

# **ENVIRONMENTAL, SOCIAL, AND GOVERNANCE POLICY AND FRAMEWORK**

**Effective Date: January 15, 2024**

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation (the "Company"), develops and deploys artificial intelligence and machine learning solutions for industrial applications;

WHEREAS, the Company recognizes its responsibility to conduct business in an environmentally and socially responsible manner while maintaining the highest standards of corporate governance;

WHEREAS, the Board of Directors (the "Board") has determined it is in the best interests of the Company and its stakeholders to establish comprehensive environmental, social, and governance ("ESG") policies and procedures;

NOW, THEREFORE, the Company hereby adopts this Environmental, Social, and Governance Policy and Framework (this "Policy") as follows:

## **1.0 ESG POLICY STATEMENT AND GOVERNANCE FRAMEWORK**

### **1.1 Mission Statement and Objectives**

The Company commits to developing and deploying artificial intelligence solutions that create sustainable value while minimizing environmental impact, promoting social responsibility, and maintaining robust governance practices. Our objectives include:

(a) Advancing industrial efficiency through responsible AI innovation, including optimization of energy consumption and resource utilization (b) Minimizing the environmental footprint of our operations and technology through sustainable data center practices and carbon-neutral initiatives (c) Promoting workforce diversity and ethical AI development with emphasis on algorithmic fairness and bias prevention (d) Ensuring transparent and accountable corporate governance through comprehensive reporting and stakeholder engagement (e) Fostering sustainable innovation practices that align with international ESG frameworks and standards

### **1.2 Board Oversight**

The Board shall maintain ultimate oversight responsibility for ESG matters through:

(a) Quarterly review of ESG performance metrics and progress against established targets (b) Annual approval of ESG strategy, targets, and resource allocation (c) Regular assessment of ESG-related risks and opportunities, including climate-related risks (d) Integration of ESG considerations into strategic planning and risk management (e) Annual review of ESG governance structure effectiveness (f) Oversight of ESG-related disclosures and external reporting

### **1.3 ESG Committee**

#### **1.3.1 Composition**

The ESG Committee shall consist of: (a) At least two independent directors, one serving as Committee Chair (b) Chief Executive Officer (c) Chief Technology Officer (d) Chief AI Officer (e) VP of Sustainability (Committee Secretary) (f) Chief Risk Officer (g) Head of Human Resources

#### **1.3.2 Responsibilities**

The Committee shall: (a) Develop and monitor ESG strategy implementation across all business units (b) Review ESG performance and metrics quarterly against established benchmarks (c) Ensure compliance with ESG policies, standards, and applicable regulations (d) Report to the Board on ESG matters quarterly (e) Coordinate with external ESG rating agencies and stakeholders (f) Oversee ESG-related training and awareness programs (g) Review and approve ESG-related public communications

### **1.4 Management Accountability**

Senior management shall be accountable for ESG performance through: (a) Integration of ESG metrics into performance evaluations and compensation structures (b) Regular reporting to the ESG Committee on departmental ESG initiatives (c) Implementation of ESG initiatives within their respective functions (d) Development of function-specific ESG targets and action plans (e) Quarterly assessment of ESG risks and opportunities within their domains (f) Ensuring adequate resources for ESG program implementation

### **1.5 ESG Policy Review and Updates**

This ESG Policy shall be: (a) Reviewed annually by the ESG Committee (b) Updated to reflect emerging ESG trends and requirements (c) Aligned with international ESG frameworks and standards (d) Communicated to all employees and relevant stakeholders (e) Publicly available on the Company's website

## **2.0 ENVIRONMENTAL IMPACT AND SUSTAINABILITY COMMITMENTS**

### **2.1 Carbon Footprint Reduction**

#### **2.1.1 Targets**

The Company commits to: (a) 50% reduction in Scope 1 and 2 emissions by 2030, measured against a 2020 baseline (b) Net-zero operations by 2040, including all subsidiary operations and contracted services (c) Annual reporting of progress toward targets through standardized environmental reporting frameworks (d) Interim reduction targets of 25% by 2025 and 35% by 2027 (e) Development of science-based targets aligned with the Paris Agreement objectives

