




2024 Supply Chain Risk Assessment Report

Canada Bill S-211: Fighting Against Forced Labour and Child Labour in Supply Chains Act

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Approval & Attestation

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 or entities 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 listed above.



Darrin Noble
President and Chief Operating Officer

May 30, 2024

I, Darrin Noble, have the authority to bind Cloverdale Paint Inc.

Executive Summary

Internal policies, documents, and supplier lists were reviewed to assess the risks of forced labour, child labour, and modern slavery in Cloverdale Paint's supply chain. Policies and procedures for the hiring of CPI employees are centralized and these documents and processes were reviewed.

Evaluation of supply chain, considering criteria such as supplier type (direct/distribution), regions of operation, ESG programs, signed codes of conduct to Cloverdale Paint, and participation in third-party assessments for forced labour, child labour, and modern slavery, yielded the following risk categories.

- 72% of suppliers were classified as "low risk"
- 18% of suppliers were classified as "moderate risk"
- 10% of suppliers were classified as "elevated risk"

Risk mitigation actions, which are already underway, include Cloverdale-issued third-party audits through our partnership with QIMA as well as targeted questionnaires. To-date, no cases of noncompliance have been found. In the event of noncompliance, Cloverdale Paint will take remediation actions as required on a case-specific basis.

Scope & Accessibility

This report, as prepared for the Canada Bill S-211 submission deadline of May 31st, 2024, covers Cloverdale Paint Inc's (BIN# 101016921, CPI herein) supply chain operations as a single entity for the 2023 fiscal year (Jan. 1st, 2023, to Dec. 31st, 2023). CPI does not operate in any additional jurisdiction and that may result in an overlap of reporting requirements.

This report covers CPI's internal and supply chain activities in the context of CPI's activities as a manufacturer, distributor/reseller, and importer of paints and coatings. CPI maintains its head office location at 400-2630 Croydon Drive Surrey, BC, V3Z 6T3, with manufacturing and branch operations in BC, AB, SK, MB, ON, and QC.

Published versions of the report are made available to the public on CPI's website www.cloverdalepaint.com, and issued to shareholders as required by the Canada Business Corporates Act.

Section 2

Documented Information & Verification

2.1 General

CPI's general supporting documentation outlining stance, reporting, and remediation is available through

- The company website (www.cloverdalepaint.com)
- CPI's *Code of Ethics and Business Conduct* – this guiding document has been developed by CPI and issued to all staff as internal training for employees at all levels

2.2 Internal Hiring Practices

As part of its commitment to ethical hiring practices, CPI documents and maintains policies and procedures for the hiring of employees. Hiring practices are centralized through CPI's Human Resources department, conducted in accordance with employment standards, and is subject to a high level of oversight.

2.3 Procurement & Supply Chain

Mitigating risks associated with forced labour, child labour, and modern slavery are considerations in developing CPI’s sustainable supply chain. Procurement assesses these risks through the following documents:

- Supplier Code of Conduct – Signed upon partnership with suppliers
- Sustainable Procurement Policy – Required training for purchasers on identifying risks, remediation procedures, and reporting pathways

2.4 Third-Party Verification

CPI participates in the following third-party verification activities to monitor implementation and effectiveness of its internal practices:

- EcoVadis – annual EcoVadis assessments in partnership with our customers directly assesses CPI’s systems in the prevention of forced and child labour
- ISO 9001:2015 – annual surveillance audits, although not directly targeting forced and child labour, assess hiring and training practices. In the event of legal noncompliance, major conformities are noted.

Section 3

3.1 Supply Chain Map

Figure 1 outlines CPI’s supply chain mapping by region used as the basis for supply chain risk assessment. Percentages are expressed as percentage by region of total supplier base, ordered from greatest to least.

Region groupings are classified by regions in which a supplier has operations and are not necessarily restricted to where raw materials are purchased from the supplier, especially in the case of distributors who often sell domestically but source internationally

For the purposes of this exercise, “International” (Int’l) and/or “Multinational” designations are assigned to suppliers operating in multiple regions not simplistically identifiable at a high level.

