

Highfield Investment Group Inc.

Forced Labour and Child Labour in Supply Chains Company
Assessment



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Introduction

This report is Highfield Investment Group Inc.'s response to Bill S-211, an Act to support 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).

This is a joint report which covers Highfield Investment Group Inc. ("HIG" or "Company") along with the following Controlled Entities:

- Select Energy Systems Inc.
- Varsity 4818 Inc.
- 1522028 Alberta Ltd.
- 2171658 Alberta Ltd.
- Lookout Ridge JV.
- Sparrowhawk Lodge JV.
- Highfield Residential Inc.
- High Plains Building 9 GP Ltd.
- High Plains Building 9 LP.
- High Plains Building 10 BT Ltd.
- High Plains Building 10 JV.
- High Plains Building 12 GP Ltd.
- High Plains Building 12 LP.

Although the entities noted above do not individually meet the criteria, on a consolidated basis HIG 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 size-related thresholds. As per Public Safety Canada, if a corporation is not involved in any of the prescribed activities, which are "producing goods in Canada or elsewhere or importing goods produced outside Canada", then it does not need to report, even if it meets the definition of an entity. HIG's direct involvement in prescribed activities is limited to breeding of Thoroughbred horses in Canada which compromised approximately 3% of HIG's revenue in 2023. HIG's Controlled Entities noted above are engaged in construction and oil & gas services.

The financial reporting year covered by this report is for the year ending December 31, 2023. The Controlled Entities noted above have also been evaluated for the period of January 1 through December 31, 2023, even in instances where the financial reporting year differs for the entity. HIG is not subject to reporting requirements under supply chain legislation in any other jurisdictions.

In 2023 HIG did not take any steps specific to identifying, preventing, or reducing the risk that forced labour or child labour is used in the production of goods by the entities. The Company does have in place employee safety policies and codes of conduct for all employees however, and through the analysis related to this report, areas of improvement to awareness of the issue and changes to policies which can be incorporated in the upcoming year have been identified.

Structure, Activities & Supply Chain

Structure

HIG is a privately owned Canadian corporation headquartered at Unit 18, 11410- 27 Street SE, Calgary, Alberta, Canada. The headquarter offices are comprised of 40 employees and the Thoroughbred breeding and boarding operations in Aldersyde, Alberta include up to fifteen individuals, depending on seasonality. The Controlled Entities included in this joint report are located throughout Alberta including Calgary, Rocky View County, Foothills County, and Canmore. Select Energy Systems Inc. (“Select” or “Select Energy”) employs 22 employees at their Calgary headquarters and the remaining entities utilize time of HIG’s staff for their operations.

HIG is a diversified investment company that operates in several industries which include Thoroughbred breeding and racing, oil & gas services, hospitality, construction, real estate, and management of assets. HIG and its Controlled Entities for the purpose of this report are engaged in Thoroughbred breeding, oil & gas services, and construction. HIG’s strategic vision is focused on creating sustainable value and long-term growth. This vision is supported by HIG’s values of integrity, honesty, excellence, and learning.

While HIG holds some passive investments, the Company prefers to be actively engaged in the operation and management of its investments and therefore owns a minimum of 10% or controls the entities in almost all situations. Select Energy was incorporated in 1988 and specializes in providing live well and shallow gas coiled tubing completion services. The remaining entities in this report include Bare Trusts, which hold land or buildings for Joint Ventures, Joint Ventures and corporations engaged in residential construction, General Partners acting on behalf of Limited Partnerships, and Limited Partnerships engaged in industrial construction.

Activities

Construction activities include both residential and industrial construction. Residential construction activity takes place in Canmore and includes condominiums, single family homes, and duplexes. Industrial construction encompasses the buildings at High Plains Industrial Park and includes both spec and built-to-suit products. In both construction types, HIG uses General Contractors or Construction Managers that oversee and manage all procurement functions.

Select Energy is in the oil & gas services industry, and its product lines include coiled tubing wellheads, built-to-suit wellheads for applications such as SAGD (Thermal) and Cold Oil Production and thermal equipment. The company provides many services and solutions to the oil and gas industry in Western Canada, United States, and international markets. In addition to the head office in Calgary, Select has field locations across Alberta.

