



Parts Canada Development Co.

Forced Labour and Child Labour in Supply Chains Company
Assessment

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Background

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.

The measures introduced through Bill S-211, An Act to enact the Fighting Against Forced Labour and Child Labour in Supply Chains Act and to amend the Customs Tariff (the Act), aim to increase industry awareness and transparency and drive businesses to improve practices. The Act requires entities to report on the steps 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. There are seven mandatory reporting areas that must be investigated and reported on which include:

- 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.

Introduction

This report is Parts Canada Development Company (“Parts Canada” or “Entity”) response to Bill S-211, An Act to enact the Fighting Against Forced Labour and Child Labour in Supply Chains Act and to amend the Customs Tariff (the Act), sections 11(1) and 11(3).

Parts Canada satisfies the definition of an Entity within the Act by having a place of business in Canada, doing business in Canada, having assets in Canada and meeting both the revenue and asset thresholds.

The financial reporting year of Parts Canada covered by this report is October 1, 2022, to September 30, 2023.

Structure, Activities & Supply Chain

Structure

Parts Canada operates as a corporation (business number 121321491) with its headquarters located at 1820 100th Ave NE #195, Calgary, Alberta. The Entity oversees two distribution facilities situated in Calgary, Alberta, and in London, Ontario.

The Entity employs approximately 160 individuals across various departments, including customer service, finance, operations, IT and marketing.

Activities

Parts Canada is a distributor, specializing in the recreational and other motor vehicles industry. Offering nine house brands and sixty exclusive brands, Parts Canada collaborates closely with dealers across Canada.

The range of products distributed include parts and accessories for motorbikes, snowmobile, street bikes, bicycles and ATVs, as well as helmets and apparel. These products span the sale categories of drag, street, helmet / apparel, off road, ATV, Snow, E-Bike and Intense.

Supply Chain

To support the sales categories discussed above, the majority of Parts Canada’s suppliers are from the United States (approximately 76%). The remaining portion mainly comes from Canada, Japan, South Korea, China, Hong Kong, Italy and the United Kingdom.

The operations and factories of these suppliers are primarily based out of the United States, China, Taiwan, Japan, Canada, Italy, South Korea, Thailand, Vietnam and Indonesia.

This diverse supplier network reflects the global nature of Parts Canada's sourcing strategy, ensuring a broad range of products and services to meet market demands effectively.

Policies & Due Diligence

Parts Canada has the following policies and due diligence procedures in place to mitigate the risk of child labour and forced labour within internal activities and its supply chain:

Internal Policies - Conduct

The Workplace Violence Policy and Workplace Harassment Policy aim to foster a safe and secure work environment free of violence. Employees are encouraged to report any instances of workplace violence to ensure timely intervention and resolution. The policies communicate a zero-tolerance stance towards workplace violence, affirming the commitment to employee safety. Regular assessments are conducted annually to verify compliance and effectiveness, reinforcing the organization's dedication to maintaining a violence-free workplace. Through these policies, the organization prioritizes the well-being and security of its employees, fostering a culture of trust and respect.

The Employee Conduct Policy emphasizes professional and considerate behavior among employees, and provides for enforcement of abuse, infractions, and negative conduct. This policy provides protection against discrimination for all team members. Employees are actively encouraged to report any violations of this policy to uphold a respectful and inclusive workplace culture.

The Recruitment Policy is designed to ensure fairness and thoroughness throughout the hiring process, maintaining integrity and equality in candidate selection. It outlines procedures that prioritize equal opportunities and careful evaluation of applicants.

Various specific policies also outline aspects such as employee pay, statutory holidays, vacations, flex days, breaks, and employment hours. These policies clearly outline expectations of both the employee and Parts Canada to ensure a suitable and fair working environment and conditions.

Upon onboarding, employees are obligated to review and sign off on the Employee Handbook, indicating their acknowledgment and agreement with its contents. This process underscores the importance of understanding and compliance with organizational policies and procedures.

Internal Policies - Safety

The Emergency and Injury Reporting Policy emphasizes Parts Canada's dedication to assisting employees in accessing medical assistance and facilitating their return to work. This policy reflects the organization's commitment to prioritizing employee well-being and safety. Employees are encouraged to report hazardous or dangerous conditions immediately to management for remediation, therefore, contributing to a safe working environment.

Parts Canada prioritizes the safety of its workforce, evident in the enforcement of mandatory personal protective equipment and the development of thorough safety protocols. These measures demonstrate the Entity's unwavering commitment to maintaining a secure working environment for its employees.

Due Diligence - Suppliers

Supplier Questionnaires

Parts Canada has initiated the distribution of supplier questionnaires, addressing concerns regarding the mitigation of child labour or forced labour within supplier activities. These questionnaires seek further details and supporting documentation from suppliers, serving as a due diligence measure to verify the accuracy of their responses. This proactive approach exemplifies Parts Canada's commitment to ethical sourcing practices and accountability throughout its supply chain. As of this report date, Parts Canada

has collected responses from 40% of its suppliers, representing 36% of the Entity's total procurement spend during the fiscal year.

