Consolidated Financial Statements of

MOUNTAIN EQUIPMENT CO-OPERATIVE

Period from February 26, 2018 to February 24, 2019

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Members of Mountain Equipment Co-operative

Opinion

We have audited the consolidated financial statements of Mountain Equipment Co-operative (the "Entity"), which comprise:

- the consolidated balance sheet as at February 24, 2019
- the consolidated statement of earnings and surplus (deficit) for the period from February 26, 2018 to February 24, 2019
- the consolidated statement of cash flows for the period from February 26, 2018 to February 24, 2019
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at February 24, 2019, and its consolidated results of operations and its consolidated cash flows for the period from February 26, 2018 to February 24, 2019 in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
June 7, 2019

MOUNTAIN EQUIPMENT CO-OPERATIVE

Consolidated Balance Sheet
(Expressed in thousands of dollars)

	February 24, 2019	February 25, 2018
Assets		
Current assets:		
Accounts receivable (note 3)	$ 1,142	$ 955
Inventory (note 4)	96,531	100,431
Prepaids and deposits	4,704	4,962
Investment in joint arrangement	204	492
	102,581	106,840
Property and equipment (note 6)	247,944	229,374
Intangible assets (note 7)	21,237	20,586
Future income tax asset (note 11)	-	5,355
	$ 371,762	$ 362,155
Liabilities and Members' Equity		
Current liabilities:		
Amounts owing to suppliers, governments and employees (note 8)	$ 57,333	$ 45,281
Operating loan (note 9)	35,365	19,456
Gift cards and provision for sales returns	14,978	14,661
Current portion of capital lease obligation (note 10)	1,538	1,414
Current portion of deferred gain on sale and leaseback (note 6)	1,867	16,593
Current portion of deferred lease liability	3,041	2,190
	114,122	99,595
Capital lease obligation (note 10)	37,234	38,772
Deferred gain on sale and leaseback (note 6)	-	820
Deferred lease liability	31,028	24,233
Other non-current liabilities	694	-
	183,078	163,420
Members' shares (note 12)	190,737	189,361
Contributed surplus (note 13)	894	834
Accumulated surplus (deficit)	(2,947)	8,540
	188,684	198,735
Commitments and contingencies (note 14)		
	$ 371,762	$ 362,155

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Robert Wallis Director   *Ellen Pekeles* Director

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from February 26, 2018 to February 24, 2019	Period from February 27, 2017 to February 25, 2018
Sales	$ 462,445	$ 454,840
Cost of sales (note 4)	313,062	311,704
Gross margin	149,383	143,136
Selling and administration expenses (schedule)	164,345	157,398
Restructuring expenses (note 16)	8,530	-
	(23,492)	(14,262)
Other income (schedule)	17,034	29,677
Earnings (loss) before patronage return and income taxes	(6,458)	15,415
Patronage return	-	-
Earnings (loss) before income taxes	(6,458)	15,415
Provision for income taxes (recovery) (note 11):		
Current	(326)	41
Future	5,355	3,629
	5,029	3,670
Net earnings (loss)	(11,487)	11,745
Surplus (deficit), beginning of period	8,540	(3,205)
Surplus (deficit), end of period	$ (2,947)	$ 8,540

See accompanying notes to consolidated financial statements.

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from February 26, 2018 to February 24, 2019	Period from February 27, 2017 to February 25, 2018
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ (11,487)	$ 11,745
Items not involving cash:		
Amortization	19,411	18,650
Impairment loss on intangible assets (note 7)	4,092	858
Gain on sale and leaseback transaction (note 6)	(15,546)	(21,706)
Gain on sale of land	-	(4,990)
Loss on disposal of property and equipment and intangible assets	344	347
Equity loss (income) from joint arrangement	88	(1,083)
Amortization of deferred lease expense	(2,528)	(982)
Future income tax expense	5,355	3,629
	(271)	6,468
Change in non-cash operating working capital items related to operations	17,034	(8,377)
	16,763	(1,909)
Financing:		
Repayments of capital lease	(1,414)	(1,373)
Payment received from lease inducement	10,174	24,394
Proceeds from (repayment of) operating loan, net	17,606	(9,357)
Financing fees	(1,697)	(778)
Shares issued to new members	1,416	1,470
Shares redeemed	(37)	(104)
Shares withdrawn	(3)	(1)
Contributed surplus (deficit) from unclaimed share redemptions, net	60	67
	26,105	14,318
Investing:		
Purchase of property and equipment	(34,210)	(20,941)
Purchase of intangible assets	(8,858)	(7,393)
Proceeds on disposal of asset held for sale	-	8,517
Proceeds on disposal of property and equipment	-	5,302
Proceeds from investment in joint arrangement	200	2,106
	(42,868)	(12,409)
Change in cash, being cash, end of period	$ -	$ -
The following non-cash transactions occurred in the period:		
Share redemption settled through issuance of gift cards	$ -	$ 1,758
Deferred lease inducements accrued in prior year and received in current year	-	8,176

