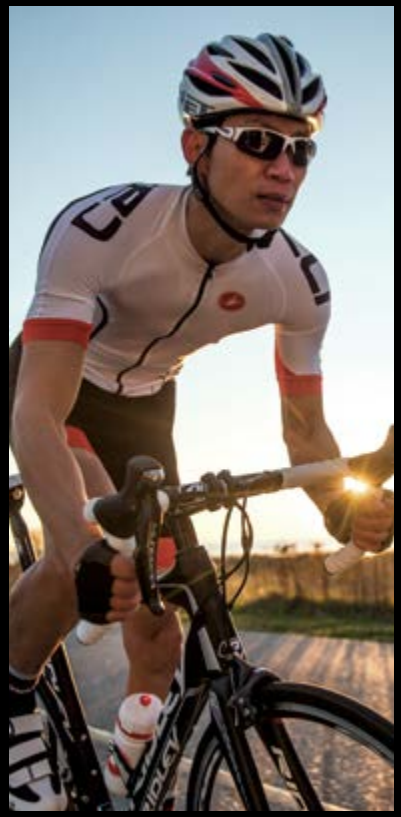
MEC



## VALUE OF MEMBERSHIP

To inspire and enable everyone to lead active outdoor lifestyles.


# 2013 ANNUAL REPORT

# WELCOME

We're very pleased to present MEC's 2013 Annual Report. 2013 was a year of significant change – and significant success. As part of our ongoing efforts to provide value to members, we vastly improved our online capabilities to ensure members can get products they want, when and how they want them. We also went through a substantial rebranding process, resulting in a new logo – and a new look and feel – to better reflect MEC's authenticity, enthusiasm, aspirations and vibrancy. Our efforts are paying off: our 2013 rate of sales growth was above the Canadian retail average, and MEC remains strong, despite an increasingly competitive retail environment. Our staff continue to be the backbone of our operations, providing outstanding service and support, so members can do what they love best – get active and get outside.

# ABOUT MEC

First established in 1971, MEC is Canada's leading retailer of clothing, gear, and services for active outdoor lifestyles, including hiking, climbing, cycling, running, camping, fitness, snowsports and watersports. As of December 2013, we had nearly 3.8 million members throughout Canada, serving them at 17 stores in six provinces, and through mec.ca. As a co-op, MEC is owned by its members, who join by purchasing a $5 lifetime individual membership.

# MEC'S VISION AND VALUES

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

# CHAIR MESSAGE

At the start of every year, the Board identifies priorities it wants to accomplish. In 2013, we focused on deepening engagement with members, reviewing our capital structure, optimizing Board committee structure, and implementing a modernization of MEC's Rules.

Last year, the Board also approved a more comprehensive share redemption program, which has resulted in more than $4.5 million in share redemptions in 2014, a substantial increase from previous years. To continue to provide strong leadership, we also implemented a new nominations process that ensures we have a Board with the skills and talents to best serve our members and the organization.

While we've gone through many changes over the last few years – such as a major rebrand and expansion of product categories – we remain true to our roots as a co-op. Anyone can join MEC by buying a $5 membership share, the same price it's been since we were established in 1971. Members still control the organization by voting for directors and resolutions. Members participate economically. If we generate a surplus, the surplus is returned to them in the form of shares, and the Board regularly issues share redemptions. In 2013, we were proud to receive a Leadership in Co-operative Governance Award, which recognizes governance innovation and excellence in co-operatives and credit unions across Canada.

As a co-op, we're quite different from a regular retail company. When a for-profit organization talks about creating value for shareholders, it means earning higher profits and increasing share prices. However, since we're a co-op, we don't exist to produce profits; we exist to provide benefits to members. For us, creating value for shareholders is more complex and meaningful. It's about providing great products at great prices and creating communities of people who love to get outside. That remains our focus.

As we head into another year, the Board is very committed to enhancing our role as a co-operative, and to serving the best interests of our members for many years into the future.

Sincerely,

**Bill Gibson**
Board Chair

# CEO MESSAGE

Value for members. What does that mean? It means we nurture passions for active outdoor lifestyles by providing easy access to leading-edge products and an inclusive and inspiring community. We enable everyone to learn, meet, recreate and enjoy their own active lifestyle outdoors, regardless of the activity, setting or their level of expertise.

Providing value for members was a key focus for 2013. We made improvements to our service through the integration of our supply chain, so that inventory in any location is available to our members everywhere.

Retailing continues to be more competitive. Consumers are now in charge, and their expectations are increasing exponentially. Technology has changed the way people interact, and e-commerce has extended beyond borders.

This is why I'm gratified by what we've achieved in 2013. I'm pleased to report that in 2013, we were one of the better performers in our sector, with 6.2% growth, primarily driven by online sales. This was no easy accomplishment in our changing, increasingly competitive market.

MEC continues to be a very good retailer and a great brand. I'm very pleased at how we have moved forward to be more relevant to our members across regions and demographics. I am proud of our culture of service and our passion for active outdoor lifestyles. Our people must embody our brand: authentic, enthusiastic people who love outdoor lifestyles, and aspire to do more. There's a vibrancy that comes from having a group of people who are all here to support each other and do their best work. We want members to continue to feel that sense of excitement and authenticity, to inspire them to get outside.
Thank you for supporting us in our journey.

Sincerely,

**David Labistour**
CEO

# 2013 AT A GLANCE

**$320.9 MILLION IN SALES**
**12.6 MILLION PRODUCTS SOLD**
**4.1 MILLION MEMBERS**
**3.8 MILLION MEMBERS IN CANADA**
**17 STORES ACROSS CANADA PLUS MEC.CA**
**1 NEW STORE OPENED**
**1716 EMPLOYEES**

**WELCOMED**
our four millionth member

**STRENGTHENED**
Board credentials

**PROVIDED**
more products across all categories

**EXPANDED**
cross-country skiing assortment by 50%

**RECEIVED**
accreditation from the Fair Labor Association

**HOSTED**
3500 events on mec.ca

**RECOGNIZED**
as one of Canada's Top 100 Employers

**IMPROVED**
service across all channels, giving members more of what they want

**INCREASED**
relevance to Canadians of all ages and cultures

**ACHIEVED**
our first ever $2M sales day

# CO-OP PRINCIPLES

MEC follows international co-operative guidelines to put our values into practice:

1 **Voluntary and open membership**
Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2 **Democratic member control**
Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives, members have equal voting rights (one member, one vote) and co-operatives at other levels are organized in a democratic manner.

