

REACH

2007 ACCOUNTABILITY REPORT

ABOUT MOUNTAIN EQUIPMENT CO-OP

Member-owned retail co-operative

Canada's largest supplier of gear for self-propelled outdoor recreation

Inspired by wilderness, passionate about activity

2.8 million members

11 stores across Canada

Vancouver, BC, head office

Bilingual website

1,387 staff

Just under \$240 million in sales

10.2 million individual products sold

Almost 50% of products sold are MEC-brand

Approximately 50,000 workers in contract factories around the world make MEC-brand product

97% members would recommend MEC

When we push as far as we can, we get beyond our comfort zone. It's a moment when we need to reach inside ourselves to find reserves that will take us further. Challenging ourselves opens up new horizons. It lets us attain our existing targets and goals, and set our sights on even greater ones. When we really stretch ourselves, we find that others are reaching forward with us, and that collectively we can achieve more than we can alone. With this report, we outline where we are now and describe how we're trying to reach further to affect change on a grander scale.

WELCOME FROM CEO AND CHAIR

Welcome to our 2006-07 Accountability Report. The theme of this report is “Reach”, because this reflects how, more than ever, we are pushing ourselves to be a socially and environmentally responsible retailer, and an icon of outdoor culture. Sustainability has been embedded in our roots since day one, but we



have to continually reach further – individually and collaboratively – to make a difference. Why is that? Our world is changing. Some of our upcoming challenges include economic uncertainty, tight labour markets, declining and changing nature of recreation (with implications for the products members need), natural resource shortages, and climate change. All of this accelerates the need to move to a lower impact business model.

To meet these challenges, we developed a new MEC Charter and three Long-Term Goals:

- 1. Activity:** To increase participation in self-propelled wilderness oriented recreation in Canada. This is our core reason for being.
- 2. Conservation:** To support the creation and stewardship of a comprehensive network of parks, wilderness, and outdoor recreation opportunities in Canada. Wild places are where our members play and are life support systems for the planet.
- 3. Marketplace:** To foster change toward environmental, social, and economic sustainability in the marketplace. This recognizes our role as a business.

In 2007, we articulated these goals in our Sustainability Agenda. This defines our leadership role and sets priorities for the next five years. Setting priorities is critical. We need to focus on the areas we can influence the most. For the next five years, while continuing to be a responsible retailer and commercially viable co-op, we will focus our attention on:

1. Reducing material waste and harmful substances in our products
2. Improving our energy, water and carbon footprint
3. Improving the human condition in our factories
4. Increasing a culture of recreation and activity in Canada, especially in relation to youth
5. Increasing conservation of ecologically and recreationally important places

6. Inspiring others and accelerating systemic change towards sustainability in the marketplace, by example, engagement and advocacy

These are far-reaching goals. However, we believe the targets we've set (and continue to set) are achievable.

Many positive things have transpired since our last report. We continue to attract new members and they express a high level of satisfaction with MEC (97% would recommend us to a friend). This has produced strong sales growth (21% since 2005), essential in ensuring we remain a viable co-op business and able to support our activity and conservation goals. We contributed \$2.5 million to community groups in 2007, more than double the amount from 2005. We have been successful in many environmental parts of our operations, such as a phenomenal waste diversion rate of 92%, and a 62% increase in the use of organically grown cotton. You'll find many more highlights throughout this report.

In other areas, trends are stubbornly stalled or going in the wrong direction. Transportation emissions climbed as did the carbon impact per square foot of our facilities. While we've had some response to our remediation efforts in ethical sourcing, we still find levels of code violations in our factories that are no better than the industry as a whole. Both product sustainability and ethical sourcing will be subject to new strategy development this year and next.

Since our last report, we opened a new Distribution Centre as well as a new store in Victoria. We're planning on several new locations as well as diversification into bike repairs and sales.

The co-operation, teamwork, and camaraderie that exists throughout this organization is truly inspiring. We are a diverse group, but we share common bonds – a passion for outdoor activities, great gear, and a commitment to environmental responsibility and social justice. These things tie us together; they also make us stronger and give us the courage to move on some of the big initiatives we're facing.

At the heart of our efforts is an emphasis on staying true to our roots: great gear, member service, sustainability leadership, and getting people outside. This report is an organization-wide effort to put our cards on the table. To celebrate our steps forward. And to challenge ourselves to go further. A special thank you to our Director of Sustainability and Community, Esther Speck, and to everyone who contributed to our efforts along the way.

David Labistour
(CEO)

Denise Lawson
(Board Chair)

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EXECUTIVE SUMMARY

Designed to follow the life cycle stages of our Co-op, through making and selling gear, we highlight our successes, challenges and realities from the past two years.

Our Approach. We renewed our purpose with a new MEC Charter and Long-Term Goals. Our Sustainability Agenda outlines goals and targets, defining our next horizon of activity.

Selecting and Designing Products. Quality is a given. Environmental responsibility is a daunting challenge. Our new product sustainability symbol helps members identify products with specific environmental features. We increased use of less harmful materials. And we're digging deeper, looking upstream at fibres, chemicals, and processes used by the textile mills. In 2007, 15% of the 48 mills we use were undergoing bluesign Environmental Health and Safety audits.

Manufacturing MEC-Brand Products. Where and how we source. Our \$54 million of MEC-brand inventory was made in 63 factories (mainly in Asia, and 30% in Canada). We're on track to release factory locations this year – a Canadian first. All factories sign our Vendor Code of Conduct. Thirty-four of them (representing 76% of product orders) were audited. We found 243 violations. We focused efforts on remediation, collaboration, capacity building, and worker empowerment training. Our results are mixed. We're reviewing priorities to release a new strategy in 2009.

Transporting Products and People. Getting gear to members. We saw a 6.4% decline in GHG emissions per unit of product shipped. But as our sales grew, so did our total carbon footprint: by 15%. We're setting ambitious targets for reduction. Employee commuting produced only 616 tonnes of emissions. This is thanks to the impressive commuting habits of our staff, 82% of whom take alternative transportation such as bikes or transit.

Greening Our Operations. This involves our retail buildings, energy, waste, and paper. Our two newest buildings (including the Distribution Centre) are undergoing LEED certification. Total energy used by our facilities rose by 24% and GHG emissions by 11%. Certified green power made up 13% of our energy mix. We increased our solid waste diversion rate from 83% to 92%, a phenomenal success. Paper use increased, mainly for our catalogues.

Engaging Staff. We have almost 1,400 employees who, above all, share a passion for outdoor activity and social and environmental responsibility. Attracting and keeping great staff is critical. Employee engagement survey results were positive, though we can do better. Our gains were in perceptions of senior leaders and people practices. Our lower scores were around

wages and career opportunities. We benchmark compensation and will remain in the top 25th percentile for retail. While turnover is lower than industry standards, it increased by 9%.

Equipping Members. They're our lifeline, all 2.8 million (22% more than in 2005). They now span three generations and have diverse interests – and we've got to keep engagement high. All in all, members are happy with MEC. They would recommend us to friends (97%). And rate our gear highly (average 4.1 out of 5). We've improved our in-stock performance. Aware of the consumption v. sustainability paradox, we build gear to last, repair it, rent it and invite members to "gear swap". While some just want to buy good products, we try to engage all in the life of the Co-op (e.g., making suggestions, participating in the Board, or advocating for wilderness conservation and outdoor recreation).

Supporting our Community. It's about protecting wild places and encouraging Canadians to play outdoors. Our best impact is by supporting organizations that share our vision. We joined One Percent For The Planet in 2007, and contributed \$2.5 million toward conservation and access. With the Canadian Parks and Wilderness Society, we launched thebigwild.org. An ambitious vision of keeping at least half of Canada's public land and water wild forever. Other partnerships support recreation (e.g., Leave No Trace Canada). Protecting Skaha Bluffs in southern BC was a huge win. Our future challenge? With human powered recreation levels falling, we intend to encourage Canadians to participate, including youth and new Canadians.

Co-operative Economic Performance. It's about more than profit, though we've been successful financially. We made approximately \$240 million in sales (up 21%). For each sales dollar, 67 cents goes to the cost of gear. The next slice? Employee salaries and benefits (16 cents). We continue to increase same-store sales. MEC accounts for 0.06% of retail sales in Canada. We calculate that we generated over \$650 million in indirect economic activity in 2007. As a co-op, we set our prices to cover our operating costs and a modest surplus, that is reinvested in member share accounts.

Governing the Co-operative. We have a democratic structure, governed by an elected nine-person board. The Board has strategic, fiduciary, and generative responsibilities. We recognized a need to nominate more diversity and specific experience to our board, and to provide consistent training for new directors. Few members vote and the proportion is falling as membership increases (just above 1% in 2007). We are addressing this through creative outreach and other ways of connecting with members.

PROGRESS AT A GLANCE

Our Business (Chapters)	Issues	Key Performance Indicators (KPI)	2005	2006	2007	Change from 05	2012 Target
1. Our Approach	Increasing activity	% members whose participation level in MEC's core activities is average to very high	n/a	n/a	78%	n/a	TBD
	Advocating for progress	Advocacy (% members who want MEC to advocate on their behalf)	n/a	n/a	67%	n/a	No target
2. Selecting and Designing Products	Environmental footprint	MEC-brand mills being certified to best practice standard	n/a	n/a	15%	n/a	70%
3. Manufacturing MEC-Brand Products	Human condition in factories	Total non-compliance incidents	218	238	243	n/a	TBD
		% of MEC-brand factories audited (by purchase order)	42%	70%	76%	34 pts	TBD
4. Transporting Products and People	Climate change and oil shortages	Total transport GHG emissions (tCO ₂ e) ¹	1,700	1,980	1,960	15%	5% reduction (from 2007 levels)
		Transport emission by unit sale (kg CO ₂ e per unit sold)	0.204	0.209	0.191	-6%	No target
5. Greening Our Operations	Climate change and oil shortages	Total facilities energy use (GJ) ²	32,400	34,260	40,100	24%	No target
		Total facilities GHG emissions (tCO ₂ e)	1,060	1,002	1,174	11%	30% reduction in existing facilities (from 2007)
		Facilities GHG emissions by square foot (tCO ₂ e per 1,000 square feet)	1.5	1.5	1.7	11%	1.2 tCO ₂ e per 1,000sq. ft.
	Achieving zero waste	Total material generated (tonnes)	773	960	913	18%	No target
		Diversion rate (%)	83%	90%	92%	9 pts	At least 90%
6. Engaging Staff	Engaging staff	Total employees (#)	1,120	1,270	1,387	24%	No target
		Staff engagement score	63%	n/a	64%	1 pt	At least 68%
7. Equipping Members	Meeting member needs	Total members (million)	2.3	2.6	2.8	22%	No target
		Active members (#)	1.4	1.5	1.6	14%	No target
		% members who would recommend MEC	94%	n/a	97%	3 pts	At least 95%
8. Supporting Our Community	Increasing activity and improving conservation	Total community contributions (million)	\$1.07	\$1.11	\$2.54	137%	1% of sales
9. Economic Performance	Financial viability	Member investment (million)	\$85.10	\$103.30	\$115.40	36%	No target
		Sales (million)	\$197.40	\$227.50	\$239.10	21%	2% same store annual growth
10. Governing the Co-op	Co-op governance	Voter participation rate	1.9%	1.7%	1.1%	-42%	10% annual increase in total votes cast
		% proud to be an MEC member	n/a	n/a	86%	n/a	No target

¹ tCO₂e = tonnes of carbon equivalent emissions

² GJ = Giga Joules



OUR APPROACH

What guides us?



We have a long-standing focus on social, environmental, and economic sustainability. It's part of our mandate as an outdoor retail co-op. It's also what we believe. In this chapter we articulate our long-term focus and the principles that guide our path forward, as well as our model for implementing sustainability, and our five-year agenda and strategic plan. These initiatives are intricately linked to all aspects of our business. In other words, every one of us at MEC has a role in our efforts.

ABOUT THIS REPORT

This is our second comprehensive accountability report and covers 2006-07.

In 2005, we released our first Accountability Report, *Marking Our Route*, which told the story of where we'd been, and identified our path moving forward. For this 2007 report, our theme is Reach. It's not enough to simply collect data and try to improve individual processes. While we want to celebrate every small step we take, we need to focus – to challenge ourselves and reach further.

For instance, instead of merely making the shift to organically grown cotton, we're looking at a product sustainability program that encompasses a far greater set of factors. Instead of simply giving grants for recreation access, we leveraged our resources, members and partner organizations to initiate a multi-million dollar land acquisition for Skaha Bluffs.

In this report we show how we apply our unique approach to sustainability leadership, what we've achieved, and how we can reach further. The main audience for this report is our members, staff, and the sustainability community.

HOW WE DECIDE WHAT TO REPORT

This report is about the core of our business – good gear. How it's developed, manufactured, sold and used, as well as what happens when it's no longer useful. We report on our retail business and on MEC-brand products. We report limited information on non-MEC brand products sold, and we don't include performance data (except ethical sourcing) about suppliers or contract factories. This is because we're currently focusing our efforts on areas where we can best effect change. This will expand over time. As we made critical decisions about scope, subject matter, and level of detail, we applied the principle of materiality in the Global Reporting Initiative (GRI) G3 Guidelines¹ and the Accountability 1000 (AA1000) Standards.² GRI's definition of materiality is: "the information in the report should cover issues and indicators that would substantively influence the decisions of the key stakeholders using the report".

Our decisions on materiality were principally informed by:

- The Stakeholder Panel Review on our 2005 and 2007 reports
- Goals we set in the development of our Sustainability Agenda (Our Approach)
- Input from our MEC report working group representing all our business functions

The GRI table in Appendix A shows the indicators we used. In addition to the GRI, we are guided by the International Co-operative Principles and the Global Compact³ (adopted in 2006).

REPORT CREDIBILITY AND STAKEHOLDER REVIEW

Our performance reporting must be reliable and balanced. We count on it to set our targets and track progress. In 2005, we implemented a data management system to collect, analyze, and disseminate sustainability information. The overall picture has to reflect our day-to-day reality, which is why we have multiple levels of review. Our report working group includes representatives of each functional area of MEC – from Human Resources to Buying and Design. They provide a first check on our indicators and how we describe them. Senior Managers individually review drafts, then meet as a group to set targets. The Board Governance Committee oversees the development of the report.

Once we assembled a full draft of this report, we pulled together a group of employees from our stores and asked them for a reality check. Our most ambitious review consisted of a panel of stakeholder representatives and subject matter experts who came to Vancouver to critically review a draft. The panel reflected the interests of key stakeholder groups and were chosen because of their knowledge, commitment, and demonstrated willingness to tell us the truth. We used their, and staff, comments to make improvements to this report (see Appendix B). An independent reporting consultant supports our process. We have not taken the extra step of formal independent assurance.

¹ www.globalreporting.org

² www.accountability21.net

³ www.unglobalcompact.org

THE CO-OPERATIVE DIFFERENCE

The foundation of our business is based on the International Co-operative Alliance's seven principles.¹ These principles guide us and enable many of our efforts to be a socially and environmentally responsible retailer.

1. Voluntary and open membership

MEC membership is open to anyone who wants to join and is willing to accept the responsibilities of membership.

2. Democratic member control

MEC's Board of Directors is elected by the membership to govern MEC. Each member has one vote.

3. Member economic participation

Each member purchases one \$5 lifetime share to support our ability to meet member needs.

4. Autonomy and independence

The Co-op is controlled by our members through our Board, not through external investors.

5. Education, training and information

Staff training materials and member communications include information on the co-op difference.

6. Co-operation among co-operatives

MEC is a member of the national co-operative association, as well as associations in most provinces where we have stores.

7. Concern for community

We've had a long-standing commitment to supporting the outdoor and conservation community, as well as the communities where we operate.

OUR CHARTER AND GOALS

In 2007, we developed a new MEC Charter and Long-Term Goals. Our Charter tells the story of why we exist, who we are, what guides our actions, and where we want to go (available at mec.ca/charter). Our Goals articulate three focus areas where we want to create long-term change.

MEC CHARTER ESSENTIALS

Why we're here:

We help people enjoy the benefits of self-propelled wilderness-oriented recreation by providing equipment, services and expertise.

Where we came from:

We were started by climbers who wanted reliable outdoor gear at a reasonable cost.



ADVOCACY AND MEC

We believe advocacy – active, tangible support for, or a public statement on, an issue or cause – is important to help achieve marketplace change. We asked our members what they thought. Sixty-seven percent wanted MEC to advocate on their behalf on important sustainability issues. They also identified wilderness conservation as their number one issue (see Supporting Our Community).

Advocacy isn't foreign to us (we've engaged in community involvement and participated on specific issues), but intentional involvement in public policy debate is. In the last two years, we've taken several positions, including:

- That the Canadian Privacy Act allow for appropriate review of factory information for ethical sourcing audits (current status – under review)
- That import duties on GORE-TEX® material be removed (current status – under review)

Where we are:

We've grown to millions of members. We've expanded the range of activities we support. Yet we remain a co-operative, focused on great gear, not great profits.

What guides us as we go:

Quality, Integrity, Cooperation, Creativity, Leadership, Sustainability, Stewardship, Humanity, Adventure.

Where we want to go:

To help more Canadians play outdoors in self-propelled ways. To ensure a comprehensive, carefully nurtured network of parks, wilderness and outdoor recreation areas. To inspire others toward environmental, social and economic sustainability. To leave the world better than we found it.

MEC LONG-TERM GOALS

Goal 1: Activity

To increase participation in self-propelled wilderness-oriented recreation in Canada.

¹ www.coop.org/coop/principles.html

Goal 2: Conservation

To support the creation and stewardship of a comprehensive network of parks, wilderness and outdoor recreation opportunities in Canada.

Goal 3: Marketplace

To foster change toward environmental, social and economic sustainability in the marketplace.

OUR SUSTAINABILITY POLICY

Our Sustainability Policy, adopted by our Board of Directors in 2002, guides and articulates our role on the planet.

We believe a sustainable world reflects these three interdependent principles:

- The planet has a limited carrying capacity and we are all dependent on a healthy, functioning biosphere.
- Individuals can best meet their needs in caring and vibrant communities.
- A just economy is dependent on an equitable society and a healthy planet.

We believe that MEC has a responsibility to make the world a more sustainable place. We've defined our role as:

- Encouraging and supporting our members to enjoy self-propelled wilderness recreation, lead healthy, active lives and be stewards of the natural environment.
 - Promoting wilderness conservation and responsible use of the outdoors.
 - Improving the social and environmental impacts of our products, services and business operations.
 - Providing leadership in the community and working with others to pursue collective social and environmental goals.
 - Empowering our members to be active participants in our co-op and other co-operative endeavours.
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DEVELOPING STRATEGY

Our strategies are developed through the usual internal policies and business realities, and are also informed by external global and local trends, and stakeholder input.

GLOBAL AND LOCAL TRENDS

Some global and local trends and events create opportunities (+). Some create challenges (-). Understanding these helps inform our strategic priorities.

Global Manufacturing: Global trade agreements are reducing the constraints of international trade. Implications? Increased access to quality product at lower cost (+), declining manufacturing capacity in North America (-), and increased ethical sourcing responsibilities.

Economic Uncertainty: Increasing economic uncertainty in North America with growth in Asia. Implications? More recreation close to home (+), need for flexible operating costs and business opportunity.

Labour Market: A highly competitive Canadian labour market, particularly in British Columbia and Alberta. Implications? Increased challenge to find experienced and passionate staff (-), the MEC culture make us an attractive place to work (+), and increase in wages.

Canadian Demographics: Canada's population is aging,¹ becoming more ethnically diverse,² and more people will choose to live in cities. Implications? Decrease in activity participation (-), pressure on recreation access (-), and an increasingly diverse membership.

Changing Activity: Decline of nature-based recreation, particularly among youth³. A shift from deep backcountry (e.g., mountaineering) to front-country recreation (e.g., trail running). Implications? Opportunity for outreach and education (+), need for adaptability in product offerings.

Climate Change: Extreme weather, unstable snowpack, inconsistent river flows affect the nature of recreation. Energy and raw material costs are increasing. Implications? Increased costs (-), supply chain risks (-), need to decrease carbon footprint and adaptation (e.g., protect carbon sinks in Canada's Boreal Forest).

Decreasing Natural Resources: Water shortages, peak oil, loss of ecosystem services and wilderness⁴. Implications? Increased costs and risk (-), opportunities for member engagement (+), and need for life cycle efficiency.

The Good Life: Growing concern around health and sustainability⁵. Implications? Opportunity to increase quality of life (+), offer sustainability solutions and engage members (+).

¹ 2006 Census, Statistics Canada, www.statcan.ca/Daily/English/010313/d010313a.htm

² 2006 Census, Statistics Canada, www12.statcan.ca/English/census06/analysis/ethnicorigin/visible.cfm

³ Pergams and Zaradic, "Evidence for a fundamental and pervasive shift away from nature-based recreation", PNAS, vol. 105, no.7, Feb 2008.

⁴ Millennium Ecosystem Assessment Report 2005, www.millenniumassessment.org/documents/document.356.aspx.pdf

⁵ The 2007 Shift Report, "Evidence of A World Transforming," Institute of Noetic Sciences

Technology: Increasing pace of life, growing access to information, disruptive new technologies. Implications? Sustainability solutions (+), ability to connect with members (+), and opportunity to facilitate recreation (+).

Business Role: Growing societal expectations of business from society. Consumer “right to know”. Implications? Ongoing transparency (+), public policy engagement (+), opportunity to demonstrate the co-operative difference (+).

AWARDS

In 2006, we received a top spot in Corporate Social Responsibility in Canada in the retail sector from the Globe and Mail’s Report on Business.

In 2006, we were commended for our sourcing and reporting practices by the Ethical Trading Action Group, ranking #1 in Canada and #2 in North America on their Transparency Report.

In 2006, our inaugural Accountability Report won a North American Award for Sustainability Reporting from Ceres/ACCA as a co-winner in the Best First-Time Sustainability Report category.