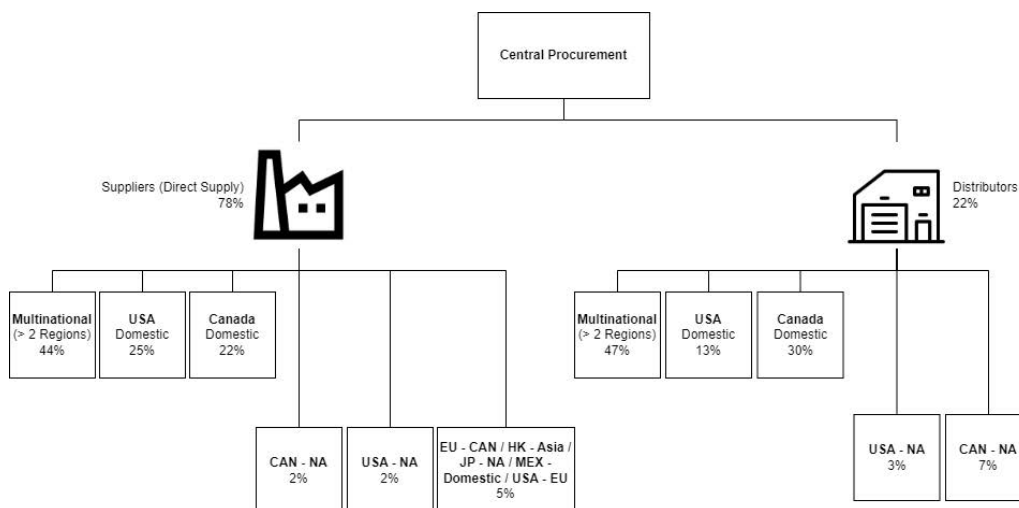


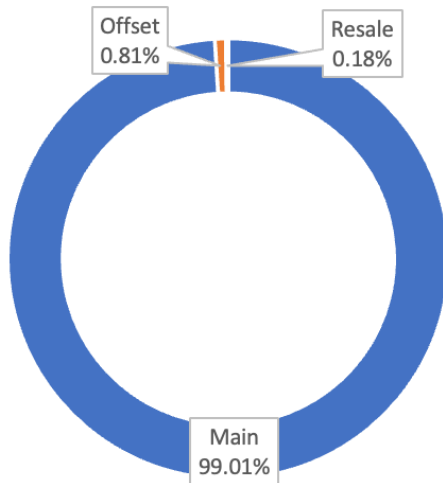
Figure 1: CPI supply chain map by region expressed as a percentage of total supplier base by count

3.2 Preliminary Risk Assessment

A preliminary risk assessment was performed on relevant suppliers (suppliers who provided > 0.01% of total volume in 2023); 99.9% of suppliers were scrutinized.

Risks were assessed based on review of available supplier documentation and signed conduct/contractual documentation. The figures shown below form the basis for quantitative risk scoring in section 3.3.

Table 1: Preliminary risk assessment of supplier base

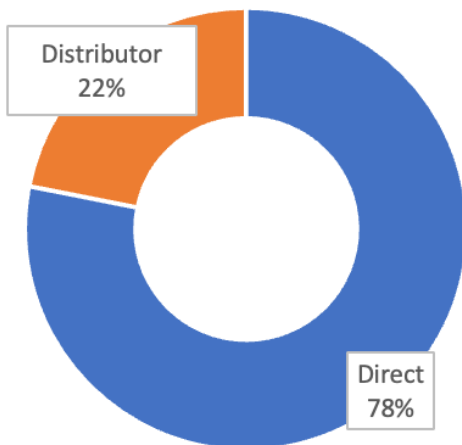


Main vs. Offset vs. Resale Suppliers

Main suppliers are considered CPI’s core supply base. Longstanding relationships results in better knowledge of their operations and less risk.

Resale suppliers are also considered part of CPI’s core supply and are a similarly low risk.