3 **Member economic participation**
Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4 **Autonomy and independence**
Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5 **Education, training and information**
Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6 **Co-operation among co-operatives**
Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7 **Concern for community**
While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.

THINGS THAT MATTER

What matters to you?
Is it how our products are made?
How much waste gets recycled?
Whether or not items are in stock?

For a snapshot of how we're doing in the areas you – and we – care about, check out the graphics throughout this report. To dig deeper, visit mec.ca/accountability

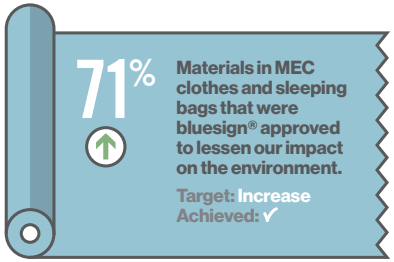
**Trend from 2012:**
**Positive** ↑↓
**Negative** ↓↑

# GOVERNING MEC

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

MEC is governed by a nine-member Board of Directors, which members elect. Three directors are elected each year to serve three-year terms. The Board works closely with the CEO and Senior Management Team to provide vision and strategy for MEC. Major decisions such as capital expenditures (new stores and systems) are made by the Board as a whole. The Board structures other work through various committees: Finance and Audit, Elections and Member Communications, Governance, Human Resources and Compensation, and Sustainability. In 2013, the Board reviewed committee structure, and began implementing changes to improve committee effectiveness, including the addition of a Nominations committee.

In the 2013 election, 91% of voting members approved a resolution to modernize MEC's rules, providing for a higher standard of governance and ensuring compliance with co-op legislation in BC. Part of this resolution involved changes to the nominations process. These changes ensure election candidates possess the needed skills, experience, and values so that MEC continues to have strong and balanced leadership, and is able to grow and succeed in an increasingly competitive and complex retail environment. The Board is now mandated to determine minimum and desired attributes for election candidates, and to recommend those candidates who best exhibit the desired skills and experience.





**Products we carried that were completely PVC-free, or had at least 50% recycled, organic cotton, or bluesign-approved content.**

Target: Increase
Achieved: ✓

# OUR PRODUCTS

Products are the lifeblood of our business. We sell MEC-brand gear, as well as clothing and products from leading outdoor brands, through three business units:

## BACKCOUNTRY

Climbing, paddling, snowsports, hiking, camping

## ACTIVE LIFESTYLE

Yoga, fitness, cycling, running, snowshoeing, Nordic skiing

## LIFESTYLE

Après-play, travel, kids, lifestyle outer wear

2013 was a good year for MEC. People have more places than ever to buy gear, and we're pleased so many are coming to MEC. Our 2013 overall sales growth of 6.2% was better than the industry average. We're most enthusiastic about the fact that all our business units grew. In growing our selection, we haven't left any product behind; we've simply diversified and are getting members more of what they want. In fact, backcountry, the core of MEC's foundation, still represents the majority of our annual sales.

# SOME HIGHLIGHTS OF 2013:

**Cycling**
We're thrilled to add Ridley bikes to our cycling line-up. Ridley makes some of the highest-calibre bikes in the world, and this addition means that we now offer a complete bike assortment to our members – from kids' to performance road bikes – with some great commuter and mountain bikes in between.

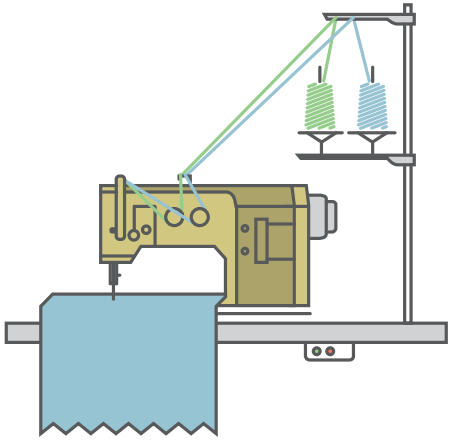
**Lifestyle**
Our lifestyle selection continues to grow. We're very good at making technical outerwear that stands up to the rigours of Canadian weather; our lifestyle clothing incorporates the same level of expertise, with fewer technical details and more style.

**Running**
Members are pursuing running in greater numbers. In response, we continued to expand our running selection. We supply an enormous amount of running apparel, and in 2014, will work to expand our running shoe assortment.

**Stand-up Paddling**
SUP has been hugely popular with members, with a faster growth rate than kayaks or canoes. It's a good example of how people are looking for easy active lifestyles within an urban environment.

**Nordic skiing**
In 2013, we expanded our Nordic skiing assortment, and brought in 50% more inventory than years past. Total sales were up substantially as a result.

We continue to remain vital in our core areas – such as skiing, climbing and paddling – while successfully expanding into other activities members are interested in. Based on the sales growth we have seen, we are giving members what they want.



**31%** **Factories that met or exceeded our Code of Conduct standards. In 2013, we made our standards more stringent.**

Target: 50%
Achieved: ✗

**8%** **Factories that had unacceptable violations. We're working with them to remediate these issues.**

Target: Toward zero
Achieved: ✓

# PRODUCT INTEGRITY

It's not enough just to have a wide assortment of great products. How they're made is equally important. Our Product Design Charter is our foundation for building innovative, functional, and durable MEC-brand products. Our product integrity criteria include: quality, performance, value, aesthetics, and sourcing and environmental footprint.

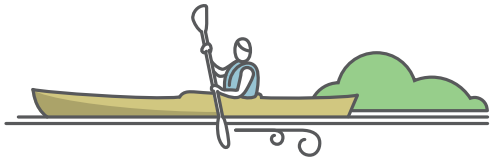
MEC-brand products represent the single largest part of our overall ecological footprint. As an organization with a strong sustainability commitment, we recognize that while we can never entirely eliminate our impacts, we can work to reduce them as much as possible.