HIG is also involved in the agriculture industry through its operation and management of a Thoroughbred breeding operation in Aldersyde Alberta under the operating name Highfield Stock Farm



("Farm"). The Farm provides boarding and care services for mares, foals, training horses, and rehabilitation of injured horses. The Farm also specializes in breeding and foaling, which is led by the Farm Manager. The horses bred and raised by HIG are sold at thoroughbred auctions in Alberta, Ontario, and Kentucky. The Farm is surrounded by approximately 1,000 acres of farmland which HIG leases to farmers for crop production under crop sharing arrangements. The portion retained by HIG is primarily used as feed for horses at the Farm. Some of the mares and foals owned by HIG are boarded and bred outside of Alberta; most commonly these include facilities in Ontario and Kentucky.

HIG also owns racehorses which are owned directly or through Managing Partners based in the United States. Racehorses are raced throughout North America and decisions on racing and training location are made by the selected trainers in collaboration with the Managing Partner, if one is used, or by HIG's President. Most common locations for HIG's managed horses to race are Century Mile in Leduc and Century Downs in Rocky View County.

Supply Chain

In our analysis of the supply chains for both HIG and its Controlled Entities we used the location of operations as the country of origin of goods.

As the parent company holding investments, a majority of HIG's suppliers are service providers (81% in 2023) such as consulting, legal, and training and veterinary services. The remaining 19% of procurement spend relates to goods, and outside of general office supplies, the goods are mostly associated with farming operations and purchases of horses.

HIG – Agriculture

Horse service providers such as veterinarians, farriers, and trainers have been included purely as service providers since the goods used in performing the service are obtained through their supply network, rather than HIG's.

The top three categories of goods based on dollar spend on goods in 2023 were purchases of horses (32%), feed for horses (16%), and tree purchases (10%). There were over 60 suppliers that HIG used in 2023 for the purchase of goods, however five of those suppliers make up 54% of the total procurement spend on goods. The purchase of horses in 2023 took place primarily at the Keeneland sales in Kentucky. From this sale two mares were imported into Canada for breeding and the remaining horses purchased are racehorses who will be cared for and maintained by our US based Manager. The tree purchases in the year were all from a local vendor in Alberta and 87% of the horse feed purchases are from two vendors who are also based in Alberta.

Controlled Entities - Constructions Activities

As noted above, HIG's procurement process in the construction activities is fully managed by external General Contractors or Construction Managers. Therefore, these activities are services not goods, and as such, the supplies used in the construction process are obtained through the supply chains of the General Contractors/Construction Managers and have not been evaluated further.

Controlled Entities – Oil & Gas

Of the total procurement spend by Select in 2023, goods made up 45% of this amount, 79% of the goods are oilfield equipment. Oilfield equipment, which is primarily iron-based components, is

procured from Canadian suppliers and the top five suppliers of oilfield equipment make up 82% of the spend in this category. The suppliers used in 2023 for these parts are recurring suppliers that have been used in the past and continue to be used due to the business relationship in place and quality of parts supplied.

Policies & Due Diligence Processes

Current policies

In evaluating the processes currently in place, the focus was on HIG's policies and procedures since they apply to all individuals at HIG, including the Farm operations and those involved in dealings with the Controlled Entities. The HIG Employee Handbook covers the Vision, Values, and Culture of HIG, general information on office protocols, and policies in place. HIG's policies include respectful workplace, personal/sexual harassment, and employee responsibilities. The Handbook components are provided to staff during the onboarding process when they start and are also available on the company's Intranet site. There are components to the general information section of the Handbook that are currently being updated and once complete, the full Handbook will be provided to new staff during onboarding and will be added to the Intranet site.

The vision of being a world class, sustainable company is supported by values of integrity, honesty, excellence, and learning, and a culture of working as a team to accomplish targets and goals. The respectful workplace statement's purpose is to define respect and highlight the importance of fairness, equality, and a healthy and safe work environment. The statement also outlines that the direct Manager and/or Human Resources are the appropriate individuals to reach out in instances where behaviours or communication are not in line with this policy statement. The personal, sexual harassment and anti-bullying policies, outline definitions and examples that fall within each policy and outline the steps to address the issue and consequences of any inappropriate behaviour. The employee responsibility statement is focused on the health and safety of staff and others. This statement outlines the rights to participate, know, refuse to work, and to stop work. These rights are in place to allow employees to participate in work safely and to refuse and/or stop work if they feel unsafe.

