

IT'S ALL ABOUT MEMBER SERVICE OUR BUSINESS AND SUSTAINABILITY PERFORMANCE IN 2015: WHERE WE'VE BEEN AND WHERE WE'RE GOING

Mountain Equipment Co-operative (MEC) had a great year in 2015. We worked even harder to achieve our goal of helping people lead active outdoor lifestyles. We held more store events than ever, with over 116,000 members engaging in a range of activities, from triathlons to century rides. The Learn-to Camp initiative, in collaboration with Parks Canada, encouraged 1400 new campers to explore the outdoors, while Outdoor Nation events inspired and connected young adults to get outside. We also invested in better technology and processes to increase member satisfaction and give staff the tools they need to do their jobs well.

At MEC, it keeps coming back to service: making sure we are best serving members' needs in the activities we support, the gear we provide and, equally importantly, the staff who support members.

Our staff bring it every day to MEC: they have a true love for being active outside, and go above and beyond in their work by inspiring others with their passion. You can read their stories throughout this report. It's thanks to them, and to the ongoing support and enthusiasm of members, that MEC remains strong and vibrant. We couldn't do it without you.



"What's important? Coming to work every day with the firm conviction that our number one job is doing whatever it takes to fulfill the dreams of every member we encounter."

-Neil Jennings, MEC Calgary, Frontline Staff

MEC AT A GLANCE

ABOUT MEC

First established in 1971, MEC is Canada's leading specialty retailer of clothing, gear and services for active outdoor lifestyles, including hiking, climbing, cycling, running, camping, fitness, yoga, snowsports and watersports. As of December 2015, we had more than 4.5 million members, serving them at 18 stores in six provinces, and through mec.ca and mobile platforms. As a co-op, MEC is owned by members, who join by purchasing a \$5 lifetime individual membership.

WHAT GUIDES US

The MEC Charter sets out our vision, values and core purpose. It's what guides us along the path to our future goals and business decisions. We also follow international co-operative principles.

OUR CORE PURPOSE

We inspire and enable everyone to lead active outdoor lifestyles. We do that by selling outdoor gear, clothing and services. We match members with gear that suits their needs. But we offer more than products. We offer passion. We love to share our expertise, experience and enthusiasm. We're guided by our values: quality, integrity, co-operation, creativity, leadership, sustainability, stewardship, humanity and adventure.

OUR GOAL

We aspire to be the most viable, vibrant outdoor retail business in Canada. We want to bring about a future where Canadians of all ages, and especially our youth, play outdoors more often and in ever-increasing numbers; have access to a comprehensive, carefully nurtured network of parks, wilderness, and outdoor recreation areas; and have a deep-rooted connection to nature. We strive to continuously adopt and execute leading practices in environmental, social and economic sustainability, and set an example that inspires other organizations and individuals to do the same. In short, we want to leave the world better than we found it.

ABOUT THIS REPORT

At MEC, sustainability and business go hand in hand. We don't make a business decision without considering social, environmental and financial obligations – to the planet and to members.

This 2015 Annual Report is an integrated account of our sustainability and business performance: our operations, our financial performance, our social and environmental impacts, and how we address those impacts through our operations and the products we sell.

Our materiality issues – areas of our business that are most important to members and the health of the organization – guide this report's structure and focus. This report is also largely informed by KPIs based on Global Reporting Initiative best practices. These KPIs form a vital function: they keep us on track and show us where we need to improve (like factory violations) and what we're doing well (like increasing the number of environmentally preferred products). They're the measuring posts for our success, growth and integrity.

We mainly prepared this report for members and staff, as well as the business, sustainability, and co-operative community. For more information about our programs and how we calculated the data in this report, see mec.ca/sustainability.



"I love the excitement that members and staff get when they're immersed in the MEC experience. It's great that we have the highest quality outdoor goods to facilitate members' outdoor pursuits, with advice by staff who actually use the products."

-Peter Juknys, MEC London, Frontline Staff

HIGHLIGHTS OF 2015

\$366 MILLION IN SALES

OVER 12 MILLION PRODUCTS SOLD

4.5 MILLION MEMBERS

4.1 MILLION MEMBERS IN CANADA

**164 FESTIVALS, RACES, CENTURY RIDES
AND TRIATHLONS**

18 STORES IN CANADA PLUS MEC.CA

2189 EMPLOYEES

**80% OF STAFF WOULD RECOMMEND MEC
AS A GREAT PLACE TO WORK**

32 FAIR TRADE CERTIFIED™ PRODUCTS

**1400 PEOPLE PARTICIPATED IN
LEARN-TO CAMP**

2.4 MILLION POUNDS OF WASTE DIVERTED

\$5.4 MILLION IN SHARE REDEMPTIONS

\$3.4 MILLION IN COMMUNITY INVESTMENTS

**\$1.11 BILLION¹ CREATED IN DIRECT SPIN-OFF
ACTIVITY TO THE CANADIAN ECONOMY**

¹"Economic Input-Output Life Cycle Assessment (Canada 2002 [105 sectors] Producer model)," Carnegie Mellon University Green Design Institute, accessed Feb 16, 2016, <http://www.eiolca.net>.



MESSAGE FROM THE CHAIR

Our core purpose is actually quite simple: inspire and enable people to become more active outside. Products and service are essential parts of our business, but they're only relevant when people are engaging in outdoor activities.

In 2015, we continued our strong focus on community events. Over 45,000 people crossed finish lines at MEC races, many of them first-timers, and nearly as many people joined us at local events that celebrated dabbling in the water, riding on two wheels, and floating in fluffy white stuff (at MEC Paddlefest, Bikefest and Snowfest). Outdoor Nation and Learn-to Camp sparked new connections with young people and families, helping them play outside. These member-focused initiatives not only offer specialized learning opportunities, but also provide people with easy and cost-effective introductions to the activities.

Our purpose includes preserving places to play. Through Homewaters, we supported activities to raise critical awareness of freshwater resources. Through our Community Contributions program, we proudly donated \$1.3 million to grassroots and non-profit organizations working to protect ecologically and recreationally important places, and get more people stoked on the outdoors.

Critically important to me is leveraging our position and abilities to influence other organizations to effect change. By providing leadership and collaborating with other co-operatives and businesses, we foster development of our communities and set examples that inspire others towards environmental, social, and economic sustainability.

As we grapple with tough issues and diverse interests, we come back to this: Board members are MEC members, first and foremost. Our interests are 100% aligned in serving members by being intently focused on inspiring and enabling everyone to live active outdoor lifestyles. That's our starting point at the beginning of each day.