Terms and Conditions

With every purchase order dispatched to suppliers, Parts Canada includes its terms and conditions, which stipulate adherence to the laws of the Province of Alberta and Canada. These clauses ensure compliance with relevant legal frameworks and uphold regulatory standards within the Canadian jurisdiction.

Risk Assessment

A risk assessment over Parts Canada industry of operation, goods procured, and countries goods are procured from has been performed over material direct suppliers. For the purposes of this report, material suppliers are those who account for at least 1% or more of Parts Canada's total procurement spend during the 2023 fiscal year.

This risk assessment used two separate indices to conclude on the inherent risk of child and/or forced labour related to goods and countries - Walk Free's Global Slavery Index and the US Department of Labour's List of Goods Produced by Child Labour or Forced Labour.

Industry of Operations

Parts Canada operates within the recreational and other motor vehicles industry. Given the two indices noted above have identified risks of child labour and forced labour inherent to the products procured below, it is concluded that this industry has an inherent risk exposure.

Countries Goods are Procured From

Parts Canada does have visibility into where its suppliers' operations are based, and where factories are located. The risk assessment was based on this data.

A total of 31 countries have been identified for where goods are procured from. Of this list, 16 have been identified as having a risk exposure of child labour or forced labour, according to the two indices. These include, summarized by continent:

1. Asia: Vietnam, Thailand, India, China, Indonesia, Taiwan, Myanmar, Bangladesh, Pakistan
2. North America: Mexico, Nicaragua, El Salvador, Costa Rica
3. South America: Brazil, Argentina
4. Europe: Ukraine

The remaining proportion of suppliers operate out of countries which based on the two indices, have a lower risk exposure of child labour and/or forced labour.

Goods Procured

The products which Parts Canada distributes fall into the categories of parts and accessories for motorbikes, snowmobile, street bikes, bicycles and ATVs, as well as helmets and apparel. Using the two indices, an inherent risk of forced and/or child labour has been identified among the following categories

of goods:

1. Apparel: garments/fashion accessories/footwear/gloves
2. Tires, snowmobile tracks, ATV/UTV track kits: rubber
3. Batteries, communication systems, LED lights: electronics

All other remaining goods procured are not specifically identified within the two indices, therefore it has been concluded that they have a low-inherent risk exposure. Further analysis and understanding by Parts Canada will be undertaken to mature our approach to identifying and reducing the risk of child labour or forced labour.

Remediation of Forced & Child labour

To mitigate the risk of child labour and forced labour within supply chains, Parts Canada incorporates the following mechanisms for supplier due diligence:

Supplier Questionnaires

Parts Canada has initiated the distribution of questionnaires to suppliers, concentrating on conducting due diligence concerning this Act. Among the responses received, no instances of child labour or forced labour were identified. A prevalent trend observed among suppliers is the implementation of due diligence procedures during the screening of potential suppliers, coupled with a high level of supply chain visibility, thereby enabling the assessment of risks related to the use of forced labour or child labour. Additionally, certain suppliers have implemented policies and provided training to employees regarding the risks of child labour or forced labour.

Terms and Conditions

Parts Canada requires each supplier to adhere to the laws of Canada, and those binding the Province of Alberta, for each purchase order made, including those relating to labour standards. Parts Canada has identified the opportunity to enhance these terms and conditions to require suppliers to adhere to all laws and regulations pertinent to the countries and regions in which they operate, not just within Canada, as well as the addition of specific clauses identifying expectations regarding child labour and/or forced labour.

Vendor Setup

When considering suppliers, Parts Canada performs a review of their business to determine the appropriateness of the relationship. Parts Canada is reviewing a better approach to including more comprehensive expectations of suppliers during the vendor setup process.

Through the use of these mechanisms, Parts Canada is continuing the effort to mitigate the risk of child labour or forced labour through its supply chain. With the use of the questionnaire specifically, the Entity is actively engaged in collecting survey responses to thoroughly evaluate this risk across its supply chain.

Remediation of Vulnerable Family Income Loss

Parts Canada is in the process of understanding and evaluating its supply chain related to the risk of child labour and forced labour. To date, Parts Canada has not identified instances of the use of child labour or forced labour within its operations or those of suppliers. Parts Canada is continuing its review of procurement practices to enhance the rigor of its due diligence processes including raising awareness with its suppliers.

Awareness Training

Parts Canada does not have training in place on the topic of child labour or forced labour. However, of the policies identified above relevant to this Act, Parts Canada does incorporate relevant training to all employees.

Annual workplace violence and harassment training sessions are conducted, covering essential topics such as defining violence and harassment, guidance for employees on how to respond if they suspect an incident, and reaffirming Parts Canada's dedication to maintaining a violence-free workplace.

Parts Canada also performs routine workplace safety training for all employees, for example, including Workplace Hazardous Materials Information System. These courses are provided to educate employees on what a safe and healthy working environment is, as well as how to maintain it.

Also, when onboarding new employees, part of this process includes reviewing the Employee Handbook to ensure the individual understands the Entity's standards and expectations. Sections within this relevant to child labour and forced labour include acts of abuse, infractions and negative conduct.