In 2007, Corporate Knights rated MEC among the top 50 Corporate Citizens in Canada.

Global Politics: Growing political instability, gap between rich and poor. Implications? Supply chain instability (–), responsibility for workers, and need for engagement in global issues.

OUR STAKEHOLDERS

Our main stakeholder groups are employees, members, suppliers, outdoor retail peers, advocacy and interest groups (conservation, outdoor recreation, environment) and other co-operatives. They are the most impacted by our actions or have the greatest ability to impact MEC.

Stakeholders help us better understand and manage our business, and improve our sustainability efforts. We believe we

have a responsibility to listen to and consider the concerns of people we affect or who need us to act. We won’t always be able to do what they want, but we’ll give every idea a fair hearing.

We learn a lot from our members through in-store comments, letters, emails and phone calls. They express views on product quality, availability, and prices. They ask about our sourcing practices. In the past two years, they have asked more questions about harmful substances in our products. We conduct ongoing member surveys, hold annual Board of Directors elections and Annual General Meetings (AGM).

We also conduct regular employee surveys. The results provide important information for this report. MEC has an open door policy. On his annual tour, our CEO visits all our stores to talk to staff about how MEC is doing, and engages them on a variety of issues. In the last two years, wages has been an important topic.

Community and interest groups often come to us; they’re interested in recreation access, environmental issues, human

rights, and conservation issues. We sit on numerous boards (The Co-operators, Canadian Parks and Wilderness Society), participate in various groups, and establish national and regional partnerships. We want lines of communication to be open and strong so we can be proactive and focused in supporting the people and issues we care about.

Our outdoor retail peers and suppliers are in constant business contact. We also create opportunities for input through issue-specific workshops and other channels.

We seek representatives from these and other stakeholders for the Stakeholder Panel Review of our reporting (see Appendix B).

OUR FIVE-YEAR SUSTAINABILITY AGENDA

We developed a concrete strategy for achieving our Long-Term Goals by asking a simple question: How can we have greater impact in areas where we have influence? Working with our Board, Senior Management Team, key staff, and “thought leader” panels, we sought out ideas and tested our own. We came up with an Agenda that frames our core priorities for the next five years – how we make and sell products (gear), how we use products (active culture), where we use products (conservation), and how we operate in a commercial setting (marketplace).

Our unique approach to leadership reflects our co-operative roots and leverages our resources to achieve results that are bigger than what we could achieve on our own by:

- improving our own practices
- collaborating along our value chain
- engaging members
- advocating for systems change

HOW THIS WORKS WITH OUR STRATEGIC PLAN

Our Sustainability Agenda is embedded in our Five-Year Strategic Plan, which contains additional priorities outlined in this report:

- Offer the best product quality, functionality and form, at the most competitive price in each of the outdoor recreation activities we support (Equipping Members)
- Have highly effective, knowledgeable, and engaged employees who make MEC an outstanding place to work (Engaging Staff)
- Be a financially viable business in the short- and long-term (Economic Performance)
- Represent the values of our membership and oversee a healthy and ethical co-operative that is living its Charter (Governing our Co-op)

HOW WE IMPLEMENT SUSTAINABILITY

Policies are useful, but the real work is in their implementation. Here's the flow of how things get done at MEC:

1. Our Board of Directors is democratically elected by members.
2. They hire our CEO.
3. The CEO leads a team of Senior Managers (at most companies, they're called VPs): Finance and Administration, Communications and Marketing, Production, Buying and Design, Operations, Logistics, Human Resources, and Information Systems. Senior Managers have at least one sustainability related performance goal linked to their compensation plan.
4. Our Sustainability and Community Director and Ethical Sourcing Director report to the CEO and work cross-functionally with multiple departments. They ensure MEC delivers on the Board Vision to be a leader in sustainability.
5. Our Community Programs Manager reports to the Sustainability and Community Director, and oversees our granting and community partnership programs.
6. Our Materials Development Manager reports to our Senior Manager of Buying and Design, and oversees progress in all aspects of quality in the materials we use.
7. Sustainability Coordinators in each store report directly to their Store Managers and work closely with the Head Office sustainability team. They deliver our sustainability programs in the communities where we operate.

We intentionally don't have a large centralized sustainability department. We formalize specific accountabilities in key roles within multiple departments. The Sustainability Director establishes the overall agenda and supports departmental initiatives linked to business practice.

SUSTAINABILITY AGENDA

Priority	Goal	Issues that Matter	2012 Target (5 Year)	Chapter
Gear	Reduce material waste and harmful substances	Harmful substances	Best practice: 70% of MEC-brand mills are certified to best practice standard	2
		Zero waste	Point of sale waste: At least 90% of our materials are diverted from the landfill	5
			Factory cut waste: TBD	2
	Improve our energy, water and carbon footprint	Climate change and energy shortage	Facilities carbon footprint: At least 30% absolute reduction in existing facilities CO ₂ emissions from 2007 levels	5
			Transportation carbon footprint: 5% absolute reduction in transportation CO ₂ emissions from 2007 levels	4
			Product carbon footprint: TBD	4
		Water	Water quality and quantity: TBD	2
	Improve the human condition in our factory communities	Human condition	Factory audits: % TBD	3
			Harm and benefit violations: TBD	3
			Collaboration: Implement at least one pilot project NGO collaboration in factory community in China. Brand target TBD	3
Active Culture	Increase activity	Increase culture of outdoor recreation and activity in Canada	Community Contributions: 40% of our community contributions support activity and access	8
			Youth and Canadian activity levels: TBD	7
Conservation	Increase conservation of ecologically and recreationally important places	Improve conservation	Community Contributions (One Percent For The Planet): 1% of annual gross sales support the environmental community	8
			The Big Wild: 200,000 Canadians sign onto www.thebigwild.org in support of keeping at least half of Canada's public land and water forever wild	8
Marketplace	Accelerate systemic change toward environmental, social and economic sustainability in the marketplace	Advocate for progress	Advocacy: 70% of our members trust MEC to advocate on their behalf	1
		Business leadership	Engagement: Participated in at least five substantive public policy, education or demonstration project initiatives in support of Sustainability Agenda	1
			Financial viability: 2% annual same store sales growth and at least 3% annual surplus	9



SELECTING AND DESIGNING PRODUCT

Can we design with the earth in mind?



We believe quality gear is durable, functional, looks good, and has the smallest possible footprint during its life cycle. Our biggest environmental impact has to do with making products. At the design stage, we have the opportunity to select low-impact materials, efficient processes, and to take responsibility for the full life cycle of our products. When a product's useful life is over, it should be a resource for something else.

SELECTING PRODUCTS

We carry gear and clothing for all kinds of human-powered activities, including cycling, hiking, camping, climbing, snowsports, and watersports. By Board policy, we don't buy or design products for activities that are motorized, cause unacceptable environmental damage, or are intended to harm or kill animals.

Our Merchandising Strategy includes both MEC and non-MEC-brand products. The MEC brand is our cornerstone. We carefully choose other brands to ensure we have a range of options. We include environmental and social criteria in our non-MEC-brand vendor agreements. However, our current sustainability efforts focus primarily on MEC-brand products. We haven't started auditing other brands and rely on our Product Managers to follow up on individual product issues and opportunities.

The reality today is that the majority of products on our shelves consist of derivatives of the petrochemical industry, complex polymers, chemical finishes and treatments. These materials give products the technical benefits we expect, such as waterproof fabrics that "breathe". To make products, we require raw materials (natural and human-made), use resources (water, energy, chemicals), and create waste.

The complexity in product design is daunting. However, we're inspired to improve our design. Right now the biggest improvement we can make is with our MEC brand, primarily the textiles we use. In collaboration with our supply chain partners, we do this in three ways:

Longevity: Gear has to perform and last for many years

Substitution: Substitute harmful chemicals and materials with more benign alternatives

Efficiency: Use more efficient processes and fewer resources to make products

Longevity is our priority, from both a functional and aesthetic perspective. To optimize the life cycle of our products, we're developing standards to outline how many seasons a product should live in our assortment before it's redesigned. We'll report on our performance in our next report.

OUR PRODUCT DESIGN APPROACH

MEC'S DESIGN CHARTER

At MEC we understand that the best products endure in both quality and appeal. As such, we strive to design better, not different.

Accountability

Design is the first step in building members' trust.

Quality

Quality and integrity is the cornerstone of our brand promise. Quality is designed into product, not retrofitted in production.

Inspiration

The performance of MEC product inspires the user through an enhanced experience.

Progression

MEC product design meets the functional requirements of our current and future members through the appropriate use of resource and technology.

Simplicity

MEC design is functional and intuitive in both line and form.

Responsibility

MEC designs incorporate social and environmental responsibility as an inherent part of our conceptual thinking.

Evolving

MEC designs respond to the evolution of our membership.

Value

MEC uses its unique business model to provide technical, high quality products at accessible prices.

OUR IMPACT AND STRATEGY

Members bought over 10.2 million individual products in 2007, from kayaks to carabiners. Each of these has a life cycle impact.

Harmful substances, material waste, carbon emissions, and water use are our issues of greatest concern. However, right now we don't know the full scale of our impact for MEC-brand gear (much less non-MEC products). In 2005, we said we'd develop a five-year Product Sustainability Strategy. We've taken big steps to move from an initiatives-based approach to a more strategic framework for understanding and making progress around product sustainability in our supply chain. However, we're still formalizing it into a comprehensive strategy with goals, targets and measures. We will complete this by 2009.

COLLABORATION

The product design challenges we face are shared by others in our industry. Our impacts are intricately linked to the capacities and motivations of our brand partners, vendors, mills, and chemical providers. Our greatest opportunities lie in our efforts to facilitate collaboration and commercialize new solutions. We participate in initiatives with like-minded peers, including:

- The Outdoor Industry Association eco-working group to establish common definitions or standards in product sustainability. This will help establish common goals, and improve consumer communication.
- Being a member of bluesign® technologies ag to reduce our supply chain ecological footprint (see page 16).

SELECTING MATERIALS

One part of product design is selecting materials that deliver on performance requirements but have lower environmental impacts. Our biggest gains in this area? We eliminated polyvinyl chloride (PVC) from MEC drybags and personal flotation devices. Recycled polyester and organically grown cotton have been two other big wins for us.

All the cotton used in MEC-brand clothing is now 100% organically grown. When we started this program in the mid 1990s, we were one of the top five organically grown cotton buyers. Change becomes real when it is adopted by the mainstream; organically grown cotton is becoming one of those success stories. We are happy to now be among the top 25 buyers. As of 2006, we also require all cotton from non-MEC brand suppliers to be organically grown. This is a big step forward in working with our vendors.

Organically Grown Cotton	2005	2007
Amount of organic cotton (raw material) used to make MEC-brand apparel ¹ (kg)	129,300	209,100
Amount of synthetic chemicals avoided by use of organically grown cotton ² (kg)	42,600	69,700

In our last report, we reported that 4% of Canadian-made MEC-brand clothing used recycled polyester. Because we can only track quantities of fabrics that are directly purchased by MEC, we no longer report this information. (Since 2005, our factories have been purchasing most of our fabrics to MEC specifications, but we don't know the actual quantities.) While we can't quantify the increase in use, more products are made of recycled polyester than in the past. For the next report, we will improve our systems to track the amount of materials purchased.

OUR PRODUCT SUSTAINABILITY SYMBOL

Last year we began using a Product Sustainability Symbol to mark products that have one or more of the following environmental attributes:



- PVC eliminated
- Recycled polyester content (at least 50%)
- Organically grown cotton blend³ (at least 50%) or organically grown cotton (at least 100%)

In fall 2007 we carried 342 styles of products with one of the three attributes. We will continue to increase this number moving forward.

¹ We track the amount of organically grown cotton used in our apparel (excluding headwear, sleeping bag liners or shopping bags) through Organic Exchange estimates

² Based on Organic Exchange estimate of one-third of a pound of chemicals avoided for every pound of organic cotton used

³ Cotton blend means organically grown cotton mixed with other materials such as spandex, and not a blend with conventional cotton

MARKING A COMMON THEME

“A while back MEC started shifting over to organically grown cotton, eliminating PVC from product, using recycled polyester, and along the way we started thinking about how they were separate projects but examples of a common theme,” says Greg Scott, our Materials Development Manager. “They’re all feeding together into a common higher level: a commitment to reducing the impact of the products we design and make.”

At the initiatives level, MEC has formalized this process into a set of guidelines to distinguish products that represent a significant sustainability initiative. A symbol indicates products that contain at least 50% organically grown cotton or recycled polyester, or have been re-designed to make them PVC-free. By choosing lower impact materials and production techniques, MEC designers are working to reduce our ecological footprint on the planet.

“We wanted to call out these attributes to our members, to help them make buying distinctions,” says Greg.

In the fall of 2007, MEC took the next step and has started including other brand partners who have proven they follow the same guidelines.

Future steps? “Ten years ago growing organic cotton didn’t seem possible, but now companies like Wal-Mart are starting to do it,” says Greg. “For us, the ultimate goal is that these practices aren’t just initiatives, but examples of what is possible and a way of doing business.”

MEC’s natural next step is to focus on upstream supply chain work, to encourage fabric mills and chemical suppliers to willingly participate in reducing the impacts of their own processes and the products they produce.



Natasja Parlee designs with the earth in mind.

TAKING AN UPSTREAM VIEW

Our efforts start at the design table and move upstream. We rely on manufacturers, textile mills, fibre and chemical providers to supply us just the right fabric. Work at this level is extremely specialized and complex.

In 2005, we created a Materials Development Manager position to develop world-class materials that embody progressive environmental attributes. Since MEC doesn't have the in-house knowledge to work with suppliers at the chemistry and business process level, one of our first challenges was to find somebody who does. After much research, we landed on bluesign technologies from Switzerland.¹

Bluesign provides a third-party Environmental Health and Safety (EHS) standard. They were engaged to audit our materials supply chain, identify potential risks, and help put in place solutions. The company screens chemicals and ranks them with respect to EHS concerns, to encourage our mills to use preferred substances. It also provides on-site auditing to review processing practices and chemical usage.

However, the plot is never so straightforward. Audits cost money. Mills and chemical providers pay these costs and require payback on their investments. MEC is working with other outdoor retail companies to increase industry demand for process and chemistry audits and to create incentives for more mills to participate.

Working with bluesign is an opportunity to demonstrate market leadership that is bigger than MEC. It enables others in the textile and outdoor industries to tread more lightly on the planet while increasing supply chain efficiency and product quality.

By 2012, our target is to audit 70% of MEC-brand textile mills and chemical suppliers to bluesign® standards. By the end of 2007, 15% of our 48 mills had undergone or were undergoing audits.

¹ www.bluesign-tech.com

² www.chemicalsubstanceschimiques.gc.ca/challenge-defi/bisphenol-a_e.html. Government of Canada Takes Action on Another Chemical of Concern: Bisphenol A, Chemical Substances, Health Canada

³ National Toxicology Program, U.S. Department of Health and Human Services. "CERHR Expert Panel Report for Bisphenol A", 2007-11-26

⁴ It's a stated guideline in our Sustainability Policy and the United Nations Global Compact (www.unglobalcompact.org)



TAKING A PRECAUTIONARY APPROACH

For several years, we've been monitoring bisphenol A (BPA), a chemical used to make hard, clear, polycarbonate plastic. It's used in water bottles, containers, and epoxy resins in the linings of metal-based cans. Some studies show that when rodents are exposed to low levels of BPA, their behaviour and neural development can be affected. While BPA has a low acute toxicity, it is a potential endocrine disrupter – raising concern that long-term low dose exposure may induce chronic toxicity in humans.

As a retailer, we rely on external science and health authorities to conduct appropriate assessments and guide our decision-making around the consumer impact of products. In December 2007, public concern was growing and we found ongoing scientific uncertainty on this issue. We took a strong precautionary stance and decided to stop selling polycarbonate products non-essential to backcountry safety, pending a Health Canada assessment. Widespread media picked up on our decision, increasing debate around human health issues from plastics in general and polycarbonate bottles specifically.

In April 2008, Health Canada assessment results deemed BPA harmful in specific instances, and proposed a ban on polycarbonate baby bottles, and codes on food and drink packaging. They also said that low levels of BPA did not pose a significant health risk to general Canadian populations.²

Even though Health Canada has not deemed a risk to adults when used properly, we've decided not to reintroduce polycarbonate products, given ongoing debate in the science community³ and available alternatives such as stainless steel, polypropylene or co-polyester.

What have we learned? That principled decisions are rarely black and white, even with direction to take a precautionary approach.⁴ (This case has challenged us to better articulate decision-making criteria.) That independent science-based bodies are critical to evaluating and informing decisions. And that business decisions can have significant influence on public policy debate.

CLOSING THE LOOP

Even after we've sold a product, we think it's important to help make sure it's ultimately re-used or recycled in the best way. We're pleased about some of the work we've done in this area, including solid return and repair options, our Outdoor Gear Swaps, and used gear donations.

Design is a critical piece to maximizing end-of-life use. Simply put, at the design stage, consideration can be given to the potential for dismantling or recycling products. While logistically and technologically challenging, take-back programs are getting more feasible – in fact, they are legislated in some industries.

This year, we launched a Garment Recycling Program. Members can bring back used items with a 90% or greater polyester content. They drop clothing off at our stores, and we ship those items back to Teijin, a fabric manufacturer in Japan. The program is in its early stages and we haven't yet shipped the items that we've collected.

When we do, the garments will be crushed, turned into granules, then run through a chemical reaction process that removes dyes and other chemicals before turning it back into raw polyester (polyester polymer), and new Eco Circle fibre. These fibres will be used to make new garments, such as those in our Trek program, which consists of 100% post-consumer recycled polyester (this was a goal in our last report).

MEMBER ENGAGEMENT

Ultimately, change comes down to choices at the check-out counter. We rely on members to make informed purchasing decisions. After all, each purchase is an opportunity for them to make a difference.

Members and consumers are increasingly interested in sustainability. Our research tells us they are looking for truly “good” solutions – gear that performs *and* is responsible.¹

They're also seeking information. We provide this through our Product Sustainability Symbol. We also have detailed sustainability information on our website and in our catalogues. We continue to improve the ways we communicate, particularly around harmful substances in products. We hope the public keeps asking questions and engaging us in informed debates, to help the industry move toward providing increasingly transparent information.

LOOKING BACK

	Target
Assess feasibility of MEC take-back program in the next three years (2008)	Made
Roll out new Trek fleece fabric in 2007	Made
Create a 5-year Product Sustainability Strategy and work plan based on our capacity, impacts, and ability to control and influence change	Ongoing

REACHING FURTHER

Strategic Goals:

- Reduce waste and harmful substances.
- Improve our carbon, energy and water footprint.

2012 Target	Target Date
70% of MEC-brand textile mills and chemical suppliers are certified, or are being certified to best practice standard	2012
Actions	
At least 25% of MEC-brand textile mills and chemical suppliers are certified, or are being certified to best practice standards	2009
Develop 5-year MEC-brand Product Sustainability framework and strategy including goals, targets and baseline measurements for improvement	2009
Establish systems to track quantities of material purchased to make MEC products	2009
Develop a benchmark for expected redesign lifespan of products in each of our product categories	2009

¹ 2007 Member Sustainability Survey



MANUFACTURING MEC-BRAND PRODUCTS

Can we improve the lives of workers making our products?



We want to provide gear that has excellent value, is delivered on time, and is made in an ethical way. This is no small feat. Ethical sourcing is a major manufacturing issue, involving complex social, economic, and environmental conditions. While we're encouraged by some incremental improvements in our factories, they haven't achieved the gains we'd like to see. This is prompting us to reassess our approach and will result in a new five-year plan.

WHERE WE MAKE MEC GEAR

In 2007, we bought approximately \$140 million in inventory from suppliers around the world; \$54 million of it was MEC-brand.

Sixty-three factories from 15 countries make all MEC-brand products. The majority is sourced in Asia, particularly China, which has the largest manufacturing industry in the world. Canadian-made products are declining, from 43% of our overall products in 2005 to 30% in 2007.

Country	2007	Country	2007
China	33.86%	Israel	0.44%
Canada	30.24%	Honduras	0.25%
Vietnam	22.28%	France	0.18%
India	3.85%	Korea, Republic of	0.14%
Thailand	3.85%	Sri Lanka	0.08%
Taiwan	3.67%	Italy	0.02%
USA	0.65%	Poland	0.01%
Portugal	0.47%		

We contract (rather than own) all factories that make MEC-brand products. In offshore factories, MEC occupies as little as 0.5% of a factory's production (just over 12 hours of work per year) to a one-off high of 40%. The less we buy from a factory the more difficult it is to persuade them to change.

HOW WE MONITOR OUR FACTORIES

We try to ensure our factories have responsible business and labour practices. The MEC Supplier Team Evaluation Process (STEP) is our program for assessing factory compliance. All factories that build MEC-brand products are required to sign our Vendor Code of Conduct, which covers health and safety, as well as worker and human rights.

We audit our factories approximately every nine months. As targeted in the last report, we have audited all our major MEC-brand factories. Our audits are independently conducted by Social Compliance Services Asia, an organization based in Hong Kong.¹ Their auditors throughout Asia are familiar with local



MEC'S TRANSPARENCY REPORT CARD

The Ethical Trading Action Group (ETAG) releases periodic report cards (surveys of labour standards reporting by retailers and brands selling clothes in Canada). In 2006, we ranked 2nd in North America, behind Reebok. (In 2005, we ranked 4th.)²

We're pleased to have such a high ranking. However, while they applauded us for our work, ETAG also identified gaps in our program. Here's a summary of what they said, and what we plan to do about it:

1. Code of Conduct does not include a living wage requirement.

We support living wage in principle, yet focus our current action on achieving legal wage; see page 21.

2. Inadequate multi-stakeholder process.

We have taken strong steps on this front. Actions in the past two years include a survey of workers, and a deeper engagement with other brands. Moving forward we intend to better connect with stakeholders in our factory communities and have plans for a pilot partnership in China by 2009.