Sincerely,

Margie Parikh
Board Chair



MESSAGE FROM THE CEO

Every year at MEC is action-packed, and 2015 was just as busy. We were honoured to be named one of Canada's Top 100 Employers and one of Canada's Greenest Employers. *Canadian Business* deemed us Best Brand in Canada, and we received the Omni-Channel Award at the Retail Council of Canada's

Excellence in Retailing Awards. In a study by market research firm Ipsos, MEC was named BC's Coolest Brand. All of that is extremely gratifying, and we will continue to try to live up to those accolades.

Our sales growth was strong: we had \$366 million in sales by the end of 2015, an increase of 9% over 2014. This tells us we're doing a very good job of earning members' trust by providing them with outstanding gear supported by good service, so members can learn, recreate and prepare for their adventures, whatever they may be.

We're particularly pleased with the sales results, because the retail environment isn't getting any easier. We're seeing changing weather patterns, evolving technology and a more competitive retail environment. In many ways, it's tougher than ever. We need to stay smart, and continue to make sure we understand members' needs and serve them on their terms.

How are we doing that? People, product and technology. Developing and nurturing a culture of outstanding staff who continue to go the extra mile. Creating outstanding products that meet members' needs. Ensuring we have the systems and technology to help us meet the increasing expectations of members.

Our sustainability performance is also essential to our long-term success. There was much work on that front in 2015: sustainability requirements continue to be firmly embedded in our decision-making processes, our line of Fair Trade Certified apparel continues to expand, and we are collaborating even more with suppliers to improve social and environmental performance throughout our supply chain.

We continue to evolve as a smart, nimble organization. In a world in which expectations are constantly changing, we know we need to earn members' trust every day. We intend to go on doing that.

Sincerely,

David Labistour
CEO



YOUR CO-OP'S SCORECARD

MEC'S PERFORMANCE SUMMARY FOR 2015

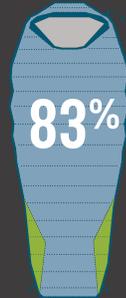
Goals achieved: ✓ Goals not achieved: ✗



ENVIRONMENTALLY PREFERRED

Products with PVC-free, or at least 50% recycled, organic cotton, or bluesign-approved content.

2015: ✓
2016 goal: Increase



83% BLUESIGN® APPROVED FABRICS

In MEC clothes and sleeping bags to lessen our impact on the environment.

2015: ✓
2016 goal: Increase (100% by 2017)



32 FAIR TRADE CERTIFIED™ MEC PRODUCTS

MEC paid into a special fund managed by the factory workers who made them.

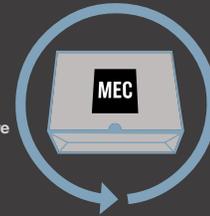
2015: ✓
2016 goal: Increase

0.925%

PRODUCTS RETURNED

Because they were defective (as a percentage of sales).

2015: ✓
2016 goal: <1% of sales



98.87%

IN-STOCK ITEMS

On the store floor and available for purchase.

2015: ✓
2016 goal: 97.4%



37.7%

ACTIVE MEMBERS

Of the members who made a purchase at MEC over the past 10 years, 37.7% of them made a purchase in 2015.

2015: ✓
2016 goal: 38.1%



\$3.4M

TO COMMUNITY INITIATIVES

As part of our 1% for the Planet commitment.

2015: ✓
2016 goal: 1% of sales (previous year)

90%

MEMBER SATISFACTION

Satisfied or very satisfied with service in stores.

2015: ✓
2016 goal: 88.5%



45%

FACTORIES MET OR EXCEEDED EXPECTATIONS

Based on our Code of Conduct standards for working conditions.

2015: ✓
2016 goal: Increase



74%

EMPLOYEE ENGAGEMENT

Our score in a survey that tells us how well MEC supports and engages employees.

2015: ✓
2016 goal: 74% (baseline measure)

4792 TONNES

CARBON FOOTPRINT

From product transport, waste, energy use, and business flights.

2015: ✗
2016 goal: Reduce



22.9M

LITRES OF WATER

Used in our buildings.

2015: ✗
2016 goal: Decrease

2.54

INVENTORY TURNS

Times we sold through and replenished our inventory.

2015: ✓
2016 goal: 2.34



2 FACTORIES WITH UNACCEPTABLE VIOLATIONS

We're working with them to correct these issues, or MEC will seek a new supplier.

2015: ✓ (down from 2014)
2016 goal: Zero



91.3%

WASTE DIVERTED

Recycled, donated or composted, instead of going to the landfill.

2015: ✗
2016 goal: 92%

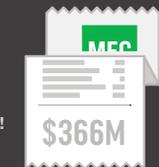


\$366M

ANNUAL SALES

Thanks for supporting MEC!

2015: ✓
2016 goal: Increase



GOVERNING MEC

As a co-operative, MEC has a democratically owned business structure. Members pool their resources to get access to products and services that support active outdoor lifestyles.

MEC is governed by a nine-member Board of Directors, which members elect. Three directors are elected each year to serve three-year terms. The Board works closely with the CEO and senior management team to provide vision and strategy for MEC. Major decisions, such as capital expenditures (new stores and systems), are made by the Board as a whole. The Board structures its work through various committees: Finance and Audit, Nominations, Governance, and Human Resources and Compensation.

Since we're a co-operative, we function in a different way than regular retailers. We don't chase quarterly profits; we consider the wider impact of what we do. That means we don't ship a product without considering its carbon footprint. And we only buy organically grown cotton for MEC-label products – not because we *have* to, but because it's the right thing to do. All of this occurs because of the way we govern the Co-op.

In 2015, we strengthened our director development and risk governance practices. We also revised and improved our strategic planning processes, allowing us to better prepare and react in the ever-changing world of retail in the context of our long-term interests as a co-operative. We continued to ensure we have the right policies and framework in place so that staff are encouraged and supported in their work, which means they, in turn, can enable and inspire members.

The 2015 election saw our highest voter turn-out in 16 years, with 48,680 members voting. A whopping 44% of them were first-time voters. We're doing a better job of speaking to members about the importance of the election and making the process more compelling and easier. While these election results are good, they still only represent a fraction of members (1.12%), so we'll continue to work even harder to retain past voters and engage new voters.

For a more detailed governance disclosure report, including Board processes, and nomination and election information, please see mec.ca/annualreport.

OUR BUSINESS MODEL AND STRATEGY

MEC is a Canadian-based retail co-operative with a well-established private label and a global supply chain. We are largely driven by co-operative values. Our business model is guided by a commitment to serve the membership and be socially and environmentally responsible, but we also must remain financially viable in an increasingly competitive world.

