

MEC'S APPROACH TO MANAGING FOR SUSTAINABILITY

MEC believes that our reporting is enhanced by following the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), including information about our management approach to sustainability.

Our overall approach to sustainability strategy, management, risk, and reporting is explained in the "Approach" section of our report. In this disclosure, we provide more detail about how we manage six performance areas: Economy, Environment, Product Responsibility, Labour Practices and Decent Work, Human Rights, and Society.

Our CEO is responsible for managing all performance areas, with the assistance of the executive team and the entire organization. MEC's Director of Sustainability provides direction and support.

ECONOMY

GRI Guideline: *Provide a concise disclosure on the Management Approach items (goals and performance, policy, and additional contextual information) with reference to the following aspects: economic performance, market presence, and indirect economic impacts.*

We are exposed to the same economic risks and opportunities as similar retailers and brands, including slow economic recovery, less predictable consumer behaviour, intensifying competition, the growth of e-commerce and social media, and shifting global sourcing patterns. We also have some opportunities unique to MEC: over 3.8 million members who believe in our vision, culture, values, and products. Our goal is to be Canada's preferred brand for people living active outdoor lifestyles, as outlined in our Charter (our overarching policy statement). Other elements of our policy and strategy framework affecting economic performance and impacts are our Business Strategy, Merchandise Strategy, Responsible Sourcing Policy, Investment Policy, Risk Management Policy, Share Redemption Policy, and Growth Statement.

As retail co-operative, our goals for economic performance are defined mainly by our responsibilities to our members: to provide quality gear at reasonable prices, safeguard the co-operative's assets, and be responsive and relevant to members' needs in a rapidly changing environment. We are more actively pursuing market share to better serve member needs.

We are owned by our members and grow at a modest rate, financing growth primarily by our members re-investing their patronage returns in the co-operative. In the near term, we are undertaking a higher level of capital investments, which will temporarily raise our debt levels. We avoid dramatic shifts in our employee base and hire with a long-term view. We support internal promotions when possible, and hire externally for certain skill sets and experience. This contributes to a resilient business model that helps us weather economic cycles without high borrowing or drastic changes in staff levels. This in turn ensures that we retain the intellectual capital that sustains and inspires us.

Our significant long-term investments and assets are in land and buildings. We operate on a model of both owned and leased stores, focusing ownership on strategic locations and markets. This provides investments for the long term, helps insulate us from fluctuations in rental markets, and enables building improvements that pay back over time. We have stores in the major urban centres across Canada. We are also developing more presence in smaller markets, applying standard retail modelling along with member considerations to determine store locations. Our new Green Building System includes many of the same considerations as the LEED for Neighbourhood Development Standard. In response to the growth of ecommerce, we are investing to evolve our web and mobile presence to provide our members with a seamless experience.

Thirty-seven percent of our products sold are MEC-brand; the balance is made up of wholesale brands (e.g., Patagonia). Our supply chain constitutes our biggest impact area, albeit indirectly. We focus on building supply chain partners and strong relationships to continually grow our influence beyond economic weight – while we are large in Canada, on a global scale we are a small player. Ensuring the right inventory at the right time is a core business focus to achieve inventory levels, in-stock targets, and carbon footprint targets. These often pull in opposing directions. For example, high inventory levels help achieve our in-stock targets, but are costly for the organization to carry.

A majority of MEC's sourcing is international, providing both opportunity and exposure for the organization. Our Responsible Sourcing Policy outlines expectations for performance of all suppliers. If all expectations are met, Canadian manufacturers are preferred. However, the continued decline in Canadian manufacturing means we are sourcing fewer made-in-Canada products. Our product assortment evolves to meet the changing needs of members who, as a whole, are becoming more urban and taking shorter outdoor trips, closer to home. We measure our indirect economic impact using Carnegie-Mellon's Economic Input-Output Life Cycle Assessment tool¹.