One of the ways we do that is by continuing to work closely with bluesign®, an organization that has established standards for environmentally preferred materials. In 2013, 71% of MEC apparel and sleeping bag materials were bluesign-approved, an 18% increase from 2012. 658 product styles we sold were made with environmentally preferred materials. We're proud of this accomplishment, and will continue to work to increase the percentage of bluesign approved materials, as well as the number of environmentally preferred products we carry.

We're a founding member of the Sustainable Apparel Coalition (SAC), a coalition that has now grown to over 75 leading global apparel and footwear organizations. We have adopted the SAC's Higg Index, an industry groundbreaking tool that measures the environmental and social performance of apparel and footwear products. In 2013, Greg Scott, our Materials Development and Sourcing Manager, received an award from The Outdoor Industry Association Sustainability Working Group for his contributions to the outdoor industry's product sustainability efforts.

In a year of intense focus on factory conditions in developing countries, MEC became one of only 20 organizations in the world to achieve accreditation from the Fair Labor Association. We continue to work to improve our sourcing practices through factory audits, partnerships with other organizations, and participation in the Sustainable Compliance Initiative.

Get more information on our comprehensive environmental and sourcing efforts.



**$3M**

**Went to environmental groups and projects as part of our 1% for the Planet commitment.**

Target: 1% of sales (previous year)
Achieved: ✓

**59%**

**Community grants that went to projects that supported both conservation and activity/ access goals.**

Target: 50%
Achieved: ✓

# THE NEW MEC BRAND

MEC exists to fulfil a powerful purpose: "to inspire and enable everyone to lead active outdoor lifestyles." This purpose served as the main inspiration behind the rebranding of MEC. Our new brand inspires people to get outside, with a look and feel that uses images and words to motivate members to engage in activity. It reflects not only the authenticity of MEC, but the enthusiasm, aspirations and vibrancy of our staff and growing membership, as well as the nature of our activities. We also know that most members refer to us as "M.E.C." or "Meck," so changing the logo was a logical progression. The new logo is also designed to work across all platforms of product, web and social media.

The new brand reflects the variety of outdoor activities our members engage in. We want everyone to get outside, but we know there is no single right or wrong view of an active outdoor lifestyle. Some of us are ice climbers, some of us hike, and some of us prefer camping with family and friends.

To provide the best value to our members, we must be responsive to their changing preferences, and truly embrace the aspirations of our organization. The rebranding is an integral part of an evolving MEC experience that includes new products, services, events and online features – all of which help ensure that MEC stays in step with its members and supports them to be active in the outdoors.

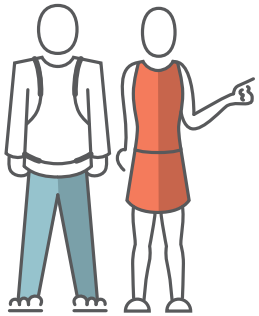
# COMMUNITY

To inspire people to get outside, our stores function as hubs of their local outdoor communities. In 2013, our community events exceeded our expectations. We held 3000 community events and clinics in and around our stores, with an excess of 30,000 attendees. This included 2500 clinics and meet-ups, 40 fests (Bikefest, Paddlefest, Snowfest), 85 road runs, 5 century rides, and 25,000 runners (open to all). Through an activity portal on mec.ca, members can post an event or sign up for an MEC-sponsored event or courses and clinics. In 2013, 3500 events were listed on mec.ca.

All of this is a phenomenal achievement. 2012 saw 40 races and 350 events: our goal was to double the number of races and events in 2013, which we certainly exceeded. We're proud that MEC remains an important part of our communities.

We also have a commitment to contribute, through member purchases, at least 1% of the previous year's sales to community causes, and are compliant with 1% for the Planet. In 2013, we contributed more than $3.08 million to access and activity initiatives to increase existing and new members' participation in self-propelled outdoor recreation. Our efforts in 2013 included grants to the Canadian Parks and Wilderness Society (CPAWS) for the Save Gros Morne National Park Campaign, and a $100K grant to the Ontario Access Coalition to protect Old Baldy, a popular climbing area in Ontario.

We are proud to be a recipient of an Outstanding Partnership Award from the Conservation Alliance, for our work with CPAWS.



**63%**

**Our employee engagement score. We scored well in social and environmental responsibility, work-life balance, and learning and development.**

**Target: 70%**
**Achieved: ✕**

# OUR STAFF

By the end of 2013, we had 1716 employees. Fewer than half were full time, similar to past years. Our staff work at Head Office, in our Service Centre and our Distribution Centre, and in 17 stores across Canada.

By its nature, retail is service oriented, and we actively seek out people who have a strong service ethic. In fact, our staff are essential to providing value to members: it's through the help and service of our staff that members are inspired to go outside and seek new adventures.

In 2013, we were recognized as being one of Canada's Top 100 Employers, which formed the basis for MEC recently being named one of BC's Top Employers, and one of the Greenest Employers in Canada.

To better serve members, MEC has gone through significant changes in recent years, including a more comprehensive selection, a significant rebrand, more events and increased omni-channel access. This means staff are working harder than ever. In 2013, we received a 63% score on our annual Hewitt Engagement Survey (below our target of 70%), which we're not pleased about. However, we're currently reassessing our survey efforts to ensure they accurately reflect employee engagement. In 2013, we also focused extensively on internally communicating changes, and are pleased and proud that staff have responded to the challenges.

In 2013, we developed a diversity pilot project in Vancouver and Toronto, with the specific goal of increasing the diversity of MEC employees to better reflect our membership in these cities.