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 service centre and website.

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian 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 service centre sales is recognized when the product is shipped to the member. MEC reports its revenue net of sales discounts and returns.

MEC sells gift cards which entitle the holder to use the value for purchasing products and services. Purchased gift cards are non-refundable and cannot be redeemed for cash. Gift cards have no associated fees or expiration dates. Amounts paid for gift cards are deferred and recorded on the balance sheet as a gift card liability. The balance of the gift card liability at February 24, 2019 represents MEC's outstanding obligation for these gift cards as well as gift cards that were issued by MEC as part of a redemption of shares. Revenue from gift cards is recognized as cards are redeemed.

MEC recognizes income on unredeemed gift cards when it determines that the likelihood of the gift card being redeemed is remote. Amounts recognized on unclaimed share redemption gift cards are allocated to contributed surplus and have no impact on revenue.

(c) 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, if any, and other costs incurred in bringing the inventories to their present location and condition before distribution to retail stores. Other costs associated with acquiring, storing, and transporting inventory to retail stores are expensed as incurred and included in cost of sales.

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

2. Significant accounting policies (continued):

(d) Investment in joint arrangement:

MEC accounts for its interest in jointly controlled enterprises using the equity method. Any investments are initially recorded at cost and are increased for the proportionate share of any post acquisition earnings and decreased by any post acquisition losses and dividends received. MEC currently has a 49.995% ownership interest in the joint arrangement, Park Towns Development Limited Partnership.

(e) Related party transactions:

Monetary related party transactions and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of business, except when the transaction is an exchange of a product or property held for sale in the normal course of operations. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount.

All other related party transactions are measured at the carrying amount.

(f) Property and equipment:

Property and equipment are recorded at historical cost less accumulated amortization. Cost includes expenditures that are attributable directly to the acquisition or construction of the asset, including the purchase cost and labour. Amortization is recorded annually using the following rates and methods:

Asset	Basis	Rate
Buildings	Declining balance	4 - 6%
Furniture, fixtures and equipment	Declining balance	20 - 55%
Asset under capital lease	Straight-line	Term of lease

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 25 years.

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

2. Significant accounting policies (continued):

(g) Intangible assets:

Asset	Basis	Rate
Computer software	Straight-line	5 – 10 years
Intangible assets	Declining balance	20%

(*i*) Separately acquired at cost:

Intangible assets acquired at cost are comprised of computer software assets, and are stated at cost, less accumulated amortization.

(*ii*) Internally generated:

Research activities are expensed as incurred. Development activities are recognized as an asset provided they meet the capitalization criteria, which include MEC's ability to demonstrate: technical feasibility of completing the intangible asset so that it will be available for use or sale; MEC's intention to complete the asset for use or for sale; MEC's ability to use or sell the asset; the adequacy of MEC's resources to complete the development; MEC's ability to measure reliably the expenditures during the development; and MEC's ability to demonstrate that the asset will generate future economic benefits.

(h) Lease inducements:

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

Free rent periods and lease inducements are deferred and amortized straight-line over the lease term as a reduction of annual rent expenses. These lease inducements are recorded in deferred lease liability on the balance sheet.

(i) Patronage return:

In years where a patronage return is declared, 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 a portion of the current year's net surplus to the members based on their purchases during the year.

2. Significant accounting policies (continued):

(j) 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 the term of the hedging relationship. The critical terms of the hedging instrument and the hedged item must match the life of the instrument. Hedge accounting is discontinued prospectively if it is determined that the hedging instruments’ critical terms no longer match the hedged item, 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.