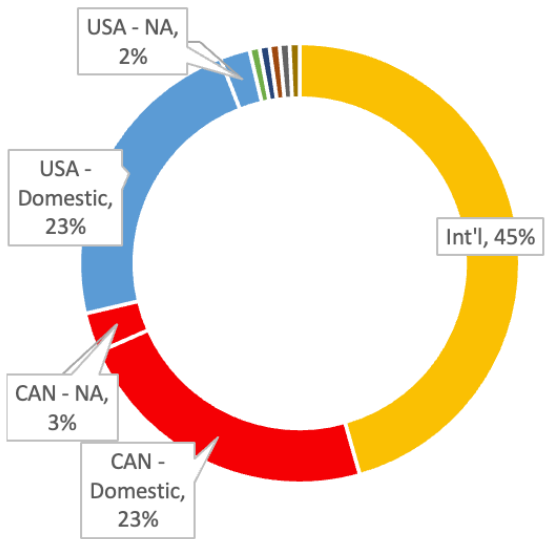
Offset suppliers, although vetted, are suppliers used in the event of supply chain challenges. Less traceability and knowledge of their operations contributes to overall risk.



Direct Suppliers vs. Distributors

Direct suppliers are manufacturers that supply directly to CPI’s operations. Direct supply presents greater traceability through supplier tiers, as well as greater visibility through the supply chain.

Distributors, acting as third-party supply brokers, introduce risk through additional operations and greater potential variability in sourcing.



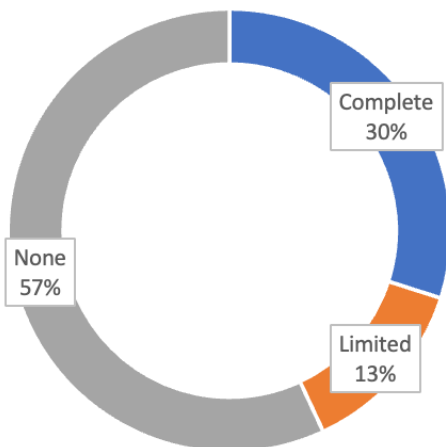
Operational Scope

With reference to the Victims of Trafficking and Violence Protection Act of 2000 (TVPA) rankings, suppliers were categorized based on their operational scope.

Suppliers with international operations provide greater variability and risk in supply chain. 45% of CPI's total supply chain is from international suppliers, however 89% of suppliers with international scope originate from TVPA Tier 1 countries/regions.

Suppliers with North American operations supply from TVPA Tier 1 regions, and make up 51%, presenting greater supply chain transparency and less overall risk.

The lesser portion of the supplier base, accounting for ~5% total, consists of variable risk regions outlined in *figure 1*.

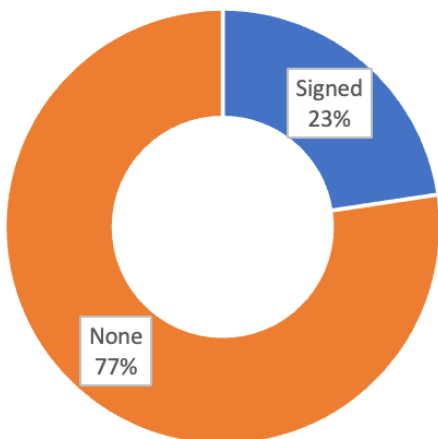


Presence of an Environmental, Social, Governance (ESG) Program

The presence of ESG programs denouncing child labour, forced labour, and modern slavery were accounted for as risk mitigation credits, whether completed by an organization directly or by a partner/parent organization.

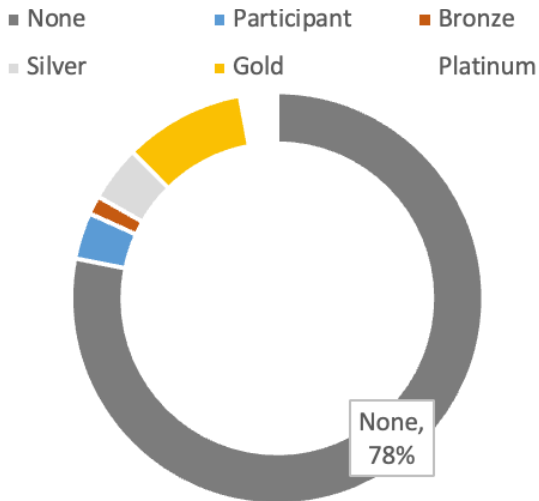
“Complete” programs are often third-party verified and refer to complete and posted annual reports

“Limited” programs refer to advertised statements denouncing the use of child or forced labour.



