

CAP AMERICA®



BRINGING QUALITY HEADWEAR TO THE WORLD

Forced Labour and Child Labour in Supply Chains Report

Fiscal Year 2023

1. ABOUT THIS REPORT

This report relates to the financial year ending December 31, 2023. It is published by Cap America, Inc. (the “**Company**”) in compliance with Canada’s *Fighting Against Forced Labour and Child Labour in Supply Chains Act* (the “**Act**”).

This report highlights the key activities the Company has undertaken during the last financial year to prevent and reduce the risk that forced labour or child labour be used at any step of the production of goods in Canada or elsewhere by the Company or of goods imported into Canada by the Company.

References in this report to “Cap America”, “we”, “our” and similar terms are to the Company.

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

Cap America strives to be a leader within our industry and our community. From investing in local educational programs to reducing our carbon footprint, Cap America works to make a difference at the local, national, and global levels.

We believe it is in our interest to conduct our business in an honest and honorable fashion in order to create a sustainable work environment for the future of our workers and the Company.

In line with our commitment to ethical employment practices, we are committed to respecting human rights in everything we do and we have a zero-tolerance approach to forced labour and child labour.

During our last financial year, we have taken various steps to prevent and reduce the risk that forced labour or child labour be used in our activities and supply chains, including the following:

- We have mapped our organization’s cotton supply chain and verified high risk areas with isotope testing.

- We initiated an internal risk assessment of forced labour and child labour in our organization's activities and supply chain based on the information and resources provided by the American Apparel & Footwear Association ("AAFA") to make informed decisions.
- We only worked with Tier 1 suppliers who had recently been audited by reputable third party auditors and ensured none of our suppliers transact business with Xinjiang Production and Construction Corps ("XPCC").
- We implemented our Code of Conduct throughout our supply chain by requiring all our Tier 1 suppliers to sign it and included a contractual clause to our purchase orders which provides that by accepting the purchase order, the supplier agrees to comply with our Code of Conduct.
- We continued monitoring our suppliers in China and Vietnam through our Shanghai office.

Details of the above actions are set out in this report.

3. ABOUT US & OUR SUPPLY CHAIN

Cap America is a privately held manufacturing and wholesale company based in Fredericktown in the state of Missouri in the United States.

We sell headwear exclusively to distributors of promotional products and advertising specialties. Our blank caps and knits are delivered to our Missouri facility which we then decorate with embroidery or patches based on our clients' custom orders and then import them into Canada, among other countries, for sale. We generally source our blank garments from third party manufacturers based in Asia, including China, Vietnam, Bangladesh, and Myanmar. Since cotton is traded as a commodity, achieving full traceability to farm level can be difficult, especially when a farm's output changes every season dependent various factors such as climate, yield, staple length, colour, quality, etc. Nonetheless, we have been able to confirm through isotope testing on selected cotton samples that the cotton used by our higher risk manufacturers does not originate from the Xinjiang region in China.

4. POLICIES AND DUE DILIGENCE PROCESSES

As we continue to strengthen our processes to reduce risks related to forced and child labour, our policies and due diligence practices are aligned with the risks involved in our activities, our supply chains and our business relationships in a manner conducive to responsible conduct.

4.1 Our Code of Conduct

Our Code of Conduct is the foundation of our human rights risk management approach. It sets out the values and principles that guide our relationship with our suppliers, their subcontractors, and their workers.

Notably, the Code of Conduct provides for:

- A prohibition from engaging in any form of forced labour and child labour requiring suppliers to obtain and keep on record documentation to legally prove the date of birth of their workers.

- The obligation to operate in full compliance with the laws, rules and regulations of the countries of operation.
- The protection of workers' rights, freedom of association, and a safe and healthy working environment.

During the last financial year, we implemented our Code of Conduct throughout our supply chain by requiring all our Tier 1 suppliers to sign it. We also developed a contractual clause in our purchase orders which provides that by accepting the purchase order, the supplier agrees to comply with our Code of Conduct, violations of which may be grounds for the nullification of the purchase order. The code also adds that Cap America may, at its sole discretion, terminate business with any vendor upon a reasonable belief that the vendor uses or promotes the use of forced, convict, or child labour.

4.2 Due Diligence Processes

The informal internal risk assessment we conducted on a preliminary basis allowed us to monitor current and prospective Tier 1 suppliers as well as to identify, assess and mitigate any adverse impacts in our operations, supply chains and business relationships.

When initiating collaboration with Tier 1 suppliers, we ensure transparency and accountability by requesting that they provide information on the latest audit conducted at their facilities and that they agree to be bound by our Code of Conduct. To meet our standards, the audits of our suppliers must have been conducted by reputable third-party auditors such as Worldwide Responsible Accredited Production ("WRAP") association and the Sedex Members Ethical Trade Audit ("SMETA") association of accredited auditors. These audits confirm, among other things, that the workers employed in our Tier 1 supplier's factories were recruited voluntarily. We then collaborate with the factories to ensure corrective action plans and any remediation measures are taken based on the audit recommendations, and we communicate with them on how impacts can be addressed. We track suppliers' compliance with our Code of Conduct and social audit recommendations through periodic site visits conducted by our head office or Shanghai office. Together, these steps allow us to embed responsible business conduct into our organisation and to track implementation and results, as required.

