

# **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 Scope and Applicability**

This Policy applies to all operations, employees, contractors, and subsidiaries of the Company globally. The principles and requirements set forth herein shall govern the Company's approach to environmental stewardship, social responsibility, and corporate governance. This Policy supersedes all previous versions and shall be reviewed annually for continued relevance and effectiveness.

The Company acknowledges its obligation to implement these requirements across its value chain, including joint ventures where the Company maintains operational control and third-party vendors engaged in material business relationships.

### **1.2 ESG Governance Structure**

(a) The Board shall maintain ultimate oversight of ESG matters through its ESG Committee (the "Committee"), which shall meet no less than quarterly. The Committee shall: (i) Review and approve ESG strategy, targets, and material initiatives (ii) Assess ESG-related risks and opportunities (iii) Ensure adequate resources are allocated to ESG programs (iv) Monitor

compliance with regulatory requirements and voluntary commitments (v) Evaluate the effectiveness of ESG governance mechanisms

(b) The Company's ESG Steering Committee, comprised of senior executives including the CEO, CFO, and Chief AI Officer, shall be responsible for: (i) Implementing ESG initiatives (ii) Monitoring performance against established metrics (iii) Reporting progress to the Committee (iv) Coordinating cross-functional ESG working groups (v) Developing and maintaining ESG policies and procedures (vi) Ensuring integration of ESG considerations into operational decisions

(c) Regional ESG Coordinators shall be appointed to: (i) Implement local ESG programs (ii) Monitor compliance with regional regulations (iii) Report quarterly to the ESG Steering Committee (iv) Facilitate stakeholder engagement at the local level

### **1.3 Integration with Business Strategy**

The Company shall integrate ESG considerations into: (a) Product development and innovation processes, including: (i) Environmental impact assessments (ii) Social responsibility reviews (iii) Ethical AI development protocols (iv) Sustainability criteria in design specifications

(b) Risk assessment and management procedures, incorporating: (i) Climate-related risks and opportunities (ii) Human rights due diligence (iii) Supply chain sustainability assessments (iv) Governance risk evaluations

(c) Strategic planning and capital allocation decisions, ensuring: (i) ESG criteria in investment decisions (ii) Sustainable procurement practices (iii) Green technology adoption (iv) Social impact considerations

(d) Performance evaluation and compensation frameworks, including: (i) ESG metrics in executive compensation (ii) Sustainability-linked incentives (iii) Social responsibility targets (iv) Governance performance indicators

### **1.4 Reporting and Disclosure**

The Company commits to: (a) Annual public disclosure of ESG performance (b) Regular stakeholder communications on ESG matters (c) Transparent reporting of material ESG metrics (d) Independent third-party verification of ESG data (e) Alignment with recognized reporting frameworks

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

This Policy shall be: (a) Reviewed annually by the Committee (b) Updated to reflect evolving ESG standards and regulations (c) Communicated to all relevant stakeholders (d) Maintained as a living document responsive to emerging ESG considerations

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

### **2.1 Carbon Footprint Reduction**

The Company hereby commits to: (a) Achieve carbon neutrality in direct operations by 2030 through: (i) Implementation of energy-efficient technologies (ii) Investment in verified carbon offset programs (iii) Annual third-party verification of emissions data (iv) Quarterly progress reporting to the Board of Directors

(b) Reduce Scope 1 and 2 emissions by 50% by 2027 (baseline year 2023) via: (i) Facility modernization and retrofit programs (ii) Electric vehicle fleet transition by 2026 (iii) On-site renewable energy generation where feasible (iv) Smart building management systems implementation

(c) Implement a comprehensive emissions monitoring system including: (i) Real-time energy consumption tracking (ii) Monthly emissions reporting and analysis (iii) Supply chain emissions assessment (iv) Employee carbon impact tracking

### **2.2 Data Center Sustainability**

(a) All Company-operated data centers shall: (i) Achieve minimum PUE (Power Usage Effectiveness) of 1.5 by 2025 (ii) Source 100% renewable energy by 2026 through: - Direct power purchase agreements (PPAs) - On-site generation facilities - Renewable energy certificates (RECs) (iii) Implement water conservation measures including: - Closed-loop cooling systems - Rainwater harvesting systems - Grey water recycling programs (iv) Conduct quarterly energy audits (v) Maintain ISO 50001 energy management certification