ENVIRONMENT

GRI Guideline: *Provide a concise disclosure on the Management Approach items (goals and performance, policy, organizational responsibility, training and awareness, monitoring and follow-up, and additional contextual information) with reference to the following aspects: materials; energy; water; biodiversity; emissions, effluents and waste; products and services; compliance; transport; and overall.*

We affect the environment through our products and supply chain operations, corporate operations, and community outreach and advocacy activities. Our Sustainability Policy includes materials, energy and carbon, harmful chemical emissions, and water – the most significant areas of environmental impact through our supply chain and operations.

Responsibility for the environmental attributes and impacts of products rests with our Chief Product Officer. The main policy statements for products are our Design Charter, Product Selection Policy, and Responsible Sourcing Policy. We rely on the initiative and integrity of our designers and buyers to work in accordance with our policy statements, and are moving toward a more systematic and supported approach through industry tools and resources, including the Higg Index². We focus on products with environmental attributes, and have achieved substantial growth in areas such as organic cotton and recycled polyester.

As a more systematic response to concerns about toxicity, water and other product resource impacts, we have been engaging with our supply chain, especially textile mills, which we have identified as our greatest opportunity. We set targets for our suppliers to source textiles from mills that have been certified to the bluesign® standard³.

We are working with the Outdoor Industry Association (OIA) and the Sustainable Apparel Coalition⁴ to develop and implement tools and indices for product improvement, including the Higg Index. We continue to deepen our work with the

¹ Carnegie Mellon University Green Design Institute (2008): Economic Input-Output Life Cycle Assessment (EIO-LCA), US 1997 Industry Benchmark model, Available from <http://www.eiolca.net>.

² The Higg Index is a leading industry tool to help us understand and communicate our lifecycle impacts and make strategic choices about where to improve our footprint.

³ Bluesign considers all inputs, processes, and technologies; identifies chemical components that could be harmful to workers, consumers, or the environment; and recommends safer alternatives.

OIA to expand the Index (e.g., include hard goods) and manage areas important to the collective industry, primarily chemical management and general supply chain transparency.

Our Chief Retail Operations Officer is responsible for the environmental effects of operations in our stores, Distribution Centre, and product transportation. We have implemented an MEC-specific Green Building System (GBS), our approach to evaluating and managing building performance. GBS is a hybrid of some of the industry's leading green building systems, and draws on requirements of LEED, C2000, and Living Building 2.0 schemes. It includes site selection, water management, energy and atmosphere, materials and resources, indoor and environmental quality, and education and inspiration. We conduct internal audits three times per year to monitor compliance with green operating expectations.

MEC's scope for carbon emissions includes: buildings (owned and leased), product transportation, corporate flights, and employee commuting. We have established tracking programs for these emission streams and continually improve our approach and methodology. The Pembina Institute annually reviews our methodology and results. Waste diversion rates are independently calculated by a third-party provider.

While product and operations efforts focus on minimizing our footprint, MEC's community investment program aims to "keep space for adventure" by protecting ecologically and recreationally important places, and helping people experience the outdoors. Our Board-level Community Involvement and Advocacy Policies guide this work. As a member of 1% For The Planet (1%FTP), we invest one percent of previous year's sales in environmental causes, and are audited to this commitment by 1%FTP.

PRODUCT RESPONSIBILITY

GRI Guideline: *Provide a concise disclosure on the Management Approach items (goals and performance, policy, organizational responsibility, training and awareness, monitoring and follow-up, and additional contextual information) with reference to the following aspects: customer health and safety; product and service labelling; marketing communications; customer privacy; and compliance.*

Our responsibility for our products begins with design. Our products are designed to provide lasting performance in challenging outdoor conditions. For MEC-brand products, our Design Charter includes principles of accountability, quality, and responsibility. Our Rock Solid Guarantee covers the quality of the products we sell and the advice we provide. Safety is an integral aspect of functionality. In line with the Canada Consumer Product Safety Act, we inform the authorities if we become aware of a product safety issue. If an issue results in a recall, we alert members directly. Product labelling is defined by regulation. The only additional labelling we provide is for sustainability information purposes; this is an MEC-brand-specific labelling program.