32.4%

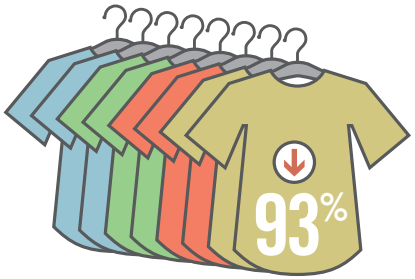
**Members who made a purchase at MEC over the year.**

Target: 33.3%
Achieved: ✗

87.4%

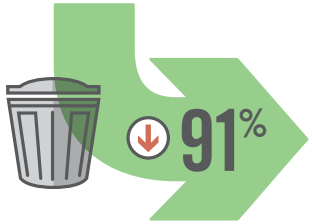
**Members who were satisfied or very satisfied with service in MEC stores.**

Target: 87%
Achieved: ✓




**Our in-stock rating. (93 times out of 100, the product a member wanted was available to buy.)**

Target: 91%
Achieved: ✓




**The amount of waste we recycled, donated or composted.**

Target: 92%
Achieved: ✗

# DIGITAL AND WEB

Mec.ca continues to be our fastest growing sales channel. In the last year, we focused on improving the omni-channel experience: giving members what they want, when and how they want it. We heavily invested in a new mobile platform for web, and our Shop MEC app achieved $1 million sales within the first seven months of its launch. We also increased our immediate shipping, to get members orders faster. Finally, we trialed iPads in stores, which wasn't successful, but gave us some good learnings moving forward.

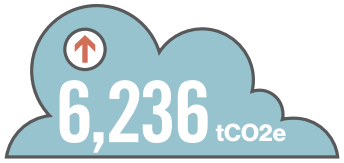
For all the success of omni-channel, it has resulted in higher shipping costs, so we are now working harder to improve the service while decreasing the cost. We also recognize how social media is most decidedly changing retail. On that note, we continue to train and encourage staff to deliver excellent member service wherever they interact. In 2014, we will take steps to improve our infrastructure so we can continue to deliver on web and social media-based platforms.

# MEC STORES

While our website is a huge sales channel, our stores are still important touch points for members, and continue to be essential to our growth. In 2013, our North Vancouver, Edmonton and London stores saw the most gains. Our Saint-Denis store, an urban boutique concept, has also proved to be quite successful.

In 2013, we opened a new store (our 17th) in Langley, British Columbia. Our third store in the Lower Mainland, it will well serve the almost 100,000 MEC members who live in the Fraser Valley. In summer 2015, we plan on opening a 44,000-square-foot store in North York, Ontario.

In addition, we began construction on a new Head Office in Vancouver, which is designed to exceed LEED Gold certification. We've long outgrown our existing Head Office and need a larger space that can also house our Service Centre (currently located outside our main facility). Since our culture is to work hard and play hard, the new space will be a very collaborative environment that includes facilities for bikes, as well as an indoor yoga studio and climbing wall.




**Our carbon footprint from transporting products, our facilities, and business flights.**

Target: Decrease
Achieved: ✗

**2.3**

**How many times we sold through and replaced our inventory.**

Target: 2.26
Achieved: ✓

**$321M**

**In annual sales. (That's a lot of gear – thanks for supporting your Co-op.)**

Target: Increase
Achieved: ✓

# FINANCIAL OVERVIEW

As a co-operative business, we have a different economic and financial structure from most other businesses. We don't aim to maximize profit. However, we operate in the same market environment as other businesses and must ensure we have a robust balance sheet and sufficient annual surplus to enable us to invest in the future. In key areas, our performance needs to be the same or better than our competitors. MEC needs to ensure viability at a time of much volatility – changing markets, varying exchange rates, fluctuating spending patterns, and increased competition.

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

## 2013 FINANCIAL PERFORMANCE

In 2013, our gross sales were $320.9 million, a 6.2% increase over 2012. This is a significant accomplishment in a year when many other Canadian retailers in our industry saw stagnant or declining sales. We mainly attribute this to increased efforts with our omni-channel offerings.

At the end of 2013, we owned $241 million of assets (cash, inventory, property, accounts receivable and equipment). We owed $61 million (payables, gift cards and long-term debt). Our members had invested $180 million in equity (shares). Our operating expenses were 26.3% of sales, which is slightly below our budgeted amount of 26.4%, and shows that we continue to run an efficient operation. We had a surplus of $10.3 million, or 3.2% of sales.

In 2013, we achieved an inventory turn rate of 2.3, above our target of 2.26. We entered 2013 with an inventory hangover from 2012; this impacted our margin, although we handled it in a quick, disciplined fashion.

Our carbon footprint is also playing a bigger role in financial projections. In 2013, we began including an imputed cost of carbon into our business and our internal reporting. For a company of our size, this is a significant achievement. Down the line, we will be factoring carbon pricing into our decision making. From 2007–12, we achieved a 31% reduction in our carbon footprint, and have set new targets to 2017 with a focus on reducing our transportation footprint.

See our 2013 audited financial statements.

## MEMBERSHIP AND PATRONAGE RETURNS

As a member-owned organization, we exist to provide value to our members. We do this in a number of ways: by providing great products and great service, and by supporting members to be active outdoors. Through our Rocksolid Guarantee, if a product doesn't meet a member's expectations, they can bring it back. We also guarantee our advice: if a member purchases something based on our advice and it's unsuitable, they can return it.

Patronage returns are another element of our co-operative structure that provides value to our members. Because MEC does not exist to produce profits, our gross earnings at the end of the year (surplus) are returned to members. Each year, the Board declares a patronage return – a total portion of earnings to be returned to the membership. The total is divided between individual members based on how much money each member spent at the Co-op over that year. Each member's portion of the return is called a patronage dividend and is allocated to the member as a quantity of shares (each worth $5). Every member has an account that shows the value of patronage shares held in their name.

The Board determines the financing needs of the Co-op. In the years when the Co-op's financial affairs are sound and the organization is adequately funded, the Co-op buys back patronage shares from its members' patronage accounts. We return the money to members in the form of a share redemption. In 2013, the Board authorized a new approach to share redemptions that will benefit even more members; as a result, in 2014, more than 165,000 members received a share of the $4.5 million share redemption. That's four times more members and 87% more money than the last redemption in 2011.

Since 1971, MEC has completed 13 share redemptions totalling more than $22.6 million (including the 2014 redemption).

## ECONOMIC IMPACTS

MEC's operations in Canada make a significant contribution to the Canadian economy. In 2013, we estimate that we created approximately $971 million[1] in direct spin-off economic activity through our payroll, member spending on outdoor recreation, and community contributions.