Our strategy is to provide innovative, appealing products that represent outstanding value for money. This strategy is driven by our attention to quality, service and the social and environmental footprint of our products and operations. We encourage participation in the outdoors through events such as runs and training courses. We remain committed to our sustainability initiatives, which are a key element of our decision-making.

We also rigorously apply a long-term view to our decision-making so we can provide value for members now and in the future. We don't just look at the business case of what's going to pay off right now. We have a very disciplined approach in where we're going and where we should invest, and do that by staying in close touch with MEC members and our communities. We continually steward MEC in members' best interest.

"Why wouldn't I try to make members smile, or even better, laugh? It makes my day to know that I've made someone else's day. It would be a disservice to myself if I didn't do my very best to help someone out."

-Jaime Chong, MEC Head Office, Service Centre Representative



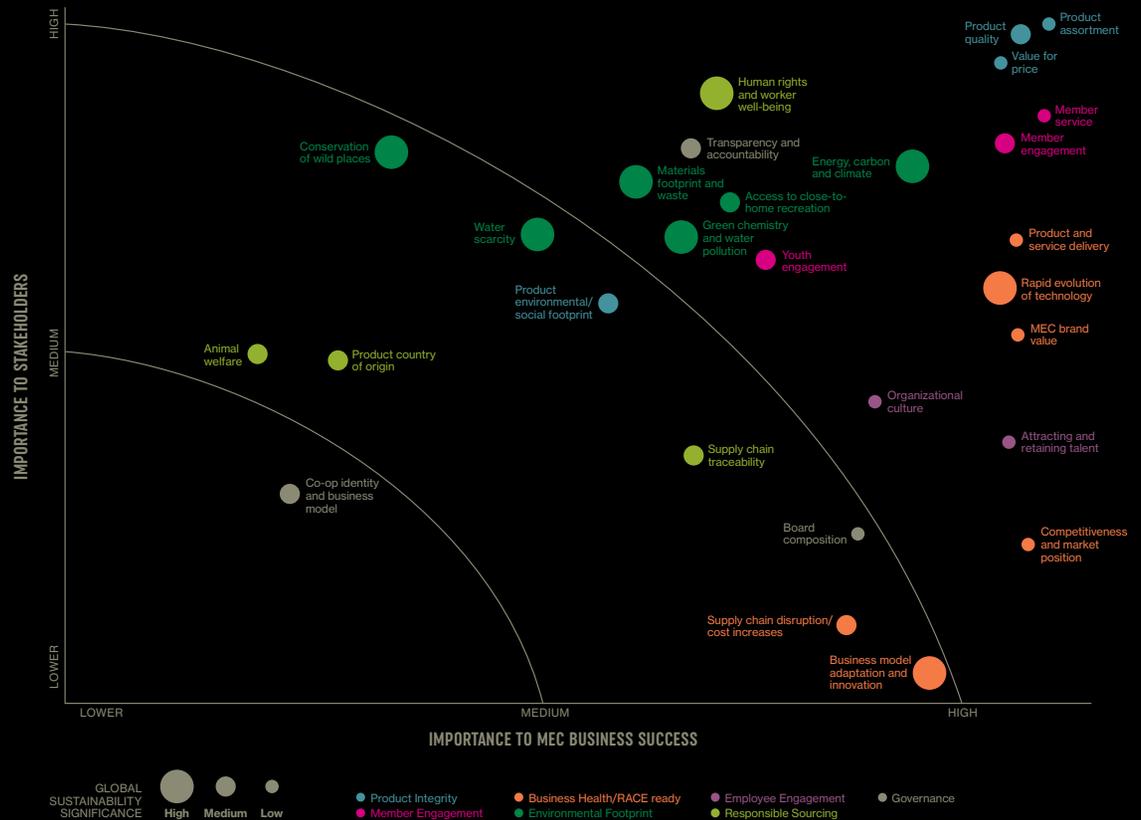
MATERIALITY AND APPROACH TO RISK

We update our material issues annually to focus on areas that help us remain a sustainable and economically viable business. By clearly understanding our business model and what's most relevant to members and stakeholders, we can mitigate our biggest social and environmental impacts and risks, and prioritize our strategy and reporting.

For instance, apparel manufacturing uses a large amount of water and chemicals for textile processing, so we work to mitigate our impacts by buying organically grown cotton and partnering with organizations such as bluesign®. And because we operate stores and a distribution centre, and ship products all over the globe, we focus on our carbon footprint and increasing our efficiency. We know that apparel and gear manufacturing is a labour-intensive process, so our decisions have the potential to positively and negatively impact the lives of workers who don't work directly for MEC.

MEC's risk factors are largely around increased competition and changing consumer habits, particularly the way people spend their leisure time and the amount of time they spend outdoors. To manage risk, we govern the Co-op in the most prudent manner, remain nimble, and maintain a lean business. We also look at sourcing materials and manufacturing products that members can trust. In doing so, we become less prone to large disruptions within our supply chain.

2015 MATERIALITY



2015 PERFORMANCE

OUR PRODUCTS

We ensure we have the best selection of quality, functional products, with new and innovative offerings, and great value for dollar.

We started 2015 with a very warm winter (which translates into declining snowsports sales) in the west, while it was cold in the east. A competitive environment meant that lots of retailers were vying for sales. We worked hard, though, and our efforts paid off: our 2015 overall sales growth was 9%.

Much of the reason for our success is because we stay true to our roots. The Co-op has gone through many changes over the years, but our core activities – climbing, paddling and backcountry skiing – are stronger than ever.

We saw an increase in camping, both in terms of participation and members looking for quality gear that lasts. We also trialled downhill skiing products in Ottawa, Toronto, Montreal and Calgary, and are pleased to be better serving these members.



"We do a lot of testing – more than a lot of other brands – but even with all the testing in the world, sometimes a product can fail to meet members' expectations. When this happens, I'm not content until I've found a solution. It's about making great products members can rely on."

-Mark Knight, MEC Head Office, Senior Equipment Designer

HUMAN RIGHTS AND WORKER WELL-BEING

Our gear must be made in a way that respects the people who manufacture it. Through our Responsible Sourcing Program, we work to improve factory conditions, including legal working hours, safer environments, and reasonable pay for work done. MEC is one of only 23 organizations in the world to achieve accreditation from the Fair Labor Association (FLA), a global organization dedicated to protecting workers' rights around the world.