We have no tolerance for suppliers transacting business with high-risk partners, such as the XPCC which has been placed on the U.S. Department of Treasury's Office of Foreign Assets Control's Specially Designated Nationals List. Our suppliers are required to fill out and sign a questionnaire to confirm that XPCC is not among their business partners. In addition, our Tier 1 and Tier 2 suppliers were vetted by legal counsel to ensure they had no affiliation with XPCC and they do not figure on United States or European Union sanctions lists.

When faced with signs of human rights abuses, we seek to mitigate and cease any negative impact by engaging with our suppliers to remediate the issue, as is further explained below.

5. RISK ASSESSMENT

In the context of our internal risk assessment, we have identified certain parts of our activities and supply chains which carry risks of forced labour and child labour using the List of Goods Produced by Child Labour or Forced Labour list published by the Bureau of International Labour Affairs.

The risks identified are primarily related to the types of goods we produce, sell, distribute and import, the locations of our activities and operations, the type of product we source, the use of migrant labour, and the raw materials or commodities used in our supply chains. We also understand that the risk of forced labour and child labour in the textile supply chain exists and that textile supply chains that extend into certain foreign countries potentially face greater risk of forced labour and child labour.

Although we have strong oversight on our Tier 1 manufacturers, we recognize that they are located in areas where there may be higher prevalence of labour rights abuses. We also acknowledge that our suppliers have their own value chains that may extend into high-risk countries and on which we have limited visibility. To mitigate the risks associated with suppliers further upstream in the production chain, we have mapped our supply chains and verified high risk areas with isotope testing. We require our suppliers to provide shipping records and invoicing from the farm to the end product to show traceability and for the higher risk manufacturers, we have started using isotope testing. The testing conducted confirms that the cotton we use is not from the Xinjiang region in China.

Cap America believes that human rights risk assessments play a vital role in promoting ethical sourcing, cultivating sustainable supply chains, and demonstrating responsible due diligence, which ultimately safeguards our business interests and reinforces our commitment to ethical practices. Cap America continues to prioritize understanding human rights risks within our supply chain, with a focus on forced labour and child labour, and will continue to strive to identify emerging risks.

6. ACTING ON IDENTIFIED RISKS & IMPACTS

Together with partners, we engage in programmes, industry initiatives and activities to address identified risks and impacts. Our initiatives to remediate any forced labour or child labour include engaging with the Workers Right Consortium as a representative for the workers who are at risk of forced labour and child labour in our supplier's factories.

During our last financial year, we were made aware of a situation in one of our Myanmar factories, where unpaid overtime claims were filed. As a result, we have taken substantial remediation measures by starting to work with the Workers Right Consortium and other brands to remediate alleged unpaid work and will continue to identify and address any gaps in our response. We are monitoring this situation closely and will consider any reasonable action to remediate human rights risks in this factory.

7. TRAINING AND CAPABILITY BUILDING

Our AAFA membership allows our workforce to increase its level of understanding of the risks of forced labour and child labour in our business and supply chains.

As members of the AAFA, our compliance team keeps abreast of best practices to decrease the risks of forced labour and child labour in our supply chain by regularly attending AAFA seminars, webinars and conferences addressing critical industry supply chain issues. We routinely use AAFA information and resources to assess and monitor our Tier 1 suppliers' social compliance. We have implemented their CSR Guidance on Assessing Prospective New Supplier social compliance through various measures, Commitment to Responsible Recruitment of employees, and Eradicating Forced Labour policies in our management processes.

Most importantly, our compliance team participates in a biweekly social responsibility consultation with the AAFA Senior vice president of Policy.

8. ASSESSING THE EFFECTIVENESS OF OUR APPROACH

Ensuring that forced labour and child labour practices are not taking place in our business and supply chains is and will always be a work in progress. In order to assess the effectiveness of the measures we have taken to reduce human rights risks, we conduct regular review and audit of our policies and procedures related to forced labour and child labour to ensure their scope and scale are proportionate to the human right risks our organization and supply chain may face.

9. LOOKING AHEAD

As we are committed to further strengthening our efforts in combating human rights abuses, we will continue expanding our cotton isotope testing and we intend to undertake a thorough risk assessment of our supply chains conducted by a recognized provider of inspection and certification services.

This report was approved by the Board of Directors of the Company on April 24, 2024 pursuant to paragraph 11(4)(a) of the Act and constitutes our report for the financial year ending December 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 entity listed above. 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 Cap America, Inc.

A handwritten signature in black ink that reads "MARK D. GAMMON". The signature is written in a cursive style with a large initial "M" and "G".

Full name: Mark Gammon

Title: CEO

Date: April 24, 2024