3. No reported evidence of training for factory management personnel and workers.

We started a pilot program last year; see page 24.

4. Public disclosure of manufacturing sites.

We will disclose our factory locations by fall 2008; see page 25.

¹ www.scsagroup.com

² www.maquilasolidarity.org

2007 FACTORY AUDIT RESULTS: SUMMARY

COUNTRY	Factories (Number Audited)	General Principle	Forced Labour	Child Labour	Juvenile Workers	Harassment & Abuse	Discrimination	Health & Safety	Freedom of Association & Collective Bargaining	Wages & Benefits	Hours Worked	Documentation	Other	Total Incidents
Canada	6	6	0	0	0	0	0	19	0	6	3	0	0	34
China	10	11	4	2	5	0	0	34	0	26	7	2	0	91
India	4	4	0	0	0	0	0	13	0	4	4	2	1	28
Israel	4	6	0	0	0	0	0	3	0	2	0	0	0	11
Sri Lanka	1	1	0	0	0	0	0	5	0	2	1	0	0	9
Taiwan	3	2	1	0	0	0	0	6	0	2	0	0	0	11
Thailand	2	2	0	0	0	0	0	11	0	3	2	0	0	18
Vietnam	4	5	0	0	0	0	0	18	0	9	6	2	1	41
Total Frequency	34	37	5	2	5	0	0	109	0	54	23	6	2	243
As % of Total Incidents		15	2	1	2	0	0	45	0	22	9	2	1	100
FLA Member 2007 Factory Findings by % (benchmark) ¹	171	9	2	2	*	4	1	46	4	21	9	*	2	100

languages and customs. Factories that don't meet our criteria are not contracted.

We're also a member of the Fair Labor Association (FLA).² The FLA is a non-profit organization comprised of industry, non-governmental organizations, and universities. Its mandate is to improve factory working conditions through various initiatives, including independent monitoring of their members' supply chain.

WHAT ARE WE FINDING AT OUR FACTORIES?

In 2007, we audited 34 factories. They supply 76% of our MEC products by purchase order value. Two were new factories.

Our auditors found 243 incidents of non-compliance with our Code of Conduct. The largest categories of non-compliance were Health and Safety (45%), Wages and Benefits (22%), General Principle (15%), and Hours Worked (9%).

While Health and Safety violations outnumber other categories, this may be because some other violations are more difficult to detect. We continue to work with our third-party audit firm and the industry and factories to improve audit processes and trust. (Visit mec.ca/sourcing for definitions of violation categories used in audits.)

SEVERITY

All violations are a concern. However, we believe the most severe violations are child labour, forced labour, and egregious conditions that seriously threaten the well-being of workers. We have zero tolerance for these violations. In all instances, we either worked with the factory to solve the problem or did not engage/discontinued our business. Violations in other categories such as Health and Safety range in severity from blocked aisles to unhealthy air quality.

Factory level data helps us understand whether specific factories in specific countries are more problematic than others. Violations occur across all our factories. However, we do find more occurrences in factories in the developing world.

You can find detailed 2007 audit results for individual factories on our website, at mec.ca/sourcing.

¹ FLA factory findings are an aggregate of independent audits completed at factories of member organizations. We compared MEC results. FLA results reflect the infraction trends we found, telling us that our audit methodology is consistent with the FLA's, and that our supply chain is similar to our peers

² www.fairlabor.org

LIVING WAGE

A living wage is the amount workers ought to earn to support themselves and their families in terms of food, shelter, and education. Whereas a legal wage is the minimum required by governments and is typically lower than a living wage.

WOULD YOU PAY MORE?

In a 2007 survey, a majority of members told us they would pay up to 10% more for locally produced goods. This tells us “Canadian made” is valued by our members. However, people will only pay so much. We also look at sales to signal priorities. In 2007, the price of our MEC Dissident Jacket increased from \$300 to \$420 because we improved material quality and construction, and kept production in Canada. The number of purchases dropped by 70%. As a result, we’ve decided to source from Asia next year and will be able to offer the same jacket at \$320.

Does MEC support a living wage? In principle, absolutely. However, we haven’t yet stated living wage as a formal commitment for several reasons.

An operational definition of living wage is still under debate. For example, the cost of living varies among factory communities within countries and across countries (China v. Israel v. Canada for example). Furthermore, our immediate challenge is to improve working conditions and ensure factory workers are paid the legal wages they are entitled to. You’ll find more information about this issue on our website, and in exchanges on our ethical sourcing blog.

REMEDIATION

We developed remediation plans for our non-compliant factories. This led to some successes. For instance, in the last two years we’ve seen positive changes around health and safety issues in nine factories. Despite these incremental gains, most of our contract factories (including the nine mentioned) continue to have broad health and safety infractions, as well as payroll and other issues. These violations are systemic and our efforts to date haven’t changed them.

We had to end business relationships with two factories in 2007 (one in China and one in Europe). One failed to correct child labour practices. The second was let go because of ongoing unauthorized subcontracting.

We intend to reassess our Ethical Sourcing Strategy for the next five years, to position ourselves for more on-the-ground change for workers in their communities.

WHAT’S CAUSING NON-COMPLIANCE

On our website we discuss in detail the systemic reasons (or root causes) of non-compliance. In addition to leadership, factory behaviour is influenced by the global economy, industry, governments, workers, and ultimately, consumer demands.



CAN WE SOURCE MORE FROM CANADA?

We believe in “Made in Canada.” It’s written in our Board Policy. Yet sourcing Canadian-made goods is becoming increasingly harder. Why?

Technology and Labour – There’s not enough production volume for Canadian factories to remain viable. It’s financially challenging for them to invest in technology that is competitive with Asia. Canadian factories also have a hard time finding labour where most people have work options besides sewing.

Factory Dependencies – Most of our industry peers have left Canada; it’s simply less expensive to source overseas. MEC now represents between 70 to 95% of the production volume in the Canadian factories from which we source. These factories need our business plans far in advance, and depend on us to keep their businesses open. Long lead times means we have less time to monitor sales and be flexible in our product development.

Cost and Wages – Canadian factories produce at a higher cost. Average wages in Asian factories range from 30 to 60¢ per hour.¹ In comparison, Canada’s average minimum wage is about \$8 per hour (1,000% more). This difference is ultimately the reason manufacturing is moving, not only from North America, but from other offshore countries where wages are rising. With the cost of product making up two thirds of every sales dollar, sourcing decisions have a big impact on product price.

We continue to focus on providing value. We will source from Canada where production is competitive for the attributes that are important to us. However, we do expect further decline in Canadian-made products, and openly engage with factories about challenges and opportunities.

To join the discussion about this topic visit blog.mec.ca.

¹ Voluntary survey of MEC contract factories in China, Vietnam, India and Sri Lanka, conducted August 2007



BEING PART OF THE COMMUNITY IN INDIA

Ethical sourcing is challenging for all companies, including MEC. Along the way we have come across some factories that inspire us, including Penguin Apparel.

“You’ve got to think of our children.” This is how Mr. Abukani, the proprietor of our organic wovens factory in India, rationalizes his dedication to his community and environment. Mr. Abukani is one of three brothers who own and operate a handful of factories in Southern India.

Most workers live in semi-rural villages where basic health care services are absent. Thanks to a mobile clinic sponsored by the Abukanis, this is changing. The clinic travels from village to village with a team of physicians and nurses. They provide one-stop comprehensive care, free-of-charge to patients.

Securing drinkable water is another challenge. Factories require facilities to preshrink, process, and clean rolls of uncut fabric or finished garments. This consumes thousands of litres of water and washing agents per day.

Given their country’s scarcity of water, this was unacceptable to the Abukanis. The brothers imported high-efficiency Italian washers that use less water and more benign detergents, and they built a water treatment plant to recycle the waste. Three quarters of the used water is piped back to the washing machines and the rest irrigates an adjacent coconut and mango plantation.

MEC was not involved in setting up the community health and environmental practices of our trading partner. However, our business model supports its initiatives because we build room in our pricing structure for these costly yet responsible projects.

Understanding systemic causes of infractions is one thing; doing something about them is another. To make real and sustained improvements, we need a targeted and collective effort. In the past two years, we have chosen four areas where we can make a difference:

1. Continuous Improvement of Internal Operations
2. Factory Capacity Building Programs
3. Worker Empowerment Training
4. Collaboration and Engagement

1. Continuous Improvement of Internal Operations

We developed a Human Rights and Corruption Index to better assess the countries where we do business. This has been useful for us (see page 24). We also developed a scorecard on factory compliance that is integrated into our purchasers’ decision-making. The intent of the scorecard was to help us track factory social compliance as a business criteria. For various reasons, we found this did not work particularly well and will review this program.

The flip side of internal operations is understanding the impact of our buying patterns on factories. For example, last-minute changes can lead to unnecessary overtime requirements. We will do a case study of this for our next report.

In the last report, we set a goal to conduct an internal training program for production, buying, and design staff, in addition to those responsible for auditing. In 2006-07, we held sessions for our merchandisers, senior managers, and stores. In 2008, we will pilot a factory worker training session overseas and continue our internal training program.

2. Factory Capacity Building Programs

We piloted capacity building initiatives with two factories, one in Canada, one in China.

Pilot Project One: This factory, which sold bike armour, employed children. (In 2006, we recalled and destroyed \$100,000 at retail of product because it was made by this factory.) We suspended our business, but still wanted to improve operations and transition the child workers out of the workforce.

With the factory, we hired a consultant to create a roadmap for improvement. MEC’s merchandising and compliance departments worked closely to align future business orders to milestone improvements. Unfortunately the factory didn’t meet

BEING FRANK ABOUT ETHICAL SOURCING

Why are so many factory workers underpaid and overworked? Shouldn't retailers do more? How come so much gear is manufactured overseas, and not in Canada? Questions like these are some of the main reasons why Harvey Chan, MEC's Director for Ethical Sourcing, started an ethical sourcing blog (blog.mec.ca) last year.

"Issues around ethical sourcing are very complex, and can't be solved with one simple answer," explains Harvey. "A blog is a broad invitation to a larger group, to take a position and invite dialogue. It also gives you a reasonable level of frankness which is hard to achieve through other means."

Every week Harvey posts a new entry, through which he discusses various issues around ethical sourcing, and invites commentary and discussion. The blog gets approximately 150 hits a day. Responses vary depending on the volatility of the material. "Sometimes I get no comments about my entries," Harvey notes. "But sometimes, if I touch a nerve, I get 15 or 20 letters."

While the blog is written entirely by Harvey, he acknowledges the significance of having MEC's support. "There is no other retailer in the world that has a sourcing blog," he says. "That's because it's one of the most vulnerable spots. Most of the people talking about sourcing and factories tend to be service providers or NGOs."



Harvey Chan invites questions through MEC's sourcing blog.

our agreed-upon milestone in 2007. We suspended and left the factory. It's quite possible they continue to use child labour.

Pilot Project Two: We are a major customer of this Vancouver-based factory, which makes apparel. In 2007, we found it in violation of fire standards and wage laws. Our merchandising and compliance departments worked with local fire marshals to help the factory organize its warehouse to meet fire standards. We also worked with the factory to engage a payroll consultant to develop a compliant payroll system. In 2008, we will re-audit their payroll.

3. Worker Empowerment Training

We believe lasting solutions can happen when factory workers and managers resolve infractions themselves. In 2007, we established a confidential hotline for workers to report infractions. Without fear or repercussion, they can contact

trained compliance staff (in their own language) by phone, text message, or email. The service has been used by three workers so far (it's a start). MEC investigated each one. Two employees declined further action and one was given guidance in exercising her rights. It's important to encourage workers to exercise their rights. Our auditing company held workers rights training in our major Canadian factories. Over 400 workers in 6 factories, making 20% of MEC apparel, were trained on remuneration standards, employer conduct, and legal recourse. Our auditing company also conducted training on employment standards in one Chinese factory.

WORKERS' CONCERNS

In China, we employed a consulting firm to talk to workers in one factory to better gauge their concerns. Not surprisingly, their findings indicate workers are primarily concerned with their remuneration. These findings help us design worker rights training to pilot with a willing overseas factory next year. We'll do more work in factory communities in order to understand priorities and concerns and inform our programs for the future.

4. Collaborations and Engagement

To try to tackle some of the big issues and augment our in-house skills and resources, we:

- Conducted joint audits with three brands and shared audit reports with six brands (e.g., Levi and Nike)
- Held a leadership role in the Outdoor Industry Association's Fair Labour Working Group
- Shared our program (methodologies, policies and processes) with three Canadian brands



A HUMAN RIGHTS AND CORRUPTION INDEX

MEC sources internationally, from any country where factories meet our requirements, except those sanctioned by the United Nations or the Canadian government. We developed a Human Rights Index to assess countries on human rights legislation and risk of violations (a target set in our last report). Why is this important? These country profiles shape our strategic approach to sourcing.

Essentially, countries with significant human rights issues will likely have bigger challenges in their factories. This can help us decide where to source. For example, we know there's a small likelihood of getting strong labour rights in bicycle production factories in China. Hence, our initial focus is on Taiwan where there are more laws to regulate the workplace and a higher probability of finding compliant factories.

The country profiles also indicate the macro challenges involved in improving labour conditions. Finally, the profiles prioritize our efforts in factory monitoring. We expend more resources in regular audits in factories that are rated as higher-risk countries (e.g., Sri Lanka) than lower-risk countries (e.g., Italy).

Factories can suffer from "audit fatigue," which occurs when they are audited by every brand they produce. In 2007, we joined the Fair Factory Clearinghouse, a non-profit database solution that encourages audit sharing and collaboration.¹ We hope to be fully operational by 2008, so we can collaborate with more North American brands.

¹ www.fairfactories.com

Over the last two years, we have also implemented a member engagement strategy. This focuses on deepening our members' collective understanding of ethical sourcing, human rights, and the world, as well as how MEC functions in this reality. The first phase was to publicly disclose our position on a key issue – living wage. We also talked about our position on “made in China.” In the second phase, we launched an ethical sourcing blog to encourage dialogue and debate on the subject.

To encourage a broader understanding of sourcing and social justice, we sponsored fair trade conferences at the University of Victoria and University of Manitoba. Our Toronto and Quebec City stores annually host events to promote fair trade. We also launched a Human Rights Scholarship and school outreach program with Engineers Without Borders, a non-profit organization working on international development.

OUR LESSONS AND PATH FORWARD

Like others in our industry, we have found similar infractions time and time again in our factories over the past two years. We take away two lessons.

Lesson 1: Focus more time on the root cause (globally and within our business practices) to help make lasting improvements.

Lesson 2: Pace for incremental gains and be realistic given the magnitude of issues and our capacity to change them.

Because we continuously find the same results, we find that our program is at a crossroads. At this point we plan to step back and reassess our path forward – to adjust our plan to focus on remediation and fit our size and intent. We don't know the specifics yet. But we do know that it will involve prioritization of issues, more of a local focus in our factory communities, and deeper collaboration with offshore partners and not-for-profit organizations. As well, we will improve our cross-functional efforts internally.

LOOKING BACK

2005 Actions	Target
Develop a Human Rights and Corruption Index to assess countries where we do or may do business	Made
Disclose factory locations in 2008	Ongoing
Complete factory audit cycle for all major MEC-brand suppliers by 2007	Made
Develop a rating system to summarize overall factory compliance with our Code of Conduct	Made
In 2007, conduct an internal training program for all production, buying and design staff, in addition to those responsible for auditing	Made

REACHING FURTHER

Strategic Goal:

Improve the human condition in our factory communities.

2012 Targets	Target Date
Non-compliance incidents per factory (reduce, target TBD)	2012
Percent of MEC-brand factories audited (increase, target TBD)	2012
Actions	
Disclose factory locations	2008
Pilot an Environmental, Health and Safety audit, and develop a methodology and business case for moving forward	2008
Review our Ethical Sourcing Five-Year Strategy based on what we've learned in the past years of factory auditing, and establish a framework, priorities, targets and revised structure	2009
Survey workers to better understand their needs and priorities, to inform our programs for moving forward	2009
Deepen collaboration with other brands and implement at least one pilot project NGO collaboration in a factory community in China	2009



TRANSPORTING PRODUCTS AND PEOPLE

Can we reduce our transportation GHG footprint?



Moving gear to and from different parts of the world produces GHG emissions. We wish we could find a self-propelled way to transport gear, but in the meantime, we're pushing ourselves to improve our planning, and to use transportation modes that cause the least harm possible. As for moving people, our bike commuting culture shines through.

TRANSPORTING GEAR – OUR CARBON FOOTPRINT

Our gear is made all over the world, and is shipped to our Distribution Centre (DC) in Surrey, BC. (We call this “inbound” shipping.) From our DC, it’s shipped to our stores or to members. (This is called “outbound” shipping.)

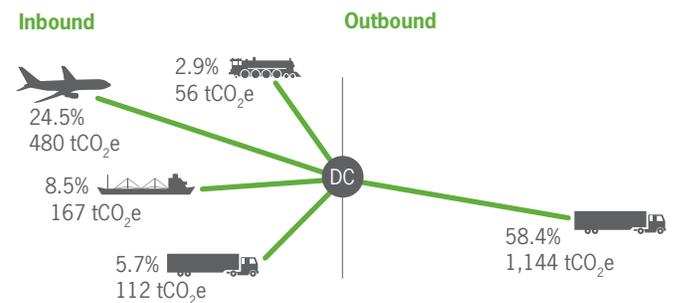
For the last report, we developed a benchmark of emissions from inbound and outbound shipping. In 2007, we refined our methodology. This led to a significant restatement of 2005 emissions, from a range of 4,375 to 5,517 tCO₂e, to approximately 1,700 tCO₂e.¹ This adjustment uses intensity factors from the World Resources Institute Greenhouse Gas (GHG) Protocol Standard. (See Appendix C at mec.ca/accountability.) We confirmed methodology changes with the Pembina Institute.²

We estimate that in 2007 our total GHG emissions for transporting products were around 2,000 tonnes. (The actual number is an estimate based on best available information.) Small package courier deliveries, direct-to-member shipments,

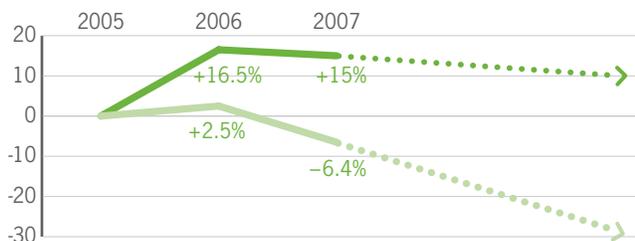
and local deliveries from Vancouver vendors are not included in this calculation.

In our last report, our goal was to reduce absolute carbon emissions from transportation by 5% from 2005 levels. We did not achieve this. In fact, our total emissions increased by over 15% in the past two years. The main reason for this jump is because we sold more products.

TRANSPORTATION GHG EMISSION BY TYPE 2007



KPI: TOTAL TRANSPORTATION GHG EMISSIONS (TCO2E)



	2005	2006	2007	2012 Target
Total Product Transportation Carbon Emissions (tCO ₂ e)	1,700	1,980	1,960	approx. 1,860
Product Transportation Carbon Emissions by Unit Sales (Kg CO ₂ e per unit sold)	0.204	0.209	0.191	NT

The good news is that our emissions per individual unit sold averaged 0.191kg of carbon in 2007. This is 6% less than 2005 and a step in the right direction. The reason? We used more rail transportation in Canada (which has a lower impact than transportation by truck) and by sea from offshore. Also, our merchandisers were able to achieve better shipment consolidation than in past years, which means we had fewer small shipments.

The bulk of our 2007 GHG emissions are from road transportation (64%). This is mainly from trucking goods from our Distribution Centre to stores. The next biggest impact is air transportation. Almost 25% of our emissions are from air, even though we only fly 1% of our products by weight. Our air mode emissions did decrease by 4% since 2005, mainly because our merchandisers managed to ship less via air (shipments went by sea instead).

¹ tCO₂e = tonnes of carbon dioxide equivalent emissions

² www.pembina.org



REACHING FOR CARBON REDUCTIONS

Climate change is one of humanity's most serious issues. Every aspect of our core business is affected, including:

- Financial implications from increasing costs of energy and materials as well as effects from an impacted global economy
- Changes in the classic alpine routes and wilderness areas where our members recreate
- Physical risks of changed and intensified weather patterns on our supply chain and operations

We haven't yet attempted to quantify these impacts, but they're currently part of our Board/Senior Management strategic planning discussions.

To avoid the most disruptive levels of climate change, it has been determined that by 2050, we must globally reduce GHG emissions by 80% from current levels.¹ Canada is the seventh greatest CO₂ emitter in the world (from 1990 to 2004, our emissions increased 54%).² Clearly we need to reverse this trend. But how do we do this if each item we sell comes with a carbon footprint from its manufacture, transportation, retailing, and use? We need absolute reductions.

We're starting with areas where we have the most control, our facilities and transportation. We're measuring and setting ambitious targets for reduction by 2012: 30% absolute reduction in GHGs from existing facilities and 5% absolute reduction in transportation-related GHGs.

The next frontier is products, where we need to better understand embedded carbon.

We're not neglecting the other side of the carbon equation, the planet's capacity to absorb carbon. We founded a social networking advocacy campaign to support conservation of Canada's wild land and water that contain some of the world's most important carbon sinks.

We've committed to building on our steps to date and preparing an overarching Climate Strategy by 2009.

2007 GHG EMISSIONS ³		TCO2E	% of Total
Direct	Natural gas (facilities)	726	19
Total Direct		726	19
Indirect	Electricity (facilities)	448	12
	Inbound product transportation (factories to DC)	815	22
	Outbound product transportation (DC to stores)	1,144	31
	Employee commuting	616	16
Total Indirect		3,023	81
TOTAL		3,749	100%

Moving forward, we have two targets. For 2009, we intend to reduce GHG emissions by unit sold by 5% from 2007 levels. By 2012, we intend to reduce our absolute emissions by 5% from 2007 levels. This will be a real challenge because we will be selling more products in 2012 than we do today.