We continue to improve our sourcing practices through initiatives such as:

- A comprehensive sourcing strategy
- Close collaboration with factories
- Factory audits
- Supplier training to remediate issues
- Partnerships with organizations such as the International Labour Organization's Better Work Program
- Participation in the FLA's Sustainable Compliance Initiative, a comprehensive assessment system for measuring factory management system practices

Sourcing strategy

Our sourcing strategy, updated in 2014, is designed to increase accountability at the factories we partner with. It uses a tiered system that ranks factories according to criteria such as safe working conditions, quality, management, delivery, development and participation in the Higg Index. This new sourcing strategy has enabled us to elevate our factory base; the best-run factories in our industry often have a wait-list of companies wanting to work with them and they carefully select brand partners with cohesive business plans.

Factory audits

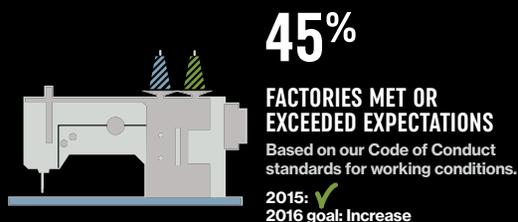
Our goal is to have zero factories with outstanding unacceptable violations. Over 2015, we found unacceptable violations in ten factories. We worked with our factories to resolve eight of these violations. After repeated attempts to remediate with one facility, we have decided to discontinue business with them. At the other factory, we've deemed the workers' risk level to be low, so we'll continue our active collaboration with the goal of reaching a remediation agreement.



Although we strive to achieve a 100% target of factories that meet or exceed our expectations, the reality is that the supply chain is tremendously complex. We're continually refining our supply chain partners to ensure that we're manufacturing in the best facilities for quality, social responsibility, delivery, and other criteria. Our approach has always been to work with factories to remediate issues, rather than moving our business elsewhere.

In 2015, 45% of our factories met or exceeded our expectations, compared to 38% in 2014. However, it's important to keep in mind that MEC has high expectations for factory conditions, and is actively working with the factory base to evolve and elevate it.

We implemented stricter fire and building safety standards in 2013; these higher standards are one of the reasons we haven't yet reached our overall goal of all factories meeting or exceeding expectations. Some of the results might not look good on paper (for example, there are now more factories rated with high-concern violations), but they do mean that we're continuing to raise the bar in our supply chain



performance. As well, we continue to work directly with factories by sharing best practices, training, and analyzing root causes to support them with remediating violations.

Having said that, our source base is still dynamic. In the course of doing business, we continuously add and remove factories, and we audit on an 18-month cycle. This makes it difficult to conduct a straight year-to-year comparison.

Common audit standards

The number of industry-wide factory audits continues to rise. As a result, brands and retailers often overlap in their efforts to audit factories. This means that multiple companies often audit the same factory, and bring forward often-conflicting recommendations, which creates undue work for factory management and results in audit fatigue.

Our goal is to establish a common assessment tool to improve factory performance on global standards through consistent communication from brands. We also want to create a more sustainable model that will reduce resources and duplication by brands around monitoring, follow up, factory training and capacity building programs. In 2015, 58% of our audits were shared and/or accepted by other brands and programs such as Fair Trade USA, the FLA and the World Federation of Sporting Goods Industry.

We're also committed to creating an industry standard for shared audits. We support the Social and Labor Convergence Project through the Sustainable Apparel Coalition, which aims to bring brands, retailers, manufacturers, multi-stakeholder initiatives, NGOs, union representatives, standard holders, audit firms and other stakeholders in the textile and footwear supply chain together to create a unified approach to social and labour assessments.

Clear Voice Worker Hotline

In 2015, we launched a pilot of the Clear Voice Hotline Service to nine factories in China. We timed it in conjunction with the audit cycle to create a more efficient process. Through Clear Voice Services, workers are provided with a toll-free phone number to voice grievances and concerns. Urgent issues are reported to our factory liaison and MEC within 24 hours, and worker grievances are addressed as they arise.

As a result of the pilot, one of our factories opted to go even further and conducted their own survey to gauge worker satisfaction. MEC supported them by introducing Elevate Limited (a business-driven sustainability firm) to co-create and execute the survey. In 2016, we'll help analyze the results and set future goals.

In 2016, we'll explore a more multi-faceted approach to our Clear Voice Hotline, including factory training and guidance, use of the audit process to assess a factory's grievance mechanisms, and use of an external communications channel.

FLA training

In 2015, ten participants from MEC factories in China participated in a week-long fire safety training program led by the Fair Labor Association. This program, accredited by the Institution of Occupational Safety and Health, helped prepare workers to serve as factory-level fire safety facilitators who are able to train fellow workers on fire prevention and protection, and advance a culture of fire safety in factories. In 2016, we'll assess the training and determine whether we will continue with this program.

Fair Trade Certified

A few years ago, we became one of the first major brands to partner with Fair Trade USA by offering an in-house line of Fair Trade Certified apparel. Manufacture of these items provides tangible benefits for the workers who make them. For every Fair Trade Certified product we sell, MEC pays a cash premium into a special fund managed by the workers directly. Workers use a democratic process to decide how to best spend the special fund, whether it's enhancing local community services or using it as a cash bonus to bolster their income.

In 2015, we dramatically expanded our line of Fair Trade Certified clothing. We went from 2 styles to 32 Fair Trade Certified styles, which exceeded our target of 4 styles. Seven of these styles were available in stores and online in 2015, and all 32 styles will be available for members in 2016. We used two Fair Trade Certified factories in India – one in Madurai and one in Pithampur – which means our entire supply chain in India is now working with Fair Trade USA. In 2016, we'll start work with Fair Trade efforts in Thailand.



FAIR TRADE CERTIFIED™ MEC PRODUCTS

MEC paid into a special fund managed by the factory workers who made them.

2015 goal: ✓
2016 goal: Increase



"We work hard to get fast, accurate deliveries to members. I know that many of our members don't live close to our stores. Reaching out to them is an act of 'democratizing' the outdoors and bringing it to them."

-Félix Lemaire, MEC Longueuil, Floor Coordinator



PRODUCT SUSTAINABILITY

In our industry, there's a lot of talk about how to make a business case for sustainability. For us, the business case is about *quality*. If we don't have quality products, then members won't come back to us. A quality product isn't just about performance fabrics and construction; it's also about ensuring the materials and the material manufacturing processes are environmentally sound.