Supplier Code of Conduct

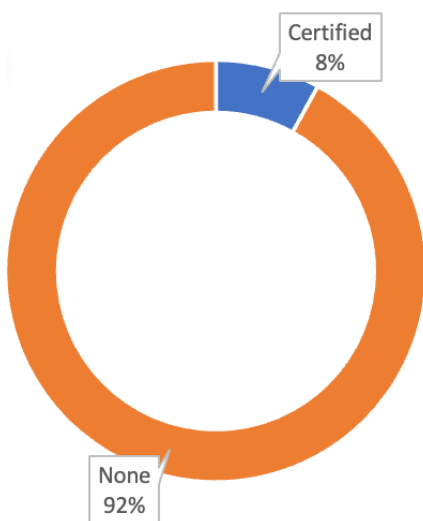
Supplier codes of conduct are presented to suppliers for signing and are accounted for as risk mitigation credits in this assessment. It is worth noting that many suppliers have a policy to refer to their documented ESG program details rather than choosing to sign customer-specific Supplier Code of Conduct agreements.



Participation in EcoVadis

Participation and ratings in EcoVadis were factored into this assessment as risk mitigation credits.

EcoVadis assessments place strong weighting towards labour & human rights, and moderate weighting on supply chain traceability.



Other Relevant Certifications or Independent Review

Other third-party evaluation certifications relevant to forced/child labour, such as Sustainalytics, were also considered in this assessment as risk mitigation credits in conjunction with EcoVadis.

3.3 Evaluation Criteria

Considering Section 3.2, quantitative assessment criteria were assigned as shown in the table below. Organizations were rated/credited based on the criteria, with a higher rating correlating to greater risk in CPI's supply chain.

Table 2 below outlines criteria for issue of points and credits to suppliers.

- Points issued based on supplier operations correlate to greater potential risk
- Credits awarded for risk mitigation activities count towards reduction in potential risk

Table 2: CPI supply chain risk rating index

CATEGORY	CRITERIA	POINTS	CREDITS
Base Risk Factor by Annual Purchase Volume	1 + Normalized Purchase Quantity Applied to all suppliers Minimum points of 1 (small supplier) Maximum points of 2 (large supplier)	1 - 2	
Supplier Line	Main / Resale – Part of CPI’s core supply chain, as outlined in Table 1 Offset	1	
Supplier Type	Direct Supplier Distributor – Third-Party Certified Distributor – Uncertified	1	
Operational Scope	NA / Other TVPA Tier 1 Regions TVPA Tier 2 Regions Multinational / TVPA Tier 3 Regions	1 2	
ESG Program	Complete Complete – Parent / Partner Limited None	0.5 1	1 1
Supplier Code of Conduct	Signed None		1
CPI-Issued Third-Party Audit	Significant nonconformances Absence of risks		1
CREDIT FOR ONE OF THE FOLLOWING CATEGORIES LISTED BELOW			
EcoVadis Participation	Platinum Gold Silver Bronze Participant (No Medal) None		2 1.5 1 0.5 0.25
Other Relevant Certification	Certified None		1

3.4 Primary Assessment | Quantitative Scoring

Utilizing the supplier base from section 3.2 (suppliers who provided > 0.01% of total volume in 2023), the rating criteria from the prior section was applied, returning the following values.

- Average risk rating: 2.08
- Standard deviation, σ : 1.27
- Maximum risk rating: 5.52
- Minimum risk rating: -1.92

From this distribution, a secondary assessment threshold rating of 3 was placed, indicating higher impact and higher risk categorization. Accounting for approximately 29% of the total supplier base, suppliers with a rating greater than or equal to 3 were selected for secondary qualitative assessment.