We promote responsible use of our products by offering rentals and gear swaps, which enable members to buy, sell, or trade used gear. Many of our products are designed for use in the outdoors, and we promote responsible behaviour in the backcountry through a partnership with Leave No Trace Canada.

Compared to most retailers, our marketing communications are fairly limited and focus primarily on providing information. We are developing an updated and more proactive approach to engaging our members.

⁴ The Sustainable Apparel Coalition is an industry-wide group of leading apparel and footwear brands, retailers, manufacturers, non-governmental organizations, academic experts, and the U.S. Environmental Protection Agency. They are working to reduce the environmental and social impacts of apparel and footwear products around the world.

All of our customers are members; as a co-operative, we are required to maintain a certain amount of personal information about them. We use this to administer share redemptions, enable members to vote in director elections, and in the rare event of a product safety issue, alert them. Our Senior Manager of Information Systems is our Privacy Officer, who is responsible for complying with privacy legislation. Part of that function is to establish and continually monitor the right balance between protecting the privacy of member information and enabling members to conduct business with MEC without excessive barriers. Privacy awareness is part of new staff training. A third-party service periodically tests the security of our information systems.

LABOUR PRACTICES AND DECENT WORK

GRI Guideline: *Provide a concise disclosure on the Management Approach items (goals and performance, policy, organizational responsibility, training and awareness, monitoring and follow-up, and additional contextual information) with reference to the following aspects: employment; labour/management relations; occupational health and safety; training and education; diversity and equal opportunity, and equal remuneration for women and men.*

Our Human Resources Policies address our employees, while our Responsible Sourcing Policy and Vendor Code of Conduct address working conditions for workers in supply chains. Our approach to ensuring fair labour practices and decent working conditions for our own employees is outlined in this section. Our approach for workers in supply chains is explained below under Human Rights.

Our goal is to be a destination employer, i.e., potential employees seek us out as a preferred employer. We hire employees who can help us succeed in an increasingly competitive marketplace. We emphasize training to offer development opportunities to our staff and ensure they provide helpful, knowledgeable, experience-based advice, as well as exceptional service to members. Our human resources team plays an important role in supporting MEC staff and management.

Our Human Resources Policies, overseen by our Chief Human Resources Officer, include compensation and benefits, occupational health and safety, selection and hiring, professional development and continuing education, diversity and equal opportunity, harassment, paid volunteerism, and community leadership. We provide some unusual benefits – such as staff loans for bikes, kayaks, and canoes – that have been designed to respond to the needs and interests of MEC employees. As required by provincial regulations, each store has an occupational health and safety committee.

Policies and related programs are communicated and reinforced through a variety of channels and events. All of our Human Resources Policies are online; employees can access them from work and home. We track employee engagement bi-annually through an independently administered and benchmarked survey conducted by AON Hewitt. We also benchmark our compensation and benefits annually.

Employees in our Distribution Centre are represented by the Canadian Retail Workers Union. They are covered by a collective agreement and have their own policy manual reflecting the provisions of that agreement.

HUMAN RIGHTS

GRI Guideline: *Provide a concise disclosure on the Management Approach items (goals and performance, policy, organizational risk assessment, impact assessment, organizational responsibility, training and awareness, monitoring, follow-up and remediation, and additional contextual information) with reference to the following Human Rights aspects:*

investment and procurement practices; non-discrimination; freedom of association and collective bargaining; child labour; prevention of forced and compulsory labour;; security practices; indigenous rights; assessment; and remediation.

The rights and interests of workers in our supply chains are addressed through the Responsible Sourcing Policy and Vendor Code of Conduct, which together take as their minimum standard, the conventions of the International Labour Organization and the Fair Labor Association (FLA). Our Social Compliance Strategy was updated in 2012 and now places increased emphasis on capacity building and self-governance, in line with leading industry practices. This entails going beyond auditing and giving factories the tools and systems to improve human rights at the factory level. Our goal is to improve conditions in factories that supply us, and to be a leader in Canada in this regard.

