2009 Update

The Recession Hits Hard

In 2008 the recession hit Rodda first, then Cloverdale. We immediately made many cost adjustments to prepare for this downturn, but sales dipped more than we budgeted for in 2008 and 2009. The decrease in Canada was tempered by strong architectural sales in BC for the Winter Olympics, held in Vancouver in early 2009. The US, however, took a greater blow, with an extraordinary 56% decline in new housing starts and a 32% increase in bankruptcies. These bankruptcies included many home builders and developers going out of business, which would continue from 2008 to 2011. Rodda felt the full impact of this downturn, with a decrease in sales of 21.2% for 2009. Consolidated sales were down 10.5% and the pre-tax/pre-profit-sharing profit was down 43%.

Behind these consolidated numbers, Canada took a large hit on industrial sales, off 24% by year end. As Canada is an exporter of original equipment manufacturer (OEM) goods, the recession immediately hit these companies and, as a result, our coatings sales decreased. Dealer sales declined by 14% and the Canadian trade held well at negative 6.8%.

A serious downturn and a serious challenge to all businesses.

Management on both sides of the border saved the day by reducing discretionary expenses dramatically. We weathered two plant closures in Canada, the former Tower and Northern plants, which had been planned for and announced prior to the market crash. These involved some employee transfers and many retirement and termination packages. We also persevered through some staff terminations, no cost-of-living increases, reduced hours in the branch system and absolute cuts to advertising and promotional expenses. A great deal of customer entertainment was curtailed and many discretionary expenses were chopped, including travel, memberships, advertising, cash scholarships, corporate donations, sales aides and customer promotions. These cost cuts reduced expenses by 9.9% consolidated. Rodda cut costs by an amazing 15.4%. While our profit of $8.8 million in 2009 was down from $11.9 million in 2008, we would not have made this profit at all if expenses had not been reduced by a similar amount. The employee profit-sharing result in Canada was $5,168 per employee. This was well received after the stress of cost restraints.

The second dramatic initiative in 2009 was an aggressive approach to inventory and receivables reduction resulting in $23 million to positive cash flow. This, plus the earnings, contributed a total positive cash flow of $35 million by the end of 2009. A key part of this initiative was a targeted attack on slow-moving inventory that had been accumulated during the previous five strong years. This action achieved good results but the program will take several years to flush out all of the "doggies" in paint, sundries and resale items.

There was lots of good news in this difficult recession period: Cloverdale and Rodda sold products to a number of high-profile jobs and continued to maintain a significant market share. In BC this included the Richmond Olympic Oval for Winter Olympics speed skating (we sold Horizon, Ecologic, Epoxy, Rustex, Block Filler and ClovaThane); BC Place Stadium (the opening and closing venue for the Olympics); the Vancouver Convention Centre; the Olympic Village (The Rise) and the Athlete's Village in Whistler; and four major Hollywood movies.

New industrial customers and trade projects included Tigercat heavy equipment manufacturer in Ontario, Thermal Design/KLA project in Russia, Queensland Gas in Australia, Safwan Petroleum in Kuwait and ENX Compressors in Mexico.

Rodda also supplied some very high-profile projects including Joule Apartments in Seattle, the Springfield Jail and the Washington DOT Pigmented Highway Scaler.

These and many more sales made 2009 a good year in spite of the brutal recession. Many employees had never been through a recession before, adding to the challenge of the experience. No new stores opened, no acquisitions, just hard work and belt-tightening. The cash flow work was very beneficial to the balance sheet. We ended the year with no operating bank debt and cash in the bank. We carried a long-term bank debt related to the Guertin acquisition and long-term shareholder redemption debt.

The role of Product Care, the non-profit organization managed by paint industry volunteers, was expanding at this time. In 2009 Oregon was the first US state to enact environmental legislation with regard to the paint industry and American Coatings appointed Product Care as project manager. Product Care would also serve as program provider or consultant in California when that state's legislated program started in 2012, and in Connecticut in 2013. Product Care has had a variety of involvements in other jurisdictions as well, including Alberta, Nova Scotia, Saskatchewan, New Brunswick, Ontario and Manitoba, and now in Newfoundland.

Some very positive employee hires included Ian Chubb in Vancouver. Ian had been the Trade Sales Manager for ICI and joined us as a sales consultant. His work has increased our BC trade sales. Rodda

hired Jason Laurence, who had worked for five years as a sales rep for Sherwin-Williams and the last six years as sales manager in Washington State. Rodda also had the benefit of hiring several former Columbia Paint salespeople.