#### **2.1.2 Implementation**

The Company shall: (a) Conduct quarterly carbon footprint assessments using certified methodologies (b) Implement emissions reduction initiatives across all operational facilities (c) Purchase renewable energy credits from verified sources (d) Establish a dedicated sustainability committee reporting to the Board (e) Maintain detailed emissions inventory documentation (f) Deploy carbon accounting software for real-time monitoring

### **2.2 Energy Efficiency in AI Operations**

#### **2.2.1 Data Center Optimization**

The Company shall: (a) Utilize energy-efficient computing infrastructure meeting or exceeding ENERGY STAR® certification (b) Implement advanced cooling systems with minimum coefficient of performance (COP) of 3.0 (c) Monitor and optimize power usage effectiveness (PUE) to maintain ratios below 1.5 (d) Conduct monthly energy audits of all data center facilities (e) Implement heat recovery systems where technically feasible (f) Deploy smart grid technologies for optimal power management (g) Maintain redundant power systems with minimum 95% efficiency ratings

#### **2.2.2 Algorithm Efficiency**

The Company commits to: (a) Developing energy-efficient AI models with documented power consumption metrics (b) Optimizing computational resources through workload consolidation (c) Conducting quarterly efficiency audits of AI systems (d) Implementing automatic scaling protocols for resource optimization (e) Establishing maximum power consumption thresholds for AI training operations (f) Developing and maintaining an efficiency scorecard for all AI models

## **2.3 Sustainable Software Development**

The Company shall implement: (a) Green coding practices including: (i) Resource-efficient algorithms (ii) Code optimization protocols (iii) Energy-aware programming guidelines (b) Resource-efficient development environments utilizing: (i) Virtual development platforms (ii) Cloud-based testing environments (iii) Automated power management systems (c) Sustainable development lifecycle management incorporating: (i) Environmental impact assessments (ii) Energy consumption monitoring (iii) Waste reduction protocols (d) Regular developer training on sustainable coding practices (e) Documentation requirements for energy efficiency measures

## **2.4 Environmental Monitoring**

The Company shall: (a) Maintain ISO 14001-certified environmental management systems (b) Conduct quarterly environmental audits including: (i) Energy consumption analysis (ii) Water usage assessment (iii) Waste management evaluation (iv) Carbon emissions verification (c) Report environmental metrics quarterly, including: (i) Total energy consumption (ii) Renewable energy percentage (iii) Water usage (iv) Waste generation and disposal (v) Carbon emissions by scope (d) Establish environmental incident reporting procedures (e) Maintain continuous monitoring systems for: (i) Power consumption (ii) Water usage (iii) Ambient conditions (iv) Equipment efficiency

## **2.5 Compliance and Reporting**

The Company shall: (a) Submit annual sustainability reports following GRI Standards (b) Maintain compliance with applicable environmental regulations (c) Participate in CDP (formerly Carbon Disclosure Project) reporting (d) Engage third-party verification of environmental data (e) Maintain public transparency through: (i) Quarterly progress updates (ii) Stakeholder engagement sessions (iii) Public disclosure of environmental metrics (f) Establish remediation procedures for environmental incidents (g) Document all environmental compliance activities

# **3.0 SOCIAL RESPONSIBILITY AND STAKEHOLDER ENGAGEMENT**

## **3.1 AI Ethics and Responsible Innovation**

### **3.1.1 Ethical AI Principles**

The Company commits to: (a) Transparency in AI decision-making, including documentation of algorithmic processes, disclosure of AI system capabilities and limitations, and clear communication of automated decision points to affected stakeholders (b) Fairness in algorithm design, incorporating diverse datasets, regular bias testing, and remediation protocols for

identified discriminatory outcomes (c) Human oversight of AI systems, maintaining designated supervision roles and establishing clear intervention protocols (d) Regular ethical impact assessments, conducted quarterly or upon significant system modifications (e) Implementation of explainability frameworks for high-risk AI applications (f) Establishment of an AI Ethics Review Board with independent oversight authority

### **3.1.2 Innovation Guidelines**

All AI development shall: (a) Prioritize human welfare through comprehensive impact studies and risk mitigation strategies (b) Respect privacy rights by implementing privacy-by-design principles and data minimization practices (c) Maintain accountability through detailed documentation and clear chains of responsibility (d) Support sustainable development goals as defined by the United Nations framework (e) Incorporate stakeholder feedback through structured consultation processes (f) Establish kill-switch protocols for AI systems demonstrating unintended behaviors