1. "Economic Input-Output Life Cycle Assessment (Canada 2002 [105 sectors] Producer model)," Carnegie Mellon University Green Design Institute, accessed April 1, 2014, http://www.eiolca.net.

## LOOKING AHEAD

We're excited for 2014. Our focus will be on improving systems and processes, and strengthening our infrastructure, to better support our members' future needs, and to be adaptable and nimble in the competitive retail environment. We will continue to improve product – that's never going to stop – by looking into regional assortments and fresh MEC collections including hiking, fitness, and lifestyle outerwear. We'll continue to deliver on principled manufacturing and building across all our activity areas. We welcome your feedback on how we're doing.

Please contact us at **info@mec.ca**

Financial Statements of

# MOUNTAIN EQUIPMENT CO-OPERATIVE

Year ended December 29, 2013

**KPMG LLP**
**Chartered Accountants**
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

# INDEPENDENT AUDITORS' REPORT

To the Members of Mountain Equipment Co-operative

We have audited the accompanying consolidated financial statements of Mountain Equipment Co-operative, which comprise the consolidated balance sheet as at December 29, 2013, the consolidated statements of earnings and surplus and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mountain Equipment Co-operative as at December 29, 2013, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

KPMG LLP

Chartered Accountants

April 15, 2014
Vancouver, Canada

# MOUNTAIN EQUIPMENT CO-OPERATIVE

Consolidated Balance Sheet
(Expressed in thousands of dollars)

December 29, 2013, with comparative information for 2012

| | December 29, 2013 | December 30, 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (note 3) | $ 21,127 | $ 5,495 |
| Restricted cash (note 3) | 1,550 | - |
| Accounts receivable | 1,324 | 789 |
| Inventory (note 4) | 61,131 | 69,343 |
| Prepaids and deposits | 3,270 | 2,760 |
| | 88,402 | 78,387 |
| Property and equipment (note 6) | 152,523 | 144,036 |
| | $ 240,925 | $ 222,423 |
| **Liabilities and Members' Equity** | | |
| Current liabilities: | | |
| Operating loan (note 8(a)) | $ - | $ 3,000 |
| Amounts owing to suppliers, governments and employees (note 7) | 36,287 | 26,085 |
| Gift cards and provision for sales returns | 8,934 | 8,570 |
| Current portion of long-term debt (note 8(b)) | 13,986 | 985 |
| Capital lease obligation (note 9) | 349 | - |
| Current portion of deferred lease inducements | 92 | 132 |
| | 59,648 | 38,772 |
| Long-term debt (note 8(b)) | - | 13,990 |
| Deferred lease inducements | 556 | 328 |
| Future income taxes (note 10) | 912 | 828 |
| | 61,116 | 53,918 |
| Members' shares (note 11) | 177,770 | 166,879 |
| Contributed surplus (note 12) | 705 | 653 |
| Surplus | 1,334 | 973 |
| | 179,809 | 168,505 |
| Commitments and contingencies (note 13) | | |
| Subsequent events (note 15) | | |
| | $ 240,925 | $ 222,423 |

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

_____ Director _____ Director

# MOUNTAIN EQUIPMENT CO-OPERATIVE

Consolidated Statement of Earnings and Surplus
(Expressed in thousands of dollars)

Year ended December 29, 2013, with comparative information for 2012

| | December 29, 2013 | December 30, 2012 |
|---|---|---|
| Sales | $ 320,871 | $ 302,040 |
| Cost of sales | 215,614 | 205,368 |
| Gross margin | 105,257 | 96,672 |
| Selling and administration expenses (schedule) | 98,365 | 91,898 |
| | 6,892 | 4,774 |
| Other income (schedule) | 3,394 | 2,583 |
| Earnings before patronage return and income taxes | 10,286 | 7,357 |
| Patronage return | 9,750 | 8,116 |
| Earnings (loss) before income taxes | 536 | (759) |
| Provision for (recovery of) income taxes (note 10): | | |
| Current | 91 | 96 |
| Future | 84 | (88) |
| | 175 | 8 |
| Net earnings (loss) | 361 | (767) |
| Surplus, beginning of year | 973 | 1,740 |
| Surplus, end of year | $ 1,334 | $ 973 |

See accompanying notes to consolidated financial statements.

# MOUNTAIN EQUIPMENT CO-OPERATIVE

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 29, 2013, with comparative information for 2012

| | December 29, 2013 | December 30, 2012 |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Net earnings (loss) | $ 361 | $ (767) |
| Items not involving cash: | | |
| Amortization | 8,968 | 8,435 |
| (Gain) loss on disposal of property and equipment | (133) | 23 |
| Amortization of deferred lease inducements | (142) | (127) |
| Future income taxes | 84 | (88) |
| Shares issued by application of patronage return | 9,750 | 8,116 |
| | 18,888 | 15,592 |
| Change in non-cash operating working capital items related to operations | 16,214 | (3,700) |
| | 35,102 | 11,892 |
| Financing: | | |
| Repayment of operating loan | (3,000) | 3,000 |
| Repayment of long-term debt | (989) | 14,975 |
| Shares issued to new members | 1,184 | 1,229 |
| Shares redeemed | (41) | (6) |
| Shares withdrawn | (2) | (1) |
| Contributed surplus from unclaimed share redemptions, net | 52 | (20) |
| | (2,796) | 19,177 |
| Investing: | | |
| Restricted cash | (1,550) | - |
| Purchase of property and equipment | (25,629) | (34,479) |
| Proceeds on disposal of property and equipment | 10,505 | - |
| | (16,674) | (34,479) |
| Increase (decrease) in cash and cash equivalents | 15,632 | (3,410) |
| Cash and cash equivalents, beginning of year | 5,495 | 8,905 |
| Cash and cash equivalents, end of year | $ 21,127 | $ 5,495 |
| The following non-cash transactions occurred in the year: | | |
| Property and equipment purchased included in amounts owing to suppliers | $ 2,915 | $ 717 |

See accompanying notes to consolidated financial statements.

