

Tax Compliance Internal Control Assessment

1. INTRODUCTION AND PURPOSE

1 This Tax Compliance Internal Control Assessment ("Assessment") is prepared by Nexus Intelligent Systems, Inc. (the "Company") to comprehensively evaluate the effectiveness of its tax compliance and internal control frameworks as of January 22, 2024.

2 The primary objectives of this Assessment are to:

- a) Document existing tax compliance processes
- b) Identify potential risk areas in tax reporting and management
- c) Provide a comprehensive overview of the Company's tax control environment

2. SCOPE OF ASSESSMENT

1 Jurisdictional Coverage

- Federal tax compliance: United States Internal Revenue Code
- State tax compliance: Delaware and operational states
- International tax considerations for cross-border technology service contracts

2 Assessment Periods

- Primary review period: January 1, 2022 - December 31, 2023
- Retrospective analysis: January 1, 2020 - December 31, 2021

3. TAX COMPLIANCE FRAMEWORK

1 Organizational Structure

- Corporate tax function reports directly to Chief Financial Officer
- Dedicated tax compliance team: 2 full-time tax specialists
- External tax advisory relationship with Ernst & Young LLP

2 Key Compliance Processes

- a) Quarterly tax provision preparation
- b) Annual federal and state tax return preparation
- c) Sales and use tax compliance for technology service contracts

- d) R&D tax credit documentation and filing

4. INTERNAL CONTROL ASSESSMENT

1 Control Environment

- Segregation of duties between tax preparation and review functions
- Mandatory annual tax compliance training for finance personnel
- Quarterly internal tax risk assessment protocols

2 Identified Control Mechanisms

- a) Multi-stage tax document review process
- b) Automated compliance tracking system
- c) Annual external tax compliance audit
- d) Documented escalation procedures for potential tax irregularities

5. RISK ASSESSMENT

1 Potential Tax Risk Areas

- Complex revenue recognition for multi-year AI service contracts
- International service delivery with potential permanent establishment considerations
- R&D tax credit substantiation for machine learning platform development

2 Mitigation Strategies

- a) Enhanced documentation protocols
- b) Regular external tax advisory consultations
- c) Continuous training and knowledge management

6. COMPLIANCE GAPS AND RECOMMENDATIONS

1 Identified Gaps

- Limited documentation of transfer pricing methodologies
- Inconsistent capitalization of software development expenses
- Potential nexus establishment in multiple state jurisdictions

2 Recommended Actions

- a) Develop comprehensive transfer pricing documentation
- b) Implement standardized capitalization guidelines
- c) Conduct nexus study for multi-state operations

7. LIMITATIONS AND DISCLAIMERS

1 This Assessment represents management's best interpretation of the Company's tax compliance framework as of the assessment date.

2 No assurance is provided regarding future tax compliance or potential regulatory changes.

3 External factors and evolving regulatory landscapes may impact the effectiveness of current control mechanisms.

8. EXECUTIVE CERTIFICATION

I, Dr. Elena Rodriguez, Chief Executive Officer of Nexus Intelligent Systems, Inc., hereby certify that to the best of my knowledge, the information contained in this Tax Compliance Internal Control Assessment is accurate and complete.

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Dr. Elena Rodriguez

Chief Executive Officer

Nexus Intelligent Systems, Inc.

Date: January 22, 2024