

FUNCTIONALABGROUP

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 Functionalab Group inc. (the "**Company**") in compliance with the *Fighting Against Forced Labour and Child Labour in Supply Chains Act* (the "**Act**").

References in this report to "Functionalab", "Company", "we", "our" and similar terms are to Functionalab Group inc..

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

We highly value the importance of upholding human rights and consider it a core responsibility of our business. We hold our business partners to the same standard, placing emphasis on relationships built on trust, integrity, and ethical practices. Although no specific measures or policies were in place as of December 31, 2023 to address the risk of forced labour and child labour in our operations and supply chains, Functionalab is committed to taking tangible steps to combat these issues. In 2024, we have implemented or plan to implement the following actions to prevent and mitigate the occurrence of forced labour and child labour in our activities and supply chains:

- We began the process of requesting from our suppliers certificates of compliance as well as information on the policies and measures implemented by these suppliers to combat forced labour and child labour in the context of the Act coming into force.
- We are in the process of developing a supplier code of conduct to be implemented before the end of 2024.
- We intend to review our policies and practices more generally to put more emphasis on our commitment to prevent human rights issues in our activities and supply chain, while favouring an approach that will be proportional to our level of risk that we consider to be relatively low.

These actions are more fully described in this report.

3. ABOUT US & OUR SUPPLY CHAIN

About Us

Functionalab takes a holistic approach to beauty, providing a full range of professional care and combining two business divisions: our product division develops and distributes cosmetic brands, while our clinical division regroups a network of medical aesthetic clinics with retail space for the sale of professional skincare brands.

We adhere to strict quality control guidelines of Health Canada for cosmetics regulations.

Our high-quality formulas are dermatologist developed to be used in conjunction with aesthetic medicine treatments, and they are free of unnecessary ingredients or harmful chemicals such as parabens, silicones, colourants and artificial fragrances, and we never test on animals.

Our Supply Chain

Our supply chain encompasses a network of suppliers and stakeholders involved in each step, from initial purchases to the delivery of the final product or service. While our clinical division does not import goods as part of its activities, our product division sources its products from various international locations.

Product Division:

The marketing and sales department collaborates closely with our research and development team to design and develop innovative cosmetic products. We create a range of professional skincare, backed by scientific research and developed by our scientific team, we procure the active ingredients in compliance with American and Canadian laws and regulations from various suppliers in Canada, the United States, Western Europe and South and East Asia.

In parallel, the relevant departments request the operations department to identify and test appropriate packaging components (bottles, tubes, jars). Approximately 20% of our packaging are of Canadian origin, while 80% of the components are supplied by partners located on all continents, primarily in Asia (China, South Korea), Europe (Italy), and America. We recognize that our suppliers in Asia are at higher risk of labour rights abuses. Therefore, we select suppliers with a solid track record and good international reputation. When publicly available, we verify who their clients are (by asking questions or searching their website) and prefer to work with a limited number of partners, many of whom we have been collaborating with for decades.

Upon receipt of the components, our operations department coordinates production and packaging planning with our manufacturers based in Canada. The manufacturers adhere to labour standards issued by our various levels of government. The finished product is then delivered to our warehouse and distributed to our clinics and our clients across Canada.

4. POLICIES AND DUE DILIGENCE PROCESSES

In the context of the Act coming into force, we have been working towards the integration of responsible business conduct into our policies and management systems specifically by extending the protection and promotion of labour rights to our supply chain. This commitment reflects our dedication to upholding the principles of social responsibility and contributing to the advancement of workers' rights in the broader business landscape.

4.1 Our Policies

Supplier Code of Conduct

To fulfil such commitment, we have been developing a supplier code of conduct that will address the following topics, among others:

- Prohibition of child labour and compliance with labour laws for underage workers.
- Interdiction for suppliers to participate in or benefit from any form of human trafficking or forced labour, including coercive practices and mandatory overtime.
- Promotion of respect towards employees and prohibition of harassment or misconduct of any kind.
- Adherence to legal working hour regulations, ensuring workers' rights to rest periods and preventing excessive work hours, with exceptions only in rare circumstances.

We expect our supplier code of conduct to become effective before the end of 2024.

Code of Ethics

Our Code of ethics sets out our values: we care about our people, we innovate to achieve, we dare to be different, and we empower to elevate. It provides a roadmap for individuals within our organisation to make decisions that uphold the highest standards of integrity, professionalism, and ethical behaviour.

Functionalab adheres to equity, fairness and respect in employment. We do not tolerate violence, harassment, or any abusive behaviour and actively promote diversity and inclusion. We honor the dignity and individuality of every employee and ensure all actions comply with the law, seeking advice when needed to provide truthful and complete information.

Anti-Harassment Policy

Functionalab is committed to preventing and addressing workplace harassment effectively whenever it arises. We pledge full support to any affected individual and believe that every employee plays a role in fostering a harassment-free workplace. As

such, we have an anti-harassment policy which provides that workplace harassment may be punishable by disciplinary measures ranging from warnings to employee termination.

To ensure clarity and understanding, we have informative sessions for all staff members and ensure widespread distribution of our anti-harassment policy. Any complaints received prompt and confidential attention, prioritizing thorough investigation.

4.2 Our Due Diligence Processes

Our due diligence processes have been implemented after the end of our last financial year, when we initiated the process of requiring our suppliers to send us third party audit report results and the policies, they have in place to prevent forced and child labour risks. The fact that we streamlining and centralising our procurement activities will facilitate the implementation of our due diligence processes, the oversight of our suppliers and the assessment supply chain risks.

5. RISK ASSESSMENT AND REMEDIATION MEASURES

As part of our ongoing commitment to promote ethical practices among our suppliers, including with respect to the use of forced and child labour, we strive to acquire better visibility on our entire supply chain, which includes the sourcing of raw materials situated further down in our supply chain.

In 2024, we have initiated a summary assessment of the risks associated with forced labour and child labour in our supply chain and have determined that such risks may arise from the manufacturing of some of our components only, given that the production of finished products is carried out in Canada, and our laboratories and suppliers adhere to the labour standards established by Canadian laws. Human rights risk may also be more prevalent deeper into the lower tiers of our supply chain (our level 2 and level 3 suppliers) on which we do not have complete visibility or oversight. We intend to continue our risk assessment in 2024 and beyond.

That said, we have not been made aware of specific instances of forced labour or child labour and as such, no measures have been taken during the reporting period to remediate forced labour or child labour or loss of income in our activities and supply chain.

6. TRAINING

We currently offer training to our employees on our policies and codes during their onboarding but we do not offer training specifically dedicated to human rights issues. In 2024, we plan on providing our procurement team with a training on forced labour and child labour.

7. ASSESSING THE EFFECTIVENESS OF OUR APPROACH

We have started the process of implementing a number of measures to prevent and reduce the risk that forced labour or child labour is used in our activities and supply chains, and we plan on reviewing and updating these measures as well as any resulting policies regularly. While we have not yet taken any measures to assess the effectiveness of those actions.

In accordance with the requirements of the Act, and in particular section 11 thereof, this report was approved by the Board of Directors of the Company on May 30, 2024 pursuant to paragraph 11(4)(a) of the Act and constitutes the Company's report for the financial year ending December 31, 2023.

I have the authority to bind Functionalab Group inc.



Full name: Francis S. Maheu

Title: Co-CEO and member of the Board of Directors

Date: May 30th, 2024