c) Access controls shall be implemented for sensitive tax documentation; (d) Annual review of documentation completeness shall be conducted.

3.0 REVENUE RECOGNITION AND REPORTING

3.1 SaaS Revenue Recognition Methodology (a) Recognition Criteria: (i) Identification of customer contracts, including written, oral, and implied agreements that create enforceable rights and obligations between parties; (ii) Performance obligation determination, encompassing distinct promises to transfer goods or services to customers; (iii) Transaction price allocation based on relative standalone selling prices of individual performance obligations; (iv) Revenue recognition timing aligned with the transfer of promised goods or services to customers. (b) Contract Evaluation Process: (i) Assessment of collectibility threshold prior to revenue recognition; (ii) Documentation of payment terms and conditions; (iii) Evaluation of contract modifications and amendments; (iv) Determination of standalone selling prices through observable evidence or estimation methodologies.

3.2 Implementation Services Treatment (a) Distinct Service Evaluation: (i) Assessment of customer's ability to benefit from the service independently; (ii) Evaluation of service integration requirements; (iii) Analysis of service interdependencies; (iv) Documentation of distinct performance obligations. (b) Integration Service Allocation: (i) Determination of relative standalone prices for integration components; (ii) Allocation of transaction price to integration deliverables; (iii) Recognition timing based on completion milestones; (iv) Treatment of change orders and scope modifications. (c) Training and Support Service Recognition: (i) Identification of separate performance obligations; (ii) Recognition of revenue over service delivery period; (iii) Treatment of prepaid support services; (iv) Handling of service level agreements and penalties.

3.3 Multi-year Contract Considerations (a) Contract Modification Treatment: (i) Evaluation of prospective versus cumulative catch-up adjustments; (ii) Documentation of contract amendment impacts; (iii) Assessment of renewal options and termination provisions; (iv) Treatment of price concessions and discounts. (b) Variable Consideration Constraints: (i) Application of the constraint principle to uncertain amounts; (ii) Documentation of estimation methodologies; (iii) Regular reassessment of variable components; (iv) Treatment of usage-based fees and penalties. (c) Material Right Evaluation: (i) Assessment of customer options for additional goods or services; (ii) Calculation of option pricing and discounts; (iii) Allocation of transaction price to material rights; (iv) Recognition timing for option exercises.

3.4 International Revenue Allocation (a) Transfer Pricing Methodology: (i) Documentation of arm's length pricing principles; (ii) Implementation of cost-plus arrangements; (iii) Regular review and adjustment of transfer pricing policies; (iv) Compliance with local jurisdiction requirements. (b) Intercompany Transaction Documentation: (i) Maintenance of contemporaneous documentation; (ii) Recording of intercompany service agreements; (iii)

Documentation of profit allocation methodologies; (iv) Treatment of cost-sharing arrangements. (c) Profit Allocation Principles: (i) Implementation of profit split methodologies; (ii) Documentation of value chain analysis; (iii) Treatment of intellectual property rights; (iv) Compliance with permanent establishment rules.

3.5 Reporting and Disclosure Requirements (a) Financial Statement Presentation: (i) Disaggregation of revenue streams; (ii) Disclosure of significant judgments; (iii) Presentation of contract assets and liabilities; (iv) Documentation of performance obligation satisfaction. (b) Regulatory Compliance: (i) Implementation of ASC 606 requirements; (ii) Compliance with SEC reporting obligations; (iii) Documentation of revenue recognition policies; (iv) Maintenance of supporting documentation. (c) Internal Controls and Procedures: (i) Implementation of revenue recognition controls; (ii) Regular review and testing of control effectiveness; (iii) Documentation of review procedures; (iv) Training of relevant personnel.

