

# **TAX MATTERS DOCUMENT 29**

## **1.0 PREAMBLE AND RECITALS**

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 ("Company"), Federal Employer Identification Number 81-3456789, registered under Delaware Division of Corporations File Number 7654321, and operating pursuant to its Amended and Restated Certificate of Incorporation dated March 1, 2023.

WHEREAS, the Company is engaged in the business of developing and commercializing proprietary machine learning and computer vision solutions for industrial process optimization and predictive maintenance through its NexusCore™ Industrial AI Platform, including associated software licenses, technical support services, and consulting arrangements;

WHEREAS, the Company conducts business operations across multiple tax jurisdictions, including the United States and European Union member states, maintaining permanent establishments in Germany (Tax ID: DE987654321) and Ireland (Tax ID: IE9876543AB);

WHEREAS, the Company seeks to establish comprehensive documentation regarding the tax treatment of its software licensing, international operations, and research and development activities, in accordance with Internal Revenue Code Sections 41, 174, and 482, and applicable international tax treaties;

WHEREAS, this Document shall serve as the authoritative record of the Company's tax positions and methodologies with respect to revenue recognition, international tax compliance, and research and development tax credits, incorporating Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) as applicable; and

WHEREAS, this Document shall be binding upon the Company and its subsidiaries, affiliates, and successors in interest.

NOW, THEREFORE, the Company hereby adopts and establishes the following tax matters documentation:

## **2.0 DEFINITIONS AND INTERPRETATIONS**

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

(a) "SaaS Revenue" means all revenue derived from subscription-based access to the NexusCore™ Industrial AI Platform, including recurring license fees, usage-based charges, platform access fees, and consumption-based billing components.

(b) "Implementation Services" means professional services provided in connection with the deployment, configuration, and integration of the NexusCore™ Industrial AI Platform, including but not limited to system setup, data migration, custom integration development, and user training.

(c) "Qualified Research Expenses" means expenses that qualify for research and development tax credits under Internal Revenue Code Section 41 and applicable state and international provisions, including direct research costs, cloud computing expenses for AI development, and qualified personnel expenses.

(d) "Transfer Pricing" means the pricing methodology applied to intercompany transactions between Company affiliates in different tax jurisdictions, including cost-plus arrangements, profit-split methodologies, and comparable uncontrolled price methods.

(e) "Digital Services Tax" means any tax specifically imposed on digital services, including AI platforms, data processing, and automated analytical services, as defined by applicable jurisdictional legislation.

(f) "Intellectual Property Rights" means patents, copyrights, trade secrets, and other proprietary rights associated with the NexusCore™ platform for tax allocation purposes.

2.2 Revenue Classification. The Company's revenue shall be classified into the following categories for tax purposes:

(a) "Core Platform Revenue" means revenue derived from the base NexusCore™ platform subscription, including standard features, basic API access, and fundamental AI processing capabilities.

(b) "Module Revenue" means revenue from optional AI/ML modules for specific industrial applications, including predictive maintenance, process optimization, and advanced analytics components.

(c) "Professional Services Revenue" means revenue from Implementation Services and consulting, including technical support, custom development, and advisory services.

2.3 Geographic Revenue Attribution. Revenue shall be attributed to jurisdictions based on:

(a) "User Location" means the primary location where the platform is accessed and utilized.

(b) "Server Location" means the jurisdiction where the computing infrastructure is physically located.

(c) "Contract Jurisdiction" means the governing law of the customer agreement.

2.4 Revenue Recognition Timing. For tax purposes, revenue shall be recognized according to:

- (a) "Subscription Period" means the contracted term during which services are provided.
- (b) "Implementation Milestone" means specific completion points in service delivery.
- (c) "Usage Period" means the actual period during which platform resources are consumed.

2.5 Interpretative Principles. In interpreting these definitions:

- (a) Technical terms shall be construed according to industry standards in the AI/ML sector.
- (b) Tax-specific terms shall align with relevant tax authority guidance and regulations.
- (c) Revenue classifications shall be interpreted consistently with GAAP/IFRS principles.
- (d) Jurisdictional terms shall be construed in accordance with applicable local tax laws.

2.6 Currency and Exchange. All monetary amounts shall be recorded in USD and converted using:

- (a) Daily exchange rates for transaction-specific items.
- (b) Monthly average rates for recurring revenue items.
- (c) Year-end rates for financial statement purposes.

