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**Forced Labour and Child Labour in Supply Chains Company Assessment**



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## Executive Summary

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Forced labour can be found in every country and every sector. The International Labour Organization estimates that there are approximately 27.6 million victims of forced labour worldwide, including 17.3 million in the private economy. Forced labour and child labour risks occur primarily through the global supply chains of businesses. There is a risk that goods imported into and distributed in Canada were produced with forced labour or child labour. Entities and government institutions doing business in Canada have a responsibility to ensure that exploitative practices are addressed and eradicated from their supply chains.

In compliance with the *Fighting Against Forced Labour and Child Labour in Supply Chains Act*, FXR has been prioritizing the mitigation of forced labour and child labour through policies for a number of years. FXR has statements and policies in place that emphasize commitment to human rights and abiding by local and international legislation, while also recognizing the opportunity for continuous improvement. FXR's Ethical and Child Labour Policies, Employee Handbook, and everyday practices serve as a strong foundation as FXR looks to implement more anti-forced labour and anti-child labour measures. Robust supplier due diligence practices that require suppliers to sign and attest to FXR's Ethics and Child Labour Policies annually, along with periodic site inspections emphasize the commitment to a supply chain free of forced labour and child labour. As a growing, socially conscious, manufacturing company, FXR recognizes and is strongly committed to removing the risk of forced labour and child labour in FXR's operations and supply chains.

## Background

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The measures introduced through Bill S-211, *Fighting Against Forced Labour and Child Labour in Supply Chains Act* ("the Act"), aim to increase industry awareness and transparency and drive businesses to improve practices. There are eight mandatory reporting areas that must be investigated and reported on which include:

- The steps the entity has taken during its previous financial year to prevent and reduce the risk that forced labour or child labour is used at any step of the production of goods in Canada or elsewhere by the entity or of goods imported into Canada by the entity.
- Its structure, activities, and supply chains.
- Its policies and due diligence processes in relation to forced labour and child labour.
- The parts of its business and supply chains that carry a risk of forced labour or child labour being used and the steps it has taken to assess and manage that risk.
- Any measures taken to remediate any forced labour or child labour.
- Any measures taken to remediate the loss of income to the most vulnerable families that results from any measure taken to eliminate the use of forced labour or child labour in its activities and supply chains.

- The training provided to employees on forced labour and child labour.
- How the entity assesses its effectiveness in ensuring that forced labour and child labour are not being used in its business and supply chains.

The financial year for which FXR is reporting is May 1<sup>st</sup>, 2022, to April 30<sup>th</sup>, 2023. This is the first version of the report submitted. This is a joint report that includes the entities FXR Factory Racing Inc, Factory Racing Europe AB, FXR Racing Norway AS and FXR Racing USA Inc. which produce and/or sell goods.

## Business Structure, Activities & Supply Chain

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### Structure

FXR Factory Racing Inc. is a privately held company based in Manitoba that designs, produces, markets, sells, and distributes trending apparel and protective gear for the power sports industry in Canada, USA, and Europe. FXR was founded in 1996, and at the end of the 2022 fiscal year end, had 166 employees including 139 in Canada, 25 in the United States of America, and 2 in Sweden.

As per the Bill S-211 reporting requirements, FXR meets two out of the three compliance thresholds related to revenue in excess of 40 million Canadian Dollars and assets in excess of 20 million Canadian Dollars.