(k) 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 current period cost of sales was a foreign exchange gain of $2,279 (February 25, 2018 - $3,262).

(l) Employee benefits:

MEC contributes to a defined contribution plan to assist employees with retirement savings. The cost is included in salaries, wages and employee benefits expense. Contributions of $1,758 (February 25, 2018 - $1,737) were made during the current period.

(m) Income taxes:

MEC follows the asset and 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 amounts and the tax bases of existing assets and liabilities.

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 recovery is the sum of MEC’s provision for current income taxes and the difference between the opening and ending balances of future income tax assets and liabilities.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

2. Significant accounting policies (continued):

(n) 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 carrying value of property and equipment and intangible assets, inventory valuation, allowance for sales returns, warranty liabilities, valuation of future income taxes, restructuring costs, and the amount of gift certificates likely to be redeemed.

(o) 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. Accounts receivable:

	February 24, 2019	February 25, 2018
Accounts receivable	$ 1,034	$ 816
Real estate and lease inducement receivables	244	215
Allowance for doubtful accounts	(136)	(76)
	$ 1,142	$ 955

(Amounts expressed in thousands of dollars, unless otherwise indicated)

4. Inventory:

	February 24, 2019	February 25, 2018
Raw materials	$ 157	$ 235
Finished goods	98,154	101,636
Inventory provision	(1,780)	(1,440)
	$ 96,531	$ 100,431

The amount of inventory recognized as a component of cost of sales during the period was $263,180 (February 25, 2018 - $264,311).

Also included within cost of sales for the period ended February 24, 2019 are charges to inventory in the normal course of business, made throughout the period, of $4,773 (February 25, 2018 - $4,551). These charges include the disposal of obsolete and damaged product, shrinkage, and permanent markdowns to net realizable value.

5. Foreign exchange contracts:

MEC holds a number of option-dated forward contracts that are intended to settle future US dollar purchases. At the balance sheet date, MEC had contracts to purchase US currency outstanding totaling USD$35,000 (February 25, 2018 - USD$86,000) at an average rate of CAD$1.28 (February 25, 2018 - CAD$1.29) that mature at various dates to December 27, 2019 (February 25, 2018 - to August 2, 2019) when the inventory purchases are expected to occur. Hedge accounting has been elected on all of these forward contracts, and as a result the contracts are not recorded on the balance sheet as at period end.

6. Property and equipment:

			February 24, 2019	February 25, 2018
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 38,425	$ -	$ 38,425	$ 38,425
Buildings	88,784	31,900	56,884	60,019
Furniture, fixtures and equipment	57,275	39,134	18,141	20,628
Leasehold improvements	80,806	22,444	58,362	59,829
Asset under capital lease	44,712	9,644	35,068	37,314
	310,002	103,122	206,880	216,215
Assets under construction	41,064	-	41,064	13,159
	$ 351,066	$ 103,122	$ 247,944	$ 229,374

(Amounts expressed in thousands of dollars, unless otherwise indicated)

6. Property and equipment (continued):

Amortization for the period amounted to $15,296 (February 25, 2018 - $15,301) and is recorded in cost of sales and selling and administration expenses in the consolidated statement of earnings and surplus (deficit).

On December 15, 2016, MEC sold the land and building for the Toronto retail store for net proceeds of $49,434 and entered into a leaseback transaction for a maximum term of 42 months. The total gain on the sale and leaseback transaction was $43,532 of which $15,546 has been recognized in the current year (February 25, 2018 - $21,706). The remaining $1,867 of the gain is deferred and is being amortized over the remaining lease term.

7. Intangible assets:

			February 24 2019	February 25, 2018
	Cost	Accumulated amortization	Net book value	Net book value
Computer software	$ 35,916	$ 19,292	$ 16,624	$ 15,393
Intangible assets	686	578	108	190
	36,602	19,870	16,732	15,583
Assets under development	4,505	-	4,505	5,003
	$ 41,107	$ 19,870	$ 21,237	$ 20,586

Amortization for the period amounted to $4,115 (February 25, 2018 - $3,349) and is recorded in cost of sales and selling and administration expenses in the consolidated statement of earnings and surplus (deficit). During the year, MEC reviewed development costs incurred within computer software and assets under development and determined that $4,092 (February 25, 2018 - $858) were impaired, which are recorded as an impairment loss within selling and administration expenses.