We can achieve these reductions in several ways. First, where feasible, we will use (and encourage our factories to use) lower-emitting modes of transportation. That means shipping less by air and more by ocean, and less by road and more by rail. The trade-off with both choices is service. If we decide not to fly in a product, or ship it by rail instead of truck, it takes longer to get to the store and we may be out of stock more often.

Second, we'll explore third-party warehousing options in eastern Canada as well as direct-to-store shipments for some of our products. Currently, much of our gear is shipped from the east to the Distribution Centre on the west coast, then back to our stores in the east. We'll also continue to improve our inventory forecasting accuracy and will encourage vendor performance for on-time delivery.

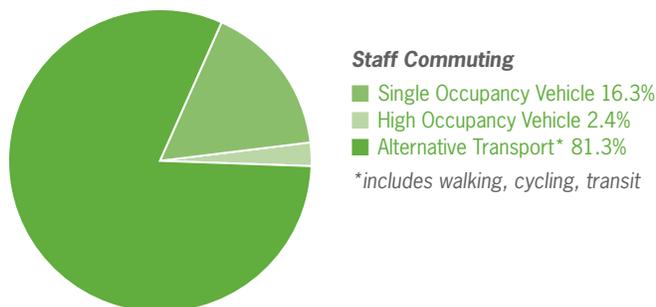
Finally, we'll talk with our transportation suppliers about our GHG reduction mandate and encourage them to use less carbon-intensive options. While we can't yet quantify changes in GHG emissions resulting from improved transportation technology/fuel use, we will continue to promote alternative fuel use and more efficient technologies.⁴

With these steps, we believe we can achieve our 2009 intensity target and our absolute reduction target for 2012.

A DIFFERENT WAY OF COMMUTING

In 2007, for the first time ever, we measured GHG emissions from employee commuting. In a survey, we asked staff to estimate their commute patterns for an average week. (See Appendix C at mec.ca/accountability.)

We weren't surprised to find that MEC staff are not your average commuters. Almost 82% of our employees nationwide took alternative transportation (public transportation, biking or walking) to work. Almost one third of us regularly biked to work.



Only 16% drove single occupancy vehicles. (By comparison, municipal government tracking in Metro Vancouver shows 59% of all trips are with single-occupancy vehicles.)

In 2007, we set up a system to track air travel employees use for business. We'll share the results in the next report.

GREENHOUSE GAS EMISSIONS

Total GHG emissions from employee commuting were just under 616 tonnes. Locations with the highest percentage of emissions are Head Office in Vancouver and stores in Montreal and Ottawa. In Montreal, staff live further away; the same may be true of Head Office and Ottawa. Unfortunately, our Montreal store isn't yet well serviced by public transportation. While staff commuting doesn't represent our biggest carbon impact, we'll continue to support staff in taking alternative transportation, particularly in higher-impact locations.

We support bike commuting by providing showers and bike storage at all facilities. There is no employee parking at our stores. We also participate in Bike Week and the Clean Air Day Commuter Challenge, with over 90% turnout. To keep the wheels turning smoothly, our stores also host bike clinics for members and staff.

LOCATION OF FACILITIES

One of our most powerful decisions has to do with the location of stores and facilities. We select sites close to bike routes and transit lines. Our Montreal store is an exception; we couldn't find a suitable site in the city proper. Over the last four years, our Montreal store has been lobbying local government to improve the local bike network and public transportation. The municipality is undertaking a study to assess options.

LOOKING BACK

2005 Actions	Target
Reduce GHG emissions of logistics activity by 5% in 2006.	Missed
Track employee commuting impacts in 2007	Made
Track corporate air travel in 2007	Ongoing

REACHING FURTHER

Strategic Goal:
Improve our carbon footprint.

2012 Target	Target Date
Reduce our absolute product transportation emissions by 5% from 2007 levels	2012
Actions	
Track corporate air travel	2008
Develop a climate strategy with targets embedded across relevant department	2009
Reduce product transportation GHG emissions per unit sold by at least 5% from 2007 levels	2009

¹ Stern Review on the Economics of Climate Change (2006), www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm

² United Nations Development Program Human Development Report 2007, "Fighting Climate Change: Human Solidarity in a Divided World"

³ Direct and indirect emissions defined as per The General Reporting Protocol (2008) www.theclimateregistry.org

⁴ Current methodology for emissions calculations utilizes a standard factor that is not sensitive to alternative technology such as more efficient motors or cleaner fuel



GREENING OUR OPERATIONS

Can we have a positive impact on climate change?
Can we achieve zero waste?



As a company that sells outdoor gear, our success is tied to a healthy natural environment. Yet many of our actions impact the planet. Building of stores. The energy we consume. Our waste stream and the paper we use. We're challenging ourselves to find new and creative ways to lessen that impact. Over the years we've celebrated many successes in this area, particularly from staff ideas.

GREEN BUILDING PROGRAM

We have eleven stores across Canada, a Distribution Centre, a Head Office in Vancouver, and an office in Montreal. In 2006-07, we opened a new store in Victoria, BC, and built a new Distribution Centre in Surrey, BC. Buildings are core to our business and represent a large focus of our efforts.

New buildings consume both energy and resources. We try to mitigate these impacts through site choice, and designing structures that are sensitive to their environments, while maximizing energy, water, and materials efficiency. We also want to create healthy and inviting spaces for members and staff. By working with the Canadian Green Building Council and Natural Resources Canada, we've developed a program based on four foundational principles that we consider for every new store and renovation:

1. **Reduce** – Avoid using unnecessary materials
2. **Reuse** – Incorporate existing materials
3. **Recycle** – Incorporate existing materials in new ways
4. **Rethink** – Look for new and better building solutions

All our buildings have important social and environmental features. Some have papers to prove it. For instance, our Winnipeg store and Montreal office received a Leadership in Energy and Environmental Design (LEED) Gold rating.¹ Our Winnipeg, Montreal, and Ottawa buildings also comply with C2000 standards.² Our Victoria store and the Distribution Centre are currently undergoing LEED Gold verification.

We studied the costs and benefits for certifying all MEC facilities using the LEED Existing Building Standard. Based on our findings, we decided to develop an MEC-specific Green Building Policy and Standard for both new and existing buildings. We'll scale our investments depending on whether we own or lease. At a minimum, all buildings will meet basic LEED requirements. We're a strong supporter of LEED and will make case-by-case certification decisions on new buildings.

We've been asked to step up and show leadership in encouraging progress among other commercial buildings. We will take action on this front in the next two years.

FACILITIES ENERGY USE AND GHG FOOTPRINT

Since 2000, we've worked with the Pembina Institute³ to calculate our GHG inventory for facilities emissions. Our methodology is based on Natural Resources Canada's Voluntary Challenge Registry GHG Protocol (see Appendix C at mec.ca/accountability). In 2007, our total energy consumption for facilities was 40,092GJ, resulting in 1,174 tCO₂e emissions.

Since 2005, our total energy use has increased by 24%, mainly because we opened a new Distribution Centre and new stores. Our total GHG emissions increased by 11%. Not all of this is



BUILDING A BETTER DC

Our Distribution Centre (shown above and left) presented a new kind of green building challenge. Industrial buildings tend to be put together as cheaply as possible, for a short life span. MEC chose to salvage the original building on the site – avoiding 870 tonnes in GHG emissions, according to the Athena Materials Institute. Another big win had to do with water. Buildings cause rain water to run off quickly, carrying pollutants that impact fish and habitat. We decided to capture the water in a basin and release it into the storm sewer at a lower rate. We also created a rain garden. And, with the City of Surrey, MEC tried a pavement that allows water to permeate and slowly drain out. It's also an experiment for the city, so they cost-shared the permeable pavement and are paying for the monitoring.

¹ LEED Gold is the second highest certification in the LEED standard. See the Canadian Green Building Council at www.cagbc.org

² Natural Resource Canada's Advanced Commercial Buildings Program, whose principle objective is a 50% reduction in energy use

³ www.pembina.org

attributed to new buildings; our emissions per square foot (intensities) also increased by 11%, mainly because we added lighting in our renovations, and extended seasonal store hours.

We can further reduce GHG emissions from energy by using less energy (efficiency), or switching to other sources (alternatives).

KPI: ENERGY CONSUMPTION



	2005	2006	2007	2012 Target
Total Energy (GJ)*	32,400	34,260	40,100	NT
Total GHG Emissions (tCO ₂ e)**	1,060	1,002	1,174	-30%
GHG Intensity (tCO ₂ e/1,000 square feet)	1.5	1.5	1.7	-30%

* Giga Joules is a typical measure for energy use

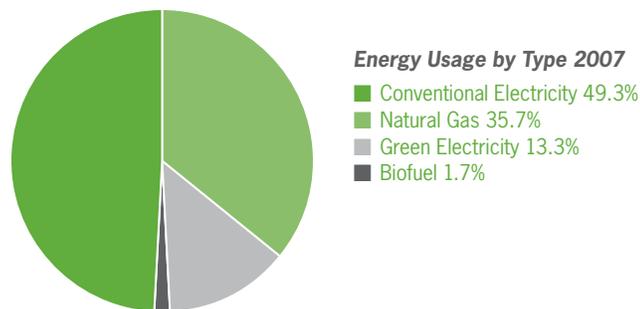
** Carbon Dioxide Equivalents is a measure that includes carbon as well as other greenhouse gas emissions

Energy Efficiency

A 2007 technology audit of our buildings highlighted many opportunities for improvement. In the next three years, we'll invest in more efficient technology, install controls to better understand our energy use, and set targets to encourage behaviour change to further conserve energy.

Alternative Energy

One way to switch to alternate energy sources is to purchase renewable energy certificates (RECs) that emit fewer GHGs than on-grid energy sources. We currently buy wind power for our Alberta stores, RECs for our Victoria store, and switched to 100% biodiesel fuel in Halifax.



We can also actually produce alternative energy. In 2007, our Toronto store partnered with a supplier to install a rooftop solar

photovoltaic and thermal generating system. While we don't own the installation, we receive the green power and heat. From school kids to architects, hundreds of visitors have been to the store to check it out – it's been a great opportunity to educate and inspire change.

Since 2005, our alternative energy procurement increased by just 1% (in 2007 it represented 13.3% of our total mix). We hoped to achieve a 5% increase, and we plan to get there by 2009, by investing in green power in the three locations where our GHG footprint is the biggest – Toronto, Halifax, and Ottawa.

Many businesses have a carbon-neutral target for their operations, and invest in offsets. Yet we know that ultimately, our planet needs global reductions, and doesn't care which business or product the GHG emissions come from. By 2012, we intend to achieve a 30% absolute reduction in emissions in our existing buildings (excluding new stores) from 2007 levels. For all buildings we aim to decrease our intensity by 30% from 2007 levels (from 1.7 to 1.2 tCO₂e per 1,000 square feet).

KPI: MATERIAL WASTE



	2005	2006	2007	2012 Target
Total Material Generated (tonnes)	773	960	913	NT
Diversion Rate (%)	83	90	92	90

ZERO WASTE

Just as waste doesn't exist in nature, we aim to eliminate it from our business and manufacturing. Zero waste is a bold concept, requiring a systems-based view, continuous improvement, and creativity. Our first change is to better manage waste within our facilities (then move to factories and mills). Our results make us believe that it is possible to come very close to zero waste.

We learn about our waste stream in two ways: dumpster dives and annual third-party waste audits.¹ With dumpster dives, we literally climb into our garbage dumpsters to look at what makes up our solid waste. Through our annual third-party waste audits, our haulers and staff estimate the volumes of waste and recyclables, as well as the costs.

¹ MJ Waste Solutions

GIVING CLIMBING ROPE A NEW LIFE

Climbing rope has a limited life span. Wear and tear from falls and abrasion inevitably means that rope has to be replaced every few years or so, depending on how it was used. However, a couple of MEC staffers on opposite sides of the country have found ways of giving climbing rope a new life. In one case, the ropes are made into dog leashes; in the other, they're recycled into new fibres.

In the first instance, Shayla Hall, Sustainability Coordinator at the Vancouver store, has hooked up with Krebs Recycle, a Washington-based company, which turns old climbing rope into dog leashes. "Krebs' whole philosophy is to take stuff that might get thrown away, and turn it into something useful," explains Shayla. "We've only just started working with them, but when we put a bin in our climbing department and let people know old ropes could be reused, the bin started filling up."

Across the country, Marie-Eve Allaire, an avid climber and the Montreal store's Sustainability Coordinator, shares Shayla's waste-reduction sensibilities. In her case, she and the Montreal store are working with Leigh Textile in Montreal, a textile and fabric recycler. Leigh takes all sorts of products, from carpet remnants to climbing rope, and reprocesses them into various insulations and paddings, such as those found in furniture or mattresses.

"Leigh tested a sample of our rope to see if they could recycle it with their regular items and it worked," says Marie-Eve. "It's great because they make something new out of it, and they resell that material to other companies."

Finding a second life for climbing ropes was a grassroots solution. "This cradle-to-cradle concept is MEC's ethic," explains Shayla. "But recycling rope is something that can be hard to implement across an entire organization. Often local solutions work better than national solutions."

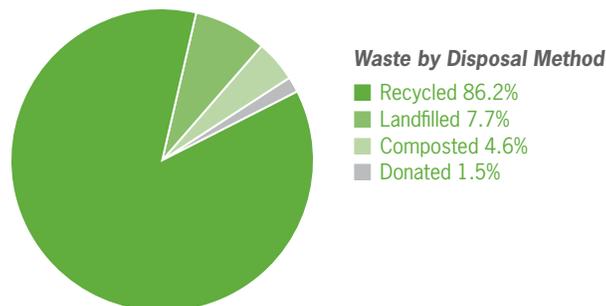
"I want to recycle everything I can," notes Marie-Eve. "For me, this is one small thing I can do in my area that makes a big difference."



Shayla Hall found a way to reuse worn climbing ropes.

In 2007, we generated 913 tonnes of waste, but only 70 tonnes went to the landfill. The rest was recycled and reused. In spite of two store renovations, we diverted 92%. We're incredibly proud of this result, as we exceeded a target of 90% by 2009.

Finding new uses for waste involves creativity, whether it's our Edmonton store staff turning packaging into notebooks, or our Vancouver and Montreal Sustainability Coordinators finding ways to recycle old climbing rope.



Avoiding waste also makes good financial sense. Diversion resulted in a \$216,000 savings. Our average cost to landfill was \$325 per tonne, whereas the average recycling cost was \$68.

Packaging

We're conscientious about how we package and ship MEC-brand products. In 2006, we took a look at ways to improve consumer packaging. While materials were already minimal and recyclable, changes included reduced thickness of our cardboard stock.

We also need to reduce transportation packaging while ensuring gear is still well protected and can be easily moved. Eliminating packaging can create extra sorting work in the Distribution Centre. This is an ongoing challenge, and we will prioritize a baseline packaging assessment for the 2009 report.

Shopping Bags

In 2005, we launched a strategy to reduce the number of bags members use, and reduce the impact of the bags themselves. Members choose to accept a bag or not. If they decline, we contribute five cents to a local environmental group. In 2007, almost 60% of members took us up on our offer, providing a total of \$79,900 in donations to urban environmental groups. (We just missed our 60% reduction target in 2006.)

That said, we still use many bags (we ordered 770,300 in 2007). Instead of petroleum-based plastics, we use BioBags, a 100% compostable and biodegradable bag made primarily from non-GMO corn. While we believe they're better than plastic, there are trade-offs. The bag uses a food source and it's unlikely that members are actually composting them. We'll eliminate disposable bags altogether. We'll use what we currently have in stock (with a complete phase out by 2010), and develop affordable reusable options for members.

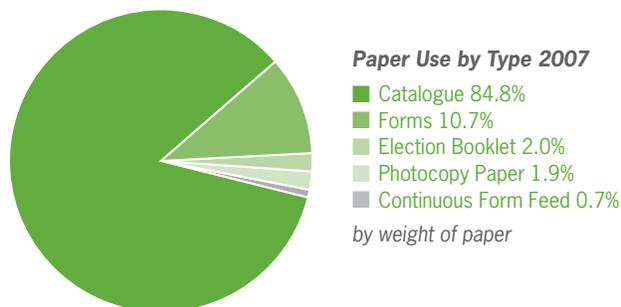
PRODUCT TAKE-BACK

In the last report, we had one formal take-back program at stores, collecting rechargeable and disposable batteries. Of the total volume of batteries sold in 2007, 50% (over 2,000kg) were diverted from the landfill.

In addition, we started taking back polyester items. Some stores also take bike tubes and climbing ropes, and some have printer toner and mobile phone return programs (even though we don't sell these). We'll keep expanding product take-back systems.

PAPER USE AND PURCHASING

As a Markets Initiative signatory,¹ MEC is committed to using ancient forest-friendly fibres and reducing the amount of paper we use day to day. We calculated a baseline of our total use, including the volume and types for photocopies/printing, catalogues, forms,² Board election booklets, and continuous form feed paper (used for inventory reports). Use increased to 404,500kg (from 390,000kg), largely because we more accurately measured the number of forms.



Our catalogues represent our greatest consumption of paper fibre (85%), followed by forms (11%) and election booklets (2%). While the total number of mailed catalogues has increased in the past two years, we've since improved our database and now mail fewer catalogues per member. We're also researching how members use (and would like to use) our catalogue, but haven't decided on further changes in the next two years.

We targeted a 15% reduction of photocopy/print paper use in stores; we achieved 7%. By 2009, we'll achieve a further 5% reduction, including paper in all of our operations.

Since we're not yet able to completely eliminate paper, we combine our reduction efforts with more environmentally friendly paper. Our primary goal is to source Forest Stewardship Council (FSC) certified³ and 100% post-consumer recycled content (PCR) paper. Our "bottom line" is to use a minimum 30% PCR content.

¹ www.marketsinitiative.org

² This includes materials, fact sheets, HR paperwork, receipt tape and other miscellaneous forms

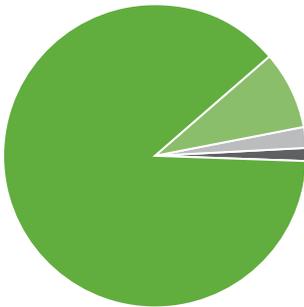
³ www.fsc.org



CATALOGUE PAPER FOOTPRINT

We were curious. We wanted to know: What's the life cycle environmental footprint of our catalogue? Using the Environmental Defence Fund paper calculator (www.papercalculator.org) we estimated that our 2007 catalogues:

- Used 665 tonnes of wood
- Emitted just under 800 tonnes of GHG emissions
- Created over 20 million litres of wastewater
- Created just over 300 tonnes of solid waste



PCR Content Paper 2007

- >=30% PCR 88.3%
- 100% PCR 8.1%
- Virgin 2.3%
- <30% PCR 1.3%

Since 2005, the FSC-certified portion increased by 1%. We'll keep working toward a target of 90% for 2009. In terms of PCR, over 8% (up from 4% in 2005) of total paper was 100% recycled. Two percent was virgin paper. The majority (88%, down from 91%) contained 30% or more recycled content.

SUSTAINABLE PROCUREMENT

Recently we have begun to examine our non-inventory purchases (e.g., office furniture, cleaning materials). The first step was to join the Fraser Basin Council's Sustainable Purchasing Network, to learn from and share successful strategies with our peers. While some of our purchasing considers environmental criteria (e.g., paper, technology) this is the result of individual staff members taking initiative rather than formal organizational direction. We intended to tap their experience to develop a policy in 2006 but did not get there. We'll prioritize this for 2009.

LOOKING BACK

2005 Actions	Target
Reduce operations GHG emissions by 15% in 2006	Missed (5% reduction)
Ensure all new MEC facilities meet LEED Certification or equivalent standard	Ongoing
90% of all paper will be FSC-certified by 2007	Missed (86% certified)
Reduce photocopy paper use by 15% in 2007	Missed (7% decrease)
Increase green energy procurement by 5% in 2006	Missed
Decrease shopping bag use by 60% in 2006	Missed (44% reduction)
Achieve 90% average diversion rate for facilities by 2009	Made

REACHING FURTHER

Strategic Goals:

- Improve our carbon footprint.
- Reduce waste and harmful substances.

2012 Targets	Target Date
Reduce carbon emissions in existing buildings (excluding new stores) by at least 30% from 2007 levels	2012
Reduce GHG intensity per square foot by 30% for all buildings	2012
Maintain a diversion rate of over 90%	Ongoing
Actions	
Develop a business case and Green Building Policy and Standard that provide direction around investments for both new and existing buildings	2008
Reduce GHG intensity per square foot for all buildings by at least 15% from 2007 levels	2009
Reduce total photocopy/printer paper by 5% from 2007 levels	2009
90% of all paper will be FSC certified	2009
Develop a non-inventory purchasing policy	2009
Assess consumer and transport packaging and develop an improvement plan and targets	2009
Phase out use of plastic bags (use only current supply)	2009-10
Implement an initiative to encourage commercial green building in collaboration with builders, retailers and government	2010
Achieve at least 20% GHG emission reductions from 2007 levels in our existing facilities	2011



ENGAGING EMPLOYEES

Can we inspire our employees?

Our staff set us apart. They live our passion for the outdoors, people, and the planet. They're know gear and recreation. They hold us to high standards in gear quality, sourcing, our environmental actions and naturally, our human resource practices and compensation. Finding and keeping great employees is one of the keys to our success, so it's imperative we make MEC a truly outstanding place to work.

THE MEC CULTURE

Above all, MEC staff value their colleagues and the shared culture of recreating in the outdoors. According to our employee survey,¹ almost 90% of staff chose co-workers as one of their top reasons for staying at MEC. For many, MEC is a place to

connect with others who share their passion for the outdoors, and for social and environmental change. Water cooler chat is often about recent or planned outdoor adventures, current issues, or simply where to find the best locally grown produce.