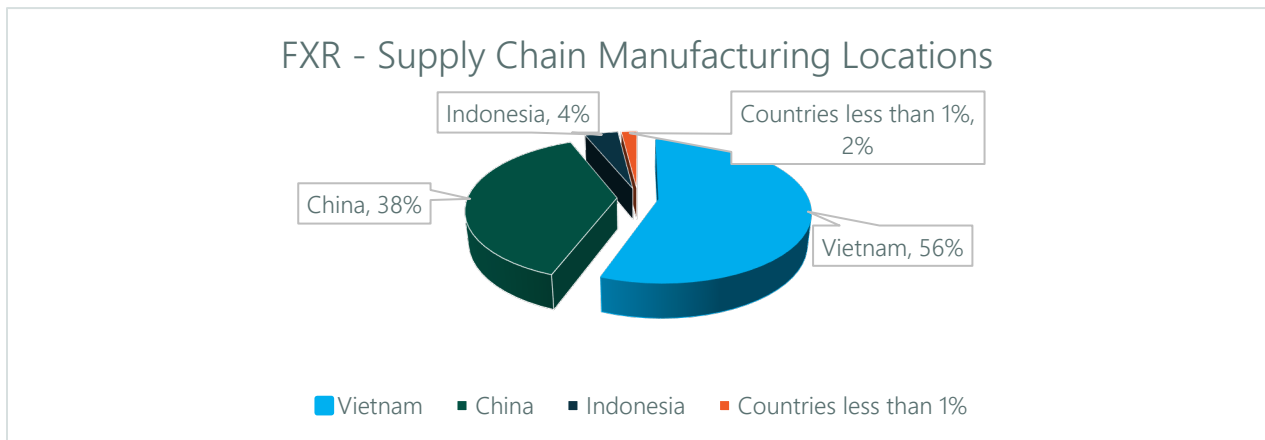
### Activities

FXR operates in the designing, manufacturing, marketing, and distributing of apparel and protective gear for the power sports industry. This is primarily for snowmobile and motocross sports in Canada, USA, and Europe. All products are designed in Canada and the US, then sent to FXR partners in South Korea or to agents in Asian countries which include Taiwan, China, Vietnam and Pakistan, where products are produced. The majority of FXR manufactured goods includes gloves, boots, jackets, pants, casual wear, helmets, goggles, outerwear, motocross gear, balaclavas, and beanies. These are distributed through power sports dealers, as well as through FXR's retail stores and website directly to customers across 48 countries with primary markets in Canada, USA, and Sweden.

### Supply Chain

The majority of FXR suppliers operate out of Asia with manufacturing predominantly done from Vietnam. Goods produced include trending apparel and protective gear for the power sports industry.

The figure below presents the makeup of FXR's supply chain manufacturing locations by country, exclusive of any country that makes up  $\leq 1\%$  of total spend. FXR has 27 direct suppliers from 7 countries, of which all are outside of Canada.



Suppliers that are less than 1% of FXR’s total supply chain spend and not included in the figure above are located in the following countries: Bangladesh, Pakistan, Poland, and United States.

## Due Diligence and Policies

### Due diligence

At FXR, our commitment to ethical sourcing extends beyond just our employees and encompasses our tier 1 supply chain. We understand the importance of upholding high standards of conduct and ensuring that no child or forced labour is involved in the production of FXR products. To enforce these principles, FXR has implemented stringent measures for our suppliers.

Each year, suppliers are required to sign **attestations** affirming their adherence to the FXR **ethics policy** and **child labour policy**. These documents serve as a formal commitment to uphold the values and standards outlined by FXR. By signing these attestations annually, suppliers demonstrate their ongoing dedication to ethical practices and their accountability in preventing any violations within their operations. The ethics policy specifically states that the suppliers are required to adhere to all applicable national laws and regulations, directives, and that all relevant industry minimum standards are diligently followed through their entire supply chain of products.

Furthermore, FXR’s supplier management process includes thorough **factory inspection visits**, both for new and existing suppliers. These inspections are conducted to verify compliance with not only FXR’s policies but also the relevant legislation of the country in which the supplier operates. The Factory Inspection Report serves as a comprehensive assessment tool, covering various critical aspects such as working conditions, safety protocols, employee age verification, and freedom of employment.

FXR has **Terms and Conditions** in place to outline the terms of sale, payment terms, delivery requirements, indemnification terms, and confidentiality. Vendors are required to sign this document before entering into a contract with FXR.

Through these meticulous inspections and documentation, FXR ensures that suppliers maintain ethical standards and provide safe and fair working environments for their employees. By holding both ourselves

and our suppliers accountable, FXR strives to create a supply chain that prioritizes integrity, transparency, and respect for human rights.

## Current policies

FXR has a strong commitment to preventing child and forced labour and has developed an **Employee Handbook** which is provided to all new employees to sign and serves as a cornerstone of FXR's commitment to fostering an environment that staunchly opposes any form of child or forced labour. It embodies FXR's dedication to upholding the highest ethical standards across every facet of operation. Within this document, FXR underscores our unwavering resolve to cultivate a workplace characterized by safety, respect, and integrity, not only for FXR employees but for every individual associated with FXR. Our commitment to the prevention of child labour is also evidenced by the fact that our youngest employee is of legal age and our policies stipulate that we are adherent to local legislation.