## **3.0 TAX TREATMENT OF SOFTWARE LICENSING**

### **3.1 SaaS Revenue Recognition**

- (a) The Company shall recognize SaaS Revenue ratably over the subscription term in accordance with ASC 606, following the five-step revenue recognition model: (i) Identification of customer contracts (ii) Determination of performance obligations (iii) Establishment of transaction price (iv) Allocation of transaction price to performance obligations (v) Recognition of revenue upon satisfaction of performance obligations
- (b) Multi-year contracts shall be recognized on a straight-line basis unless specific performance obligations dictate otherwise. The following considerations shall apply: (i) Advance payments shall be recorded as deferred revenue (ii) Volume discounts shall be allocated proportionally across the contract term (iii) Price escalators shall be incorporated into the straight-line calculation (iv) Early termination provisions shall not affect the recognition schedule unless exercised

### **3.2 Implementation Services Taxation**

- (a) Implementation Services shall be treated as separate performance obligations from SaaS licenses, with the following distinctions: (i) One-time setup fees (ii) Data migration services (iii) Custom integration development (iv) Training and onboarding services (v) Configuration services

(b) Revenue from Implementation Services shall be recognized as services are performed based on time and materials or fixed fee arrangements, with consideration for: (i) Milestone completion documentation (ii) Customer acceptance criteria (iii) Progress billing schedules (iv) Resource allocation tracking

### 3.3 Multi-jurisdictional Considerations

(a) SaaS Revenue shall be allocated to jurisdictions based on user location and applicable nexus rules, including: (i) Physical presence nexus (ii) Economic nexus thresholds (iii) Click-through nexus provisions (iv) Marketplace facilitator obligations (v) International permanent establishment considerations

(b) The Company shall maintain detailed records of user access locations to support jurisdictional revenue allocation, including: (i) IP address logging (ii) User registration data (iii) Access logs and usage metrics (iv) Billing address verification (v) Digital signature locations

### 3.4 Tax Compliance Requirements

(a) The Company shall implement systems and procedures to ensure compliance with: (i) State and local sales tax requirements (ii) Value-added tax (VAT) regulations (iii) Digital services tax obligations (iv) International withholding requirements (v) Transfer pricing regulations

(b) Documentation requirements shall include: (i) Transaction records (ii) Tax calculation methodologies (iii) Exemption certificates (iv) Supporting allocation schedules (v) Audit trail maintenance

### 3.5 Special Considerations

(a) Enterprise-wide licenses shall be subject to: (i) Master service agreement tax provisions (ii) Affiliate usage allocation methods (iii) Global deployment considerations (iv) Currency conversion requirements

(b) Custom development services shall be evaluated separately for: (i) Work-for-hire tax implications (ii) Intellectual property transfer considerations (iii) Cross-border development activities (iv) Research and development tax credits

### 3.6 Tax Reporting Obligations

(a) The Company shall maintain reporting capabilities for: (i) Monthly, quarterly, and annual tax filings (ii) Information returns (iii) Regulatory disclosures (iv) Internal compliance monitoring

(b) Tax provision calculations shall incorporate: (i) Temporary and permanent differences (ii) Deferred tax considerations (iii) Uncertain tax positions (iv) Valuation allowances

### 3.7 Dispute Resolution

(a) Tax-related disputes shall be addressed through: (i) Administrative appeals processes (ii) Voluntary disclosure programs (iii) Competent authority procedures (iv) Alternative dispute resolution mechanisms

(b) The Company shall maintain procedures for: (i) Audit response protocols (ii) Documentation requests (iii) Settlement negotiations (iv) Appeals management

### 3.8 Compliance Reviews

(a) The Company shall conduct periodic reviews of: (i) Tax position documentation (ii) Calculation methodologies (iii) Allocation procedures (iv) Filing obligations

(b) Reviews shall be conducted: (i) Quarterly for material jurisdictions (ii) Annually for all active jurisdictions (iii) Upon significant business changes (iv) As required by regulatory authorities

## 4.0 INTERNATIONAL TAX CONSIDERATIONS

### 4.1 European Operations

(a) The Company shall comply with all VAT registration and collection requirements in EU member states where it maintains nexus, including but not limited to: (i) Immediate registration upon reaching country-specific revenue thresholds (ii) Implementation of compliant invoicing systems (iii) Maintenance of local fiscal representatives where required (iv) Filing of periodic VAT returns as prescribed by local authorities

(b) Digital services shall be taxed according to the location of the customer in accordance with EU VAT rules, whereby: (i) Electronic verification of customer location must be maintained through two non-contradictory pieces of evidence (ii) Applicable VAT rates must be determined based on customer jurisdiction (iii) One-stop-shop (OSS) registration shall be maintained where eligible

### 4.2 Transfer Pricing

(a) All intercompany transactions shall be conducted at arm's length in accordance with OECD guidelines, specifically: (i) Comparable uncontrolled price method (CUP) shall be preferred where reliable comparables exist (ii) Cost plus method shall be applied for routine manufacturing and service functions (iii) Transactional net margin method (TNMM) shall be considered for complex operations (iv) Profit split methodology shall be implemented for highly integrated operations