## 1. Operations:

Mountain Equipment Co-operative ("MEC") is a member owned and directed retail consumer co-operative. It is incorporated under the Co-operative Association Act of British Columbia and serves its members through stores across Canada as well as through a call centre and website.

The current fiscal year consists of 364 days (December 31, 2012 to December 29, 2013) and the comparative fiscal year consists of 371 days (December 26, 2011 to December 30, 2012).

## 2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with accounting standards for private enterprises ("ASPE") and include the accounts of MEC's wholly owned subsidiary, 1314625 Ontario Limited, a substantially inactive company.

(b) Revenue recognition:

MEC recognizes revenue when the title of goods passes to the member. Revenue from store sales is recognized at the point of sale and revenue from online and call centre sales is recognized when the product is shipped. MEC reports its revenue net of sales discounts and returns.

MEC gift cards entitle the holder to use the value for purchasing products and services. Gift card amounts are non-refundable and cannot be redeemed for cash. Gift cards have no associated fees or expiration dates.

The balance of the gift card liability at year end represents MEC's outstanding obligation for these gift cards. Revenue from gift cards is recognized as cards are redeemed.

MEC recognizes income on unredeemed gift cards when it can determine that the likelihood of the gift card being redeemed is remote and that there is no legal obligation to remit the unredeemed gift card value to relevant jurisdictions.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term investments with maturities of 30 days or less.

**2. Significant accounting policies (continued):**

(d) Inventory:

Inventory is valued at the lower of weighted average cost and net realizable value. The cost of inventory includes all costs of purchase net of vendor allowances, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated necessary costs to make the sale.

(e) Property and equipment:

Property and equipment are recorded at cost less accumulated amortization. Amortization is recorded annually using the following rates and methods:

| Asset | Basis | Rate |
|---|---|---|
| Buildings | Declining balance | 4 - 6% |
| Furniture, fixtures and equipment | Declining balance | 6 - 55% |
| Computer software | Straight-line | 5 years |
| Asset under capital lease | Straight-line | Term of lease |

Assets under construction commence amortization when assets are put in use.

Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the term of the lease plus one renewal period. The amortization terms range from 1 to 22 years.

(f) Lease inducements:

MEC records rent expense on a straight-line basis over the term of the lease. Accordingly, reasonably assured rent escalations are amortized over the lease term.

Free rent periods and lease inducements are deferred and amortized over the lease term as a reduction of annual rent expense.

(g) Patronage return:

The patronage return is deducted from earnings for the year in which the return is declared by the Board of Directors and represents a refund of the current year's sales proceeds to the members based on their purchases during the year.

**2. Significant accounting policies (continued):**

(h) Derivative financial instruments and hedge accounting:

MEC uses foreign exchange contracts in its hedging strategy to manage its exposure to currency risks on highly probable United States ("US") dollar inventory purchases.

Where the requirements for hedge accounting are met, MEC designates and documents the foreign exchange contracts as hedges of anticipated US dollar inventory purchases. The documentation identifies the anticipated transaction being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in offsetting changes in the anticipated cash flows both at inception and throughout the life of the instrument. Hedge accounting is discontinued prospectively if it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated, or upon the sale or early termination of the hedge.

The foreign exchange contracts held by MEC at year-end that qualify for hedge accounting are not presented on the year-end balance sheet at their fair value. The gains and losses relating to these contracts are recognized as an adjustment to any gain or loss arising on the settlement of the hedged inventory purchases.

(i) Foreign currency translation:

MEC translates assets and liabilities denominated in foreign currencies at exchange rates in effect at the end of the year. Exchange gains and losses from unhedged transactions denominated in foreign currencies relating to inventory purchases are included in cost of sales. Included in the 2013 cost of sales was a foreign exchange gain of $30 (December 30, 2012 - gain of $805).

(j) Employee benefits:

MEC contributes on a defined contribution basis to assist employees with retirement savings. The cost is included in salaries, wages and employee benefits expense. Contributions of $1,260 (December 30, 2012 - $1,237) were made during the fiscal year ended December 29, 2013.

(k) Income taxes:

MEC follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities.

2. **Significant accounting policies (continued):**

(k) Income taxes (continued):

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of MEC's provision for the current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

(l) Use of estimates and measurement uncertainty:

In preparing MEC's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. Areas of measurement uncertainty include inventory valuation, allowance for sales returns, allowance for future warranty expenses, valuation of future income taxes, and the amount of gift certificates likely to be redeemed.

(m) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. MEC has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, MEC determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount MEC expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

## 3. Cash and cash equivalents and restricted cash:

Cash and cash equivalents consist of the following:

| | December 29, 2013 | December 30, 2012 |
|---|---|---|
| Cash and cash equivalents less outstanding cheques | $ 2,142 | $ 5,495 |
| Bankers' acceptances and term deposits at interest rates varying from 1.01% to 1.08% | 18,985 | - |
| | $ 21,127 | $ 5,495 |

Restricted cash relates to amounts held in trust for construction holdbacks.

## 4. Inventory:

| | December 29, 2013 | December 30, 2012 |
|---|---|---|
| Raw materials | $ 532 | $ 925 |
| Work-in-progress | 307 | 585 |
| Finished goods | 61,715 | 69,171 |
| Inventory provision | (1,423) | (1,338) |
| | $ 61,131 | $ 69,343 |

The amount of inventories recognized as a component of cost of sales during the year was $190,560 (December 30, 2012 - $185,408).

Also included within cost of sales for the year ended December 29, 2013 are charges to inventory within the normal course of business, made throughout the year, of $3,773 (December 30, 2012 - $3,743). These charges include the disposal of obsolete and damaged product, shrinkage, and permanent markdowns to net realizable values.

## 5. Foreign exchange contracts:

MEC holds a number of option-dated forward contracts that are intended to settle future US dollar inventory purchases. At the balance sheet date, MEC had contracts to purchase US currency outstanding totalling USD$29,790 (December 30, 2012 - USD$50,000) at an average rate of CAD$1.05 (December 30, 2012 - CAD$0.99) that mature at various dates to August 1, 2014 (December 30, 2012 - to August 2, 2013).