We continue to reduce the impact of our products, which represent the single largest part of our environmental and social footprint. In 2015, we extended our material approval process to include detailed specifications for the use of environmentally preferred materials and processes within our supply chain. This ensures more due diligence in our sourcing efforts, and sets up clear expectations and agreements with suppliers who want to do business with us.

Sustainable Apparel Coalition and Higg Index

We're a founding member of the Sustainable Apparel Coalition (SAC), a coalition that now represents 40% of global apparel and footwear organizations. We're adopting the SAC's Higg Index, a groundbreaking industry tool that will help measure the environmental and social performance of apparel and footwear products. MEC has been an active contributor to the development of the methodologies and tools that make up the Higg Index. Ultimately, the goal of the Higg Index is to understand and quantify sustainability impacts, and to create a common way of communicating sustainability to consumers. In 2015, we continued to pilot the Higg Index's social and environmental assessments in our supply chain.

Bluesign

We continue to work closely with bluesign, an organization that has established environmental best practice standards and operating systems for the textile supply chain to minimize the negative impacts of textile processing on the environment and human health. These impacts include air emissions, water use, wastewater discharges, physical waste, soil and groundwater contamination, and workplace safety. In 2015, 83% of MEC apparel and sleeping bag fabrics were bluesign approved, a 9% increase from 2014. Of the product styles we sold, 1524 were made with environmentally preferred materials (compared to 1068 product styles in 2014). Our goal is for 100% of MEC-label materials to be bluesign approved by 2017. In addition to apparel and sleeping bags, we're also extending the use of bluesign materials into hard goods, such as packs.

We also encourage our suppliers – from raw material suppliers to factories – to expand their catalogue of bluesign-approved materials for all of their customers. Finally, we continue to bring in more brands that share our commitment to bluesign, which builds momentum towards scaled change, and offers members more products made with environmentally preferred materials.

Wholesale Brand Partner Sustainability Program

Through our Wholesale Brand Partner Sustainability Program, we aim to increase awareness and share best practices with our partners and suppliers. We want to encourage widespread industry adoption of chemical and environmental management systems in manufacturing (e.g., bluesign system), the use of environmentally preferred materials in product (e.g., organic and recycled materials) and the use of industry-wide social or environmental performance assessment tools (e.g., Higg Index).

In 2015, we continued to expand our engagement with brand partners to advance sustainability conversations. We're finding it's most effective to engage industry partners throughout all of our working relationships, and not just through CEO-level conversations. As we found that CEO-level conversations weren't the best indicator of performance, we're no longer including that measurement as a KPI in the annual report.

Energy use

In 2015, we had hoped to introduce some of our Chinese supply chain partners to a third-party program that analyzes electricity bills to find cost savings. Unfortunately, the company that created the program had a limited amount of staffing, so they were unable to support our request. Even though this program did not transpire, we continue to support our suppliers as they make improvements, both socially and environmentally.

Organically grown cotton

We only use organically grown cotton in MEC-label products. We were part of a group (consisting of the Textile Exchange and 13 other brands) that funded a Life Cycle Assessment (LCA) to investigate the environmental impacts of organic cotton. When compared to conventionally grown cotton, the findings showed that organically grown cotton has a 46% reduction in global warming potential, a 26% reduction in nutrients leaching from soil erosion, and a 91% reduction in blue water consumption (water withdrawn from groundwater or surface water bodies via irrigation), as well as 70% less acidification potential and 62% reduced primary energy demand. As a result of the LCA, we've seen more of an industry-wide push toward the use of organically grown cotton in brands, and will continue to encourage others to use it.

Down

MEC prohibits suppliers that make MEC-label products from using down or feathers from birds that have been subject to either live plucking or force feeding. Industry certification standards for down have recently come into place, and we're working with our down suppliers to ensure compliance with these new industry standards. We expect to have 100% of our down certified by fall 2016.

Responsible wool

The wool fibre used for MEC-label products (such as base layers) is mainly from merino sheep. We safeguard animal welfare in the wool supply chain by ensuring our suppliers confirm that the wool is from farms committed to upholding the Five Freedoms. (These include freedom from hunger and thirst; freedom from discomfort; freedom from pain, injury or disease; freedom to express normal behavior; and freedom from fear and distress.) Suppliers must also explicitly state they do not allow the practice of mulesing, and that the wool fibre sourced can be traced back to the farm upon request.

It's also vitally important to have a wool industry standard in place for external verification and credibility. We want to move the entire market in the right direction and create change beyond MEC. In 2015, we became part of a working group that has partnered with the Textile Exchange to develop a Responsible Wool Standard, which is targeted for mid-2016. Once the standard is implemented, we'll roll it out through our supply chain.

OUR OPERATIONS

Our operations include the systems, infrastructure and processes MEC needs to provide members with the right products and services, at the right time, in the right place, and at the right price. It includes product transportation and logistics, as well as the development and operations of our website and stores.

Plans to open new stores

To better serve members in Ontario, we'll be opening a 42,000 sq. ft. store in North York in fall 2016. In 2018, our Toronto store will be moving to the Queen Street shopping area. It will be a larger store with more environmental features, and will be closer to public transit.

Other store changes are also in the works. Our flagship Vancouver store will be moving to a larger, more environmentally friendly building in Olympic Village in early 2018 or 2019. We'll also open a new store in Kelowna in spring 2016, much to the delight of Okanagan members. For Edmonton members, we'll relocate our downtown Edmonton store to a larger location in 2017.

In 2015, to help manage these store expansions, we concentrated on building organizational resources to ensure a smooth roll-out, including leadership programs, new hires and new training. We also split the management of our stores into three regions – West, Quebec/Maritimes and Ontario – with regional managers overseeing each area. This gives us better hands-on management to support stores and e-commerce customers in each region.

Omni-channel service

Members expect a convenient, hassle-free shopping experience in which the path to purchase is simple and easy. We've developed a comprehensive omni-channel service model, so they can browse, find, buy, learn, communicate and get help in any channel or on any device anywhere. We're continuously investing in ways to improve members' experiences and ensure we have the best resources and technology in place. Over the years, we've also taken costs out of the supply chain, and made delivery faster and more efficient.

In 2015, we made significant investments into systems and tools to enable staff to serve members better. These systems, which will be implemented over the next few years, include mobile payments, real-time inventory, a targeted email system, improved communication and collaboration systems, and a new human management capital system. In addition, our new website will launch in the spring of 2016. Due to the nature of this ever-changing channel, the website will continue to evolve over the years.

In December 2015, in support of our omni-channel offering, we rolled out an in-store policy for members. If a store doesn't have stock in a particular product (and it's in stock somewhere in the organization), we'll send it to the member within three business days, free of shipping charges. This policy has proven to be extremely popular with members, so we will continue with it in 2016.