Throughout the handbook, specific sections illuminate FXR's proactive measures in creating a work environment that prioritizes the well-being and dignity of all stakeholders. FXR's **Code of Conduct** serves as a guiding compass, delineating the principles and values that underpin every action and decision made within our organization. It explicitly outlines FXR's commitment to compliance with all applicable laws, regulations, and rules, reaffirming our steadfast adherence to ethical conduct.

Moreover, the **Employee Concern Process** is emblematic of FXR's commitment to transparency and accountability. It provides employees with a structured mechanism to voice any concerns they may have regarding ethical or legal compliance, workplace safety, or any other issue of significance. By fostering an open and supportive culture where employees are encouraged to speak up without fear of reprisal, FXR empowers individuals to actively contribute to the preservation of our ethical standards and the enhancement of our work environment.

Furthermore, the **Work Environment** section underscores FXR's holistic approach to creating a workplace that is not only safe and conducive to productivity but also respectful and inclusive. By fostering a culture of mutual respect and understanding, FXR endeavors to create an environment where everyone feels valued, supported, and empowered to thrive.

In essence, the document provided to new employees encapsulates FXR's overarching commitment to ethical excellence and underscores our dedication to creating a workplace that exemplifies the highest standards of integrity, respect, and inclusivity. Through proactive measures, transparent processes, and a steadfast commitment to upholding ethical principles, we strive to ensure that FXR remains a beacon of ethical leadership in all aspects of its operations.

# Risk Identification & Management

## Countries of Operations and Risk

Using the *Walk Free Global Slavery Index* and the *U.S. Department of Labour List of Goods Produced by Child Labour or Forced Labour*, FXR had a risk assessment conducted on the countries where FXR operates from and found that there were low risks of forced labour or child labour in Canada, USA, and Sweden. This does not mean that no evidence of forced labour or child labour was found to support this risk analysis but that there is a low inherent risk and continued due diligence is required.

## Countries of Suppliers and Risk

Using the *Walk Free Global Slavery Index*, FXR had a risk assessment conducted on the countries of origin for our suppliers and found that there were inherent extreme risks of forced labour or child labour in Vietnam, China, Indonesia, Bangladesh, and Pakistan, and inherent low risks of forced labour or child labour in the USA and Poland. This does not mean that evidence of forced labour or child labour was found to support this risk analysis but that there is an increased inherent risk which necessitates scrutiny by FXR to ensure those risks do not exist within FXR's supply chain.

Country	# Suppliers locations	Inherent Risk per Country
Bangladesh	1	Extreme
China	20	Extreme
Indonesia	1	Extreme
Pakistan	1	Extreme
Vietnam	2	Extreme
Poland	1	Low
United States of America	1	Low

## Type of Goods Procured and Risk

Using the *Walk Free Global Slavery Index*, FXR conducted a risk assessment on the types of goods purchased from our suppliers. FXR found that 5 suppliers make up 80% of FXR's total spend for the 2022-23 fiscal year. The goods identified include helmets, jackets, boots, goggles, hoodies, gloves and other similar products. The risk analysis found low, high, and extreme inherent risks for forced labour and child labour from the raw materials of these goods. This does not mean that evidence of forced labour or child labour was found to support this risk analysis but that there is an increased inherent risk which necessitates closer scrutiny by FXR to ensure those risks do not flow through to the goods procured.

Goods	Inherent Risk per Good	Country	Inherent Risk per Country	Overall Risk
<b>Accessories</b> (e.g., Helmets, Goggles, Snow slider, Tie Down Straps)	Low	China	Extreme	High
<b>Accessories</b> (e.g., Goggle lens Tear-offs)	Low	United States of America	Low	Low
<b>Electronics</b> (e.g., Snow Probe, displays, batteries)	Extreme	China	Extreme	Extreme
<b>Garments</b> (e.g., Outerwear, Motocross gear, Casual wear, hoodies, lightweight jackets and pants, beanies, knit mitts, socks)	Extreme	Vietnam, China, Bangladesh	Extreme	Extreme
<b>Gloves</b> (e.g., MX Gloves)	High	Indonesia, Vietnam	Extreme	High
<b>Leather Goods/Accessories</b> (e.g., Boots, Leather gloves, collars, and leashes)	High	China, Pakistan	Extreme	High
<b>Leather Goods/Accessories</b> (e.g., Boots)	High	Poland	Low	Low

## Remediation: Forced & child labour & vulnerable family income loss

FXR is in the ongoing process of understanding and evaluating its supply chain related to the risk of child labour and forced labour. At FXR we are committed to identifying human rights incidents and violations that occur within our operations and communities. To date, FXR has not identified instances of the use of child labour or forced labour within its operations or those of its suppliers. FXR recognizes the significant impact forced and child labour can have on individuals and their families and thus will continue the review of procurement practices to enhance the rigor of its due diligence processes. This includes raising awareness with suppliers to ensure that FXR’s supply chain is free of unethical practices while holding FXR and its suppliers up to the highest standards of practice.