(b) The Company shall maintain contemporaneous transfer pricing documentation supporting its methodology, including: (i) Annual master file updates reflecting global operations (ii) Local files for each jurisdiction detailing specific transactions (iii) Country-by-country reporting when applicable thresholds are met (iv) Benchmark studies updated every three years or upon material changes

#### 4.3 International Revenue Recognition

(a) Revenue shall be recognized in accordance with local statutory requirements while maintaining consistency with US GAAP principles, whereby: (i) Multiple element arrangements shall be unbundled appropriately (ii) Contract modifications shall be evaluated for separate treatment (iii) Variable consideration shall be estimated using expected value method (iv) Performance obligations shall be identified and allocated properly

(b) Foreign currency transactions shall be recorded at the exchange rate in effect on the transaction date, with: (i) Monthly revaluation of monetary items (ii) Translation adjustments recorded in other comprehensive income (iii) Hedging activities documented and effectiveness tested quarterly

#### 4.4 Additional International Tax Obligations

(a) Permanent Establishment Considerations (i) Regular assessment of activities creating permanent establishments (ii) Maintenance of contemporaneous documentation supporting positions (iii) Compliance with local filing obligations where applicable

(b) Withholding Tax Requirements (i) Implementation of procedures to identify withholding obligations (ii) Collection and maintenance of tax residency certificates (iii) Timely remittance of withheld amounts to tax authorities

#### 4.5 Compliance Monitoring and Reporting

(a) The Company shall maintain a tax compliance calendar including: (i) Filing deadlines for all jurisdictions (ii) Payment due dates and installment requirements (iii) Annual review and certification procedures

(b) Documentation Requirements (i) Retention of supporting documentation for minimum seven years (ii) Electronic archiving system meeting local requirements (iii) Regular internal audits of compliance procedures

#### 4.6 Dispute Resolution and Competent Authority

(a) The Company shall maintain procedures for: (i) Responding to tax authority inquiries (ii) Engaging with competent authorities (iii) Pursuing mutual agreement procedures where applicable (iv) Documenting positions taken in tax controversies

## **5.0 R&D TAX CREDITS AND INNOVATION INCENTIVES**

#### 5.1 Qualified Research Activities

(a) The Company shall document all activities potentially qualifying for R&D tax credits, including: (i) Development of new AI/ML algorithms (ii) Enhancement of computer vision capabilities (iii) Creation of new predictive maintenance models (iv) Software architecture

improvements (v) Development of novel data processing methodologies (vi) Integration of emerging technologies

(b) Activities must satisfy the four-part test for qualified research: (i) Permitted purpose related to function, performance, reliability, or quality (ii) Elimination of technical uncertainty (iii) Systematic process of experimentation (iv) Reliance on principles of physical, biological, engineering, or computer science

## 5.2 Documentation Requirements

(a) The Company shall maintain contemporaneous documentation of: (i) Technical uncertainty being addressed (ii) Process of experimentation undertaken (iii) Qualified research expenses incurred (iv) Personnel time allocation records (v) Project milestone documentation (vi) Technical meeting minutes and decisions

(b) Documentation must be maintained for a minimum of seven (7) years and include: (i) Detailed project plans and specifications (ii) Research protocols and methodologies (iii) Test results and experimental outcomes (iv) Supporting calculations and analyses

## 5.3 Patent-Related Tax Treatment

(a) Patent development costs shall be capitalized and amortized over the patent life.

(b) Patent maintenance fees shall be expensed as incurred.

## 5.4 Expense Allocation and Tracking

(a) The Company shall implement systems to track and allocate: (i) Direct research labor costs (ii) Supplies and materials used in research (iii) Contract research expenses (iv) Cloud computing and data processing costs (v) Research equipment depreciation

## 5.5 Compliance and Reporting

(a) The Company shall: (i) Maintain quarterly summaries of qualified research activities (ii) Review credit calculations annually with tax advisors (iii) Document nexus between expenses and qualified activities (iv) Retain supporting documentation for credit claims

## 5.6 Innovation Incentive Programs

(a) The Company shall actively monitor and pursue: (i) Federal research incentives (ii) State-level innovation credits (iii) International R&D incentive programs (iv) Industry-specific technology grants

(b) Documentation of incentive program compliance shall be maintained separately from general R&D documentation.

## **EXHIBITS**

Exhibit A: Revenue Recognition Methodology Exhibit B: Transfer Pricing Documentation  
Exhibit C: R&D Credit Qualification Criteria

## **APPENDICES**

Appendix 1: Jurisdictional Tax Registration Details Appendix 2: International Tax Compliance Checklist

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

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: \_\_\_\_\_ Name: James Wilson Title: Chief Financial Officer

ATTEST:

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Corporate Secretary

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