

NITREX

2023 Forced Labour and Child Labour Report

1. ABOUT THIS REPORT

This report relates to the financial year ending August 31, 2023. It is published by Nitrex Development Corporation Inc. (the “**Company**”, “**Nitrex**”, “**we**” or “**our**”) in compliance with Canada’s *Fighting Against Forced Labour and Child Labour in Supply Chains Act* (the “**Act**”).

This report provides an overview of the steps taken by the Company within its last financial year to prevent and reduce risks that forced labour or child labour be used at any step of our production of goods in Canada or elsewhere or of goods imported into Canada by us.

2. PREVENTING AND REDUCING RISKS OF FORCED LABOUR AND CHILD LABOUR

Nitrex is committed to ensuring that its operations and supply chains are free from any form of child or forced labour, and that we respect the human rights and dignity of all workers. We place great importance on ensuring that our suppliers share our values and adhere to the same high standards we uphold. In addition, Nitrex believes its employees are its greatest assets. For this reason, we are committed to ensuring the health and safety of our employees.

During the last financial year, we continued to cultivate a supportive and inclusive work environment as well as gathering information on worker recruitment and maintaining internal controls to ensure that all workers at Nitrex are recruited voluntarily and treated fairly.

In 2024, we have started developing measures to prevent, identify and remediate any potential or actual cases of child or forced labour in our organization or supply chain. These policies and practices will play an important role in upholding and enforcing elevated human rights standards and responsible sourcing practices within our operations and supply chains:

- We are in process of developing a Human Rights Policy that explicitly prohibits any form of child or forced labour in our organization, as well as a Supplier Code of Conduct that outlines our expectations for our suppliers in terms of ethical, social and environmental standards, along with measures to ensure compliance.
- We are fleshing out how to put in place a grievance mechanism that allows anyone to report any concerns or complaints.

Details of the above actions, among others, are set forth in this report.

3. ABOUT US & OUR SUPPLY CHAIN

Founded in 1984, Nitrex is a global company with over 400 employees and operations in 9 countries, operating in three lines of business:

- NTS focuses on providing customers with heat treatment furnaces and related equipment, mainly specializing in gas nitriding furnaces (the “**NTS Business**”);

- HTS offers heat treatment services to customers who prefer not to invest in heat treatment equipment (the “**HTS Business**”); and
- UPC provides aftermarket parts and services to various heat treatment companies, catering to different types of equipment such as vacuum furnaces, batch furnaces, tempering furnaces, belt furnaces, and carburizing furnaces (the “**UPC Business**”).

Nitrex aims to create value for its customers, shareholders, employees, and communities by offering high-quality products that enhance industrial processes.

The NTS Business operates three manufacturing facilities located in Poland, the US, and China. Approximately 80% of the furnaces are manufactured in Poland, while the US and China each account for 10%. The Chinese facility exclusively manufactures furnaces for the domestic market. On the other hand, furnaces manufactured in Poland are exported to all regions, including America, Europe, EMEA (Europe Middle East & Africa), and Asia.

In the UPC business, products are developed and assembled in Poland, the US, and China, and they are sold in these three geographical regions. Products made in the US are sold in China and in the US. Products manufactured in Poland are sold in Europe, the US, and China, while products made in China are solely sold within China or Asia.

The HTS business operates seven facilities in five countries. This business model revolves around customers sending their metal parts to Nitrex’s facilities for heat treatment. Apart from the furnaces themselves, the key components of the HTS supply chain include human capital to load the furnaces and the necessary energy and chemical inputs for the heat treatment processes.

With operations in nine countries, Nitrex acknowledges the challenge of addressing the risk of forced and child labour, particularly in regions with a higher risk profile. Ensuring ethical standards throughout the supply chain is a top priority, even at lower levels of suppliers. Nitrex’s supply chains involve multiple tiers of suppliers, contractors, subcontractors, and service providers who contribute raw materials, components, sub-assemblies, packaging, transportation, warehousing, and other services. Given the Company’s extensive supply chain, which includes over 2,500 first-level suppliers, implementing a robust program to eradicate child and forced labour would necessitate substantial resources, time, and a comprehensive approach.

4. POLICIES AND DUE DILIGENCE PROCESSES

As part of our ongoing efforts to enhance diligence and mitigate risks associated with forced labour and child labour, the Company has initiated actions to further incorporate responsible business practices in its processes.

Policies

The Company has implemented a comprehensive health and safety manual that encompasses operational and safety procedures, as well as general safety rules within the work environment, including the provision for reporting emergency telephone numbers. Additionally, the Company’s rules of conduct address working hours, absences, and holidays, ensuring that employees can take reasonable time off. Finally, the Company’s training policy emphasizes the importance of the employees’ professional development for us and the importance of taking part in appropriate training every year.