Parts Canada 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

To track Parts Canada's effectiveness of procedures to mitigate the risk of child labour and forced labour, the following mechanisms are in place:

Internal Activities

1. Policy review: Parts Canada has committed to reviewing and updating policies to ensure relevance and accuracy based on the current operating conditions in accordance with this Act.
2. Employee health and safety training: Annual training is provided to all employees regarding their health and safety within the work environment. Parts Canada keeps a listing of all courses to be delivered and the attendance for each, to understand and demonstrate these courses being provided to all employees.

3. Code of Conduct Acknowledgement: During employee onboarding, signing the code of conduct demonstrates their understanding and commitment. Parts Canada recognizes the importance of incorporating an annual sign-off to reinforce employees' understanding of expected conduct and to promptly inform them of any document revisions. This process ensures ongoing adherence to the Entity's standards and practices.
4. Reporting on incident management: Parts Canada requires all workplace incidents to be reported to management. For each incident, an action plan is developed to resolve the incident in a timely manner.

Supplier Activities

1. Supplier Questionnaires: Parts Canada is in the process of collecting questionnaire responses from all suppliers. These questionnaires specifically ask suppliers for details about their risks and processes related to child labour and forced labour. Parts Canada maintains survey responses on a centralized database, to understand how this Act impacts its supply chain and the level of risk among vendors used.
2. Terms and Conditions: With each purchase order that goes out, Parts Canada attaches its terms and conditions, therefore requiring the suppliers to follow expectations on upholding certain aspects, specifically, the laws of Canada. Parts Canada has identified the opportunity to integrate a clause within these Terms and Conditions prohibiting child labour and forced labour. This clause will identify the outcome or, disciplinary action should an instance of child or forced labour be reported or discovered by Parts Canada.
3. Vendor Setup: Parts Canada performs a due diligence mechanism when setting up new vendors. The opportunity has been identified to incorporate mechanisms relevant to this Act during this process.

Steps Taken to Prevent & Reduce Risk of Child Labour or Forced Labour

Parts Canada has taken the following steps to prevent and reduce the risk of child labour or forced labour:

1. Mapping supply chains: As part of this report, Parts Canada has mapped its supply chain to complete a risk assessment to align with the Act.
2. Conducting an internal assessment of risks of forced labour and/or child labour in the organization's activities and supply chains: As part of this report, Parts Canada has identified risks within its activities and supply chain that have inherent risks of child labour and/or forced labour. Parts Canada recognizes the need to further develop this risk assessment process to expand beyond evaluating tier 1 suppliers as well as gathering additional information on source countries and goods, to fully assess this risk across the supply chain.
3. Gathering information on worker recruitment and maintaining internal controls to ensure that all

workers are recruited voluntarily: Parts Canada has an explicit policy regarding ethical and fair recruitment.

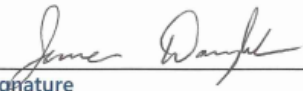
4. Addressing practices in the organization's activities and supply chains that increase the risk of forced labour and/or child labour: Remediation efforts relating to due diligence mechanisms in place have been identified, to reduce the risk of child labour and/or forced labour within the supply chain.
5. Developing and implementing due diligence policies and processes for identifying, addressing, and prohibiting the use of forced labour and/or child labour in the organization's activities and supply chains: Parts Canada has identified the opportunity to integrate contractual clauses within supplier agreements related to anti-forced labour and/or child labour.
6. Carrying out a prioritization exercise to focus due diligence efforts on the most severe risks of forced and child labour: Parts Canada has distributed a questionnaire to all suppliers, specifically asking for details and support related to the existence of policies and mechanisms related to this Act. Questionnaire responses will provide Parts Canada with information to better understand its supply chain and risk among suppliers related to this Act.
7. Developing and implementing anti-forced labour and/or -child labour contractual clauses: Parts Canada has identified the opportunity to integrate contractual clauses within supplier Terms and Conditions related to anti-forced labour and/or child labour.
8. Developing and implementing anti-forced labour and/or -child labour standards, codes of conduct and/or compliance checklists: Parts Canada has identified the opportunity to integrate anti-forced labour and/or child labour standards/conduct into internal policies and training.
9. Developing and implementing training and awareness materials on forced labour and/or child labour: Parts Canada has identified the opportunity to develop employee training relevant to child labour and/or forced labour.
10. Developing and implementing procedures to track performance in addressing forced labour and/or child labour: Parts Canada has identified mechanisms in place and to be developed relating to assessing the effectiveness of reducing the risk of child labour and forced labour
11. Engaging with supply chain partners on the issue of addressing forced labour and/or child labour: Parts Canada has distributed a questionnaire to all suppliers on the topic of this Act, bringing awareness to the issue and addressing it with suppliers.

Conclusion

Given that Bill S-211 is a new act, Parts Canada plans to refine its internal processes by updating policies, procedures, supply chain management processes and awareness training to employees to meet the requirements of this Act. The progress of these initiatives will be reported in the next reporting period.

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 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.

<u>James Danyluk</u>	<u></u>
Full Name	Signature
<u>President</u>	<u>May 31/24</u>
Title	Date

I have the authority to bind Parts Canada Development Co.