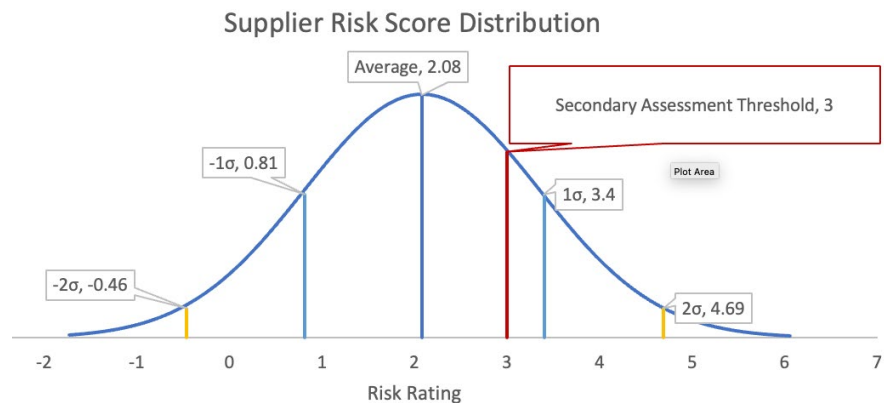


Figure 2: Normal distribution of supplier risk ratings based on criteria in the preceding section, with labelled average rating and standard deviation thresholds, as well as an arbitrary secondary assessment threshold.

3.5 Secondary Assessment | Qualitative Flags

Suppliers scoring at or above 3 were selected for secondary review of documented information and qualitative assessment.

As an added layer of precaution, the Procurement group was consulted to provide any additional information of other potential risks, regardless of rating. Qualitative flags were assigned into one of the three categories listed below for further action:

- Eligible for questionnaire
- Eligible for third-party audit
- Eligible for third-party audit pending questionnaire results

Suppliers flagged for secondary assessment primarily lacked publicly available information, with a lesser quantity being located in higher-risk regions. The approximate risk breakdown of the entire supplier base is as follows:

- 72% of suppliers, scoring below the secondary assessment threshold, were classified as “low risk”
- 18% of suppliers, scoring above the secondary assessment threshold, were classified as “moderate risk.”
 - » 11% of these suppliers have already been audited.
 - » 8% have been recommended for audit.
 - » 12% have been recommended for a targeted questionnaire with the potential for audit.
 - » 69% have been recommended for a targeted questionnaire.
- 10% of suppliers, scoring above the 3rd quartile, were classified as “elevated risk.”
 - » 50% of these suppliers have been recommended for audit.
 - » 10% have been recommended for a targeted questionnaire with the potential for audit.
 - » 40% have been recommended for a targeted questionnaire.

Section 4

Risk Mitigation, Corrective Action, & Remediation

4.1 Risk Mitigation

Risk assessment in the supply chain occurs regularly, with an annual review performed at minimum. Mitigation of risks associated with forced and child labour include, but may not be limited to:

- Partnership with QIMA to perform ethical audits of high-risk suppliers, especially in TVPA tier 3 regions
 - » Alternative equivalent third-party audit reports (BSCI, SMETA, etc.) are also reviewed and considered.
 - » High risk, flagged suppliers have already been audited or are being scheduled for audits.
- Targeted questionnaires are issued to moderate-to-high risk suppliers to establish better supply chain transparency.
- Regular review of the results and effectiveness of these measures is performed as part of CPI's sustainability/ESG program, with external review performed by EcoVadis.

4.2 Corrective Action

In the event of nonconformance or noncompliance, the following actions are taken:

- Suppliers
 - » Major nonconformances require corrective actions and follow-up audits, as determined by our audit partner(s)
 - » Minor nonconformances require corrective actions for follow-up at the next scheduled audit, or as determined necessary by CPI
 - » Major noncompliance will require immediate action and remediation
- Internal
 - » Major nonconformances (none to date) require immediate corrective action.
 - » Minor nonconformances require corrective actions to be built into work plans for future assessments.
 - » Major noncompliance will require immediate action and remediation.

4.3 Remediation

To date, no cases of forced labour, child labour, or loss of income to families resulting in measures taken to eliminate the use of forced or child labour, have occurred. In the event cases are identified, CPI will take remediation actions on a case-dependent basis.