No. S-209201
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,*
R.S.C. 1985, c. C-36, AS AMENDED

AND

IN THE MATTER OF MOUNTAIN EQUIPMENT COOPERATIVE AND
1314625 ONTARIO LIMITED

PETITIONERS

REPORT OF THE PROPOSED MONITOR

ALVAREZ & MARSAL CANADA INC.

SEPTEMBER 13, 2020

A&M
ALVAREZ & MARSAL

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1.0 INTRODUCTION

1.1 Alvarez & Marsal Canada Inc. ("**A&M**") have prepared this report ("**Pre-Filing Report**") in respect of a pending application to the Supreme Court of British Columbia ("**Court**" or this "**Honourable Court**") by Mountain Equipment Cooperative ("**MEC Parent**") and 1314625 Ontario Limited ("**131 Limited**" and together, the "**Petitioners**" or "**MEC**"), seeking an initial order ("**Initial Order**") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") and to, among other things:

a) be granted a stay of proceedings and remedies taken or that might be taken against the Petitioners and their property (the "**Stay of Proceedings**") of not more than 10 days from the Initial Order;
b) appoint A&M as monitor (the "**Proposed Monitor**") pursuant to section 11.7 of the CCAA;
c) approve certain priority charges with respect to activities occurring in the first 10 days following pronouncement of the Initial Order, including the Administration Charge, D&O Charge and Interim Financing Charge (subject to limited draws as necessary for the first 10 days following the Initial Order), (each as defined below and collectively, the "**CCAA Charges**");
d) authorize MEC to pay reasonable fees and disbursements of the Monitor and its legal counsel and the Petitioners' legal counsel;
e) schedule a comeback hearing (the "**Comeback Hearing**") on or before September 24, 2020, to be set by this Honourable Court; and
f) such further and other relief as the Petitioners may request and this Honourable Court may deem just.

2.0 PURPOSE

2.1 This Pre-Filing Report has been prepared by the Proposed Monitor to provide information to this Honourable Court in respect of:

a) the qualifications and consent of A&M to act as Monitor;
b) the Proposed Monitor's comments regarding the reasonableness of the cash flow forecast prepared by the Petitioners pursuant to section 23(1)(b) of the CCAA (the "**CCAA Cash Flow Forecast**");
c) the Proposed Monitor's summary comments in respect of the Proposed Transaction (subsequently defined) involving the sale of substantially all the assets, property and undertakings of MEC;

d) a summary of terms of a proposed interim financing facility (the "**Interim Financing**") and the Proposed Monitor's preliminary comments thereon; and

e) the Proposed Monitor's preliminary comments in respect of certain CCAA Charges sought in the proposed Initial Order.

3.0 TERMS OF REFERENCE

3.1 In preparing this report, A&M has necessarily relied upon unaudited financial and other information supplied, and representations made to it, by certain senior management of MEC ("**Management**"). Although this information has been reviewed, A&M has not conducted an audit nor otherwise attempted to verify the accuracy or completeness of any of the information prepared by Management or otherwise provided by the Petitioners. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy and/or completeness of any information contained in this report, or otherwise used to prepare this report.

3.2 Certain of the information referred to in this report consists of financial forecasts and/or projections prepared by Management. An examination or review of financial forecasts and projections and procedures as outlined by the Chartered Professional Accountants of Canada has not been performed. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from those forecasts and/or projected and the variations could be significant.

3.3 All monetary amounts contained in this Pre-Filing Report are expressed in Canadian dollars unless otherwise noted.

4.0 QUALIFICATION AND CONSENT OF A&M TO ACT AS MONITOR

4.1 A&M is a licensed trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada).

4.2 A&M is not, and has never been:

a) related to MEC or to any director or officer of MEC;

b) the auditor, accountant or legal counsel, or a partner or an employee of the auditor, accountant or legal counsel, of MEC;

c) the trustee under a trust indenture issued by MEC or, to the best of its knowledge, any person related to MEC, or the holder of a power of attorney under an act constituting a hypothec within the meaning of the Civil Code of Quebec that is granted by MEC or, to the best of its knowledge, any person related to MEC, or

d) to the best of its knowledge, related to the trustee, or the holder of a power of attorney, referred to in paragraph 4.2 (d).

4.3 Accordingly, the restrictions as to who may be appointed as a Monitor under section 11.7(2) of the CCAA do not preclude A&M from acting as Monitor for the Petitioners.

4.4 Alvarez & Marsal Canada Securities ULC ("**A&M ULC**"), an affiliated company of A&M, has been acting as financial advisor to MEC since February 2020 to among other things, assist MEC with a strategic review of the Petitioners' capital structure and liquidity requirements and related obligations as well as an assessment of various strategic refinancing, recapitalization and restructuring alternatives. A&M ULC also provided advice and assisted Management and the Special Committee of the Board of Directors of MEC (the "**Special Committee**") with respect to a sales and marketing process which ultimately led to the Proposed Transaction (referenced in section 6.0 below).