3.6 Special Considerations (a) Principal versus Agent Determination: (i) Assessment of control indicators; (ii) Documentation of agency relationships; (iii) Treatment of pass-through arrangements; (iv) Allocation of transaction prices. (b) Contract Combination and Segmentation: (i) Evaluation of contract interdependencies; (ii) Documentation of combination criteria; (iii) Treatment of portfolio approaches; (iv) Assessment of segmentation requirements.

4.0 TAX COMPLIANCE OBLIGATIONS

4.1 Filing Requirements (a) Federal income tax returns, including Form 1120 for corporations, Form 1065 for partnerships, and Form 1040 for sole proprietorships, must be filed annually according to prescribed deadlines; (b) State income and sales tax returns shall be submitted in all jurisdictions where the entity maintains nexus, including quarterly estimated payments where applicable; (c) International tax filings, encompassing Form 5471 for foreign corporations, Form 8865 for foreign partnerships, and Form 8858 for foreign disregarded entities; (d) Information returns, including Forms 1099, W-2, and 1042-S, must be filed timely with both federal and state authorities.

4.2 Documentation Requirements (a) Transfer pricing documentation must include: (i) Functional analysis of all related party transactions; (ii) Economic analysis supporting arm's length pricing; (iii) Contemporaneous documentation meeting IRC §482 requirements; (iv) Annual updates reflecting material changes in operations; (b) R&D tax credit support documentation shall maintain: (i) Project-specific technical narratives; (ii) Time tracking records for qualified research activities; (iii) Expense allocation methodologies; (iv) Contemporary documentation of research objectives; (c) Revenue recognition documentation must detail: (i) Contract terms and performance obligations; (ii) Transaction price determination methods; (iii) Allocation of consideration among performance obligations; (iv) Recognition timing support; (d) Nexus determination support shall include: (i) Physical

presence analysis; (ii) Economic nexus thresholds monitoring; (iii) State-specific factor presence documentation; (iv) Contemporary business activity records.

4.3 Record Retention (a) Electronic records maintenance requirements: (i) Implementation of secure digital storage systems; (ii) Regular backup procedures with redundancy; (iii) Encryption protocols for sensitive data; (iv) Access controls and audit trails; (b) Documentation period requirements: (i) Minimum retention period of seven years for general tax records; (ii) Permanent retention for property-related documentation; (iii) Extended retention for international transactions; (iv) State-specific retention requirements compliance; (c) Access and retrieval procedures: (i) Designated custodian responsibilities; (ii) Response time requirements; (iii) Chain of custody documentation; (iv) Disaster recovery protocols.

4.4 Audit Procedures (a) Internal review protocols: (i) Quarterly compliance reviews; (ii) Annual risk assessment procedures; (iii) Documentation completeness verification; (iv) Material transaction testing; (b) External audit response procedures: (i) Initial notice processing requirements; (ii) Information document request protocols; (iii) Response review and approval procedures; (iv) Representation requirements; (c) Documentation production processes: (i) Electronic data extraction procedures; (ii) Quality control review requirements; (iii) Privilege review protocols; (iv) Production format specifications; (d) Post-audit procedures: (i) Assessment response protocols; (ii) Appeals process management; (iii) Settlement evaluation procedures; (iv) Implementation of audit findings.

4.5 Compliance Monitoring (a) Regular assessment of filing obligations; (b) Periodic review of documentation adequacy; (c) Monitoring of legislative and regulatory changes; (d) Implementation of necessary procedural updates; (e) Training requirements for relevant personnel; (f) Reporting of compliance status to management.

5.0 INTELLECTUAL PROPERTY TAX TREATMENT

5.1 Patent Development Costs (a) Capitalization criteria: (i) Development expenditures exceeding \$50,000 annually must be capitalized when meeting specified technological feasibility thresholds; (ii) Direct labor costs, including specialized engineering and development personnel compensation, shall be included in capitalization calculations; (iii) Prototype development and testing costs must be segregated and separately evaluated for capitalization eligibility.