Our social compliance program includes monitoring of our suppliers by independent third-party auditors contracted by MEC. The auditors identify incidents of non-compliance with our Code of Conduct and recommend corrective action plans to our internal Social Compliance team. The Social Compliance Manager has primary responsibility for ensuring a sound social compliance program, including monitoring and action plans and reports to the Chief Production and Compliance Officer (and works with the Chief Product Officer). Responsibility for understanding and implementing action plans in the factories is currently shared with Product Managers who will collaborate with a soon-to-be hired Sourcing Manager.

MEC is a member of the FLA which conducts independent audits on a small number of our factories. MEC's Code of Conduct is aligned with that of the FLA. Audits cover forced labour, child labour, juvenile workers, harassment & abuse, discrimination, health & safety, freedom of association, wages & benefits, documentation, and general compliance with laws and codes. Neither our policy nor our monitoring program specifically cover security practices or indigenous rights. We recognize this as a gap.

Beyond monitoring, we collaborate with other brands to support improvement in working conditions in shared suppliers. We are active in the SAC and OIA's Fair Labour Working Group to broaden collaboration opportunities and to develop an industry wide standard to measure social responsibility in supply chains.

Our focus has been on supply chains for MEC-brand inventory. For non-MEC brand inventory we ask our wholesale brand partners to adhere to our [Vendor Code of Conduct](#) and rely on their ethical sourcing programs to implement it. Integrating wholesale brands into our updated Responsible Sourcing policy is part of our current five-year strategy.

SOCIETY

GRI Guideline: *Provide a concise disclosure on the Management Approach items (goals and performance, policy, organizational responsibility, training and awareness, monitoring and follow-up, and additional contextual information) with reference to the following aspects: local communities; corruption; public policy; anti-competitive behaviour; and compliance.*

At MEC, compliance and ethical conduct start with good governance. Our governance framework is established by the [MEC Rules](#) which meet the requirements of the BC Co-operatives Act. As established in our Rules, our members elect our Board, which sets policy to carry out the will of members and appoints the Chief Executive Officer to run the business. The Senior Management Team (SMT) includes the CEO and several Senior Managers. Our Chief Governance Officer provides a liaison between the Board and the CEO. Expectations for ethical behaviour are modelled by the Board and SMT and communicated to staff through various human resources policies. We emphasize ethical culture and values in hiring, and reinforce these through our training programs. An outside agency administers our whistleblower reporting tool.

Employees of MEC are subject to a Code of Business Conduct which holds them to the highest standards of business ethics, and requires that they operate in accordance with all laws and regulations. MEC maintains Conflict of Interest and Gifts & Entertainment policies that apply to all employees. At the Board level, a Conflict of Interest Policy and disclosure process ensure Directors identify and declare areas where their interests may be in conflict with MEC, and may not participate in discussion or vote on issues where a conflict exists.

Two of our most significant societal contributions are our investment in helping Canadians live active lifestyles, as well as conservation of outdoor spaces in Canada. We achieve this in two ways. One, through our Community Involvement Program, we invest 1% of our annual revenue in grassroots conservation and outdoor recreation through grants, partnerships, and outreach/advocacy programs, using a combined national and local approach. Two, we engage in local outreach at each of our stores, which includes hosting events, affordable races, clinics, and courses that help members lead active lives. We also advocate for change on issues related to our core strategic areas, including recreation and active outdoor lifestyles; conservation; products, sourcing, and retail operations (particularly as they concern environmental and social issues); co-operative principles; environmental education and awareness; climate change and resource scarcity; and ethical business practice. Our core Business Strategy, Community Involvement Policy, and Advocacy Policy guide our efforts toward community involvement and advocacy.