We are currently developing a Human Rights Policy that explicitly prohibits human rights abuses. The policy will explain our approach with respect to forced and child labour and will promote practices in compliance with well established human rights standards. We are also contemplating the establishment of a Supplier Code of Conduct to outline our expectations for ethical standards, and we are exploring mechanisms to assess supplier compliance.

We are working on a grievance mechanism to allow our workforce and business partners report any concerns or complaints, including those related to child or forced labour in our organization or supply chain. The mechanism will be confidential and impartial, and will provide for timely investigation and responses.

Recruitment Process

Nitrex follows a rigorous recruitment process led internally. We take proactive steps such as posting ads in local jurisdictions and engaging recruiting firms to fill open positions. This approach enables us to attract potential candidates from the local labour market while ensuring transparency in the recruitment process.

In terms of internal controls, we implement a procedure to confirm that no employees have taken a role against their will. This is done by requesting each subsidiary of the Company to explicitly represent that all employees have willingly chosen their positions. By obtaining this confirmation, we aim to detect and address any instances of forced labour or coercion within its workforce.

Additionally, we maintain a consolidated listing of employees, which is compiled with input from local human resources administrators. This central database serves as a means of tracking and monitoring the Company's workforce. Through this listing, we can cross-reference employee data and ensure that there are no individuals under the age of 18 employed based on the information provided by the employees themselves.

Overall, these measures demonstrate our commitment to gathering information on worker recruitment and establishing internal controls that promote voluntary recruitment, prevent forced labour, and reduce the risk of child labour within our operations. By taking these steps, we aim to maintain an ethical and responsible approach to workforce management.

5. RISK ASSESSMENT & REMEDIATION MEASURES

Nitrex is dedicated to conducting a comprehensive analysis of the locations where we conduct business. We prioritize understanding the legal, regulatory, and political environments of these countries, as well as those in close proximity. Through this diligent analysis, we gain valuable insights allowing us to identify the specific locations and levels within our supply chain where potential risks of forced labour or child labour may exist. While we have made significant progress in identifying and assessing these risks, we acknowledge that there may still be areas where our assessments are ongoing or require further attention. There is a likelihood that the raw materials, such as ore and components, used in our products may have been manufactured or assembled in countries where labour practices do not meet international standards. We acknowledge that even though our operations are based in developed nations with strong legal frameworks, the extended reach of our supply chains necessitates a thorough assessment and mitigation of risks related to forced labour and child labour. We also lack visibility on tier two and tier three suppliers, as well as supplier further down the supply chain. We strive to gain visibility into their practices to ensure that they align with our commitment to preventing forced labour and child labour.

Our current approach to mitigate the risks attached to our lack of visibility on our indirect suppliers is to seek long-lasting relationships with well-established and renowned direct suppliers of the industry, and to ensure open and constant communication with them. As we further assess our risks and implement policies and practices increasing visibility, compliance and accountability, we will continue improving our risk management processes and increase our ability preventing or reducing any human rights concerns throughout our supply chain.

To date, we have not been made aware of specific instances of forced labour or child labour and as such, no remediation measures were necessary to remediate any forced labour or child labour or to remediate any loss of income to vulnerable families resulting from any such measures.

With our strong commitment to conduct business with integrity and fairness, any allegations, disclosures or discoveries of forced labour or work involving children in supply chains in contravention of Canadian laws will be taken very seriously by Nitrex and we will ensure that an investigation is conducted in a timely manner.

6. ASSESSING THE EFFECTIVENESS OF OUR APPROACH

We continue working on our efforts to identify, assess, and address forced labour and child labour risks within our operations and supply chain, by completing audits of our suppliers located in China and other suppliers more risky regions. We are also in the process of adopting measures that will reflect our commitment to upholding human rights and maintaining a responsible and ethical supply chain. Once those measures will be fully implemented, we will strive to closely oversee their application and to regularly measure their effectiveness. We will also consider any potential improvements with the goal of continuously strengthening our actions.

7. APPROVAL AND ATTESTATION

This report was approved by the Board of Directors of Nitrex Development Corporation Inc. on May 30, 2024 pursuant to paragraph 11(4)(a) of the Act and constitutes the report for the financial year ending August 31, 2023.

In accordance with the requirements of the Act, and in particular section 11 thereof, I attest that I have reviewed the information contained in the report for the Company. Based on my knowledge, and having exercised reasonable diligence, I attest that the information in the report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year indicated above.

I have the authority to bind Nitrex Development Corporation Inc.

(Signed) Adam Cappabianca

Full name: Adam Cappabianca

Title: Director

Date: May 30, 2024