

Pacific Smoke
International Inc.
Modern Slavery Act
Report
(Fiscal Year 2023)

1. Introduction

The Fighting Against Forced Labour and Child Labour in Supply Chains Act (the “Act”) requires that businesses state actions they have taken during the fiscal year to prevent and reduce the risk of forced labour or child labour within their operations and supply chain. At Pacific Smoke International Inc. (“PSI”), we are committed to conducting our business ethically and responsibly. This modern slavery act report outlines our efforts to prevent and address modern slavery within our operations and supply chain. As a distributor in the vaping industry, we recognize the importance of transparency and accountability in combating this global issue.

2. Policy Statement

Pacific Smoke International Inc. is dedicated to upholding human rights and ensuring that slavery and human trafficking have no place in our business or supply chain. Our Modern Slavery Policy sets out our zero-tolerance approach to modern slavery and outlines the steps we take to prevent its occurrence.

3. Structure, Activities and Supply Chains

Structure

Pacific Smoke International Inc. is a Canadian Controlled Private Corporation founded in 2013. PSI operates as an e-cigarette distributor and manufacturer serving both Canadian and overseas e-cigarette marketplaces. The registered office for Pacific Smoke International Inc. is 2930 14th Avenue, Markham Ontario, Canada L3R 5Z8.

Activities

At Pacific Smoke International Inc., our vision transcends mere commerce; it’s a mission to revolutionize the global smoking landscape by eradicating combustible cigarettes from our collective habits. Operating from three strategically located facilities across Canada, PSI stands at the forefront of innovation in the e-cigarette industry.

Catering primarily to business clients, including specialty vape stores and convenience and gas outlets, PSI takes pride in offering an extensive array of e-cigarette products and accessories. With a diverse range of offerings, PSI endeavors to provide adult Canadians with alternatives to traditional tobacco consumption.

Our workforce, comprising over 200 dedicated full-time and part-time colleagues, forms the backbone of our operations.

Importing and manufacturing e-cigarette products of the highest quality, PSI adheres to stringent standards to ensure safety, efficacy, and compliance with regulatory requirements. Our commitment to excellence extends beyond product development; it encompasses every facet of our operations, from sourcing raw materials to distribution and customer service.

Supply Chain

Pacific Smoke International Inc globally sources both its finish products and raw material, inclusive of PSI control brand products. PSI has developed a line of control brand products which are made available through its retailer network. PSI product development team work closely with third party vendors to manufacture products for its control brands.

PSI globally sources from North America, Asia, and Europe. PSI imports both finished products and raw component. Most of the goods sourced outside of North America are e-cigarette, e-cigarette accessories, and raw component for the purpose of further manufacturing.

Our supply chain includes sourcing products from Asia, where we recognize the potential risk of modern slavery. We have undertaken a comprehensive mapping exercise to identify key suppliers and assess their compliance with ethical labour practices.

4. Policies and Due Diligence Processes

As part of our commitment to responsible business conduct (“RBC”) and ethical sourcing practices, Pacific Smoke International Inc. has commenced the implementation of policies and due diligence processes to address the risks of forced labour and child labour throughout our supply chain.

Embedding RBC into Policies and Management Systems

PSI recognizes the importance of embedding RBC principles into our operational practices. Our RBC policies will be integrated into our corporate governance framework, guiding decision-making processes in departments that touches upon Supply Chain. Key components of our RBC strategy will include:

Code of Conduct: We will finalize a comprehensive Code of Conduct that articulates our commitment to ethical business practices, including the prohibition of forced labour and child labour.

Supplier Code of Conduct: Our Supplier Code of Conduct will outline the standards and expectations we require of our suppliers, emphasizing the importance of fair labour practices.

Training and Awareness: We will be providing training and awareness programs to employees and suppliers to ensure understanding and compliance with our RBC policies.

Identifying and Assessing Adverse Impacts

PSI will be conducting regular assessments to identify and assess potential adverse impacts of forced labour and child labour in its supply chain and business relationships. Key steps in this process will include:

Supply Chain Mapping: We will be conducting a mapping exercise to identify critical suppliers and assess the risk of forced labour and child labour in our supply chain.

Risk Assessments: We will assess each risk to evaluate the likelihood and severity of potential adverse impacts to prioritize areas for action based on the level of risk.

Ceasing, Preventing, or Mitigating Adverse Impacts

Upon identifying adverse impacts, PSI will take prompt and effective action to cease, prevent, or mitigate these risks. Our approach will include:

Supplier Engagement: We will engage with suppliers to communicate our expectations regarding responsible labour practices and support them in implementing corrective actions where necessary.

Remediation Plans: We will develop remediation plans to address systemic issues and ensure continuous improvement in our supply chain practices with our overseas partners.

Tracking Implementation and Results

PSI will maintain a robust monitoring and tracking mechanisms to assess the implementation and effectiveness of our due diligence processes. This includes:

Internal Audits: We will be conducting regular audits within our supply chain personnels and partners to verify compliance with our RBC policies and identify any gaps or areas of non-compliance.