ACTIVE CULTURE

76% of MEC staff are into day hiking and 35% are trail runners. 12% of them spend winter days telemarking, 17% alpine tour. 27% hit the gym for climbing and 9% take it to the winter extreme – ice climbing. And bikes? 64% cycle commute, 39% road ride, and 28% go for cross-country rides.

WHO WE ARE

In 2007, we had 1,387 employees (267 more than 2005). They work at the Head Office (203), Service Centre

(55), and Distribution Centre (55). At our stores, they work in Vancouver (152), North Vancouver (49), Victoria (75), Calgary (170), Edmonton (94), Winnipeg (41), Toronto (165), Ottawa (96), Montreal (128), Quebec City (76), and Halifax (30).

Employment Status	Full Time	Part Time	Casual	Contract
Total Staff	523	195	426	243
Percentage	38	14	31	18

Roughly an equal number of males and females (54%, and 46%) worked at MEC. Four of nine senior managers were women. While the majority of staff are between 20 and 30 (41%), ages range from under 20 to over 50. We recognize that employees at different stages of life have different needs, and are offering more diverse benefits to meet these (from flexible time-off, to matching RRSPs, to Maternity and Parental Leave benefits).

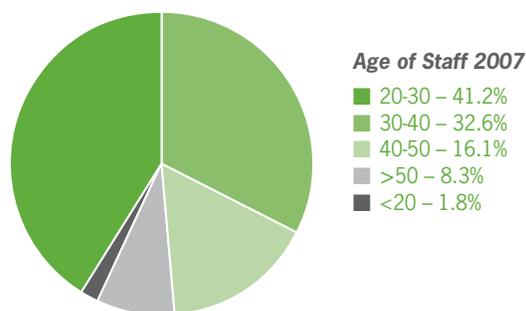
We improve our understanding of diversity at MEC through voluntary information from our 2007 Employee Survey (see Appendix C at mec.ca/accountability). Fewer than 1% of employees indicated they have a First Nations background. About 10% said they are part of a visible minority group. Almost 20% of our staff were born outside of Canada. Less than 1% told us they have a disability. Over time, we expect our workplace will increasingly reflect Canada's rich ethnic diversity and views. We encourage this through our new Diversity Policy.



EMBRACING DIVERSITY AT MEC

We're committed to social justice and diversity in our business practices. In 2007 we created a Diversity Policy to formally spell out our continuing commitment to provide an open workplace to all people. Fair and equitable treatment applies to all aspects of employment at MEC (including recruitment, hiring, training, compensation, promotion, termination, and the work environment).

We actively remove barriers to ensure access to employment and services. What does that really mean? We do things like modify a job task to accommodate physical disabilities, educate ourselves to better understand diversity and social justice issues, and demonstrate flexibility around religious holidays. Having said that, we hire on skills and talents and don't set diversity targets in our workforce.



We believe in treating all staff equally and fairly. Eighty-nine percent of respondents agree that individual differences in gender, race, ethnicity, sexual orientation, religion, or age, do not affect how people are treated. However, fewer visible minority staff agree with this statement (77%). In the past two years, we've had no formal grievances or incidents of discrimination.

¹ 2007 Employee Survey (Hewitt)

STAFF ENGAGEMENT

In fall 2007, we held an employee engagement survey (our third since 2004), in partnership with Hewitt Associates, a leading human resources consulting group. Overall, 64% of staff indicated they're "engaged", a slight improvement since 2005. The score was just below our target of 65%.



Engagement is based on three behaviours:

- 1. Say** – Speaking positively about the organization to co-workers, potential employees, and members. We consistently do well here, with 82% of staff recommending MEC to friends, and 80% talking about the great aspects of working at MEC.
- 2. Stay** – Having an intense desire to stay with the organization. We're more challenged here, with only 44% of staff hardly ever thinking about leaving MEC. While we want our people to stay, we also support them in moving on to pursue their dreams through education and training.
- 3. Strive** – Exerting extra effort and dedication to doing the best job possible to contribute to the organization's business success. Fifty-eight percent believe MEC inspires them to do their best work every day. This is an improvement over 2005. However, it's not where we'd like to be. We're exploring results to understand how we can improve in this area. However, while our talented and educated staff are inspired to be with MEC, many may simply not achieve their desired goals through day-to-day retail work.

Following the Engagement Survey, all managers met with their teams to discuss the results and develop action plans, which we will roll out in the fall of 2008.

RESPONDING TO THE FINDINGS

In our last report, we identified specific areas for improvement. We made changes and achieved the following results in the past two years:

Creating Development Opportunities

Just under half our staff believe there are career opportunities at MEC. (In 2005, only 28% believed there were opportunities for them personally.) Given our flat co-operative structure and size, internal career opportunities are, admittedly, limited. Since 2005, we have improved opportunities within MEC and encouraged staff to pursue internal as well as external positions. All things equal, we work to promote and hire internally. In 2007, more than half of our posted positions were filled internally (including our new CEO). Special projects and a new Product Specialist Program (in which staff take significant responsibility for a specific area of the store) also help to build skills toward a promotion or another job.

Educating and Training

In 2007, we invested over \$70,000 in our Tuition/Continuing Education Reimbursement Program, doubling participation from past years. Our Product Specialist Program also helps staff learn, and keeps MEC at the forefront of outdoor expertise. In addition, we supported more field courses (structured courses to build new skills) and implemented field experience programs (opportunities to try new activities) for store staff. In 2007, we dedicated 38,800 hours to store staff training (an average of 28 hours per employee). We also established a Leadership Program for managers. It's our hope that these initiatives not only help develop staff for other positions at the Co-op, but build skills if and when they choose to leave MEC.

Encouraging Volunteering

To help inspire staff and support our communities, our Human Resources Department initiated a Volunteerism Program. Staff members are paid to volunteer with non-profit organizations in support of outdoor activity and conservation issues. So far, we've had 13 people participate and will build on this in the future. (Many also volunteer on their own time or through store-supported efforts.)

Providing Tools and Resources

Only 47% of employees told us the tools and resources we have in place allow them to be as productive as possible. (By tools

¹ Average result for all 50 Best Employers, from Hewitt's Best Employers in Canada Study (2007)

and resources, we mean people, equipment, technology and other resources.) As a growing organization, we recognize we're lean in this area and are investing in key systems. For example, we're currently implementing STEP Catalogue, a product information management system that centralizes data to help us better communicate with suppliers, store staff, and our web and catalogue teams. This helps floor staff access product information more easily. In 2007, we also initiated MEC's Collaboration Project to improve communication and the ability to work together. One of the commitments resulting from this project is an Intranet by the end of 2009.

Reviewing Performance

We found staff performance reviews were not conducted consistently in 2005. Improving this has been a focus for the past two years. We want to ensure all staff receive timely feedback and set goals for the future. In 2007, 92% of our store and Service Centre staff received performance reviews by the targeted date. For the 2009 report, we will track Head Office and the Distribution Centre.

Over the next two years, we'll invest in staff development, compensation, resources and communications, and staff inspiration/activity culture.

KEY HEWITT FINDINGS 2004-07

SENIOR MANAGEMENT PRIORITIES ¹ (PERCENT OF STAFF WHO AGREE / STRONGLY AGREE WITH STATEMENTS)	2004	2005	2007	Change from 2005	Top 50 Employers
Organizational Reputation "I believe MEC is considered one of the best places to work in Canada" ²	n/a	n/a	69	n/a	n/a
Work-Life Balance "The balance between my work and personal commitments is right for me"	66	67	69	2 points	69
People Practices "Our people-focused policies, programs and practices create a positive work environment for me"	51	66	79	13 points	77
Career Opportunities "There are career opportunities available at MEC" ³	n/a	n/a	49	n/a	65
Performance Management "The way we manage performance here keeps me focused on helping MEC achieve its goals" ⁴	38	44	49	5 points	69
Senior Leadership "I see strong evidence of effective leadership from the Senior Management Team"	40	59	68	9 points	73
Employee Selected Measures ⁵					
Inspiration "MEC inspires me to do my best work every day"	42	54	58	4 points	75
Co-workers "My co-workers respect my thoughts and feelings"	78	83	87	4 points	85
Intrinsic Motivation "For the most part I look forward to coming to work each day"	67	73	74	1 point	81
Pay "My pay is appropriate for the role I have at MEC"	41	43	43	0 point	58

¹ Selected based on 2004 SMT prioritization and focus group feedback

² Changed from "I am certain that our business creates something that adds value to our community". However, we take corporate citizenship seriously, and will reinstate this question in future surveys

³ Changed from "My future career opportunities here look good"

⁴ Changed from "The performance review process helps me focus my work effort to help MEC achieve its goals"

⁵ Selected based on 2005 Accountability Report staff focus group; and 2007 Staff Reality Check Panel

ATTRACTING AND KEEPING GREAT STAFF

One of our biggest challenges is finding staff with experience in the outdoors. Like many businesses, we feel Canada’s labour crunch, particularly in regions with strong economies such as Calgary and Vancouver. Among other initiatives, we’ve created an Employee Referral Bonus Program, are piloting a Member Referral Program, and provide materials for passive job seekers. We will develop a full communications program to reach out to potential employees, including different ethnic communities, demographics, and experience levels. We also do more training of new staff that may have less experience, to help them embrace the culture of MEC and build outdoor expertise.

We carefully monitor our compensation to ensure we’re competitive – we remain in the top quarter of retailers.

COMPENSATION

In 2007, our entry-level retail wage was \$10 per hour in half of our stores, and \$11 in more competitive markets. On average these rates are 132% of minimum wage in Canada. Prosperity bonuses for all staff for the past two years total just over 2% of their earnings per year.

Stores	MEC Entry-level Wage	Minimum Wage	Percent of Minimum
Vancouver, Victoria, North Vancouver, Calgary, Edmonton, Toronto	\$11.00	\$8.00	138
Ottawa, Winnipeg, Montreal and Quebec	\$10.00	\$8.00	125
Halifax	\$10.00	\$7.60	132
Average	\$10.55	\$7.96	132

The ratio of our CEO’s compensation (salary plus bonuses) to average employee compensation (both hourly and salaried staff, including wages and bonuses) is 7.4:1. The CEO salary includes incentive compensation linked to MEC’s financial, social, and environmental performance. According to the Canadian Centre for Policy Alternatives, in 2006 the 100 best-paid CEOs in Canada were paid 218 times as much (total compensation) as an average worker’s earnings.¹ MEC’s incentive compensation, or bonus program, enables managers to earn up to 18% of their salary.

BENEFITS

In the retail industry, MEC offers a strong benefits plan.

Full- and Part-time Staff

Our full- and part-time staff receive benefits that include extended health and dental coverage; life, accident, and disability insurance (for full-time staff); provincial medical coverage; vision care; an Employee and Family Assistance Program (EAP) for counselling in times of need; paid care days; employer-matching RRSPs (we provide a base contribution of 1% of earnings, plus match 50% of employee contributions up to an additional 3%, up from 2% in 2006); and tuition assistance (including support for courses and training in non-work-related fields). For both full- and part-time staff, we also offer an interest-free Computer, Bike, or Boat Loan Program. We’ve also introduced a Maternity and Parental Leave Program – MEC tops up the income a full-time employee receives from Employment Insurance to 75% of gross income for a maximum of 11 weeks. This is rare in our industry.

MEC offers twelve care days for full-time staff and six care days for part-time staff, in case of illness or for other legitimate uses. Different from vacation, care days are only for use as needed. Last year, 3,310 care days were taken.

Contract and Casual Staff

Our contract and casual workers all have access to the EAP. Full-time contracts (of over one year) receive medical and dental coverage. In 2006, all casual employees received a Health Care Spending Account through which they can earn up to \$250 a year toward health-related costs (excluding Quebec, which has equivalent government programs).

In addition to these more traditional benefits, all staff can take advantage of perks such as a generous leave of absence program, a 25% discount at our stores, pro-deals from vendors and – depending on our success in a given year – prosperity bonuses.

¹ The Great CEO Pay Race (2007), Canadian Centre for Policy Alternatives

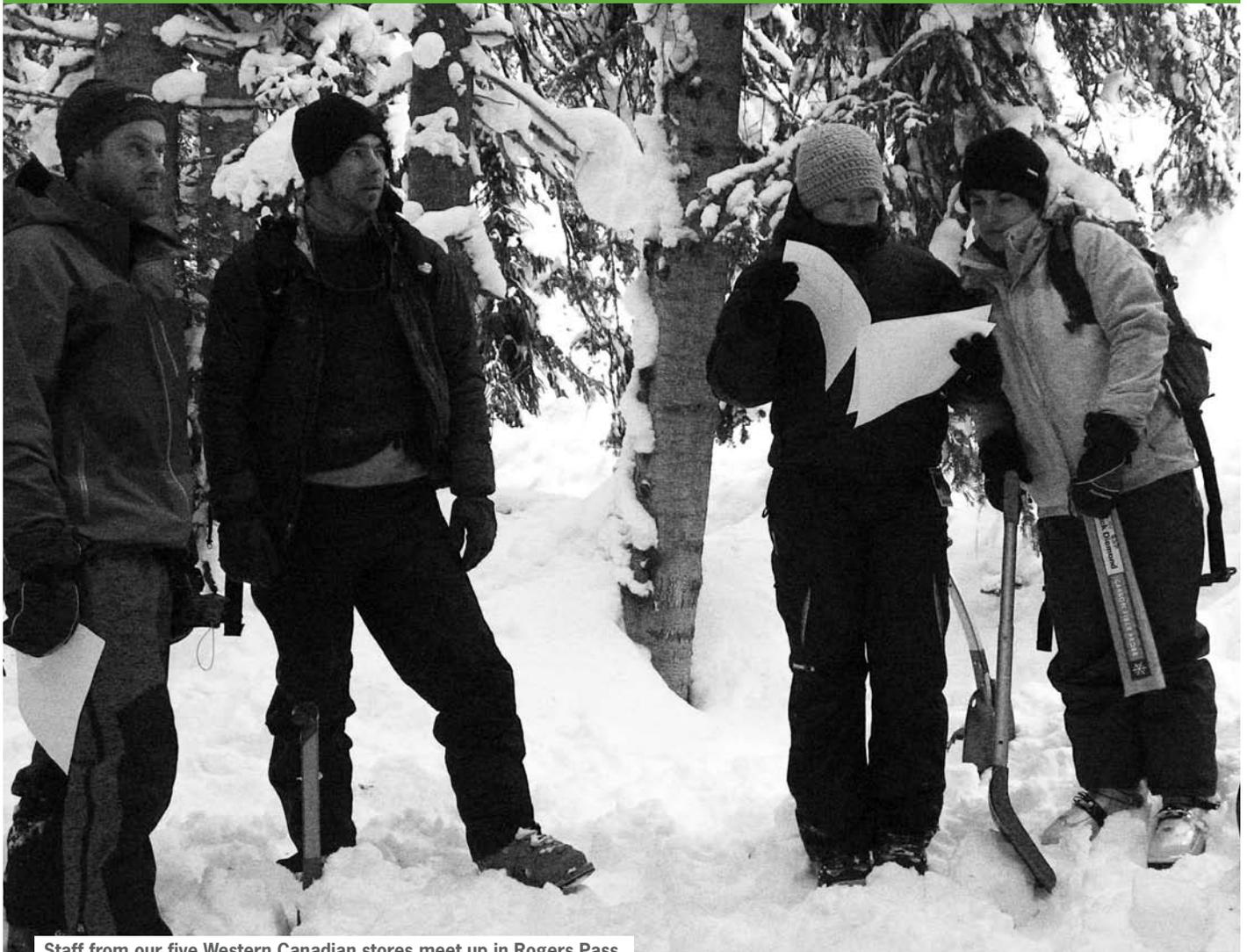
BRINGING STAFF TOGETHER

With almost 1,400 employees in 11 stores across Canada, holding a Christmas party can be a challenge! We don't get to connect often, but what better way than in the backcountry?

In late 2007, Paul Dywelska and Dirk Gibbs, two Vancouver staffers, came up with a great idea: hold an outdoor training session and invite MEC staff from different stores. "We thought it would be neat to get a bunch of the MEC stores together in one area," explains Dirk. "That way staff could get to know each another and learn valuable skills at the same time. MEC was in full support of it, and the idea just grew."

The event, called Ski Symposium, entailed a four-day trip in Rogers Pass in February 2008. Twenty-five staff members were invited from the western stores (Vancouver, Victoria, North Vancouver, Calgary, and Edmonton, as well as the Service Centre). "We wanted to get an array of skill levels – not just beginners and not just advanced," explains Dirk. "People who had a variety of skills and backgrounds." Each store led a training or team building session.

"The best part was the chance to meet a lot of different people from other stores," says Dan Tresidder, a frontline staff member from the Victoria store. "Plus I'd never backcountry snowboarded before. I remember sloggng up a steep hill, putting my gear on and carving my way through beautiful untouched powder... that was a great moment."



Staff from our five Western Canadian stores meet up in Rogers Pass.



HOW WE MAKE WAGE DECISIONS

Our compensation policy states “compensation for positions in opening pay scale levels will not be less than the average paid in the external market.”

We have salaried staff and hourly staff. Salaried staff positions are assessed and assigned levels of pay according to their responsibilities. Their wage increases are based on annual performance reviews. Hourly staff wages are assessed annually and increase on a time-driven scale. Employees begin at a common entry-level wage. (Our regular entry-level wage is \$10 per hour. This increases to \$10.25 after 500 hours of work – and so on, up to a maximum of \$17.00 per hour in 2007.)

MEC reviews retail wage rates every year. We engage Mercer Human Resources Consulting to compare our retail rates and current market to make sure we’re on track relative to other retailers. (We continued to be in the top quarter of the external market averages in 2007.) In some years, we make decisions to change our rates, based on factors such as market comparison, inflation, and MEC’s ability to sustain an increase. In 2008, entry wages will increase by \$1 per hour as a result of this assessment.

We have also received questions about having a local living wage policy for our employees. We don’t manage to a local living wage policy, due to the widely varying living costs in our different markets, lack of clear definition of living wage, and challenges with our low margin co-operative business structure. We do, however, support compensation reflecting regional differences in the marketplace. In select cities (Vancouver, North Vancouver, Victoria, Calgary, Edmonton, and Toronto) we pay a regional premium of \$1 per hour above our average pay scale.

TURNOVER

Given the seasonal nature of our business and industry (busy summer and winter holiday seasons, with lulls in-between), we rely on contract, casual, or part-time employees to give us the flexibility to respond and manage changing sales curves. Some staff love this flexibility, because it means they can attend school or plan long trips. For others, it’s a financial challenge. Navigating this seasonal reality means we need to be clear with our work expectations upfront and provide relevant benefit programs that include components such as Health Care Spending Accounts for casual employees.

As a result, turnover rates (the percentage of the workforce that leave and are replaced in a given year) in retail are traditionally high. This is also influenced by a competitive labour market. Staff also leave for travel or other seasonal employment, or to advance their education or find new careers. Our highest rates of turnover are in our western stores, where the labour shortage is most intense. Many employees come back to MEC after time away. In 2007, a full 26% of all hires were re-hires of past employees. Our Human Resources Department counts these as terminations and separate re-hires.

TURNOVER RATES	MEC 2005	MEC 2006	MEC 2007	Change Since 2005	2007 Industry Benchmark ¹
Head Office	20%	14%	17%	-3 pts.	17%
Stores	53%	59%	63%	10 pts.	70% ²
Distribution Centre	12%	36%	20%	8 pts.	30%
Overall	47%	52%	56%	9 pts.	N/A

We have incredibly talented and well-educated employees (67% have post secondary education, ranging from philosophy to outdoor education to law³). We love that many co-workers see us as part of their future, but we’re not surprised that more than half our staff sometimes think of leaving MEC to work elsewhere. Given our flat structure, we don’t always have internal opportunities for employees. So we see some turnover as a good thing. While it’s never easy to see our people leave the fold, we support and cheer them on in their next life adventures. And we hope that MEC values and skills will help in their next place of work.

¹ Canada Retail Industry Compensation & Benefits Survey (2007) Mercer Human Resource Consulting

² Weighted average of full-time and part-time/casual/temporary benchmarks

³ MEC Employee Survey (2007)

UNION REPRESENTATION

The Canadian Retail Workers Union represents 4% of our staff (all our Distribution Centre). They have negotiated terms of employment and benefits within a collective agreement. The most recent collective agreement was negotiated in 2004 and will be renegotiated in 2008. There has never been a formal union grievance filed against MEC. We pursue a collaborative approach with our union representatives and strive to ensure excellent management practices.

HEALTH AND SAFETY

All MEC employees are covered by Health and Safety committees that have mandates to meet monthly. In 2007, we held monthly meetings at nearly all our facilities (166 meetings). This is a vast improvement over 2005, when meetings were more sporadic. Only two locations missed the monthly requirement.

Over the past two years, we haven't tracked lost days from injuries sustained at work at the national level. This information lives with our stores, as workers compensation is a provincial issue. We'll implement a company-wide tracking system.

ETHICS AND INTEGRITY

Above all, we value integrity.

Our Conflict of Interest Policy helps ensure personal interests don't conflict with the interests of MEC. All staff learn about this policy and our Code of Business Conduct when they start at MEC. In 2007, we also established a Whistleblower Policy. Staff can anonymously report concerns such as actions that are unlawful, may lead to incorrect financial reporting, aren't in line with MEC's financial policies, or otherwise amount to serious improper conduct. This policy provides reassurance that employees will be protected from reprisals for reporting concerns in good faith. To date, we haven't received any Whistleblower calls.

We believe our workplace must be ethical, open to dialogue, and foster respect. Our Code of Business Conduct ensures we operate with the highest standards of business ethics. Ninety percent of staff feel comfortable raising concerns if asked to do something illegal, unethical, inappropriate or against personal beliefs. Eighty-four percent believe their manager displays integrity and ethical conduct at all times. Ethics is also about how we treat one another. Eighty-seven percent of our staff believe their co-workers respect their thoughts and feelings.