(b) Third-party data center providers must demonstrate commitment to: (i) Energy efficiency through: - Regular efficiency assessments - Equipment modernization programs - Thermal management optimization (ii) Renewable energy adoption via: - Documented renewable energy procurement - Annual sustainability reporting - Carbon reduction roadmaps (iii) Waste reduction programs including: - E-waste management protocols - Packaging reduction initiatives - Equipment lifecycle optimization

### **2.3 Hardware Lifecycle Management**

The Company shall: (a) Implement responsible electronics procurement standards through: (i) Vendor sustainability assessments (ii) Energy Star certification requirements (iii) EPEAT registration requirements (iv) Supply chain environmental audits

(b) Maximize hardware lifespan through: (i) Preventive maintenance schedules (ii) Component upgrade programs (iii) Refurbishment initiatives (iv) Asset tracking systems (v) Staff training programs

(c) Ensure proper recycling and disposal of electronic waste via: (i) Certified e-waste recycling partners (ii) Chain of custody documentation (iii) Data security protocols (iv) Material recovery tracking

## **2.4 Compliance and Reporting**

(a) The Company shall: (i) Submit annual environmental impact reports (ii) Maintain ISO 14001 environmental management certification (iii) Conduct quarterly internal audits (iv) Engage independent verification bodies

(b) Environmental performance metrics shall be: (i) Integrated into executive compensation structures (ii) Publicly disclosed in annual sustainability reports (iii) Reviewed by the Environmental Steering Committee (iv) Benchmarked against industry standards

## **3.0 SOCIAL RESPONSIBILITY AND STAKEHOLDER ENGAGEMENT**

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

(a) The Company shall maintain an AI Ethics Review Board that shall: (i) Review all new AI applications for potential social impacts and unintended consequences (ii) Establish and regularly update guidelines for responsible AI development (iii) Monitor algorithmic bias and fairness across all deployed systems (iv) Conduct quarterly assessments of AI system performance and social impact (v) Report findings directly to the Board of Directors bi-annually

(b) All AI solutions shall adhere to: (i) Transparency and explainability requirements, including documentation of decision-making processes (ii) Fairness and non-discrimination principles as defined in Schedule A (iii) Human oversight protocols with clearly defined intervention procedures (iv) Regular validation of AI outputs by qualified personnel (v) Continuous monitoring for drift and degradation in performance

(c) The Company shall establish: (i) Clear accountability frameworks for AI-related decisions (ii) Incident response protocols for AI system failures (iii) Regular stakeholder consultation processes (iv) Public reporting mechanisms for AI ethics compliance

### **3.2 Diversity, Equity, and Inclusion**

(a) The Company commits to: (i) Increase workforce diversity at all levels through measurable targets: - 40% women in leadership positions by 2025 - 30% underrepresented minorities in technical roles - 25% diversity in board composition (ii) Ensure pay equity across gender and demographic groups through: - Annual compensation reviews - Third-party audit of pay practices - Transparent promotion criteria (iii) Foster an inclusive culture through: - Mandatory

diversity training programs - Employee resource groups - Mentorship programs - Regular climate surveys

(b) The Company shall implement: (i) Structured recruitment processes to eliminate bias (ii) Regular diversity metrics reporting (iii) Supplier diversity programs (iv) Cultural competency requirements for leadership

### **3.3 Data Protection and Privacy**

(a) The Company shall: (i) Implement industry-leading data security measures including: - End-to-end encryption - Multi-factor authentication - Regular penetration testing - Advanced threat detection systems (ii) Maintain transparent data collection and usage policies through: - Clear privacy notices - Opt-in consent mechanisms - Data minimization practices (iii) Respect customer privacy rights via: - Prompt response to data access requests - Right to erasure protocols - Portable data format options

(b) Regular audits shall verify compliance with: (i) Applicable privacy regulations including: - GDPR - CCPA - PIPEDA - Industry-specific requirements (ii) Industry standards and best practices (iii) Company privacy policies and procedures

### **3.4 Community Impact and Engagement**

(a) The Company shall establish: (i) Local community advisory boards (ii) Environmental impact monitoring systems (iii) Community investment programs

(b) Annual reporting shall include: (i) Community engagement metrics (ii) Environmental performance data (iii) Social impact assessments

### **3.5 Stakeholder Communication**

(a) The Company shall maintain: (i) Regular stakeholder consultation forums (ii) Transparent reporting mechanisms (iii) Crisis communication protocols (iv) Public engagement platforms