Communicating How Impacts are Addressed

PSI is committed to transparently communicating how we address the impacts of forced labour and child labour. This includes:

Stakeholder Engagement: We will engage with stakeholders, including investors, customers, and trade organizations, to communicate our due diligence efforts and respond to inquiries or concerns.

Annual Reporting: We will be including information from our policies and due diligence processes for forced labour and child labour in our annual Modern Slavery Act Report to comply with the Act.

5. Forced Labour and Child Labour Risks

Dealing with suppliers and manufacturers in the e-cigarette hub of Guangdong, China, presents several potential risks related to forced labour and child labour. Guangdong, China is a major manufacturing hub in China, known for its extensive industrial production, including electronics, textiles, and other consumer goods. While many businesses in Guangdong operate ethically and adhere to labour laws, there may be still challenges and risks associated with forced labour and child labour in the region.

Lack of Enforcement of Labour Laws

Guangdong's rapid industrialization and economic growth have sometimes outpaced the enforcement of labour laws. Despite China's labour laws prohibiting forced labour and child labour, enforcement can vary, specifically with smaller manufacturers and factories.

Subcontracting and Outsourcing

Many factories in Guangdong subcontract or outsource production to smaller facilities, including informal workshops or unregistered businesses. These subcontractors may not be subject to the same scrutiny as larger factories, making it easier for forced labour and child labour to go undetected in these hidden tiers of the supply chain.

Migrant Worker Vulnerability

Guangdong China's manufacturing sector relies heavily on migrant labour, with millions of workers migrating from rural areas to urban centers like Shenzhen and Guangzhou in search of employment. Migrant workers are often more vulnerable to exploitation due to their unfamiliarity with local laws and language barriers. They may be more susceptible to forced labour practices, such as debt bondage or confiscation of identity documents.

Supply Chain Complexity

Guangdong China's manufacturing supply chains can be complex and opaque, with multiple layers of subcontracting and outsourcing. This complexity makes it challenging for companies to trace the origin of their products and ensure compliance with labour standards throughout the supply chain. As a result, forced labour and child labour may occur at lower tiers of the supply chain without the knowledge of the primary buyer.

6. Remediation of any forced labour or child labour

At PSI, we have not received reports of alleged forced or child labour through our supply chain compliance and factory audits program nor notified through any formal channels.

Within our Supplier Code, we will be mandating Suppliers to monitor the compliance of their operations with the terms of the Supplier Code. Suppliers must share the Supplier Code with any Related Parties, such as their contractors, agents, sub-contractors and sub-agents, including any labour agencies who are engaged to assist with providing goods or performing services for PSI. Further, Suppliers are required to monitor Related Parties' compliance per the terms of the Supplier Code and immediately disclose any known violations to PSI. Should a Supplier fail to comply with the Supplier Code, PSI reserves the right to require corrective action. If a Supplier fails to implement corrective action or fails to comply with the Supplier Code, PSI may, in its sole discretion and without any further obligation to Suppliers, suspend or terminate, in whole or in part, its relationship with the Supplier.

7. Remediation of Loss of Income

As of the reporting period of this report, there have been no documented instances of income loss experienced by vulnerable families as a direct consequence of the measures implemented to eradicate forced labour or child labour within our supply chains.

8. Training

Involuntary Labour training will be mandatory for team member who works with upstream supplier. This training is being designed to equip Procurement, Supply Chain, and Product Development team members with essential knowledge and skills to identify human-right risk, including awareness of issues related to forced labour and child labour. The training will be developed internally to ensure comprehensive coverage and relevance to our organization's needs. It will incorporate modes of assessment, such as quizzes or case studies, to reinforce learning outcomes. All applicable team members working in the area of Procurement, Supply Chain, and Product Development will be required to complete the training.

9. Assessing Effectiveness

In our ongoing commitment to combat forced labour and child labour, Pacific Smoke International Inc. recognizes the need for a comprehensive and multifaceted approach to assess our effectiveness in addressing these critical issues. To this end, PSI will employ a diverse range of assessment methodologies, each designed to provide insight into different aspects of our operations and supply chains. Our approach will encompass the following key methodologies:

Policy Review. PSI's internal legal and compliance team will regularly review and update our internal policies to ensure alignment with international standards and best practices related to ethical sourcing.

Monitoring. Regularly monitoring media outlets for reports on the risk of forced labour or child labour within the regions where our supply chain operates, as well as within the e-cigarette industry.

Supplier Audits: We will conduct regular, randomized on-site inspections of our suppliers to verify their adherence to our Supplier Code of Conduct. If any instances of non-compliance with the Supplier Code of Conduct are identified, we will diligently track corrective actions until the Supplier can demonstrate that the risks of forced labour or child labour have been effectively mitigated.



Approval and Attestation

The Report was approved pursuant to subparagraph 11(4)(b)(ii) of the Act by the Board of Directors of Pacific Smoke International Inc.

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.

Peter Phung

Peter Phung

President

April 30, 2024

I have authority to bind Pacific Smoke International Inc.