Eastern Distribution Centre

In late summer 2016, we'll open a second Distribution Centre (DC) in Ontario. Our current DC is in BC, which means that delivery to our eastern stores can take up to two weeks. With the new DC, 80% of our stores will get delivery in 48 hours. This will substantially improve service for eastern members, and will simultaneously reduce our carbon footprint from transport (see below).

Carbon footprint

We currently measure four areas of our carbon footprint (i.e., our greenhouse gas emissions): product transport, business flights, facilities energy consumption, and waste. Product transport makes up the majority of our measured footprint, roughly 60%. We include our inbound, outbound, and small parcel shipments in our transport footprint. There is a direct link between carbon footprint and shipping costs; more effective freight management reduces both.

Our carbon reduction goal for product transport is to achieve a 6% intensity reduction per year (as a percentage of revenue) compared to our 2012 baseline. In 2012, our emissions were 10.47gCO₂e/\$. In 2013, we achieved our intensity reduction goal and lowered our footprint by 6% to 9.84gCO₂e/\$. In 2014, our footprint slightly increased to 9.91gCO₂e/\$. In 2015, our footprint rose again. Our target was 8.7gCO₂e/\$, and our actual emissions were 10.68gCO₂e/\$.

We primarily use a combination of rail and truck transport to get products from the Distribution Centre to stores, but utilize a truck-only model when demand is high. In 2015, to ensure timely delivery, we used a truck-only model for part of the year, which increased our carbon footprint. The opening of a second DC in Ontario will mean we can better utilize the rail and truck model, and substantially decrease carbon emissions.

We're consistently trying to balance today's need to have product delivered as soon as possible, with concerns about the accompanying carbon footprint. However, we've made progress. We set renewed carbon footprint goals for our buildings and facilities, as well as business travel. We also incorporated a carbon price into our business planning and risk management strategies.

Our overall goal is to achieve a 35% reduction in emissions from energy use by 2017. We're doing this in several ways. One is through energy efficiency measures and improvement, including our energy-efficient green buildings. In 2015, we also ran a pilot with an energy and water monitoring dashboard that displays real-time energy and water data in stores. As well, we buy renewable energy certificates for several stores and Head Office, and will expand that in 2016 to include all of our facilities.

Water management

While our green buildings have had water-efficient initiatives in place for many years (e.g., rainwater cisterns, low-flow toilets), we've never measured our water use. In 2015, we started collating data collected from 2013 and 2014 to establish a baseline and identify gaps in our measurement systems, and set a target moving forward.

In 2015, the MEC Head Office received certification as BC's first salmon-safe urban building site for its progressive land and water management practices, including the on-site capture and use of rainwater, rain garden swales designed to filter storm water, and other environmentally friendly landscaping practices.

Waste

Our ultimate vision is to achieve zero waste – an ambitious goal that takes a lot of planning, monitoring and creativity. In 2015, we achieved a 91.3% waste diversion rate, just shy of our goal of 92%. In 2015, we also moved to a single national provider for our battery collection program to better track our diversion rates.

MEMBER EXPERIENCE AND ENGAGEMENT

By the end of 2015, we had more than 4.5 million members. To see how we're doing, we conduct member surveys and market research, and get feedback through our website, email, social media, and in-store comment cards. In 2015, our member satisfaction rate (based on in-store and online surveys) was 90% (an improvement from 89.2% in 2014).

Of the people who shopped with MEC in the past 12 months, 49% said they would recommend us to their friends and family. This makes us the top-ranked retailer in this category for the third year in a row.

However, to stay healthy as a co-operative, we need to not only serve existing members, but continuously bring in new members and inspire people to get outside. Below are some of the ways we're doing that.

Learn-to Camp

For the fifth year in a row, we collaborated with Parks Canada on Learn-to Camp, a co-branded initiative aimed at helping people enjoy camping while connecting to national parks and historic sites. An increasing number of Canadians live in urban centres, far from national parks and other protected places. As a result, they're often unaware of camping opportunities, including where to camp and how to use equipment. Through Learn-to Camp, we want to help break down those barriers to camping.

In 2015, over 1400 people participated in the program across 7 national historic sites and 12 national parks. Overnight workshops ranged from camp set-up to safety, and participants were provided with camping equipment for the night. On top of the nuts-and-bolts of camping, the program gave people the opportunity to unplug and explore nature in a fun, safe environment.

MEC Outdoor Nation

While MEC exists to inspire and enable everyone to lead active outdoor lifestyles, young people are showing the steepest declines in activity. This is why, in 2015, we continued to attract and engage 18- to 34-year-olds through MEC Outdoor Nation, a movement that focuses on getting young people outside.

In 2015, we held weekend summits in Toronto and Montreal, each of which brought together nearly 150 young adults. In addition to holding events, we launched and grew the MEC Outdoor Nation social channels on Instagram, Facebook and Twitter. These channels helped inspire an even larger group of people across the country to live active outdoor lifestyles.

Events and partnerships

Our store events are a wonderful way to connect with our communities and inspire people to get outside. In 2015, we increased the number of store events, and had over 116,000 participants (up from 88,000 in 2014). Thanks to their professional quality and affordability, these events have become extremely popular. They ranged from 5K running races to century rides, and attracted both beginner and experienced participants. We expanded the number of triathlons from one to five, had our largest century ride (in Calgary, 664 riders), our largest triathlon (in Langley, 309 racers), and one of our largest road running races (in Calgary, 1335 runners).

In 2015, to continue to ensure the safety of participants, we brought on a third-party firm to conduct a significant safety audit of our events. The results were gratifying: our store events were deemed to be extremely safe and professionally run. We were provided with recommendations for modest improvements, which we'll implement in 2016.

We also continued to sponsor events and activities outside of our stores, including the Banff Mountain Film Festival, the Vancouver International Mountain Film Festival, the Canadian Cyclocross Nationals, the Sea to Sky Gondola, GO Bike MTL, the Pentathlon des Neiges in Quebec City, and title sponsorship of Tour de Bloc, which is Canada's largest bouldering series.

In 2015, we forged several exciting new partnerships as part of our cycling and downhill skiing campaigns. Partners include the Midweek Cycling Club in Toronto as well as two of Canada's largest skiing destinations: Mont Tremblant Ski Resort and Lake Louise Ski Resort.



"Programs like MEC Outdoor Nation inspire and support people to lead active outdoor lifestyles, influencing both their personal lives and their communities. The more people who recognize and embrace these lifestyle changes, the happier and healthier our country becomes."