## Awareness Training

Currently, there's no dedicated training on child labour or forced labour. However, new employees go



through orientation, which includes the review and signoff of the Employee Handbook, which covers company standards like honesty, ethics, respect, and compliance to government legislation. These sections also address practises to prevent child and forced labour within FXR. While suppliers aren't provided training by FXR on these topics they are required to attest that their operations are free from such practices and educate their staff. There is also a requirement that they adhere to the laws and regulations of their own countries related to employment conditions. FXR recognizes the opportunity to enhance employee training relevant to this Act, therefore, will be evaluating applicable training for staff in the foreseeable future.

## Assessing Effectiveness

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To mitigate the risk of child and forced labour in our supply chain, FXR conducts regular supplier factory visits (which were temporarily impacted due to Covid-19 restrictions), a proactive measure involving FXR partners and agents at our high-risk Asian suppliers. These visits serve as crucial checkpoints to assess compliance with stringent labour policies, covering aspects such as age verification, working conditions, and employee treatment. By demonstrating FXR's commitment to ethical standards through these visits, we provide assurance to stakeholders and consumers that our products are ethically produced. Moreover, these visits foster transparency and collaboration with suppliers, allowing for open discussions on improvement opportunities. Overall, they play a vital role in upholding FXR's values of integrity and social responsibility, safeguarding against worker exploitation, and ensuring ethical sourcing practices.

## Conclusion & Key Takeaways

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Through our analysis, we found that although some of the countries that FXR procure from are at higher inherent risk for forced labour and child labour, FXR has several measures in place to lower the risk of these practices. FXR is committed to continuous improvement and have identified areas within our internal processes that have the opportunity for enhancement to further reduce the risk of forced labour and child labour within FXR and our supply chain.

In the upcoming year FXR looks to update the Employee Handbook to include the Child Labour policy and clearly state that all employees have the right to resign as an additional clarifying statement to emphasize our opposition to the use of forced labour. Internal self-assessments will also be performed to ensure that staff at all FXR premises have signed the Employee Handbook.

The Employee Concerns Process will be updated to specifically mention that employees should report any instances of child and forced labour that they are aware of or suspect within FXR and our suppliers. Additionally, annual awareness campaigns will be introduced to encourage employees to report their concerns.

In a concerted effort to mitigate this risk FXR will also develop an internal team to coordinate the periodic assessment of risk related to FXR's supply chain, entity, and industry. This will include the development of remediation plans should instances of child or forced labour be identified.

While there are supplier management practices followed, there is no documented procurement policies,

procedures, or employee training. In the upcoming year, FXR will develop defined process that will dictate onboarding requirements for all suppliers and employees involved in the supply chain process will be required to receive training. The policies will also dictate the review and frequency of the supplier self-assessment process to ensure that all the required onboarding documents are available.

The supplier contracts will be reviewed to ensure that they incorporate FXR's right to site inspections at all facilities including warehouses and the promotion of a whistle blower policy to allow suppliers to report potential concerns. The cadence at which supplier site inspections will be performed will also be defined within the procurement policy.

At FXR, we firmly hold that our most valuable resource is our workforce. Additionally, we stand resolute in our opposition to forced labour and child labour, affirming our dedication to ethical conduct. Our pursuit of ethical business extends beyond our premises as we actively strive to reduce the possibility of these intolerable practices from our supply chains.

## Approval and Attestation

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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.

Brian Danielson

Full Name



Signature

Chief Executive Officer

Title

31 May 2024

Date

I have the authority to bind *FXR Factory Racing Inc.* and this report covers financial year *April 30<sup>th</sup>, 2023*, and applies to *FXR Factory Racing Inc.* and all entities considered reporting entities in terms of the Act and any controlling subsidiaries of *FXR Factory Racing Inc.* if they apply.