(b) Communication strategies shall include: (i) Quarterly stakeholder updates (ii) Annual sustainability reports (iii) Public accessibility requirements (iv) Multi-language communication options

### **3.6 Compliance and Enforcement**

(a) The Company shall: (i) Designate responsible officers for each area (ii) Establish clear accountability measures (iii) Implement regular compliance training (iv) Maintain documentation of all activities

(b) Non-compliance shall result in: (i) Immediate corrective action (ii) Review of affected processes (iii) Updated control measures (iv) Disciplinary action as appropriate

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

### **4.1 ESG Risk Assessment**

- (a) The Company shall conduct annual ESG risk assessments covering: (i) Climate-related risks, including physical risks, transition risks, and liability exposure (ii) Social impact risks, encompassing labor practices, human rights, and community relations (iii) Governance risks, including board oversight, executive compensation, and shareholder rights (iv) Technology and AI risks, specifically algorithmic bias, data privacy, and system reliability
- (b) Risk Assessment Methodology: (i) Utilize standardized assessment frameworks aligned with TCFD recommendations (ii) Employ quantitative and qualitative analysis methods (iii) Incorporate third-party verification where appropriate (iv) Document assessment findings in standardized format
- (c) Risk Mitigation Planning: (i) Develop specific action plans for identified high-priority risks (ii) Assign responsibility to appropriate executive sponsors (iii) Establish measurable mitigation targets (iv) Review progress quarterly

### **4.2 Compliance Monitoring**

- (a) The Compliance Department shall: (i) Monitor adherence to this Policy through regular audits (ii) Investigate reported violations within 72 hours of notification (iii) Recommend corrective actions with specific timelines (iv) Track implementation of remedial measures (v) Report quarterly to the Board's Risk Committee
- (b) Compliance Documentation Requirements: (i) Maintain detailed compliance logs (ii) Document all investigations and findings (iii) Archive compliance-related communications (iv) Retain records for minimum seven years
- (c) Training and Education: (i) Conduct quarterly compliance training sessions (ii) Maintain current training materials (iii) Track employee completion rates (iv) Assess training effectiveness

### **4.3 Stakeholder Reporting**

- (a) The Company shall: (i) Publish annual ESG reports following GRI Standards (ii) Maintain transparent stakeholder communications through designated channels (iii) Respond to ESG-related inquiries within 10 business days (iv) Provide quarterly updates on material ESG matters
- (b) Report Content Requirements: (i) Quantitative performance metrics (ii) Progress against stated goals (iii) Material risk disclosures (iv) Forward-looking commitments (v) Independent assurance statements

(c) Stakeholder Engagement: (i) Host bi-annual stakeholder forums (ii) Maintain dedicated ESG communication channels (iii) Document and address stakeholder concerns (iv) Report engagement outcomes

#### **4.4 Incident Response**

(a) The Company shall maintain protocols for: (i) ESG incident identification and classification (ii) Impact assessment using standardized criteria (iii) Stakeholder notification within prescribed timeframes (iv) Remediation planning and execution

(b) Incident Response Team: (i) Maintain 24/7 incident response capability (ii) Define clear roles and responsibilities (iii) Conduct quarterly response drills (iv) Update protocols based on lessons learned

(c) Documentation Requirements: (i) Maintain incident logs (ii) Document response actions (iii) Track remediation progress (iv) Prepare post-incident analysis

#### **4.5 AI Governance**

(a) The Company shall establish: (i) AI Ethics Committee with independent oversight (ii) Algorithm audit procedures (iii) Bias detection protocols (iv) Transparency requirements for AI systems

(b) AI Risk Controls: (i) Regular algorithm testing and validation (ii) Data quality and bias monitoring (iii) Human oversight requirements (iv) Emergency shutdown procedures

#### **4.6 Board Oversight**

(a) The Board shall: (i) Review ESG strategy quarterly (ii) Approve material risk decisions (iii) Monitor compliance effectiveness (iv) Evaluate executive ESG performance

(b) Committee Structure: (i) Maintain dedicated ESG Committee (ii) Define clear committee mandates (iii) Ensure appropriate expertise (iv) Regular reporting requirements

#### **4.7 Policy Review**

(a) This Policy shall be: (i) Reviewed annually by the Board (ii) Updated to reflect regulatory changes (iii) Aligned with industry best practices (iv) Communicated to all stakeholders