Parker Paint announced the closure of their plant in Seattle-Tacoma in 2009 along with some stores in Oregon. United Coatings in Spokane ceased manufacturing and moved operations to Arizona, and Aspen Paint Co. in Seattle closed their doors. ICI reduced their presence by closing branches from 2009 through 2011.

The 2009 regional sales meetings were held: two on Vancouver Island and one each in the Interior, the Lower Mainland, Edmonton, Calgary, Saskatoon, Winnipeg and Montreal. Geoff Phillips was awarded the Warren Gee Memorial Salesman of the Year Award. These regional meetings replaced the cancelled corporate sales meeting. Not only were they held at a much lower cost, the smaller size of the regional groups allowed for greater communication and excellent relationship building.

Cloverdale completed 2009 in a very satisfactory manor in spite of the economy.

2010 Update

In 2010 we continued to operate in the recession cost-constraint model of 2009. The company again conducted regional sales meetings at a much lower cost than for an annual sales conference.

The Canadian Division received a financial lift as the Canadian dollar rose dramatically against the US dollar. This increased the gross profit in Canada due to raw materials being purchased in US dollars. By year end our profit improved 32% over 2009.

Jim Mills was hired as an industrial sales consultant for BC and Washington State. His sales results are outstanding. Jim is a former BC Lions football player and a member of the BC Sports Hall of Fame. He is part of the Mills Paint family that sold to Sico.

In 2010 Cloverdale achieved a 6% net profit. The big news for the Canadian employees was that the DPSP (employee profit plan) had been paid a total of $32,500,000 since its inception, including the 2010 payment. As of late 2010 after many retirements, terminations and employees only 'defering' 50% of the annual payments, the fund stood at $13 million for the Canadian participants. The 2010 profit-sharing payment per employee announced in the spring of 2011 was a record payout of $6,900 per full-time employee. With the recent acquisitions and hires, the total number of employees in the Canadian plan was approximately 700. Canada fared better on sales and profit, with sales increasing slightly over 2009. The consolidated 2010 sales in Canada and the US were slightly below 2009.

We closed the Country Hills branch in Calgary in 2010, having opened a new branch in Northwest Edmonton in 2008, just prior to the recession.

Rodda continued to take a hit on sales, decreasing 9.1% in 2010, but breaking even thanks to excellent cost control. Rodda strengthened their management staff by hiring Steve Gordon. Formerly the VP of Sales for Columbia Paint, Steve was given credit for increasing Columbia's sales by over 150% in 11 years. This hire resulted in a long-range business plan to expand our US branch chain in Eastern Washington, Montana and Idaho in spite of the recession. We had opened in Kennewick two years before and it was gaining speed along with Spokane and Coeur d'Alene, adding new staff and customers. The first new branch in 2010 was opened in Wenatchee in September. This was an extremely successful opening with a very large customer attendance at the barbeque. Many trade customers opened accounts and the community response was excellent.

Rodda benefited here and throughout Eastern Washington with the Sherwin-Williams purchase of Columbia Paint. Sherwin-Williams closed the Columbia factory, terminating many managers and employees. We had the good fortune of hiring some of their highly experienced personnel for store openings and expansion, including Jim Boersma, now our Eastern Regional Manager.

2010 realized two Director retirements. Bob Mair had served as a shareholder and independent Director since 1986 and will be missed. His contribution, along with Allan Laird's, was well appreciated over his 24-year tenure. Tom Braden retired as a Director in 2010. Tom Braden and his wife Whitny were very good business friends for years prior to our acuisition/merger. Tom is a second-generation owner and succcessfully built a fine family firm, Rodda Paint, in the US Pacific Norhtwest. Over the years Tom and I often talked about merging our similar and complementary companies. This plan was realized in 2004. Tom served as a director and major shareholder in the new Cloverdale Rodda firm until his retirement in 2010.Tom provided a smooth transition of ownership control for Rodda to Cloverdale and offered excellent mentoring to Bill Boone. Bill Boone was appointed President and COO of Rodda and a Director of Cloverdale in June 2010.

Several notable staff retirements occurred in 2010. Chuck Kothari had managed store #50 in Edmonton, our largest-volume branch. Chuck retired after 31 years of service. Ken Pitterson, an industrial salesman from Guertin, retired and was replaced by Sean Guertin from the lab. In October, Phil Guertin, former owner

Al Mordy, Scott Cuthbertson, Wink Vogel, Martin Bachand and Alex Drody, 2011. Scott was the winner of the Warren Gee Memorial Architectural Salesman of the Year. Martin was the winner of the Industrial Award.

of Guertin Brothers, retired. Phil continued as the Guertin plant manager after we purchased Guertin in 2008, providing a smooth transition of ownership to Cloverdale.