## 6. Property and equipment:

| | | | December 29, 2013 | December 30, 2012 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | $ 43,777 | $ - | $ 43,777 | $ 51,971 |
| Buildings | 69,688 | 19,773 | 49,915 | 54,295 |
| Furniture, fixtures and equipment | 43,327 | 32,437 | 10,890 | 11,206 |
| Leasehold improvements | 34,101 | 15,903 | 18,198 | 19,538 |
| Computer software | 18,500 | 15,045 | 3,455 | 2,484 |
| | 209,393 | 83,158 | 126,235 | 139,494 |
| Capital projects in progress | 1,769 | - | 1,769 | 4,542 |
| Capital projects in progress – capital lease | 24,519 | - | 24,519 | - |
| | $ 235,681 | $ 83,158 | $ 152,523 | $ 144,036 |

Amortization for the year amounted to $8,968 (2012 - $8,435).

The capital projects in progress – capital lease has been accounted for as a sale-leaseback transaction. The proceeds from the sale net of selling costs were less than the net book value of the property and therefore a loss of $88 has been deferred and included in this balance. It will be amortized along with the final building under capital lease on a straight-line basis over the term of the lease.

## 7. Amounts owing to suppliers, governments and employees:

Government remittances payable at December 29, 2013 in the amount of $7,066 (December 30, 2012 - $2,129) relating to federal and provincial sales taxes, payroll taxes, and workers' safety insurance are included in amounts owing to suppliers, governments and employees.

## 8. Operating loan and long-term debt:

(a) Operating loan:

MEC has available a revolving demand credit facility of $45,000 that has been arranged to fund general operations. The facility can be drawn through bankers' acceptances, Canadian and US dollar operating loans, LIBOR loans and letters of credit (note 13(b)). The loan is secured by a general security agreement and a first charge on certain property. As at December 29, 2013, $42,116 (December 30, 2012 - $36,019) of the facility was available.

**8. Operating loan and long-term debt (continued):**

(a) Operating loan (continued):

LIBOR based loans accrue interest at Libor plus 1.0% - 1.5%. Operating loans accrue interest at the bank's prime rate plus 0% - 0.5%. US operating loans accrue interest at the US base rate plus 0% - 0.5%. Bankers acceptances accrue interest at the banker's acceptance rate plus 1.0% - 1.5%. The amount of the spread, in excess of the base interest rate, varies with reference to certain financial ratios of MEC.

The draws on the facility as at December 29, 2013 were all outstanding letters of credit (note 13(b)) (December 30, 2012 - banker's acceptances and letters of credit).

(b) Long-term debt:

MEC has a long-term debt facility of $15,000 that has been arranged to fund capital expenditures. The facility can be drawn through bankers' acceptances and Canadian operating loans and is secured by a general security agreement and a first charge on certain property. Repayment of the long-term debt is in quarterly installments of $250, plus interest, amortized over a 15 year period. The loan matures on September 30, 2014. As at December 29, 2013, the loan balance is $14,000 (December 30, 2012 - $15,000).

Operating loans accrue interest at the bank's prime rate plus 0% - 0.5%. bankers acceptances accrue interest at the banker's acceptance rate plus 1.0% - 1.5%. The amount of the spread, in excess of the base interest rate, varies with reference to certain financial ratios of MEC.

The outstanding loan as at December 29, 2013 has been drawn through bankers' acceptances and Canadian operating loans (December 30, 2012 - banker's acceptances).

Under the terms of the above mentioned credit facilities, MEC is required to meet certain financial covenants. As at December 29, 2013, MEC was in compliance with the covenants.

**9. Capital lease obligation:**

MEC has entered into a capital lease to finance a building under construction at December 29, 2013. It is anticipated that construction will be completed in 2014. The total development costs of the building, estimated to be between $41,360 and $44,900, will determine the amount of future rent payments which will begin once construction is complete and continue for the initial term of 20 years. The interest rate for the lease is 3%.

At December 29, 2013 the construction costs incurred to date have been capitalized and included in capital projects in process (note 6). Financing draws as at December 29, 2013 have been set up as a capital lease obligation. Remaining financing draws will be made prior to the commencement of the lease.

## 10. Income taxes:

(a) The reconciliation of income tax computed at the statutory tax rates to the income tax provision is set out below.

The statutory income tax rate applicable to MEC is 26.17% (December 30, 2012 - 25.73%).

| | December 29, 2013 | December 30, 2012 |
|---|---|---|
| Provision for income taxes (recovery) based on statutory rates | $ 140 | $ (195) |
| Adjustment for permanent differences | 92 | 157 |
| Change in future income tax liabilities due to change in income tax rates | (4) | 4 |
| Other adjustment/recoveries of over accruals | (53) | 42 |
| | $ 175 | $ 8 |

(b) The tax effect of temporary differences that give rise to significant components of the future income tax assets and future income tax liabilities is presented below.

| | December 29, 2013 | December 30, 2012 |
|---|---|---|
| Future income tax assets: | | |
| Deferred lease inducements | $ 170 | $ 119 |
| General reserves | 746 | 659 |
| Other assets | 179 | 118 |
| | 1,095 | 896 |
| Future income tax liabilities: | | |
| Property and equipment | 2,007 | 1,724 |
| | $ 912 | $ 828 |

## 11. Members' shares:

The authorized capital of MEC is an unlimited number of shares with a par value of $5.00 per share. Each member is required to purchase one share for cash. MEC distinguishes separately the number of outstanding shares issued for cash and the number issued by application of patronage return.

As set out in the rules of MEC, membership entitles each member to one vote in the governance of MEC and the right to purchase goods. Also, as set out in the rules, member-initiated withdrawals are limited to 1% of the total share capital, subject to the discretion of the Board of Directors.