In addition to the policies noted above, the Farm operations also have additional policies and training programs specific to their workplace. These additional protocols are reviewed with staff on a regular basis and new employees are trained in the protocols. Examples of the protocols include safe horse handling, WHIMIS, equipment operating protocols, and emergency procedures.

Due to the nature of work and regulations in the oil and gas industry, Select has many policies and monitoring systems in place for workplace safety for employees. Select has an Employee Handbook which covers general company protocols as well as policies related to sexual harassment, field purchasing procedures, and health and safety. An overtime policy for non-exempt employees is included within the general company protocols which is in accordance with the Alberta Employment

Standards Code. This policy highlights key components of overtime and what individuals are entitled to, to allow for transparency and fair pay. Employee safety policies include, but are not limited to, safety meetings at field sites prior to commencement of work procedures, and completion of Job Safety Analysis forms which are collected and retained. Select follows a Purchasing and Materials Management Policy which is summarized in the Handbook and is available in full, from Human Resources and Supervisors. This policy is in place to guide and assist employees in working with suppliers; it covers the required forms to be completed to initiate a Purchase Order, the Code of Ethics, as published by the Purchasing Management Association of Canada (PMAC), and values of Select. Select's values are honesty/integrity, professionalism, responsible management, serving the public interest, and conformity to the Laws. Health and Safety policies include Safety & Loss Prevention statements, and Environmental, Workplace Violence, and Harassment policies. The responsibilities of individuals, in upholding and creating a fair and safe environment for all, are also outlined in the Handbook. This Handbook is provided to staff during onboarding and is available on the company's Intranet site.

Health and safety regulations are high in the oil & gas industry and specific certifications are required. Some of the certificates are required and Select's customers demand that these be in place prior to doing business with Select. This helps ensure that customers are also holding Select accountable for worker safety and therefore further reduces the chances of forced or child labour.

Due diligence

In the industrial and residential construction activities, HIG utilizes General Contractors and Construction Managers, respectively, to oversee the construction of the buildings and manage the procurement process. HIG has used the Construction Manager in Canmore for over ten years and therefore have a strong working relationship with their team and clear understanding of expectations. On the industrial construction projects, reputable Canadian General Contractors are used and are chosen based on a selected tender process. The General Contractors used on Controlled Entities in 2023 have been used on multiple projects over several years. These General Contractors are Canadian based organizations with long histories of providing construction expertise. Due to the scope of work on these construction projects, an external Project Oversight Manager is also used to manage performance, delivery timeframes, and costs. HIG has worked closely with the Project Oversight Manager on projects dating back to 1996 and have a closely aligned relationship on conduct and outcome expectations. Banks used for financing on construction projects also require, and HIG utilizes, Quantity Surveyors selected by the bank to oversee the quality and spending of the projects. Using multiple levels of oversight, HIG and its employees and suppliers, are held accountable for compliance and regulation standards.

The Farm operations primarily use local vendors from the surrounding area and purchase horses from reputable horse auctions such as the Canadian Thoroughbred Horse Society and Keeneland. Through proximity to local suppliers, HIG is well positioned to build business relationships with these suppliers and become aware of any possible adverse impacts within the activities of the supplier. If it's deemed that a vendor is displaying behaviours that do not align to HIG's conduct and behaviour

expectations, the relationship is severed and company units who have dealt with the supplier are notified to not re-engage in activities with the supplier.

At Select, a Vendor Qualification form is completed by each new vendor and is reviewed and approved by the Materials Manager. The form requires information on the quality controls in place, product identification and traceability, inspection and testing, and safety and training of employees. The Materials Manager oversees the relationships with suppliers and deals with specific Sales Representatives for suppliers of manufacturing inputs. Since the manufactured items are based on Select's design, they have a lot of input into the quality of product. For items purchased off the shelf, Select focuses on repeat suppliers who have provided quality products before.

Supply Chain Risk Assessment

This report's assessment of activities and supply chains that carry a risk of forced and/or child labour being used, is focused on the supply chains of activities where HIG, or a Controlled Entity, has direct control over the supply chain. This includes HIG's farming operations and Select Energy Systems Inc.