8. Amounts owing to suppliers, governments and employees:

Government remittances payable at February 24, 2019 in the amount of $4,318 (February 25, 2018 - $5,349) relating to federal and provincial sales taxes, payroll taxes, and workers' safety insurance are included in amounts owing to suppliers, governments, and employees.

9. Operating loan:

On August 3, 2017, MEC entered into a senior secured asset-based revolving credit facility. The credit facility allows MEC to borrow up to a maximum of $130,000 with an additional $20,000 accordion, and has a maturity date of August 3, 2020.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

9. Operating loan (continued):

The credit facility can be drawn through CAD banker's acceptance ("BA") rate loans, CAD prime rate loans, USD base rate loans, USD LIBOR loans, or letters of credit. BA rate loans accrue interest at the BA rate plus 1.5%; LIBOR loans accrue interest at LIBOR plus 1.5%; prime rate loans accrue interest at prime rate; and base rate loans accrue interest at base rate. During the period, the interest rate on the credit facility ranged from 3.1 - 6.0% (February 25, 2018 – 2.4 - 5.0%).

The credit facility availability is determined by the borrowing base, being eligible inventory, credit card receivables, and a real estate component, less inventory reserves and relevant liabilities, and is reduced by committed loans drawn on the facility. As at February 24, 2019, MEC had $62,576 (February 25, 2018 - $60,844) in availability under the credit facility.

The facility is secured by a first priority general security interest in all present and future property, and mortgages on eligible real property.

The draws on the facility as at February 24, 2019 were outstanding letters of credits, BA rate loans and prime rate operating loans (notes 14(b) and (c)).

10. Capital lease obligation:

Capital lease repayments are due as follows:

	February 24, 2019	February 25, 2018
2018	$ -	$ 2,597
2019	2,677	2,677
2020	2,906	2,906
2021	2,857	2,857
2022	2,857	2,857
2023	2,854	2,854
Thereafter	35,035	35,035
Total minimum lease payments	49,186	51,783
Less amount representing interest at 3%	(10,414)	(11,597)
Present value of net minimum capital lease payments	38,772	40,186
Less current portion of obligation under capital lease	(1,538)	(1,414)
	$ 37,234	$ 38,772

Interest of $1,180 (February 25, 2018 - $1,221) relating to the capital lease obligation has been included in interest expense within selling and administration expenses. The total amount of asset under capital lease is $35,068 (February 25, 2018 - $37,314) net of accumulated amortization of $9,644 (February 25, 2018 - $7,398).

(Amounts expressed in thousands of dollars, unless otherwise indicated)

11. 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 26.86% (February 25, 2018 - 26.91%).

	Period from February 26, 2018 to February 24, 2019	Period from February 27, 2017 to February 25, 2018
Provision for income taxes (recovery) based on statutory rates	$ (1,735)	$ 4,148
Permanent differences	78	(550)
Effect of change in income tax rates	9	(153)
Valuation allowance of non-capital loss carryforward	6,206	-
Other adjustments/recoveries of over accruals	471	225
	$ 5,029	$ 3,670

(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.

	February 24, 2019	February 25, 2018
Future income tax assets:		
Gain on sale and leaseback transaction	$ 502	$ 4,686
Deferred lease inducements	9,152	7,111
General reserves and accruals	1,956	1,310
Capital lease obligation	10,416	10,815
Non-capital loss carryforward	7,320	2,296
Other assets	417	355
	29,763	26,573
Valuation allowance of non-capital loss carryforward	(6,206)	-
	23,557	26,573
Future income tax liabilities:		
Property and equipment and intangible assets	(23,557)	(21,188)
Other assets	-	(30)
Future income tax asset (liability)	$ -	$ 5,355

MEC has approximately $25,926 (February 25, 2018 - $5,644) of non-capital losses available for income tax purposes to reduce taxable income of future years that begin to expire in 2038.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

12. 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.