-Elyse Curley, MEC Head Office, MEC Outdoor Nation & BC Community Coordinator



2015 MEC EVENT HIGHLIGHTS

MEC

MEC

ACTIVITY PROGRAM
GRAND TOTAL
116,500+
PARTICIPANTS

44
FESTS

PADDFEST,
SNOWFEST,
BIKEFEST &
ICEFEST

96
RACES

39,550
RUNNERS

19
CENTURY RIDES

5100
RIDERS

MOST POPULAR RACE
CALGARY

1335 RUNNERS
5K, 10K, HALF AND FULL MARATHONS

TOO MANY
FINISH-LINE
BANANAS
TO COUNT



5
TRIATHLONS
710
PARTICIPANTS



FASTEST
MARATHON
TIMES

MEN'S
2:49:18

WOMEN'S
3:17:28



Grants

We are a member of 1% for the Planet, a global movement of companies that donate at least 1% of their annual net revenues to environmental organizations. Through this commitment, we donate 1% of previous year's sales to community causes.

In 2015, our 1% community contributions totaled \$3.4 million. This supported both outdoor recreation programs and expeditions, as well as organizations and initiatives that conserve ecologically and recreationally important places, or inspire and enable people to be active outside.

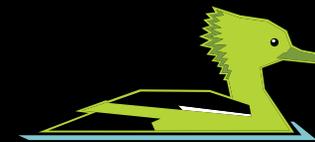
Some highlights:

- \$20,000 to the Outdoor Council of Canada to support their Active Schools Initiative, an outdoor leadership training and development program.
- \$10,000 to Montreal's Coopérative de solidarité de développement récréo-touristique Chic-chocs, to create safer backcountry access at Mont Lyall, a popular backcountry skiing destination.
- \$40,000 to Avalanche Canada for public safety programs, and an additional \$20,000 for their Cherry Bowl project, a microsite and film based on the Cherry Bowl avalanche and successful rescue operation. We've been a partner, sponsor and supporter of Avalanche Canada for over 20 years; over that time, we've contributed close to \$1,000,000 to support public safety.
- \$15,000 to the Alberta River Surfing Association for the upgrade and completion of two world-class river surf waves in Kananaskis, Alberta.
- \$10,000 to the Alpine Club of Canada to support Climbing Escalade Canada, a national youth competitive climbing program.

Homewaters

MEC Homewaters is a multi-year project dedicated to preserving Canada's fresh water from coast to coast. Homewaters provides financial support to NGOs that are on the front lines to protect our lakes, rivers and streams.

In 2015, our Homewaters campaign ran from late June to early September. As in 2014, the Canadian Freshwater Alliance was the primary beneficiary of MEC Homewaters. We focused our activities in Toronto, to coincide with the Pan Am and Parapan American Games. MEC was honoured to be the platinum sponsor of Water's Edge, a major public photography exhibition that was commissioned for the 2015 games. It featured six world-renowned photographic artists who donated their photos to a silent auction benefitting the Canadian Freshwater Alliance.



\$3.4M

TO COMMUNITY INITIATIVES

As part of our 1% for the Planet commitment.

2015: ✓
2016 goal: 1% of sales (previous year)

"As MEC staffers, it's important we bring our passion for adventure and the outdoors everywhere we go. To share our enthusiasm with others. It's what we all came to MEC to do – enable others to get outside!"

-Caitlin Brown, MEC Victoria, Outreach Coordinator



OUR AMBASSADOR TEAM

The MEC Ambassador program is made up of a group of passionate individuals who share our vision, beliefs and values. They're aficionados of the outdoor activities we promote, and help us create even stronger connections with the community investments we're making. They share their stories and experiences to inspire all of us to get outside and live life to the fullest. They're also our field test team, and their thorough product testing helps us develop, improve and refine what we offer to members.

In 2015, highlights included:

- Olympian Hugues Fournel, whitewater kayaker Katrina Van Wijk and MEC staff member Jim Willett helped spread the word about the Homewaters project. Willett also dedicated a local run initiative – he ran non-stop around Lake Simcoe in one weekend – to raise awareness about the importance of fresh water.
- As members of the Protect Our Winters Riders Alliance, Roz Groenewoud and Mark Sollors helped elevate awareness about the effects of climate change on skiing and snowboarding via a social media marketing and online awareness campaign.
- Photographer Reuben Krabbe continued to inspire members through his photography and stories, which appeared in-store and on our website. He also won an award for Photo of the Year from *Powder Magazine*.
- Olympian Clara Hughes made a personal donation to the Take a Hike Foundation, an education program that engages at-risk youth through a combination of adventure-based learning, academics and community involvement.

Read more about the team at mec.ca/ambassadors.

EMPLOYEE EXPERIENCE AND ENGAGEMENT

By December 2015, we had nearly 2200 employees. Fewer than half were full time, similar to past years. Our staff work at Head Office, our Service Centre, our Distribution Centre, and in our stores across Canada.

We consistently work towards being an outstanding employer with highly effective, knowledgeable and engaged employees. In 2015, we were once again recognized as being one of Canada's Top 100 Employers, one of BC's Top Employers, and one of the Greenest Employers in Canada. We're proud of these accomplishments – our staff are tremendously important to the Co-op and we want to keep exploring new ways to make MEC an outstanding place to work.

Our head office staff are enjoying our new headquarters, which was designed to enable activity. The facility includes a multi-purpose room for yoga, workouts and spinning, as well as a bouldering cave. The offices and meeting rooms are also equipped with better technology for communication compared to the previous space. All of these things reinforce our culture of activity and collaboration, and support our employees' interests.

In October 2015, we launched a new employee engagement survey process – the Pulse Check – that was our first major change to measuring engagement in over a decade. Like many leading organizations, we've moved from old-school thinking around employee engagement to better understand the things that shape how people feel about their role at MEC. For instance, do they understand MEC's purpose and how their work contributes to it? Do we have excellence in our teams, and are we surrounded by people who share our values and enable our success? Do we have the opportunity to learn and develop in our jobs? Do we have confidence in the future of our brand and are we proud to say where we work? We believe these drivers better reflect our culture and the realities of the contemporary workplace.

The survey had an excellent participation rate of 83%. Eighty-two percent of staff said they're proud to work at MEC, and 80% would recommend MEC to a friend as a great place to work. Some key takeaways:

The awesome: We share a passion for serving members and being active outside. We feel the support of the people we work with and are proud to work here. We understand MEC's purpose and how our work contributes to it.