LOOKING BACK

2005 Actions	Target
Score between 65-70% on overall employee engagement in the next Hewitt survey in September 2007	Missed (64%)
Evaluate the RRSP program and increase the matching program by 1% in 2006	Made
Ensure all Health and Safety Committees meet 12 times a year in 2006	Missed (11 times)
Develop MEC's Diversity Policy and better understand employee diversity at MEC	Made
Roll out health spending account for casual employees in 2006	Made
Formalize an Employee Volunteerism Policy and Program in 2007	Made

REACHING FURTHER

Strategic Goal:

We aspire to have highly effective, knowledgeable and engaged employees who make MEC an outstanding workplace.

2012 Target	Target Date
Increase our Engagement Score to 68%	2012
Actions	
Implement a national tracking system for days lost from injuries	2008
Increase our Engagement Score to 66%	2009
Implement improved communication tools such as Intranet	2009
Develop and implement an initiative to increase the culture of activity among staff	2010



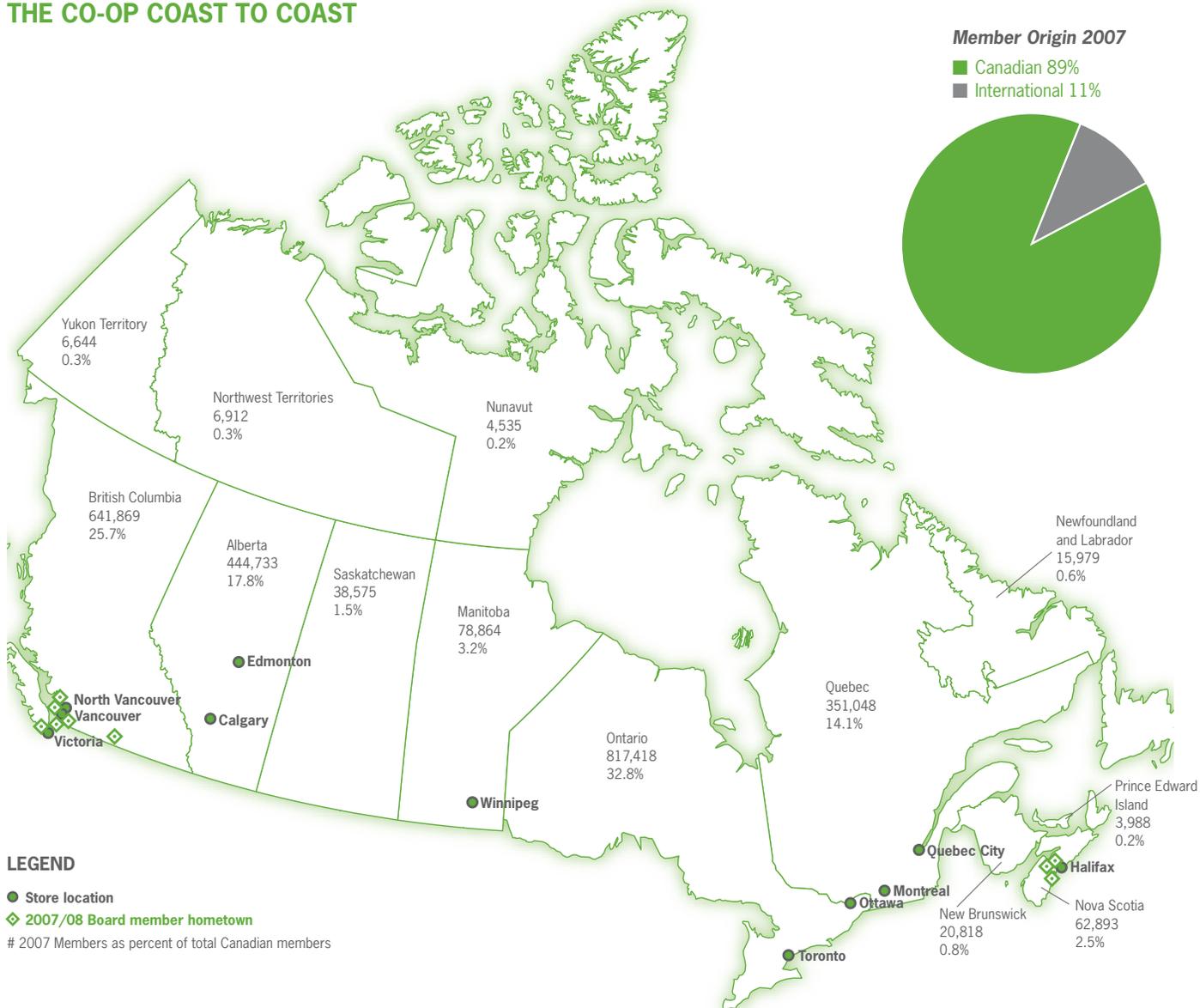
EQUIPPING MEMBERS

Can we meet the needs of our diverse members?



We know our members love the outdoors. We also know they have very different interests and skill levels. Some climb in Skaha, British Columbia. Others ski in the Gaspé backcountry, Quebec. We've got whitewater kayakers and families going canoeing. Our gear has to appeal to them all, but our role goes beyond that. We want members to love our gear, and to get excellent advice and service. We want to educate, inspire, and help them connect with the outdoor community. Most importantly, we want our members to get outside.

THE CO-OP COAST TO COAST



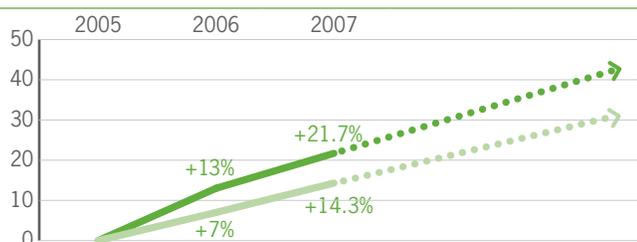
By the end of 2007, we had 2.8 million members. This is a 22% increase from 2005. To us, this means the outdoor community in Canada has grown – and we love it. Eighty-nine percent of our members are Canadian. Eleven percent prefer French-language communications (compared to 7.5% in 2005). Ages range from 18 to 65+, with 12% under 24 years and 23% over 50. Almost half our members are women (46%).

We're inspired by the vibrant differences in our membership. And we see our fundamental challenge (a positive one) is staying relevant to their needs, from multi-day climbers to urban family cyclists.

A SIMPLE MISSION

Our first point of contact with members happens when they walk through our door, click on our website, or call up our Service Centre. They're usually on a simple mission – to get great gear. At reasonable prices. With good advice on how to use it. Many prioritize social and environmental responsibility. And some seek a deeper connection with community.

KPI: MEMBERSHIP



	2005	2006	2007
Total Members	2.3 million	2.6 million	2.8 million
Active Members	1.4 million	1.5 million	1.6 million

Some of them come back to shop, and some of them don't. Of all our members, 1.6 million were active in 2007 (which means they bought or rented something from us at least once in the past three years). We dug a little deeper to find out what happened to the remainder. We found that most were happy with MEC – they just didn't need any more gear.

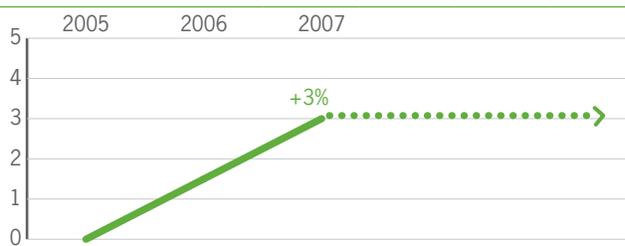
MEMBER SATISFACTION

How do we determine member satisfaction? Sales is an important indicator. We also conduct store surveys, market research, in-store comment cards, as well as feedback via email and website. We read each and every piece of member correspondence. In 2007, we received over 5,000 suggestions through in-store communication forms. Good or bad, it's great to get this feedback to find out what members want, and to improve products and services. In 2007, an average of 80% of comments on service were positive. This is up 10% since 2005, which we attribute to our renewed focus on member service – with staff training programs across all of our stores. We also had more gear in stock.

In our last report, we set a goal to exceed member service expectations 83 times out of 100 (on a scale of one to five, where four was "exceed expectations"). In 2007 we surpassed this with an average score of 85 out of 100. We're very pleased our members are happy with MEC and will keep doing

what we're doing to maintain these positive levels of satisfaction and trust.

KPI: SATISFACTION



	2005	2006	2007	2012
Percent of members who would recommend MEC to a friend	94	n/a	97	At least 90

KEEPING PRODUCT IN STOCK

Our gear has to be available to members when they need it. In the past, we had challenges keeping product in stock, but in recent years we've made significant improvements to our supply chain management. In our last report, we set ourselves a target of achieving an "in stock" rating of 95% in 2006; in other words, approximately 95 out of 100 members would be able to purchase the product they want when they want it. We just missed this target in 2006 (we achieved a 94% in stock rating) but achieved it in 2007. Going forward, we will maintain 95% weighted average inventory service levels.

IS IT GREAT GEAR?

No one knows our gear better than the people who use it. We've always relied on word of mouth, and know that above all, members trust their friends and fellow outdoor enthusiasts. We wanted to create a web community space for MEC members to discuss the pros and cons of our products. In 2007, we created a space for gear reviews on our website. Over 6,300 reviews were posted by year end. More importantly, the reviews contained lots of useful insight. The average rating for MEC-brand gear was 4.1 out of 5.

ENSURING QUALITY

Quality means that a product performs and lasts. Through our Rock Solid Guarantee, we support our commitment to ensure members get the right product for their needs.

MEMBER SERVICE IN NZ

In summer 2006, two Americans and two Canadians met up at the MEC Toronto store to buy supplies for a kayaking trip. But it wasn't just any trip. The foursome had planned a six-month voyage paddling the islands around New Zealand. They bought everything they needed in Toronto, and, fully outfitted, boarded their plane for New Zealand.

Unfortunately, when they arrived on the south island of New Zealand, they discovered much of their safety gear had been damaged en route. In a panic, they called paddling shops and guiding companies in New Zealand. Due to their remote location, nobody could ship the goods they needed. As a last resort, they phoned MEC. "One of my staff got this call and said, well, we've got the stuff you need but I don't know how to get it to you," explains Nancy Harrison, Toronto's Services Team Leader. "Then I got on the phone and said we'd try to figure out a way."

Sometimes "figuring out a way" can involve lots of creativity and ingenuity. "A friend of mine, Jacinta, used to work for MEC, and now lives in the UK," says Nancy. "She has a friend in New Zealand, Liam, and between the two of them, they helped arrange the whole thing. It wasn't just about meeting the plane in Auckland and picking up the stuff; they also had to arrange to have the gear picked up by a bush pilot to get to the south island. It was a lot of work, but they were incredible."

Happily, the team got their gear, and the trip went off without a hitch. "They came back to visit us at the store afterward," says Nancy. "They couldn't believe people had done this for them. It was pretty cool."



Nancy Harrison finds a way to help members in the southern hemisphere.



MEC'S ROCK SOLID GUARANTEE

Like many retailers, we guarantee our products; if an item hasn't met your expectations, you can bring it back. Unlike most retailers, we also guarantee the product selection advice offered through our catalogue, website, and staff. If an item you've purchased based on this advice turns out to be unsuitable, you can bring it back. In either case, simply return the item for exchange, refund, repair, or credit.

In 2007, MEC processed about 60,000 warranty returns, representing 0.6% of all units sold. This is just at our acceptable limit. We've had four safety recalls in the past two years. These include a climbing harness with problematic gear

loops, and crampons that were returned because a small number of the products developed cracks. When we find a significant issue with one of our products, we immediately let members know. As a co-op, with members' contact information in hand, we're able to take such proactive steps.

COMMITMENT TO REPAIR

If a product breaks or falls into disrepair, we'll do all we can to "revive" it at no charge. In 2007, we performed more than 7,800 repairs, a whopping 2,800 more than 2005. This is because we made a point of encouraging members to repair rather than replace their gear.

What happens to the returned items we can't repair? Some are sent back to the original manufacturer to be reviewed. Gear in good condition is donated to local causes. Items are stripped of parts, and staff use them to repair other gear. However, when repair is not possible, and an item isn't of use to others, the final option is putting it in the garbage. This isn't an attractive proposition. We encourage members to keep this last option to a minimum by seeking advice on care and maintenance from store staff or online so their gear can have a long life.

OFFERING ADVICE

We sell gear for outdoor activities, some of which involve risk. We believe our members need to take responsibility for their own outdoor conduct. However, from an ethical point of view, we want to provide members with as much information as possible before they head outdoors.

Our staff are trained to help members choose the right gear for their activity and level of experience. In fact, staff expertise is an important part of who we are as a co-op. Members consistently express their appreciation of having experienced staff help them with purchase decisions.

In addition to in-store advice, we offer a variety of other programs. The "Connect" section of our website has an online listing of outdoor courses, events, trip partners and more. It's actively used. Moving forward, we'll continue to connect with members and the outdoor community through our Community Activity Strategy (see page 54).

We keep looking for ways to increase the benefits of MEC membership, from in-store talks and slideshows to bike fix-it clinics. For instance, in 2006 we hooked up with The Co-operators Insurance to provide free two-day insurance coverage for members, which even covers them for higher-risk activities such as climbing and whitewater kayaking. We're currently looking to improve this program. Other collaborative perks include discounts on outdoor publications (such as *Gripped*, *explore*, *Alpinist*, and more), a discount for bikeregistrycanada.com, and discounted memberships with clubs such as Paddle Canada.

RESPONSIBLE CONSUMPTION

Sometimes it's difficult to reconcile the fact that we sell stuff while simultaneously trying to promote social and environmental responsibility. In 2007, we sold a lot of gear – over 10 million individual pieces. But because we're a member-owned co-op, we can do more than just sell.

Our staff don't work on commission. Our gear is built to last, and backed by our guarantee. Our Communications and Marketing Department continues to be driven by a goal to provide information, not marketing hype. In 2007, we spent 2.2% of our annual sales on marketing, compared to 2.5% by the average sporting goods store.¹ Seventy percent of that budget goes toward our MEC catalogues, which exist to provide product information to members.

PRE-LOVED GEAR

We have a long tradition of helping members find pre-loved gear – adventuring on the cheap runs in our culture! In fact, our Sustainability Policy states that MEC "will always enable members to access gear without having to purchase new products." Since 1984, we've been running Outdoor Gear Swaps across Canada. All our stores take part. Our swaps are very popular with members. They can buy or sell any outdoor gear, even if it doesn't come from MEC.

¹ Retail Council of Canada (2005)

Our free online version is our Outdoor Gear Swap at mec.ca/connect. In 2005, we listed 21,000 posts for gear and activity partners; our target was to increase the number by 10%. In 2007 we missed this goal (we had 20,600 postings), and will improve our communications in upcoming years.

Each store also has a permanent community board where members can post ads to buy and sell products. In addition, stores have a product discard program, through which returned products are donated to local outdoor schools, clubs, and shelters.

RENTAL GEAR

Our rental program lets members try out gear without buying it. This is great for those who only ski or kayak once or twice a year. Or those who'd like to "demo" a product before purchasing. Rental categories and selections vary from store to store, and include boats, backcountry safety gear, tents, snowshoes, and even sleeping bags.

ENGAGING MEMBERS

As a co-op, engaging members is critical to our future – through our democratic governance structure and how we conduct business. Our 2.8 million members span multiple generations and backgrounds, and one of our biggest challenges is remaining true to our co-op roots.

How do we keep in touch and connected to the issues that members care about? In 2007, we collected just under 15,000 completed member surveys on a range of topics and issues, from sustainability to attrition to cycling and activity. We also increased our ability to connect with and understand members through a new online panel (a target set in our 2005 report). This is in addition to in-store member surveys, emails, and letters.

We also look to our website to keep communication flowing to our membership. 765,000 members subscribe to MEC e-news communications. Many also connect to their fellow MECers through Facebook, blogs, and through thebigwild.org website.

We continue to engage members in other ways: voting for the Board of Directors (see page 64), community involvement (see page 51), patronage returns (see page 57), and other initiatives.

PRIVACY

At MEC, we're committed to respecting individual privacy and recognize our members and staff need appropriate protection and management of any personally identifiable information provided to and/or shared with MEC.

We have policies consistent with the federal Personal Information Protection and Electronic Document Act (or other provincial and territorial privacy acts). These policies cover MEC's access to general information and the protection of personal information about MEC members and employees whose personal information is administered by MEC. In the last two years, we had no privacy breaches or issues

LOOKING BACK

2005 Actions	Target
Increase number of Outdoor Gear Swap postings by 10% in 2006	Missed
Increase overall member satisfaction to 83% in 2006	Made
Increase the ability to connect with and understand our members through the development and roll out of an online web-panel in 2006	Made
Measure use of the Outdoor Resource Centre by members – benchmark in 2006	Can't track
Achieve target of 95% weighted average service level (against 92.5% actual for 2005) in 2006	Missed

REACHING FURTHER

Strategic Goal:

We offer the best product quality, functionality and form at the most competitive price in each of the outdoor recreation activities that we support.

2012 Target	Target Date
Over 95% of members would recommend MEC to a friend	2012
Actions	
Maintain an 85% member service score in stores	2009
Maintain a target of 95% weighted average inventory service levels (in stock measure)	2009
Develop a market research member satisfaction measure, including quality, availability, service and engagement (TBC)	2009



SUPPORTING OUR COMMUNITY

Can we influence activity and conservation in Canada?



Our community focus is to make Canada a world leader in protecting wild places, and ensure more Canadians play outdoors. It's about activity and conservation – two long-term goals for MEC. To make real progress toward this ambitious Vision (and it is ambitious), we need to do a lot with the resources we have. In other words, provide granting and partnerships to help others, and engage in initiatives that leverage our resources.

OUR COMMUNITY INVOLVEMENT VISION

Canada will be home to the world's most comprehensive network of parks and protected areas, and will sustain the world's most outstanding outdoor playground. Self-propelled activity will be a defining feature of Canadian culture and lifestyle.

FIGURING OUT WHERE WE STAND

We wanted to find out how far along we are in achieving our Vision, and develop a baseline to work from. We discovered:

Our Vision	Current Reality
Canada as a world leader in comprehensive parks and protected areas	<ul style="list-style-type: none"> • Canada ranks 36th in the world in terms of the amount of land under Parks and Protected area status¹ • Less than 10% of our land and less than 1% of our water is protected²
Canada as the world's most outstanding outdoor playground	<ul style="list-style-type: none"> • 46% of MEC members (and 39% of Canadians) believe there is an abundance of outdoor recreation opportunities available³ • 31% of members (and 21% of Canadians) feel able to take advantage of the recreational opportunities available
Self-propelled activity as a defining feature of Canadian culture	<ul style="list-style-type: none"> • 35% of our members (and 23% of Canadians) agree that self-propelled activity is a defining feature of Canadian culture and lifestyle

AN OVERVIEW OF OUR EFFORTS

Over the last two years, we've pushed ourselves to find better ways to leverage our Community Involvement Program. We need to stretch our influence to achieve outcomes that are beyond our sphere of direct control.

We've decided the biggest contribution we can make is to support organizations working on conservation and recreational access. Conservation is about making sure wild spaces remain intact. This is a compelling challenge – and opportunity – because we're one of the few places in the world where these spaces still remain. Unfortunately, they're rapidly disappearing. Recreational access enables people to be active in the outdoors. It's about making sure there are trails for biking, or places to climb or ski. And it's about making sure people have the skills and connections to get outside.

When we joined One Percent For The Planet in 2007, we raised our community contributions budget to the equivalent of 1% of our gross sales. This commitment, coupled with increases in sales, has meant a huge increase in our community contributions. Since 1987, we've contributed \$12 million.

We have stayed the course with our core grant and partnership program, maintaining the level of funds that is distributed through these channels. We recognize that over two decades of grant making in Canada, where less than 2% of philanthropy is directed to environmental causes, we've come to play an important role as a funder and commercial partner in the outdoor and conservation community.

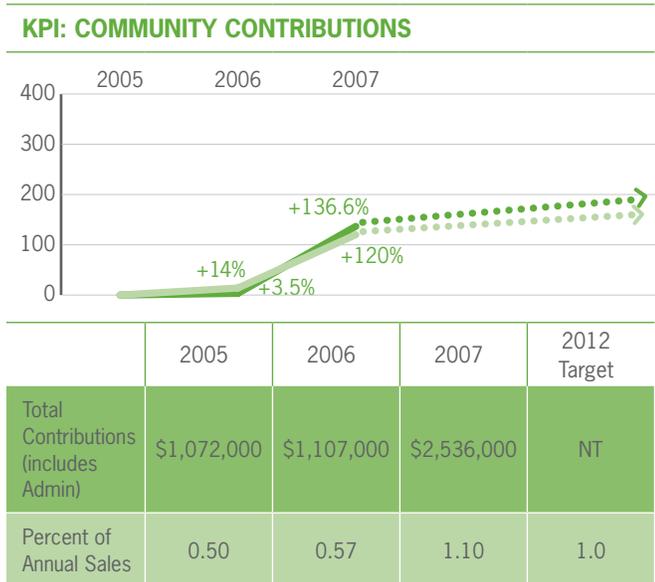
¹ Panel on the Ecological Integrity of Canada's National Parks (2000)

² www.thebigwild.org

³ All survey data from MEC's 2007 Sustainability Survey

COMMUNITY CONTRIBUTIONS

In 2007, we contributed \$2.5 million to conservation and access initiatives, representing 1.1% of our annual sales. (Some of our contributions that support access and recreation are not environmental, so don't count toward our One Percent For The Planet target). For both years, we've kept our administrative expenses below 14% of total community contributions.