2011 Update

Keith Day sat as an observer on the Cloverdale Board of Directors in 2011 and became a Director and shareholder in June of that year. Keith is the CEO of Wesgar and a former officer of Canadian Helicopters. The company strives to have two external non-family directors on the Board along with representatives from the Vogel family and senior management. We believe this mix provides strong leadership and a professional approach to managing Cloverdale Paint Inc. and we welcome Keith to the Cloverdale board of directors.

In the first quarter of 2011, many Canadian and US branches showed sales increases over 2010.

As of August 31, 2011, sales strength has increased. In Canada 30 branches and sales desks were up 5.3% for the year. The month of August showed an impressive 158% sales increase among 45 of our best performing branches and sales desks. This shows a trend towards a stronger finish to 2011 than the first six months of the year

The added good news is a turnaround at Rodda to August 31, 2011. A total of 34 branches and sales desks were up 9.2% year to date, with August up 20.2%. This does, however, include four stores newly opened in Eastern Washington, Idaho and Montana. Kennewick is the bellringer for the largest increase in mature stores at 101.6%. Mid year, Bill Boone negotiated a 40% reduction in the large 29,000 square foot Eastside Portland branch. This size and cost is now very managable for their flagship operations.

A fortuitous new industrial business opportunity was developed by Brian Johnston and Becky Morse in June and July with an industrial coating product for TransCanada PipeLines. This could relate to the Keystone Pipeline project from the Alberta Tar Sands to the oil refineries in Texas and Louisiana. The first sales were in August to Alberta, Saskatchewan, Texas and Louisiana. We are producing 10,000-gallon batches of this product.

The strongest segment in 2011 is industrial sales, led by the oil and gas industry in Alberta, BC and Saskatchewan. Quebec and Ontario industrial is also strong. Eight of Cloverdale Paint's nine branches with increases greater than 20% are mostly industrial. This feeds the optimism that the economy is close to a turnaround. The trade sales in Canada are weaker in 2011 and we are experiencing some serious challenges from competitors.

Many management initiatives are improving

The 2011 Board of Directors: *Back row* Kieth Day, William Boone, Allan Laird, Noelle Vogel, Timothy Vogel. *Front row* Alex Drody, Wink Vogel, Al Mordy.

production and product quality, both in industrial and architectural products. The company is investing in improved personnel management and training. Tracy McDonald was promoted to Regional Training and Orientation Coordinator. In April of 2011 Chris Fowlie was appointed Area Manager for the Lower Mainland, splitting Kevin Pidduck's territory. Mark George was appointed as the BC Industrial Sales Manager.

In March 2011, Rodda delivered a well-received sales training course to all US salespeople. An increase in advertising was introduced in core markets to bolster Rodda's brand awareness and acceptance. Rodda is working on an introduction of key Cloverdale/Guertin industrial products into selected US locations. This coincides with a business plan of target account listing and a sales program for industrial coatings. Rodda's long-range plan is to consider continued corporate branch expansion in their eastern division, with additional new openings planned for 2013 forward. Rodda held their one-day conference in Washington State in late February 2011.

Three new Rodda branches were opened mid-2011: Idaho Falls, Idaho; Missoula, Montana; and Yakima, Washington. Additional key hires were several former Columbia and Sherwin-Williams salespeople in Kennewick and east Washington. Our sales to August 31, 2011, were up over 100% in the Kennewick Tri-cities branch.

The Cloverdale Paint/Rodda board of directors made a strategic decision to invest for the company's long-term benefit. While the US recession was more severe than Canada's, this created an opportunity for market share growth that may no longer exist if Rodda waited for greater financial strength. Columbia and Sherwin-Williams have duplicate branches in 95% of Columbia's territory This begs their decision to consolidate many branches. The opportunity existed at this time because of the recession and specifically because of Sherwin-Williams' acquisition of Columbia Paint. Their approach to the takeover of Columbia included the plant closure and termination of many senior executives, which in turn created an opportunity for us. Many Columbia employees and customers had experienced a negative impact with plant and store closures, giving us the opportunity to hire good staff and invest in Rodda's future. This has proven to be the case in Kennewick, Yakima and Wenatchee in particular. We are optimistic it will continue. We recognized that the US division would have larger losses in the short term if we invest in advertising, promotion, personnel and branch expansion. All of these factors usually cost money for the breakeven period of three to five years for new branches. Corporately, we can well afford to incur these losses for the long-term benefit. The board of directors can view the investment in comparison to a small acquisition.