The cumulative shares issued by source are as follows:

	February 24, 2019		February 25, 2018	
	Number of shares	Amount	Number of shares	Amount
Membership shares issued	5,448	$ 27,240	5,165	$ 25,827
Shares, and partial shares, issued by application of patronage return	32,699	163,497	32,707	163,534
	38,147	$ 190,737	37,872	$ 189,361

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

	February 24, 2019		February 25, 2018	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	37,872	$ 189,361	37,951	$ 189,754
Shares issued to new members	283	1,416	294	1,470
Shares, and partial shares, issued by application of patronage return	-	-	-	-
Shares redeemed	(7)	(37)	(373)	(1,862)
Shares withdrawn	(1)	(3)	-	(1)
	38,147	$ 190,737	37,872	$ 189,361

During the period ended February 24, 2019, MEC redeemed patronage shares with a total value of $37 (February 25, 2018 - $1,862). There was no share redemption in the current period. As at February 24, 2019, $3,385 (February 25, 2018 - $3,841) of historical share redemption gift cards remain outstanding on the consolidated balance sheet.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

13. Contributed surplus:

The changes in contributed surplus are as follows:

	February 24, 2019	February 25, 2018
Balance, beginning of period	$ 834	$ 767
Unclaimed share redemption amounts	79	83
Claims of share redemption amounts previously allocated to contributed surplus	(19)	(16)
Balance, end of period	$ 894	$ 834

14. 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:

2019	$ 16,903
2020	16,600
2021	15,134
2022	14,770
2023	14,546
Thereafter	137,108
	$ 215,061

(b) Letters of credit:

At February 24, 2019, MEC had outstanding letters of credit in USD through its financial institutions to provide guarantees to certain suppliers of USD$7 (CAD$8 equivalent) (February 25, 2018 - USD$231 (CAD$293 equivalent)).

(c) Capital project commitments:

MEC is committed to future construction costs of $11,013 (February 25, 2018 - $46,678). At February 24, 2019, MEC has standby letters of credit relating to delivery of certain municipal requirements on construction projects and real estate contracts of $2,547 (February 25, 2018 - $8,223). No accrual has been made for these standby letters of credit as all required deliverables are expected to be met through the projects.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

15. 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.

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:

	February 24, 2019		February 25, 2018	
	CAD	USD	CAD	USD
Outstanding cheques in excess of cash and cash equivalents	$ 429	$ 325	$ 1,292	$ 1,020
Amounts owing to suppliers	4,787	3,634	5,459	4,309

(b) Interest rate risk:

MEC's exposure to interest rate risk depends upon the balance of its cash and cash equivalents and operating loan. The credit facility is subject to interest rate risk as the required cash flow to service the debt will fluctuate as a result of changing market interest rates and adherence to loan covenants.

(c) Credit risk:

Financial instruments that potentially subject MEC to credit risk consist of cash and cash equivalents and accounts receivable. MEC uses reputable financial institutions for cash and believes the risk of loss to be remote. MEC has accounts receivable from landlords, 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 availability within the credit facility 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 areas of risk exposure since prior year.

16. Restructuring costs:

During the period ended February 24, 2019, MEC incurred costs in connection with a reorganization. These costs were primarily amounts paid or to be paid to employees of $7,290 and costs incurred to close both the retail store at 4394 St. Denis Street and an office in Montreal, Quebec of $1,240.

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from February 26, 2018 to February 24, 2019	Period from February 27, 2017 to February 25, 2018
Selling and administration expenses:		
Salaries, wages and employee benefits	$ 86,306	$ 83,561
Supplies and services	29,782	31,921
Rent and occupancy	23,812	21,623
Amortization	17,474	16,496
Interest (notes 9 and 10)	2,877	2,592
Loss on disposal of property and equipment and intangible assets	2	347
Impairment loss on intangible assets (note 7)	4,092	858
	$ 164,345	$ 157,398
Other income (loss):		
Gain on sale of land	$ -	$ 4,990
Gain on sale and leaseback transaction (note 6)	15,546	21,706
Rent and parking	523	458
Equity income (loss) from joint arrangement	(88)	1,083
Gift cards unlikely to be redeemed	670	623
Miscellaneous income	362	798
Interest	21	19
	$ 17,034	$ 29,677