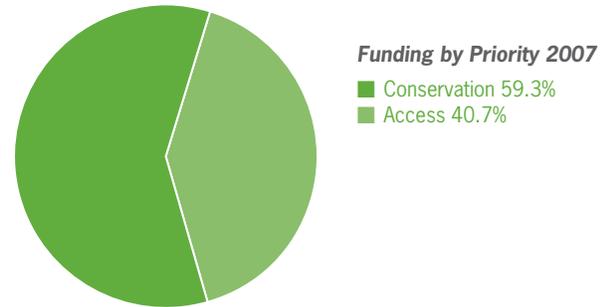
We also donated over \$100,000 dollars to important initiatives such as Red Cross disaster relief and annual green chemistry scholarships for students at the University of British Columbia. These are not included in our overall community contributions.

Grants by Category 2007 ¹	Amount	Percent
Advocacy and Education	\$502,100	22.9
Community Partnerships ²	\$491,700	22.4
Capacity Building	\$456,200	20.8
Access ³	\$232,900	10.6
Research	\$226,600	10.3
Land Acquisition	\$72,000	3.3
Strategic Grants ⁴	\$64,100	2.9
Grassroots Product Donation	\$60,000	2.7
Urban Sustainability	\$53,800	2.5
Expedition support	\$32,500	1.5
Total	\$2,191,900	100%

In addition to contributions, we make recommendations to the Vancouver Foundation for grants from the MEC Endowment Fund for the Environment (with a current balance of \$1.3 million) and the MEC Annual Fund (with a current balance of \$2.3 million).⁵

Most of our grant dollars are awarded twice per year through national and regional granting committees, made up of MEC staff and members from across the country. We have specific

criteria to ensure our grants are outcome focused and strategic. And we require progress reports for bigger grants. That said, we intentionally do not require excessive reporting as we recognize this can be an incredible resource drain on smaller organizations, impeding their ability to create change.



EXTENDING OUR REACH

Through partnerships with other businesses, non-profits, and governments, and increasingly through direct engagement with members, we can increase the impact of our community involvement resources.

In the last two years, we've deepened our relationships with several of our existing partners and stakeholder organizations. Our key national conservation partner is the Canadian Parks and Wilderness Society (CPAWS)⁶. Our main national access partners are the Canadian Avalanche Centre, Leave No Trace Canada, and Paddle Canada. All stores have their own regional partnerships within the recreation community.

We're excited about three major initiatives which we developed in collaboration with others:

- Joining One Percent For The Planet, where we reached out to businesses across Canada through a joint-effort with the Community Foundations of Canada
- Securing access to Skaha Bluffs, where we deepened connections with existing partners, collaborated with government and engaged our membership
- Developing The Big Wild – our deepest partnership and first proactive advocacy initiative focused on engaging members and Canadians – founded by MEC and CPAWS and supported through our Patagonia vendor agreement

¹ For a list of grants awarded in 2007 through our granting program and the Environment Fund, visit www.mec.ca/belief

² Includes grant of \$163,300 for Big Wild from Patagonia Partnership

³ Additional \$650,000 for recreation access through MEC Annual Fund

⁴ Includes grants to Ecotrust, the National Climber's Access Initiative, Hike Nova Scotia, Canadian Environmental Grantmakers' Network, and the Sage Foundation

⁵ 100% of MEC Endowment Fund and MEC Annual Fund investments held in the Vancouver Foundation's Socially Responsible Investment stream

⁶ www.cpaws.org

SAVING SKAHA BLUFFS

At MEC, folks know that outdoor gear is no good if there's nowhere to use it. That's why when MEC Community Program Manager Laurie Edward found out that public access to Skaha Bluffs, one of BC's premiere climbing destinations, was under threat, we got on board.

"Skaha is one of the most important climbing areas in Canada, plus it has tremendous ecological value," says Laurie, who was a driving force behind MEC's efforts. "But the only access was through property owned by a private individual who wanted to sell it, so access was very precarious."

The local climbing community had been working for years to establish permanent public access to the area in the South-Okanagan Similkameen, but had been unable to crack the code of private, development, agricultural and governmental interests to find a solution. MEC brought The Land Conservancy (TLC) on board to put a deal together, and then committed the first \$250,000 toward the purchase of a 304-hectare property adjacent to the Bluffs.

Then we approached our members with an opportunity to contribute. We sent emails to hundreds of people in the MEC climbing community and said we'd match individual contributions dollar-for-dollar up to \$100,000. MEC members contributed \$140,000 to the campaign. "People really responded to this as being something that was completely aligned with what they hoped MEC would do in the world. It was a moment in time that affected a lot of people."

With the financial support from the Province of BC, the Nature Conservancy of Canada, the Climber's Access Society, and other partners, TLC closed the \$5.2 million deal on January 16, 2008. The land is now slated to become a Class A Provincial Park.

"This is a great example of what can happen when like-minded organizations work together towards a common goal," adds Laurie.



Laurie and Tina (Parks Canada) celebrate success.



ONE PERCENT FOR THE PLANET

For more than a decade, we've committed to community contributions as a percentage of sales. In 2007, we joined One Percent For The Planet,¹ an international alliance of businesses that provide financial support to environmental initiatives. We've committed to donating a full 1% of our annual gross sales to Canadian causes. Many of the projects we fund also have recreation access and activity benefits. For us, this is the ultimate win – to achieve progress toward both conservation and access objectives. One Percent For The Planet independently verifies its member contributions.

To spread the word about this program to other Canadian businesses and environmental organizations, we partnered with the Community Foundations of Canada (CFC), a membership association for Canada's 155 community foundations. MEC and CFC helped raise awareness of One Percent for the Planet in Canada in both French and English, and combined MEC's media reach with CFC's programs to promote membership in the Canadian business community. Since we started participating, we've witnessed a doubling of Canadian membership.

Our most successful community efforts are driven by or rooted in our stores. Grassroots change is powerful. Our store staff understand the needs of their local community better than anyone, and they're empowered to make decisions. In addition to granting and partnerships, stores share offices with environmental groups, provide products for fundraising, and even pay staffing for events. They support local recreation access and conservation groups with space for meetings, in-store displays, and slide shows.

ON THE HORIZON – ACTIVITY ALERT

Rates of self-propelled activity, and participation in outdoor recreation, are dramatically declining in Canada.² Where's our next horizon? We're going to invest more deeply in recreation and access. We're also going to focus on a startling issue – the decline in outdoor activity and in particular, low rates of participation among Canadian youth and recent immigrants.

Our community contributions have always supported access and recreation. But we can do more. We want to build on our existing partnerships and more proactively support the outdoor community, particularly youth. We'll be reviewing our program next year to develop an Activity Strategy.

RECREATING RESPONSIBLY

In addition to increasing opportunities for activity, we encourage responsible recreation. This includes acknowledging tensions between activity and conservation – and recreating within the carrying capacity of land or water areas. Through our advocacy, granting (such as access grants), and our partnership program, we work to support a healthy balance of ecological protection and outdoor recreation.

In 2005, we were a founding partner to establish Leave No Trace Canada – a national non-profit dedicated to promoting and inspiring responsible outdoor recreation through education, research and partnerships.³ We currently sit on their Board and also provide financial support to hire staff, develop programs, and build capacity to become a self-sustaining organization.

We will continue our focus on responsible recreation and intend to further engage our membership through The Big Wild Challenge and other initiatives.

¹ www.onepercentfortheplanet.org

² Pergams and Zaradic, "Evidence for a fundamental and pervasive shift away from nature-based recreation", PNAS, vol. 105, no.7, Feb 2008

³ www.leavenotrace.ca



PROTECTING CANADA'S WILD PLACES

Canada is home to one of the world's last remaining wild areas (about 20% of what's left on the planet). Currently less than 10% of this land is protected. That's where The Big Wild comes in. We are inspired by the vision to keep at least half of Canada's public land and water wild forever.

The Big Wild is a long-term social networking initiative to engage Canadians in a wilderness conservation movement. Founded by CPAWS and MEC, it centres on The Big Wild Challenge – an annual call to Canadians to be active in the outdoors and dedicate their adventures to conservation.

This initiative meets our objective of stepping up to address one of Canada's most pressing issues, the protection of our wild places. It's the first time we've proactively developed an advocacy campaign to help Canadians engage in an important public policy discussion toward long-term conservation.

And it was largely instigated by our members. Our elected Board members have long supported wilderness conservation. In 2006, we conducted an advocacy survey where wilderness protection was rated as the most important issue for us to take a stance on. Eighty-two percent told us that wild areas should be protected regardless of their recreational value.

Check out thebigwild.org.

LOOKING BACK

2005 Actions	Target
In 2006 MEC will increase its contributions to 0.5% of our sales to conservation and access issues in Canada	Made
In 2007, MEC will contribute the equivalent of 1% of sales to conservation and access issues in Canada (Join 1%FTP)	Made
Donate 70% to conservation and 30% to access in 2006	Made
Develop system to track in-kind donations and product discard donations in 2006	Made
In 2007, MEC will develop a national campaign with CPAWS	Made

REACHING FURTHER

Strategic Goals:

- Increase culture of recreation and activity in Canada.
- Increase conservation of ecologically and recreationally important places.

2012 Targets	Target Date
Maintain 1% of annual gross sales to support the environmental community	annual
At least 40% of community contributions support activity and access	2012
200,000 Canadians sign onto www.thebigwild.org	2012
Actions	
Conduct a community program review, to develop and implement a strategy to engage Canadians, particularly youth and other cultures, in self-propelled outdoor recreation	2009
100,000 Canadians sign onto www.thebigwild.org	2009



ECONOMIC PERFORMANCE

Can we make a strong economic contribution?



As a co-op, we have a different economic structure than a regular business. We have the simple, but important mandate to provide great gear at great prices – and get people outside. To do this, we stay true to our roots and remain economically viable in the short and long term. We also maximize our economic contribution to our stakeholder communities.

OUR FINANCIAL POSITION

Our balance sheet tells part of our economic story. At the end of 2007, we owned \$146.2 million of assets (cash, gear, property, accounts receivable and equipment). We owed \$30.9 million (payables, mortgages, gift cards). And our members had invested \$115.4 million in shares (equity).

KPI: MEMBER INVESTMENT AND SALES



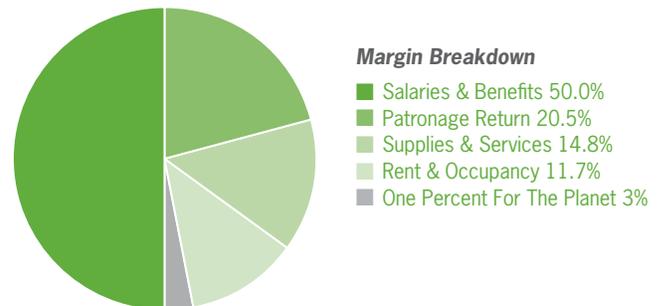
	2005	2006	2007	2012 Target
Member Investment (million)	\$85.1	\$103.3	\$115.4	NT
Sales (million)	\$197.4	\$227.5	\$239.1	2%

We finished 2007 with a strong financial performance of just under \$240 million in sales. What happens to the money spent by members in sales? The “MEC loonie” shows where a typical dollar spent at MEC went:



The MEC Loonie

- Cost of gear 67¢
- Salaries & Benefits 16¢
- Patronage Return 7¢
- Supplies & Services 5¢
- Rent & Occupancy 4¢
- One Percent For The Planet 1¢



The majority of the dollar spent went to cost of sales – what we paid suppliers and other costs of getting gear (67 cents). The next highest cost was salaries and benefits (16 cents) followed by the patronage return (7 cents).

We opened one new store in 2006. As targeted, we realized more than 2% same-store growth over 2005. And all of our stores contributed to our financial viability; none were subsidized. Moving forward, we continue to expect a positive revenue contribution from all stores and intend to respond to member needs through new stores and continuous investment in our website.

OUR ECONOMIC CONTRIBUTION AND IMPACT

Our economic contribution stretches beyond the story told on our balance sheet. Over the past two years, MEC supported additional economic activity through our payroll, member spending on general outdoor recreation, \$5.6 million in patronage redemption, and almost \$4 million in community contributions. All of these generate spin-off impacts. For example, a community grant may pay for trail signage, which involves a design company, a print company, and employees to manage the process.

Through our retail operations in Canada (excluding inventory purchases), MEC created over \$650 million in spin-off economic activity in 2007.¹ We also purchased 30% of our MEC-brand product from Canadian suppliers. Yet our inventory supply chain ranges across more than 50 countries and many lives, contributing to Canadian and international economies.

¹ www.eiolca.net

Compared to many of our international retail peers, our economic impact is modest. According to Statistics Canada, MEC represents 0.06% of total retail sales in Canada, 2.3% of the sports and leisure retail sales sector.¹ We make our impact

meaningful by supporting suppliers who sign our Code of Conduct and help progress toward a healthier planet and a just society.

DOES MEC PAY TAXES?

MEC is taxable. We pay all the usual taxes such as payroll tax, provincial sales tax, import duties, capital tax, and property tax. We also pay corporate income tax on any year-end earnings. This tax is calculated on earnings that remain after patronage shares are allocated to members. When MEC declares a patronage dividend, its taxable income is almost zero, so our effective income tax is very low.

GOOD GEAR AT GOOD VALUE

In the true spirit of co-ops, we support our members by providing value – quality, function, aesthetic, integrity, and fair prices. We're also different from other businesses in the way we set our prices. We look at the margin we need to keep our organization healthy, and plan for a modest surplus (what most businesses call a profit) to be conservative in our operations of the business.

INVESTING IN OUR FUTURE

Co-ops cannot raise funds in all of the ways a corporation does. So we're conservative, at least financially. We largely self-finance, by retaining enough of the cash generated from our operations to fund our future projects and investments. Given that we aim to make only a small surplus as a percentage of sales each year, we prefer not to carry high levels of borrowing. In other words, we don't want to have to factor the costs of servicing high levels of debt into the prices of our products. Our debt equity ratio for 2007 year end was 0.27.

LOOKING BACK

2005 Actions	Target
Realize 2% same-store growth over 2005	Made
Ensure all stores contribute to MEC's financial health (that is, no store will be subsidized)	Made
Distribute \$2 million in share redemptions in 2006	Made

REACHING FURTHER

Strategic Goals:

Be a financially viable business in the short- and long-term.

2012 Targets	Target Date
Achieve 2% same store sales growth annually	annual
Open one new store on average per year	2012
Achieve at least 3% net surplus at the end of each year	annual

¹ www40.statcan.ca/101/cst01/trad15a.htm

FINANCIAL OVERVIEW 2007: SUMMARY

To review our audited 2007 financial statements, please visit mec.ca.

WHAT WE WERE WORTH AT YEAR-END

(IN THOUSANDS OF DOLLARS)

What we owned

Cash	9,812
Gear and other products to be sold and money we're owed	52,625
Buildings and equipment to run our operation	83,782
Total	146,219

What we owed

Money we owed suppliers, staff, etc. ¹	24,352
Gift Cards not yet redeemed	5,478
Mortgage	1,021
Total	30,851

Members' investment in MEC

Members' shares and surplus	116,849
Total comprehensive loss ²	(1,481)
Total	115,368

WHAT WE SOLD, SPENT, AND SAVED

(IN THOUSANDS OF DOLLARS)

Our income

We sold gear and provided services to our members (and earned other income ³)	241,251
-------------------------------------------------------------------------------------------------	---------

Our expenses

We paid suppliers for gear related costs	159,747
We paid staff salaries and benefits	38,788
We bought supplies and services ⁴ and paid taxes	11,507
We made our contribution to 1% For The Planet	2,301
We paid for use and operation of buildings to work in	9,095
We made an allowance for depreciation of buildings and equipment	3,850

Our surplus

What was left	15,963
We reinvested most of the surplus in members' share accounts	(15,913)
We made provisions for income taxes	50
Our net surplus for the year	0
We started the year with a surplus/retained earnings	30
We ended the year with a surplus/retained earnings	30

¹ Includes foreign exchange contracts, deferred lease inducements and future income taxes

² Includes market to market losses on open foreign exchange contracts

³ Other income mainly includes rent and parking income, interest income, gift cards unlikely to be cashed, gear swap proceeds, etc.

⁴ Supplies and services includes supplies, interest expenses, provincial capital tax, local advertising, community support expenses, etc.

GOVERNING THE CO-OPERATIVE

Can we demonstrate leadership in governance?



Good governance ensures MEC stays healthy for the long term. This means running the Co-op in a socially, environmentally, and economically responsible way, aligned with the interests of our members, staff, and other stakeholders. Our Board of Directors provides this vital governance role. Besides strategic and fiduciary work, they focus on generative work – taking a good look at what the future might hold, to ensure MEC’s viability. They’re deeply committed to ensuring our democratic governance model keeps MEC healthy and true to its roots.

OUR MEC BOARD

MEC’s Board has nine directors who serve staggered three-year terms.¹ Members typically elect directors with a range of

RULES OF INCORPORATION

MEC is incorporated under the BC Cooperative Act.³ We conduct our affairs according to official rules set by MEC’s Memorandum of Association and Rules of Co-operation. These two documents establish the legal foundation for our governance process, and outline the fundamental role of the Directors in supervising the management of the business. The annual milestone of our governance cycle – the Annual General Meeting – takes place in April every year. Newly elected Directors are announced at this time.

experience, including finance, sustainability, and co-operative leadership. All Board members share a passion for the outdoors and the activities we support.

Board members are elected to represent the whole membership. That’s why diversity is important. MEC needs to remain relevant in the changing face of Canada. In 2007-08, three of our nine Board members (33%) were female, including the chair (compared to an average of 30% in the Canadian co-op sector and 12% on corporate boards).² None of our directors are visible minorities. In the last report, we said we’d look at ways to encourage greater diversity among Board candidates. Because it’s an elected board, this is challenging. We’ll continue to build awareness of MEC in

different communities and emphasize the importance of diversity in our communications.

WHAT OUR BOARD DOES

The Board has three main responsibilities. First, they ensure MEC is well managed and operates to meet the hopes and aspirations of its owners/members. We call that Strategic Work. Second, they exercise control over MEC’s assets and ensure funds are used effectively. This is Fiduciary Work. In 2007, the

Board added another responsibility – Generative Work. Through this work they explore and identify, at the earliest stage, important organizational questions. With management, they explore the nature of related challenges and opportunities. This type of work is the precursor to strategic planning and problem solving, and sets the direction of MEC’s focus (see page 63).

HOW THE BOARD DOES IT

To fulfill their responsibilities, the Board works closely with the Senior Management Team. First and foremost, this work includes hiring a CEO. In 2007, the Board hired a new CEO, David Labistour. For the first time in history, MEC hired from within the organization. The Board strongly believed David had the right combination of skills – outdoor, product, and financial – to most effectively guide MEC into the future.

The Board directs MEC through the CEO and via policies. To ensure they stay effective and meaningful, these policies are reviewed, at a minimum, every three years.

Our Board meets a minimum of six weekends per year. Additionally, the following standing committees made up of Directors and staff focus on specific areas:

- Finance and Audit
- Governance
- Sustainability (established in 2006)
- Human Resources and Compensation
- Elections and Member Communication
- Futures (ad-hoc committee that ended in 2007)

In our last report, we addressed the lack of formal board-level oversight on sustainability. In response, the Board established a Sustainability Committee. Its role is to ensure the Board oversees policies, risks, and opportunities in the areas of

¹ To align with the Board cycle, some of the indicators in this section cover the period April 2007 to March 2008

² Toward excellence: National Report on Cooperative Governance Practices 2004

³ www.leg.bc.ca

product sustainability, ethical sourcing, community involvement, green operations, and advocacy (including compliance with external codes and agreements such as the Global Compact). An important milestone, it further solidifies our commitments in these areas.

To reflect best practice in governance, all Board members are independent. They aren't members of management nor closely related to employees or each other. Accordingly, the CEO is not a member of the Board but maintains a high level of engagement with them. MEC's interests always trump personal interests. This is articulated and supported by a Conflict of Interest Policy that ensures directors declare and avoid positions where their interests potentially conflict with the good of MEC.

BOARD COMPENSATION

Being an MEC Director is a big job. On average, Board members dedicate 40 hours per month to the Co-op. Their compensation is not linked to the performance of the organization. A third-party compensation review confirmed that MEC's board compensation is in line with other Co-ops and credit unions of similar size and complexity. In general, average compensation of co-operative boards is significantly below that of corporate businesses, particularly in the retail sector.¹

Year	Board Chair	Avg Director	Total Compensation
2006-2007	\$21,500	\$19,800 ²	\$179,900

Members decide (through Resolutions) what the Board gets paid: up to \$22,500 for meetings, as well as position stipends and travel.³

HOW TO BUILD THE BEST BOARD

A unique feature of the MEC Board is that, through democratic election, participation is open to every member. Our rules do not permit us to endorse or recommend candidates. It's a grassroots approach to selecting the leaders of our business. It reflects our values, and ensures members have a say in the destiny of their Co-op.

The flip side is that our current process doesn't always result in all the desired skills and experiences that are important for overseeing a quarter-billion-dollar co-operative enterprise. We find we're gaining strong sustainability, planning, and co-operative governance skills, but we tend to have fewer

individuals with financial and retail experience. This makes training and development very important. It also highlights the need to proactively seek strong candidate nominations as well as ongoing assessments and alternative ways to support board experience. There are three ways we try to build an effective and qualified Board:

Electing New Directors

During candidate nomination time, the Board assesses skills needed from incoming Directors. They ask candidates to answer specific questions in their campaign materials. In 2007, we improved our election process. For example, we interviewed potential directors and posted their podcasts online. We also improved our election materials to help voters compare candidates in specific skills, experience, and opinion areas.

Developing Existing Directors

Once elected, as talented as they may be, individual directors may still require training. A basic level of financial literacy, for example, is necessary for all directors. We haven't consistently offered this or other training, and leadership and training efforts have not yet been formalized. In 2007, we created a new Board Development Policy requiring a director skills assessment and training plan, and will develop a program to implement it in 2008.

MEC's Board is committed to continuously improving and showing leadership in governance. Annually, directors carry out anonymous, confidential peer evaluations through an externally administered assessment. The Board discusses the evaluation outcomes as part of a Board Leadership Program, established in 2007, to continue to build a strong team of directors.