Kelly Moore announced the closure of six branches in Oregon in June 2011. They had a strong market share in Western Washington and Boise, Idaho, and opened these Oregon branches just before the recession hit — unfortunate timing for a market entry.

The raw material supply and escalating costs have been a problem all through 2010 and 2011, starting with shortages related to latex resin, additives and

titanium. Price increases have been necessary due to the rapid inflation on these raw materials. The technical and production staff have provided excellent management during these serious shortages, maintaining production in spite of them. Serious hedge buying has increased our inventory investment due to large cost increases in 2011.

As a result of the positive cash flow from 2009 and 2010, we have now paid off the bank term debt, eliminated operating bank debt and have considerable access to working capital for future growth.

We added three new awards to our Corporate Scholarship Program, at the University of the Fraser Valley, Okanagan College and West Point Grey Academy in Vancouver. We also reactivated the annual cash scholarships that were suspended in 2009.

In Victoria in early February 2011 Cloverdale held its first sales conference since February 2008. One hundred and sixty Canadian sales staff and management attended, plus senior management from Rodda. This was the first Cloverdale sales meeting for the key staff from Guertin and Peintures Options Industrielles in Quebec. Several had never been to Victoria before. The highlight was the presentation of the Warren Gee Memorial Salesman of the Year Award, now split into two awards: architectural and industrial. Scott Cuthbertson of Calgary won the architectural sales award and Martin Bachand of Montreal won the industrial award. Both had an amazing year of total sales and new customer sales to sweep the awards from many high-performing salesmen. As we saw with this successful conference, there is great value in the business and social interaction of a consolidated meeting. We decided a sales conference to hold every second year, with regional meetings in between.

2012 Update

This year seemed to signify that Canada was coming out of the recession, even though economic uncertainty confirmed in the rest of the world. Our industrial coatings sales continued to be the strongest department in the company.

Cloverdale publishes an internal weekly update that lists the branches in order of the percentage sales increases over the same week of the previous year. One of these started at 54.7% increase with 28 branches total listed from the high of 54.7% to 12.2%.

The salesmen of the year for 2011 were Keith Reichert of Edmonton, with a spectacular year of industrial sales, and Chris Moore of BC with an equally great year of new accounts and sales increases in trade sales.

We commenced branch expansion in Canada with a new opening in Airdrie, Alberta, and in Port Albernie, BC. Boundary Road in East Vancouver opened in October and two in Alberta and Saskatchewan. Marissa Byer was hired as our Human Resources manager in the first quarter of 2012 and got off to a great start with "Employee feature articles" in the weekly update.

Rodda Paint similarly had many branches exceeding the year's weekly sales. In the first and second quarter the whole company experienced a sales increase over 2011. This is 13.3% up in Canada and 9.9% in Rodda to August of 2012. Eastern Washington continued our expansion with store openings in Kalispell, Montana, and Walla Walla, Washington. The company purchased a property in Coeur d'Alene Idaho to relocate the successful branch. The Vancouver north branch was closed. The company hired Michael Barnisin as a technical consultant. Mike has an extensive background as a wood finish chemist and was recently the technical director and plant manager for Akzo Nobel's Chemcraft manufacturing facility in Salem, Oregon, and Chico, California. He is working closely with the Surrey lab and industrial sales department to upgrade our wood finish product offering. Additional lab staff are being hired in Surrey and Winnipeg to keep pace with our increased sales activity throughout our territory.

Al Mordy announced the acquisition of Serif Coatings, a Missisauga-based industrial manufacturer with a 2.5-acre plant and 12 employees. Their business is in Ontario and the US selling to OEM manufacturers. Four Cloverdale employees are selling into this market and considerable industrial sales are sold and shipped from Quebec and Manitoba.

2012 ended with a new record of over $240 million consolidated annual sales with a profit of $16 million. The forcast for 2013 is for sales to exceed $250 million. Senior executive retirements anticipated at year end and in the second quater of 2013 include Brian Johnston, the Alberta Industrial Sales Manager, and Alex Drody, Vice-President and COO for Canada. Al Mordy announced a major reorganization of the senior management in the fourth quarter of 2012 to provide management focus that will see the company expand considerably over the next five years. This is an achievement all employees can be truly proud of. This book will be published in the first quarter of 2013, our 80th anniversary.