## 11. Members' shares (continued):

The cumulative shares issued by source are as follows:

| | December 29, 2013 | | December 30, 2012 | |
|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount |
| Membership shares issued | 4,116 | $ 20,579 | 3,879 | $ 19,395 |
| Shares issued by application of patronage return | 31,438 | 157,191 | 29,497 | 147,484 |
| | 35,554 | $ 177,770 | 33,376 | $ 166,879 |

A summary of shares issued and redeemed during the year is as follows:

| | December 29, 2013 | | December 30, 2012 | |
|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount |
| Balance, beginning of year | 33,376 | $ 166,879 | 31,508 | $ 157,541 |
| Shares issued to new members | 237 | 1,184 | 246 | 1,229 |
| Shares issued by application of patronage return | 1,950 | 9,750 | 1,623 | 8,116 |
| Shares redeemed | (9) | (41) | (1) | (6) |
| Shares withdrawn | - | (2) | - | (1) |
| | 35,554 | $ 177,770 | 33,376 | $ 166,879 |

## 12. Contributed surplus:

The changes in contributed surplus are as follows:

| | December 29, 2013 | December 30, 2012 |
|---|---|---|
| Balance, beginning of year | $ 653 | $ 673 |
| Unclaimed share redemption amounts | 75 | 22 |
| Claims of share redemption amounts previously allocated to contributed surplus | (23) | (42) |
| | $ 705 | $ 653 |

## 13. Commitments and contingencies:

(a) Lease commitments:

MEC has operating lease commitments for premises and certain equipment. The minimum annual lease payments scheduled for the next five years and thereafter are as follows:

| | |
|---|---|
| 2014 | $ 5,867 |
| 2015 | 4,775 |
| 2016 | 4,116 |
| 2017 | 3,964 |
| 2018 | 3,033 |
| Thereafter | 21,601 |

(b) Letters of credit:

At December 29, 2013, MEC had outstanding letters of credit in various currencies through its financial institutions to provide guarantees to certain suppliers. The letters of credit outstanding at December 29, 2013 amounted to USD$1,820 and Euro $100 (December 30, 2012 - CAD$855, USD$4,541 and Euro $461). Of this amount, USD$1,223 (December 30, 2012 - USD$2,228) has been included in amounts owing to suppliers, governments and employees in the consolidated balance sheet of MEC.

(c) Capital project commitments:

MEC is committed to future construction costs of $20,324 (2012 - $262). At December 29, 2013, MEC had standby letters of credit relating to delivery of certain municipal requirements on construction projects of $776 (December 30, 2012 - $113). No accrual has been made for these standby letters of credit as all required deliverables are expected to be met through the projects.

## 14. Financial instruments and risk management:

MEC is exposed to the following risks related to its financial assets and liabilities:

(a) Currency risk:

MEC is exposed to currency risk on some of its amounts owing to suppliers and expected inventory purchases, which are denominated in currencies other than Canadian dollars. MEC uses foreign exchange forward contracts to manage the majority of this exposure.

**14. Financial instruments and risk management (continued):**

(a) Currency risk (continued):

The consolidated balance sheet includes US dollar cash and cash equivalents, as well as US dollar amounts owing to suppliers. The balances in Canadian dollars and in US dollars are as follows:

| | December 29, 2013 | | December 30, 2012 | |
|---|---|---|---|---|
| | CAD | USD | CAD | USD |
| Outstanding cheques in excess of cash and cash equivalents | $ 728 | $ 681 | $ 1,124 | $ 1,129 |
| Amounts owing to suppliers | 5,802 | 5,424 | 5,410 | 5,436 |

(b) Interest rate risk:

MEC's exposure to interest rate risk depends upon the balance of its cash and cash equivalents, operating loan and long-term debt. The demand-operating loan and long-term debt are subject to interest rate risk as the required cash flow to service the debt will fluctuate as a result of changing market interest rates.

(c) Credit risk:

Financial instruments that potentially subject MEC to credit risk consist of cash and cash equivalents, bankers' acceptances and term deposits, and accounts receivable. MEC uses reputable financial institutions for cash, bankers' acceptances and term deposits and believes the risk of loss to be remote. MEC has accounts receivable from corporate members and government agencies, none of which MEC believes represent a significant credit risk.

(d) Liquidity risk:

Liquidity risk is the risk that MEC will not be able to meet its obligations as they become due. MEC's approach to managing liquidity risk is to ensure that it always has sufficient cash flows and cash on hand and credit facilities to meet its operating obligations. The magnitude and timing of share redemptions are considered in managing liquidity risk.

There has been no change to the risk exposures from 2012.

**15. Subsequent events:**

(a) Joint venture agreement:

Subsequent to year end, MEC entered into a limited partnership, development management, and shareholders agreement to create a limited partnership. The partnership will develop, construct and sell residential units on a parcel of land in Toronto, Ontario. The parcel of land was part of a larger parcel acquired for the purpose of constructing a new store. The agreements provide joint control over the limited partnership to MEC and the other limited partner. As such, this investment will be accounted for as a joint venture using the equity method.

As part of the arrangement MEC has also entered into an agreement to sell the parcel of land on which the residential units will be developed as MEC's contribution into the joint venture. The sale of the property is not expected to result in any net financial gain or loss.

(b) Share redemption:

Subsequent to year end, MEC completed a redemption of shares with a value of $4,577, which had originally been issued by the application of patronage returns to members in financial years 2012 and earlier.

# MOUNTAIN EQUIPMENT CO-OPERATIVE

Consolidated Schedules of Selling and Administration Expenses and Other Income
(Expressed in thousands of dollars)

Year ended December 29, 2013, with comparative information for 2012

| | December 29, 2013 | December 30, 2012 |
|---|---|---|
| Selling and administration expenses: | | |
| Salaries, wages and employee benefits | $ 57,827 | $ 54,142 |
| Supplies and services | 18,304 | 16,628 |
| Rent and occupancy | 12,828 | 11,752 |
| Amortization | 8,968 | 8,435 |
| Interest | 571 | 918 |
| (Gain) loss on disposal of property and equipment | (133) | 23 |
| | $ 98,365 | $ 91,898 |
| Other income (expenses): | | |
| Rent and parking | $ 1,045 | $ 1,580 |
| Gear swap and MEC events proceeds | 563 | 299 |
| Gift certificates unlikely to be redeemed | 1,056 | 760 |
| Miscellaneous income | 134 | 329 |
| Interest | 15 | 19 |
| GST, HST and QST to be recovered in respect of patronage dividend, net of costs incurred | 581 | (404) |
| | $ 3,394 | $ 2,583 |