Identifying and Filling Gaps through External Advice

As MEC evolves, the skills and experience required of its Board also evolve (although the role of representing member values never changes). The Board has the ability to access paid external advice when specific skills and experience are needed. However, it hasn't yet clearly spelled out what these requirements are. We realize the need to have a systematic approach to assess skills and identify any potential gaps.

The Board will initiate a review of required board skills and experiences, and establish a plan for filling gaps and assessing performance. This will be implemented over the next two years.

¹ MEC: Compensation of the Board of Directors (2005) Brown Governance Inc.

² Annual compensation per director ranged from \$11,000 to \$23,000, depending on the number of meetings and roles of director

³ The membership increased the meeting compensation cap to \$22,500 from \$15,000 at the 2008 AGM

GENERATIVE THINKING IN ACTION

In our last report we talked about the MEC Futures Project, in which our Board, members and staff explored long-term options for MEC's success. The result is a new MEC Charter and three Long-Term Goals.

However, the Futures Project goes beyond that. Colin Campbell, Governance Committee Chair, says that it means a shift in the way the Board operates. "We're starting to build long-term thinking and planning into the way we go about governing," Colin explains. "That's called generative planning, which is a key concept to ensure ongoing vitality and relevance. We also care about long-term sustainability, of our organization and the planet. Those are framing concepts for moving forward."

"As a Board, much of our work involves checking today's finances and progress. Generative thinking means taking a step back and looking at external trends and asking big questions," says Board Chair Denise Lawson. "The generative side of things is really about thinking how different factors could impact our business and what could come out of that."

Specifically, this means the Board will be engaging in more discussions about the future. "For instance, we'll hold sessions with senior managers and external individuals to challenge our thinking and generate ideas," says Colin. "This June, we'll talk about recreation, asking the highest level question: how do we encourage increased participation in recreation?"

Colin emphasizes that the Futures Project has provided the long-term directions that members want us to take. Key decisions are based on this very valuable input. "We're building our long-term plans in an open, accountable way, drawing from a process that engages members," he says. "And we're going to keep going back to our members, because we need to know what they care about."



Board members, Colin Campbell and Denise Lawson.



WHAT MAKES A CO-OP?

We often get asked about our co-operative business model. Are we really a business? Co-ops are different in many ways. But we're not insulated from business basics, and have our unique challenges and benefits.

What is a co-operative?

A co-op is a democratically controlled business where members pool their resources to obtain a benefit. Anyone can join MEC by buying a \$5 membership share. This makes them a part owner. It allows them to buy gear and vote on how the Co-op is governed.

Are co-ops different from corporations?

Yes. Shareholders own corporations. Voting rights are determined by the number and type of shares held. Share value is determined through the buying and selling of shares. A co-operative also has shareholders – our members. But the share value of a single share always remains the same (the price of an MEC share has been \$5 since 1971). Each member has one vote, regardless of the number of shares.

Are co-operatives sustainable businesses?

Not necessarily. Like every business, a co-op has to challenge itself to internalize environmental and social impacts and to act on opportunities. Our structure gives us a strong foundation though. Unlike corporations, we are not managed with the goal of maximizing annual profits. Co-ops exist to provide benefit to members. This encourages us to make decisions with the long term in mind.

MEMBER ENGAGEMENT

As a co-op, members are our life-line. Board elections and Annual General Meetings (AGM) are only two ways to keep members connected. In our last report, we talked about how hard it is to engage MEC's members, and inspire them to be active in the Co-op and its future. This gets more challenging as our membership becomes larger and more diverse.

We've developed some programs to make stronger member connections. These include:

Online Special Resolution Voting – Making it easier for members to vote on issues they care about

Member Research – Better understanding our members and what they want from us

Member Engagement – Engaging members in a national advocacy campaign to unite in a common cause

Most members are quite happy with MEC – in fact, 86% said they were proud to be a member of MEC.¹ While many just want great gear at the end of the day, these results tell us that we have a high level of member connection, which is critical as a co-operative.

OUR BOARD ELECTIONS

Because we're structured to represent the interests of the membership, voting in our election is important. It's one of the great parts of being a large democratic organization.

Unfortunately, voter participation is decreasing, even while our membership grows. In the 2007 election, just over 1% of our active membership voted (17,700 members).²

KPI: ELECTION PARTICIPATION



	2005	2006	2007
Voter Participation	1.9%	1.7%	1.1%
Total Votes	26,091	26,208	17,707

¹ MEC Member Panel Survey, 2008

² Active members are members who have purchased at least once within the past three years

This decline in voting is a trend that is occurring with other co-ops (and political elections) and poses a risk for MEC. In 2007, we put a lot of time into researching and identifying solutions, and have since developed a refreshed voting campaign.

In 2007, for the first time ever, members also had the opportunity to vote online for special resolutions, as well as voting for directors. Over 10,000 members voted on special resolutions in 2007. In the previous year, only the members who attended the AGM were eligible to vote on resolutions.

ANNUAL GENERAL MEETINGS

Every April, we host our Annual General Meeting in Vancouver. It's when our CEO and directors deliver their annual reports and answer questions. In 2007, 152 members stopped by, called in, or joined through a webcast. The webcast and teleconference options were pilot projects and unfortunately were not well used (fewer than 10 members). Due to the low take-up and high cost, we've decided to eliminate these options. We'll continue to monitor attendance to ensure we maintain a critical number of participants beyond quorum requirements (50 members) but accept that members prefer to engage in other ways.

LOOKING BACK

2005 Actions	Target
Develop a broad-based strategy to improve member engagement in our co-operative and democratic processes, including increased AGM participation and voter turnout	Ongoing
Roll out the findings of the Futures Dialogue sessions and develop an ongoing long-range planning process and implementation plan to help prepare the organization for the coming decade and beyond	Made
Create at least one additional location outside of BC where members can meet and be linked by phone or web technology to our 2007 AGM	Made

REACHING FURTHER

Strategic Goals:

Represent the values of our membership and oversee a healthy and ethical co-operative that is living its Charter.

2012 Targets	Target Date
10% annual increase in total votes cast for board of director elections	2012
Actions	
Implement a model for generative thinking and long-term planning to achieve MEC goals and address challenges	2008
Review and articulate required director skills and experiences, and establish a plan for filling gaps and assessing performance	2009
10% annual increase in total votes cast for board of director elections	2009

APPENDIX A: GRI TABLE

This report has been prepared with guidance from GRI Reporting Framework. This index shows which of the G3 indicators we report on in this report for a B application level. For a full G3 index assessment, please see Appendix A at mec.ca/accountability. For Disclosure on Management Approach see Appendix D, also available on our website.

Key

- I Included
- P Partially included

	GRI INDICATOR	Key	Page
1	Strategy and Analysis		
1.1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy	I	2
1.2	Description of Key Impacts, Risks, and Opportunities	I	2, 9-10
2	Organizational Profile		
2.1	Name of the reporting organization	I	1
2.2	Primary brands, products and/or services	I	1, 8
2.3	Operational structure of the organization including main divisions, operating companies, subsidiaries, and joint ventures	I	11, 13
2.4	Location of organization's headquarters	I	1
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	I	1
2.6	Nature of ownership and legal form	I	1, 8
2.7	Markets served (including geographic breakdown, sectors served, types of customers/beneficiaries)	I	1, 45
2.8	Scale of the reporting organization, including:	I	1, 58
	• Number of employees		
	• Net sales (for private sector organizations) or net revenues (for public sector organizations)		
	• Total capitalization broken down in terms of debt and equity (for private sector organizations)		
	• Quantity of products or services provided		
2.9	Significant changes during the reporting period regarding size, structure, or ownership including:	I	2, 30
	• The location of, or changes in operations, including facility openings, closings, and expansions		
	• Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations)		
2.10	Awards received in the reporting period	I	10
3	Report Parameters		
	Report Profile		
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	I	7
3.2	Date of most recent previous report (if any)	I	7
3.3	Reporting cycle (annual, biennial, etc.)	I	7
3.4	Contact point for questions regarding the report or its contents	I	74
	Report Scope and Boundary		
3.5	Process for defining report content, including:	I	7
	• Determining materiality		
	• Prioritizing topics within the report		
	• Identifying stakeholders the organization expects to use the report		
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	I	7
3.7	State any specific limitations on the scope or boundary of the report	I	7
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	I	7

	GRI INDICATOR	Key	Page
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report	I	App. C online
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods)	I	27
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	I	7
	GRI Content Index		
3.12	Table identifying the location of the Standard Disclosures in the report	I	66-69
	Assurance		
3.13	Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s)	I	7
4	Governance, Commitments, and Engagement		
	Governance		
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight	I	61
4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement)	I	62
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	I	62
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	I	64
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executive (including departure arrangements), and the organization's performance (including social and environmental performance)	I	62
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	I	62
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics	I	62
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	I	8-11
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	I	62
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	I	62
	Commitments To External Initiatives		
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	I	16
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	I	7, 8
4.13	Memberships in associations (such as industry associations), and/or national/international advocacy organizations in which the organization. <ul style="list-style-type: none"> • Has positions in governance bodies • Participates in projects or committees • Provides substantive funding beyond routine membership dues • Views membership as strategic 	I	7, 20, 52
	Stakeholder Engagement		
4.14	List of stakeholder groups engaged by the organization	I	10
4.15	Basis for identification and selection of stakeholders with whom to engage	I	10
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	I	10
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	I	10, 71-73
5	Management Approach and Performance Indicators		
DMA EC	Disclosure on Management Approach: Economic	I	App. D online

	GRI INDICATOR	Key	Page
DMA EN	Disclosure on Management Approach: Environmental	I	App. D online
DMA LA	Disclosure on Management Approach: Labour	I	App. D online
DMA HR	Disclosure on Management Approach: Human Rights	I	App. D online
DMA SO	Disclosure on Management Approach: Society	I	App. D online
DMA PR	Disclosure on Management Approach: Product Responsibility	I	App. D online
EC	Economic Performance Indicators		
	Aspect: Economic Performance		
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and to governments	I	59
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	P	9, 28
EC3	Coverage of the organization's defined benefit plan obligations	P	40
	Aspect: Market Presence		
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	I	40
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	P	21, 57
	Aspect: Indirect Economic Impacts		
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	P	57-58
EN	Environmental Performance Indicators		
	Aspect: Materials		
EN1	Materials used by weight or volume	P	14, 35
	Aspect: Energy		
EN3	Direct energy consumption by primary energy source	I	29, 32
EN4	Indirect energy consumption by primary source	I	29, 32
	Aspect: Biodiversity		
EN13	Area of habitats protected or restored	P	53
	Aspect: Emissions, Effluents, and Waste		
EN16	Total direct and indirect greenhouse gas emissions by weight	I	29
EN17	Other relevant indirect greenhouse gas emissions by weight	P	29, 35
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	I	28, 32
EN22	Total weight of waste by type and disposal method	I	34
	Aspect: Products and Services		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	I	14, 48
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	P	17
	Aspect: Transport		
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	I	27-29
	Social Performance Indicators		
LA	Labor Practices and Decent Work Performance Indicators		
	Aspect: Employment		
LA1	Total workforce by employment type, employment contract, and region	I	37
LA2	Total number and rate of employee turnover broken down by age group, gender and region	P	42
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	I	40
	Aspect: Labour/ Management Relations		
LA4	Percentage of employees covered by collective bargaining agreements	I	43

	GRI INDICATOR	Key	Page
	Aspect: Occupational Health and Safety		
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	I	43
	Aspect: Training and Education		
LA10	Average hours of training per year per employee by employee category	I	38
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	I	38
LA12	Percentage of employees receiving regular performance and career development review	P	39
	Aspect: Diversity and Equal Opportunity		
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	P	37
HR	Human Rights Performance Indicators		
	Aspect: Investment and Procurement Practices		
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	I	19, 21
	Aspect: Non-discrimination		
HR4	Total number of incidents of discrimination and actions taken	I	20
	Aspect: Freedom of Association and Collective Bargaining		
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	I	20
	Aspect: Child Labour		
HR6	Operations identified as having significant risk of incidents of child labour, and measures taken to contribute to the elimination of child labour	I	20
	Aspect: Forced and Compulsory Labour		
HR7	Operations identified as having significant risk of incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour	I	20, 21
SO	Society Performance Indicators		
	Aspect: Corruption		
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	I	43
SO4	Actions taken in response to instances of corruption	I	43
	Aspect: Public Policy		
SO5	Public policy position and participation in public policy development and lobbying	I	8, 52-54
PR	Product Responsibility Performance Indicators		
	Aspect: Customer Health and Safety		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvements, and percentage of significant products and services categories subject to such procedures	P	16
	Aspect: Product and Service Labeling		
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	I	46
	Aspect: Customer Privacy		
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	I	49



Reports intended to qualify for Level C, C+, B, B+, A or A+ must contain each of the criteria presented in the column for the relevant level.

Report Application Level	C	C+	B	B+	A	A+
G3 Profile Disclosures Output	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
G3 Management Approach Disclosures Output	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
G3 Performance Indicators and Sector Supplement Performance Indicators Output	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental		Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human Rights, Labour, Society, Product Responsibility.		Report on each core G3 and Sector Supplement Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission.	

APPENDIX B: STAKEHOLDER PANEL REPORT

STAKEHOLDER PANEL REVIEW

Once we had a full draft of our report, we invited knowledgeable people with perspectives from our key stakeholder groups to review it and provide comments so that we could improve our reporting. We are extremely grateful to all the panel members for giving us the benefit of their experience and helping us to make this a better report. The responsibility for acting on their advice and for any remaining gaps is ours alone.

The panel included the following people:

Alison Bailie (Pembina Institute)

Chuck Barbee (Engineered Apparel, supplier)

Eric Brody (sportswear industry)

Kai Chan (Institute for Resources, the Environment and Sustainability, UBC)

Justin Ellis (Leave No Trace Canada)

Bob Jeffcott (Maquila Solidarity Network)

Robert Kendrick (MEC member)

Stephanie Rauer (MEC staff)

John Restakis (BC Co-operative Association)

Kirk Richardson (Keen Footwear)

HOW WE DID IT

The panel met for a day and a half in Vancouver at an off-site location. The first afternoon, MEC Director of Sustainability and Community, Esther Speck, explained the process for preparing the report and fielded panellists' questions. Once the MEC managers left, panellists reviewed and commented on report presentation – format, language, visuals, and overall reflection of MEC. The second day was devoted to detailed chapter-by-chapter feedback, without MEC management present, and facilitated by an independent consultant from Solstice Sustainability Works Inc. MEC managers returned at the end of the session to hear and respond to a summary of the day's feedback.

Detailed notes from the two days were circulated to all panel members for review and provided the basis for this summary report. Panel members have also reviewed a draft of this summary report. Panellists received a modest stipend which they could donate to a charity of their choice.

WHAT WE LEARNED

We received a wealth of valuable feedback, including many detailed editing suggestions that we have accepted. Here we set out the material comments we received and how we have responded, or if we haven't acted on them, why not.

Comments on overall structure, tone and presentation

The product life cycle works as a frame for the report, but needs explanation

Panellists wanted more explanation of how we identified the material issues, how these relate to our goals and strategy, and how the report structure reflects this. *Valuable feedback. Check out the revised introductory chapter, Our Approach.*

Improve the links between broad goals and specific targets

Panellists wanted to understand how we set targets and how these add up to progress toward our broader goals. They also wanted to see medium- and longer-term milestone targets that are specific and measurable. *We acknowledge that the alignment between indicators, goals and targets is not perfect. In some cases we're at an early stage and not in a position to set targets. In some cases targets are meaningful to us even though they don't have a clear link to broad goals. We'll keep working on this.*

Graphical and story elements are welcome

The panel appreciated the stories and case studies and wanted more, especially in areas where MEC faced decision points. They suggested that we add more graphical elements such as diagrams of our product life cycle and that we improve existing graphs to make the information clearer. *Done.*

Celebrate your successes

The panel pointed to our leadership role in the areas of organic cotton, green buildings, employee commuting, waste reduction, and environmental funding and told us not to be so humble. *We were happy to act on this.*

Don't hide behind global trends when you're part of the problem

Our description of global trends, especially relating to manufacturing and offshore production, sounded to the panel like we were using our relatively small size as an excuse. They want us to explain better how our actions contribute to global issues. They also wanted us to explain our responsibilities and show how we could take advantage of opportunities created by global trends, such as the rise of the conscious consumer. *We accept this though we struggle with how to convey what a small player we are in global supply chains without sounding apologetic. We've redone our piece on Global and Local Trends in Chapter 1, to highlight both threatening and opportune trends.*

Combine the product design and end of product life sections

Panelists thought it would be easier to show how we design with the full product life in mind if we made this one story. *We agree and have combined the two chapters into Selecting and Designing Gear.*

COMMENTS ON SPECIFIC ISSUES

The importance of the co-operative identity to MEC's sustainability performance is underplayed.

The panel wanted MEC to show how a co-operative business structure contributes to sustainability. *We believe that the co-operative structure provides a good foundation for better decision-making around sustainability but it is not by itself a guarantee of sustainability – it depends on the mission and the expressed values of the members. We've pulled together the information on our co-operative identity into Our Approach chapter and deepened this discussion in the Governance chapter.*

Provide more information on MEC's approach to sustainable product design

The panel wanted to understand how we make decisions about product and fabric choices, and how our relationship with bluesign technologies works. *We have added some information yet are still building our systems. We believe a case study will best demonstrate our decision process and commit to doing this in the next report.*

Improve the table that shows findings from factory audits

Panelists felt that the disclosure of incidents from factory audits was important and suggested:

- Separating hours of work incidents from general wage incidents;
- The distribution of total incidents by type could lead readers to suppose that the types of incidents appearing more frequently in audits are the biggest problems (e.g., health and safety) when these are simply the most apparent, while issues like harassment and abuse are harder for auditors to find;
- Disclosing who performs the MEC audits; and
- Providing data on the number of incidents per factory so that readers can tell whether the incidents are concentrated in one or a few factories, or are widespread.

Panel members also acknowledged MEC's commitment to report on factory locations in 2008 as a positive move that is still rare in the industry. *We have addressed all of these points either in the table or text, and provide violation data per factory on our website.*

Name the wage differential issue

Panelists did not think we were clear in naming the issue of wage differentials in producing countries as a root cause of the falling levels of manufacturing in Canada. *We have made this explicit.*

Explain MEC's position on providing a "living wage"

The panel noted that legal wages paid in many producing jurisdictions and some North American cities are not enough to support a family to meet its basic needs. They believe that MEC should further explain our position on living wage in the report and show how our approach will get us there in the long term. *We have stated our belief in the principle of a living wage in the report and explain why we do not yet have a formal commitment to living wage (e.g., methodology challenges and current focus on legal wages).*

Explain how purchasing practices affect workers in factories

Panelists noted that changes to purchase orders and tight production timelines are one of the causes of excessive overtime in factories. *We are aware that this can happen in our industry. Unlike some large brands we don't have MEC staff located in the factories so it hasn't been possible for us to directly monitor the outcomes of our purchasing decisions. We will do a case study on this for our next report.*

Explain the dilemma of biodegradable plastic bags

Panellists pointed out that bags made from corn based plastic have their own sustainability issues. *We agree and have enhanced this discussion.*

Show the environmental impacts of paper

Panellists wanted to see the environmental impacts, such as embedded energy and water, associated with our main uses of paper, especially the MEC catalogues. *While we don't plan to do detailed calculations on an ongoing basis, we took this opportunity to show the impact of our catalogue for 2007.*

Explain MEC decisions regarding timing and mode of transportation

Panellists noted our challenging targets for GHG reduction related to transportation of products and wanted to know what we were doing to achieve them. They noted that MEC does not yet encourage suppliers to ship by lower GHG intensive modes. *We've added to our transportation discussion.*

Provide more balance in staff survey results

Panellists noted the absence of any declining trends in staff survey results. *We used the same indicators as in 2005. The upward trend is a result of our efforts in this area. There is still improvement to be made, some of the results are just slightly higher than 2005 and we missed our overall target for staff engagement. In response to panel feedback on wages, we have added the survey question on staff satisfaction with wages.*

Provide more information on staff turnover

The panel suggested that staff turnover be broken out by store. *We have highlighted the high turnover regions.*

Member satisfaction is only part of the story

Panellists wanted more discussion of how MEC engages its members – in promoting sustainability, in responsible consumption, and in responsible recreation. *We agree and have brought some stories together in Equipping Members. We will do more work on this in the next report.*

Discuss the tension between conserving wilderness and promoting access for recreation

Panellists want to see how a responsible retailer reconciles these aims. *This is important for us and we've added to our discussion.*

The Big Wild Challenge seems to leave out less experienced members

Panellists were impressed by our commitment to saving wilderness. In addition to a wilderness-oriented Big Wild challenge, they thought we should encourage members to “get outside” locally too. *The Big Wild is about wilderness and we want all members to be able to engage. We intend to create more accessible challenges for 2009 and are working on a strategy to increase activity in Canada.*

Provide a measure of durability

Providing durable products is one of MEC's claims to sustainability. Can this be substantiated, by setting measurable goals in the design stage for product longevity, in terms of both durability and fashion? *An interesting idea. We'll work on this for the next report.*

Explain the particular challenge of governance in a co-operative

The panel suggested we discuss the special nature of co-operative governance – when directors come from and are elected by the membership, perhaps without any previous experience in governing a co-operative – and what the implications are for MEC in terms of skills and diversity. *We agree and have increased our discussion.*

Our panel worked thoughtfully and diligently to help us improve our reporting. While we received many other suggestions, these were the most substantive. The others have been accomplished through the editing process. We think the external panel has made this a better report and we look forward to hearing what you think.

CONTACT DETAILS

Publications

Additional copies of this report can be downloaded from www.mec.ca/accountability.

A limited number of print copies are available. Please contact info@mec.ca or call 1.800.663.2667. International members please call 1.604.876.6221.

Feedback

Your feedback is important to us.

Please e-mail comments to: accountability@mec.ca or write to:

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