4.5 A&M has consented to act as Monitor in these proceedings should this Honourable Court grant the Initial Order materially on the terms sought. A copy of A&M's consent to act as Monitor is attached hereto as Appendix "**A**".

5.0 CCAA CASH FLOW FORECAST

5.1 For the purposes of paragraph 10(2)(a) of the CCAA, the Petitioners have prepared the CCAA Cash Flow Forecast on a weekly basis for the period from September 13, 2020 to November 29, 2020 (the "**Forecast Period**"), using the probable and hypothetical assumptions set out in the notes to the CCAA Cash Flow Forecast. A copy of the CCAA Cash Flow Forecast (along with its notes, assumptions and Management's representation letter are attached hereto as Appendix "**B**"), and is summarized below:

Mountain Equipment Co-Operative CCAA Cash Flow Forecast For the 11 week period ending on November 29, 2020 (In CAD 000s)	Weeks 1 to 2 to Comeback Hearing	Weeks 3 to 11 Post Comeback	Total Forecast Period
Receipts			
Sales	$ 10,916	$ 57,494	$ 68,410
Canada Emergency Wage Subsidy	-	6,442	6,442
Other receipts	-	-	-
Total receipts	**10,916**	**63,936**	**74,853**
Disbursements			
Merchandise	(8,051)	(36,826)	(44,877)
Freight and other non-merchandise	(968)	(6,380)	(7,347)
Wages and salary	(2,744)	(14,110)	(16,854)
SG&A	(1,156)	(6,681)	(7,837)
Insurance	-	-	-
Rent and property taxes	-	(3,589)	(3,589)
Sales tax	(100)	(6,002)	(6,102)
Total disbursements	**(13,018)**	**(73,588)**	**(86,606)**
Net operating cash flow	**(2,102)**	**(9,651)**	**(11,753)**
Other disbursements			
Professional fees	(478)	(2,140)	(2,618)
Debt service	(419)	(1,182)	(1,601)
Contingency	(210)	(1,187)	(1,397)
Total other disbursements	**(1,106)**	**(4,509)**	**(5,615)**
Net Cash Flow	**$ (3,208)**	**$ (14,160)**	**$ (17,369)**
Opening Borrowing Balance	**(71,040)**	**(74,795)**	**(71,040)**
Surplus/ deficit	(3,208)	(14,160)	(17,369)
Net prefunding	(546)	270	(276)
Ending Borrowing Balance	**(74,795)**	**(88,685)**	**(88,685)**
Add: LC / LG Utilization	(3,747)	(3,747)	(3,747)
Ending Borrowing Exposure	**$ (78,542)**	**$ (92,432)**	**$ (92,432)**
Continuity of Interim Financing			
Existing Credit Facility			
Opening balance	71,040	60,124	71,040
Less: cash receipts	(10,916)	(60,124)	(71,040)
Ending Existing Credit Facility balance	**60,124**	-	-
Interim Financing Facility			
Opening balance	-	14,671	-
Draws (repayments)	14,125	74,284	88,409
Net prefunding	546	(270)	276
Ending Interim Financing Facility balance	**14,671**	**88,685**	**88,685**
LC / LG utilitization	3,747	3,747	3,747
Total Indebtedness	**$ 78,542**	**$ 92,432**	**$ 92,432**

5.2 Among other things, the CCAA Cash Flow Forecast indicates that MEC may require interim financing of up to $89 million during the Forecast Period, which is to be provided by its incumbent senior secured lenders, Royal Bank of Canada ("**RBC**") as Agent, Lead Arranger and Sole Bookrunner and RBC, Canadian Imperial Bank of Commerce (**"CIBC")** and the Toronto Dominion Bank ("**TD**" and with RBC and CIBC collectively, the "**Lenders**") pursuant to the terms of a restructuring support agreement and a fourth amendment to the Lenders' current senior secured asset-based revolving credit facility (the "**Interim Financing Facility**").

5.3 During the period of time from the inception of filing under CCAA until the Comeback Hearing, Management forecasts draws under the Interim Financing Facility to be approximately $15 million.

5.4 Pursuant to section 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standards of Professional Practice No. 9, the proposed Monitor hereby reports as follows:

a) the CCAA Cash Flow Forecast has been prepared by Management for the purpose described in the notes to the CCAA Cash Flow Forecast, using probable and hypothetical assumptions as set out in the notes thereto;

b) the Proposed Monitor's review of the CCAA Cash Flow Forecast consisted of inquiries, analytical procedures, and discussion related to information supplied to it by Management. Since hypothetical assumptions need not be supported, the procedures with respect to them were limited to evaluating whether they were consistent with the purposes of the CCAA Cash Flow Forecast. The Proposed Monitor also reviewed the support provided by Management for the probable assumptions and the preparation and presentation of the CCAA Cash Flow Forecast;