HIG's Activities and Goods in Farming and Horse Operations

According to the 2023 Global Slavery Index report, "seasonal, temporary, and undocumented workers in the agricultural sector are vulnerable to forced labour. This is particularly true in informal or rural labour contexts where there are limited regulations and few labour inspections." Since HIG operates in the agriculture industry, and employs seasonal and temporary workers, some of whom are students working summer jobs, it therefore has assessed the inherent risk for child and/or forced labour to be high.

Since HIG is a small company, we conduct our own hiring and all the employees at the Farm are our direct employees whose pay is monitored and processed by the Payroll Administrator at the corporate office. Human Resource policies on hiring, wage setting, and training are consistently applied to all staff, and therefore the risk of modern slavery is reduced in HIG's Farm operations.

In our analysis of goods purchased by the farming and horse racing and breeding operations, no specific goods were noted as high risk goods and therefore no further assessment was performed.

Activities and Goods of Select Energy Systems Inc.

Select Energy Systems Inc. conducts its own hiring and directly employs the individuals working for the company; contractors and agencies are not used for field or manufacturing work. In addition, due to the specialized nature of the work, Select only hires experienced individuals. Experienced hires are typically less vulnerable since they are aware of the wages for their field of work and can be more selective with their employment choices. These practices allow for consistency in pay equity and reduce the risk of child and/or forced labour being used, therefore the inherent risk has been deemed low.

Select's oilfield equipment makes up 79% of the procurement spend of Select and 70% of this spend is through five suppliers, therefore our assessment focused on these suppliers. Oilfield equipment is primarily components made of iron, which is one of the goods rated as a high risk for forced labour on the list of goods and their source countries maintained by the Bureau of International Labour Affairs (ILAB) of the U.S. Department of Labor. Although the iron noted in the list is sourced from North Korea, since this report's analysis is limited to a company's place of operations, HIG does not know the original source country of the iron. The Global Slavery Index for 2023 indicated that Canada enacted legislation that prohibits companies from importing goods produced through forced labour. Based on this legislation, the assessed level of risk has been deemed moderate.

Supplier Location Assessment

HIG has identified that among all the suppliers used in the Farm operations and operations of Select most are Canadian and some are from the US. The Global Slavery Index (2023) shows Canada as having a relatively low prevalence of modern slavery and the US, while having higher prevalence than Canada, is also rated as having a low prevalence of modern slavery. However, the US also has Modern Slavery regulations or standards which factored into HIG's assessment of modern slavery as a low inherent risk for suppliers used by both Farm and Select.

Remediation

HIG has not identified any instances of forced labour in its activities and supply chains. As noted above, the activities and goods with an inherent risk for child and/or forced labour are in agriculture and Select's purchase of iron products.

Since individuals under the age of 18 work in the Farm operations, HIG relies on the policies outlined above regarding safe work environments and fair and equitable treatment of staff. These employees undergo the same onboarding and training as all other employees and policies relating to the code of conduct and employee rights are included in the onboarding process.

Due diligence processes of Vendor Acceptance protocols and building relationships with suppliers based on values outlined in Select's policies are relied upon to mitigate the risk of forced and/or child labour in Select's supply chain.

No remediation steps have taken place in 2023 since no instances of forced and/or child labour have been identified.

Awareness Training

The entities included in this joint report have not yet provided training to employees on forced labour and child labour. Options for such training will be evaluated in 2024 and implemented if a suitable program is found.

Assessing Effectiveness

HIG and its Controlled Entities do not currently have a standardized process of assessing the effectiveness of ensuring that forced labour and child labour are not being used in its business and supply chains.

Through the analysis and compilation of this report, HIG has determined areas to evaluate for next year which include:

- Options currently available for awareness training.
- Evaluation of a whistleblower policy and implementation options.
- Further analysis of risks in the activities and supply chain of HIG.
- Assessment of possible impacts of efforts to prevent and reduce the risk of forced labour and child labour on vulnerable family income loss.



Approval and Attestation

In accordance with the requirements of the Modern Slavery Act, and in particular section 11 thereof, I attest, in my capacity as Chief Financial Officer of Highfield Investment Group Inc. having the authority to bind Highfield Investment Group Inc., that I have reviewed the information contained in this report for Highfield Investment Group Inc. and the Controlled 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 ended December 31, 2023.

Philip Forster

Philip Forster
Chief Financial Officer

May 30, 2024

Date