## **3.2 Workforce Policies**

### **3.2.1 Diversity and Inclusion**

The Company shall: (a) Maintain diverse hiring practices, including blind resume screening and diverse interview panels (b) Provide mandatory inclusion training quarterly for all employees and bi-annually for leadership (c) Monitor diversity metrics across all organizational levels and departments (d) Report progress annually through standardized diversity scorecards (e) Establish mentorship programs for underrepresented groups (f) Implement pay equity reviews semi-annually (g) Create employee resource groups with executive sponsorship (h) Develop supplier diversity programs with measurable targets

### **3.2.2 Skills Development**

The Company commits to: (a) Regular employee training, including mandatory technical and soft skills development (b) Career development programs with clear advancement pathways (c) Technology skills advancement through certified training programs (d) Cross-functional rotation opportunities (e) Educational assistance programs covering approved courses (f) Industry certification support and reimbursement (g) Leadership development initiatives at all organizational levels (h) Quarterly skills assessment and gap analysis

## **3.3 Data Privacy and Security**

### **3.3.1 Compliance and Certification**

The Company shall: (a) Maintain ISO 27001 certification with annual external audits (b) Comply with GDPR requirements and applicable regional privacy regulations (c) Conduct regular security audits, including penetration testing (d) Protect customer data privacy through

encryption and access controls (e) Implement data retention and destruction policies (f) Maintain SOC 2 Type II compliance

### **3.3.2 Operational Security**

The Company shall implement: (a) Multi-factor authentication for all system access (b) Regular security awareness training for all employees (c) Incident response protocols with defined notification procedures (d) Vendor security assessment programs (e) Continuous monitoring and threat detection systems (f) Data classification and handling procedures

## **3.4 Community Engagement**

### **3.4.1 Social Impact Initiatives**

The Company shall: (a) Establish annual community investment targets (b) Support STEM education programs in underserved communities (c) Provide pro-bono technical services to nonprofit organizations (d) Participate in local workforce development initiatives (e) Contribute to digital literacy programs

### **3.4.2 Stakeholder Communication**

The Company commits to: (a) Regular stakeholder consultation forums (b) Transparent reporting of social impact metrics (c) Community advisory board establishment (d) Annual sustainability reporting (e) Public disclosure of AI ethics principles and practices (f) Regular updates on corporate responsibility initiatives

## **3.5 Implementation and Monitoring**

The Company shall: (a) Establish key performance indicators for all social responsibility initiatives (b) Conduct annual third-party audits of program effectiveness (c) Report progress to the Board of Directors quarterly (d) Maintain public accountability through transparent reporting (e) Review and update policies annually or as required by changing circumstances (f) Designate responsible executives for each program area (g) Allocate sufficient resources for program implementation (h) Establish feedback mechanisms for continuous improvement

## **4.0 CORPORATE GOVERNANCE AND RISK MANAGEMENT**

### **4.1 Board Structure**

#### **4.1.1 Composition**

The Board shall maintain: (a) Majority independent directors, constituting no less than two-thirds of total Board membership (b) Diverse representation across gender, ethnicity, and professional background, with annual diversity targets and reporting (c) Technology expertise, requiring at least two Board members with substantial experience in artificial intelligence,

machine learning, or related technical fields (d) ESG competency demonstrated through relevant certification or executive experience in sustainability, corporate responsibility, or environmental management (e) Maximum tenure limits of nine years for independent directors (f) Mandatory continuing education requirements in emerging technologies and ESG matters

#### **4.1.2 Committees**

Required committees include: (a) Audit Committee, comprising solely independent directors with at least one qualified financial expert (b) ESG Committee, responsible for sustainability strategy, climate risk oversight, and stakeholder engagement (c) Technology and Innovation Committee, overseeing AI development, digital transformation, and cybersecurity (d) Risk Management Committee, focusing on enterprise-wide risk assessment and mitigation (e) Compensation Committee, ensuring alignment of executive incentives with risk management objectives (f) Nomination Committee, responsible for Board succession planning and skills matrix maintenance