(b) Amortization methodology: (i) Capitalized patent costs shall be amortized over the lesser of legal life or economic useful life; (ii) Straight-line amortization shall be applied unless specific circumstances warrant an alternative method; (iii) Regular impairment assessments must be conducted at minimum annually.

(c) Research cost allocation: (i) Pre-development research expenses shall be expensed as incurred; (ii) Mixed-use facility costs must be allocated based on documented usage patterns; (iii) Core research infrastructure costs require proportional allocation across projects.

5.2 IP Transfer Pricing (a) Valuation methodology: (i) Primary reliance on income-based approaches for proprietary AI algorithms; (ii) Consideration of market-based comparables where available; (iii) Cost-plus methods for routine development services; (iv) Documentation of all key valuation assumptions and methodologies.

(b) Comparable analysis requirements: (i) Minimum of three comparable transactions for benchmark analysis; (ii) Detailed functional analysis documenting value drivers; (iii) Regular updates to comparable sets at minimum bi-annually; (iv) Adjustment calculations for market differences must be documented.

(c) Documentation standards: (i) Contemporaneous documentation requirements for all material IP transactions; (ii) Annual transfer pricing reports for cross-border IP arrangements; (iii) Retention of supporting analysis for seven years minimum.

5.3 Cross-border IP Licensing (a) Withholding tax obligations: (i) Determination of source jurisdiction requirements; (ii) Documentation of beneficial ownership for treaty purposes; (iii) Quarterly reconciliation of withholding obligations; (iv) Maintenance of withholding tax certificates and documentation.

(b) Treaty benefit application: (i) Verification of qualification under applicable treaties; (ii) Documentation of principal purpose test satisfaction; (iii) Maintenance of tax residency certificates; (iv) Regular review of treaty eligibility criteria.

(c) Permanent establishment considerations: (i) Assessment of server and infrastructure location impacts; (ii) Documentation of development activity locations; (iii) Review of remote worker arrangements; (iv) Monitoring of technical service provisions.

5.4 Technology Cost Capitalization (a) Development phase determination: (i) Establishment of clear criteria for development phase initiation; (ii) Documentation of technological feasibility achievements; (iii) Regular review of development milestones; (iv) Assessment of beta testing results and implementation readiness.

(b) Qualifying cost identification: (i) Direct development labor costs including contractors; (ii) Applicable overhead allocation methodologies; (iii) Treatment of cloud computing and infrastructure costs; (iv) Segregation of maintenance and enhancement expenditures.

(c) Amortization schedules: (i) Determination of useful life estimates for various technology categories; (ii) Regular reassessment of amortization periods; (iii) Documentation of obsolescence factors; (iv) Treatment of subsequent improvements and enhancements.

5.5 Special Considerations for AI and Computer Vision Systems (a) Training data cost treatment: (i) Capitalization criteria for data acquisition costs; (ii) Treatment of internal data preparation expenses; (iii) Allocation methodologies for shared data resources.

(b) Model development costs: (i) Segregation of research and development phases; (ii) Treatment of computing resource costs; (iii) Handling of iterative development cycles.

(c) Ongoing maintenance and enhancement: (i) Distinction between maintenance and improvement costs; (ii) Treatment of model retraining expenses; (iii) Documentation requirements for enhancement projects.

6.0 GENERAL PROVISIONS

6.1 Amendments This Document may be amended only by written instrument executed by authorized Company representatives.

6.2 Governing Law This Document shall be governed by and construed in accordance with the laws of the State of Delaware.

6.3 Severability If any provision hereof is found to be invalid or unenforceable, the remaining provisions shall continue in full force and effect.

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

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: _____ Name: James Wilson Title: Chief Financial Officer

EXHIBIT A: Defined Terms EXHIBIT B: R&D Tax Credit Documentation Requirements
EXHIBIT C: Transfer Pricing Methodology APPENDIX 1: State Nexus Analysis APPENDIX
2: Revenue Recognition Examples