The not-so-awesome: We're experiencing challenges that come with growth and change. We need greater clarity and consistency in our policies and procedures. Communication between management and teams could improve. And we need to make sure tools and resources are available where and when they need to be to do our work.

The results of the survey were released in late 2015, so we'll assess the responses and determine next steps for improvement.

Diversity

An ongoing challenge has been around diversity of staff. Our goal is to attract an even wider member base that's representative of the entire country. To do that, we know our staff need to be just as diverse. In 2015, we targeted potential candidates from a wide range of backgrounds through our hiring strategies. However, there is a lot more opportunity and work to do in this area.

Bring It

We continue to implement Bring It, an internal initiative which emphasizes that every employee has a role that influences how MEC is perceived. We want employees to see the connection between MEC's purpose and vision, and the things that they do. The goal is to bring a consistent approach to the organization and ensure we have a culture that looks and feels like the people we're trying to attract. In 2015, we integrated Bring It into our recruitment and performance management practices. In 2016, we'll launch an updated onboarding and recruitment strategy.

We're always blown away by how our culture is reflected by staff on social media. Through the hashtag #mecstaffer, our employees regularly share their personal experiences, both in and out of the workplace. In 2015, the number of #mecstaffer posts on Instagram alone grew from around 2000 to almost 8000.

Compensation

Our hourly wage rates are higher than the national retail average, and we remain in the 75th percentile of employers. We work to provide staff with a total compensation package that is both fair and progressive, and each year we get advice from Canada's top compensation consultants. We also closely monitor our wages against new legislation; in 2015, we instituted a 50-cent increase to the hourly pay rate of all our retail store frontline staff.

In 2015, we began implementing a new HR management and payroll system that will provide us with the best foundation to handle current and future growth, functionality and strategy. In addition, it will help us schedule staff and create a more efficient payroll process.

Health and safety

From March 2, 2014 to March 17, 2015, our Distribution Centre went over a year (380 days) with no time-loss accidents (compared to 307 days the year before), which is a stellar safety record.

MEC'S ECONOMIC CONTRIBUTION

As a co-op, we try to achieve a balance between having a healthy organization and making sure our member offering is as compelling as possible. We're not profit focused. However, we operate in the same market environment as other businesses and must have a robust balance sheet and sufficient annual surplus to enable us to invest in the future. We're also in a competitive environment and are aware that nothing stands still: we need to compete as hard as anyone else.

Our success depends on strong cash flow, effective movement of inventory, ongoing store development and productive use of floor space. It also depends on investment in product development and management of costs of goods, investment in appropriate information technology, employment and training of engaged store staff, and integrity and trust with members and stakeholders. We prioritize our investments and expenses to achieve this.

In 2015, our sales were \$366 million, a 9% increase over 2014. We're pleased that we saw such strong sales growth and attribute this to increased efforts with our omni-channel offerings, evolving assortments, and focus on member service. However, as a result of unexpected weather patterns, we needed to have aggressive clearances to move products, which affected our overall margin.

At the end of 2015, we owned \$284 million in assets (cash, inventory, property, accounts receivable and equipment). We owed \$101 million (payables, gift cards and lease obligations). Members had invested \$183 million in equity (shares). Our selling and administration expenses were 30% of sales, which shows that we continue to run an efficient operation. We had a surplus of \$3.3 million, before patronage dividends and taxes, or 0.9% of sales.

Carbon pricing

Since 2010, through rigorous tracking and reporting, we have put an internal price on carbon to integrate carbon costs (of product transport, facilities and travel) into our business decision-making.

Together, these factors inform MEC's position on energy development in Canada. We believe that Canada must design and support a forward-looking national energy strategy that provides a predictable path to transition to a low-carbon energy future.

In 2015, our carbon footprint from product transport, business flights, facilities energy consumption, and waste increased by 2.5% to 4792 tonnes of carbon dioxide equivalents (tCO₂e) from 4673tCO₂e in 2014. *Note: Our 2014 carbon footprint was adjusted from 4948tCO₂e to 4673tCO₂e due to a calculation error of our waste emissions and a required update of emissions factors from product transport.*

We don't report on employee commuting as part of our carbon footprint. We have the least control over this area and, as such, we do not set targets for it. To encourage bike commuting, we provide staff with suitable infrastructure such as secure bike storage, change rooms and showers. We also actively promote an alternative commuting culture through events participation (i.e., Bike to Work Week, Commuter Challenge).

Economic impacts

MEC's operations in Canada make a significant contribution to the Canadian economy. In 2015, we estimate that we created approximately \$1.11 billion² in direct spin-off economic activity through our operations, payroll, member spending on outdoor recreation, and community contributions.

Patronage returns and share redemptions

As a member-owned organization, we exist to provide value to members. One of the ways we do that is through patronage returns. Because MEC does not exist to produce profits, our gross earnings at the end of the year (surplus) are returned to members.

Each year, the Board declares a patronage return – a total portion of earnings to be returned to the membership. The total is divided between individual members based on how much money each member spent at the Co-op over that year. Each member's portion of the return is called a patronage dividend and is allocated to the member as a quantity of shares (each worth \$5). Every member has an account that shows the value of patronage shares held in their name.

The Board determines the financing needs of the Co-op. In the years when the Co-op's financial affairs are sound and the organization is adequately funded, the Co-op buys back patronage shares from its members' patronage accounts. We return the money to members in the form of a share redemption.

In 2013, the Board authorized a new approach to restructure share redemptions to ensure they're more consistent and frequent, and benefit even more members. Instead of issuing share redemptions by cheque, members now receive gift cards. In 2015, we issued our largest-ever share redemption: \$5.4 million shared among more than 160,000 members. Since 1971, MEC has completed 14 share redemptions totaling more than \$28 million.

² "Economic Input-Output Life Cycle Assessment (Canada 2002 [105 sectors] Producer model)," Carnegie Mellon University Green Design Institute, accessed Feb 16, 2016, <http://www.eiolca.net>.

LOOKING AHEAD

Working to provide exceptional service to MEC members will never stop. In 2016, as in future years, we'll continue to remain agile and responsive to their needs and preferences. We will strengthen our sustainability initiatives and work even harder to engage members. We'll do all of this while ensuring we stay financially viable, and invest in systems and tools we need to maintain our share of the market.

Most of all, we'll remain true to the Co-op and MEC members, and will always remember that, at the end of the day, it's all about getting outside. We look forward to seeing you there.

We welcome your feedback on how we're doing. Let us know what you think: info@mec.ca