### **4.2 AI Risk Management**

#### **4.2.1 Framework**

The Company shall maintain: (a) AI risk assessment protocols, including: (i) Quarterly algorithmic impact assessments (ii) Bias detection and mitigation procedures (iii) Data privacy and security evaluations (iv) Model validation frameworks (b) Regular system audits, comprising: (i) Monthly automated testing protocols (ii) Quarterly manual reviews (iii) Annual third-party assessments (c) Incident response procedures, including: (i) 24-hour notification requirements (ii) Stakeholder communication protocols (iii) Remediation tracking systems (d) Stakeholder feedback mechanisms, incorporating: (i) User reporting channels (ii) Community advisory boards (iii) Regular consultation forums

#### **4.2.2 Oversight**

Risk management shall include: (a) Board-level review through: (i) Monthly risk dashboards (ii) Quarterly deep-dive sessions (iii) Annual strategic risk reviews (b) Independent assessments via: (i) External auditors (ii) Technology consultants (iii) Ethics advisory panels (c) Regular reporting encompassing: (i) Risk metrics and KPIs (ii) Incident logs and resolutions (iii) Compliance status updates (d) Stakeholder communication through: (i) Annual transparency reports (ii) Quarterly stakeholder briefings (iii) Real-time incident notifications

#### **4.2.3 Compliance Integration**

The Company shall ensure: (a) Integration of AI risk management with existing compliance frameworks (b) Regular updates to policies and procedures reflecting technological advances (c) Documentation of all risk assessment and mitigation activities (d) Training programs for Board members and senior management (e) Annual review and updating of risk management protocols (f) Clear delegation of risk management responsibilities and accountability measures

#### **4.2.4 Enforcement**

The Board shall: (a) Review compliance with this framework quarterly (b) Maintain authority to require immediate corrective actions (c) Ensure adequate resources for risk management activities (d) Hold senior management accountable for framework implementation (e) Report material violations to relevant regulatory authorities (f) Maintain records of all enforcement actions and outcomes

## **5.0 REPORTING AND DISCLOSURE REQUIREMENTS**

### **5.1 ESG Metrics and KPIs**

The Company shall track and report the following metrics on a quarterly and annual basis: (a) Environmental impact metrics, including: (i) Carbon emissions from AI computing operations (ii) Energy efficiency ratios for data centers (iii) Water consumption in cooling systems (iv) E-waste management and disposal protocols (b) Social responsibility indicators, encompassing: (i) Workforce diversity and inclusion metrics (ii) Employee training and development hours (iii) Community engagement initiatives (iv) AI bias monitoring and mitigation statistics (c) Governance performance measures, including: (i) Board composition and independence metrics (ii) Executive compensation alignment with ESG goals (iii) Risk management effectiveness scores (iv) Compliance violation incidents (d) AI ethics compliance metrics, covering: (i) Algorithm fairness assessments (ii) Data privacy breach incidents (iii) Automated decision-making impact evaluations (iv) Ethics review board findings

### **5.2 Disclosure Standards**

The Company shall maintain strict compliance with: (a) SASB Standards, specifically: (i) Technology and Communications Sector Guidelines (ii) Industrial Classification metrics (iii) Sustainability accounting standards (b) TCFD Framework requirements, including: (i) Climate-related financial risk disclosures (ii) Scenario analysis documentation (iii) Transition risk assessments (c) GRI Guidelines, incorporating: (i) Universal Standards (ii) Sector-specific disclosures (iii) Management approach documentation (d) SEC Requirements, encompassing: (i) Regulation S-K compliance (ii) Material risk disclosures (iii) Forward-looking statements

### **5.3 Verification Procedures**

All ESG reporting shall undergo comprehensive review through: (a) Internal audit review, consisting of: (i) Quarterly data validation (ii) Process control assessment (iii) Documentation completeness verification (b) External verification by: (i) Accredited third-party auditors (ii) Industry-recognized certification bodies (iii) Independent ESG rating agencies (c) Stakeholder feedback mechanisms, including: (i) Annual stakeholder surveys (ii) Public comment periods (iii) Expert panel reviews (d) Board approval process, requiring: (i) ESG Committee preliminary review (ii) Full board examination (iii) Formal resolution adoption



## **5.4 Reporting Timeline**

The Company shall adhere to the following reporting schedule: (a) Quarterly ESG updates within 45 days of quarter-end (b) Annual comprehensive ESG report within 90 days of fiscal year-end (c) Material event disclosures within 4 business days (d) Stakeholder communications as specified in Exhibit D