c) based on the proposed Monitor's preliminary review of the CCAA Cash Flow Forecast, nothing has come to A&M's attention that causes it to believe that, in any material respects:

   i. the hypothetical assumptions are not consistent with the purpose of the CCAA Cash Flow Forecast;

   ii. as at the date of this Pre-Filing Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Petitioners or do not provide a reasonable basis for the CCAA Cash Flow Forecast, given the hypothetical assumptions; or

   iii. the CCAA Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

d) since the CCAA Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, A&M does not express any assurance as to whether the CCAA Cash Flow Forecast will be accurate. A&M does not express any opinion or other form of assurance with respect to the accuracy of any financial information presented in this Pre-Filing Report, or relied upon by A&M in preparing this Pre-Filing Report; and

e) the CCAA Cash Flow Forecast has been prepared solely for the purpose described in Note 1 of the accompanying notes to the CCAA Cash Flow Forecast, and readers are cautioned that it may not be appropriate for other purposes.

6.0 PROPOSED TRANSACTION

6.1 As at the date of this Pre-Filing Report, MEC has finalized negotiations of an asset purchase and sale agreement ("**APA**") with a British Columbia company wholly owned by Kingswood Capital Opportunities Fund I, LP and Kingswood Capital Opportunities Fund I-A, LP (together, "**Kingswood**"). The APA contemplates Kingswood purchasing the Petitioners' right, title, benefit and interest in, to and under, or relating to, substantially all the assets, property and undertaking owned or used or held for use by the Petitioners in connection with the business and operations of MEC, but excluding certain assets, liabilities, employees, contracts and real estate leases, subject to among other things, the approval of this Honourable Court (the "**Proposed Transaction**").

6.2 In order to ensure an independent third party was able to hold the deposit payable under the APA, the Proposed Monitor's legal counsel, Cassels Brock & Blackwell LLP ("**Cassels**") has agreed to act as escrow agent in respect of an initial deposit and future escrow amounts pursuant to the terms of the APA. The initial deposit under the APA has been remitted to Cassels and is currently held in a trust account with a schedule I Canadian chartered bank in accordance with the terms of the escrow agreement.

6.3 The terms of the Proposed Transaction are detailed in the Petition and accompanying Affidavit materials filed by the Petitioner and are not repeated herein. The Proposed Monitor, if appointed Monitor by this Honourable Court, will provide a more comprehensive summary and assessment of the Proposed Transaction in accordance with its duties under the CCAA.

7.0 INTERIM FINANCING

Existing Credit Facility

7.1 As noted above, at present MEC's operations are financed pursuant to a senior secured asset-based revolving credit facility governed by the terms of the credit agreement dated August 3, 2017 (as amended from time to time) (the "**Credit Agreement**") between the Lenders and MEC Parent, as the borrower, and 131 Limited, as the guarantor.

7.2 Under the Credit Agreement, the Petitioners were previously permitted to borrow up to a maximum of $130 million with an additional $20 million accordion. The Credit Agreement was amended on January 31, 2020, June 18, 2020, and July 31, 2020 which modified certain terms including an extension of the maturity date to September 30, 2020 and a reduction of the borrowing limit from $130 million to $110 million (hereinafter, the "**Existing Credit Facility**").

7.3 Borrowings under the Existing Credit Facility are subject to agreed borrowing base thresholds set out in the Existing Credit Agreement for inventory and eligible real estate. As at the date of this Pre-Filing Report, MEC was operating within its borrowing limits under the Existing Credit Facility. However, near term liquidity and the CCAA Cash Flow Forecast indicate that certain borrowing limit thresholds might be exceeded in the next 11-week period and MEC would be in default of the Existing Credit Facility absent on-going support and accommodation from the Lenders.

7.4 As at the date of the Initial Order, the total indebtedness outstanding under the Existing Credit Facility is expected to be approximately $74.0 million (including letters of credit and/or letter of guarantee exposure). The Proposed Monitor is advised that MEC is unable to repay or refinance the Existing Credit Facility by the maturity date of September 30, 2020.

7.5 All of the obligations of MEC under the Existing Credit Facility are secured by, among other things, a first priority ranking general security interest over all present and after-acquired personal property, and mortgages on eligible real property.

7.6 The Proposed Monitor has retained Cassels to act as its independent legal counsel in the event A&M is appointed as Monitor. Cassels (and its agents in certain jurisdictions) has reviewed the security relating to the Existing Credit Facility and has provided an independent opinion to A&M confirming the validity and enforceability of the security in Canada (subject to customary assumptions and qualifications). In addition, Cassels provided A&M with a summary of registered US intellectual property owned by MEC, a number of which are subject to the Existing Credit Facility security. Given the apparent and relative value of the US intellectual property assets, a formal US legal opinion was not requested given the costs involved in preparing one.

Interim Financing Facility

7.7 In order to provide the required near-term liquidity needed to fund the operations of MEC during the pendency of the CCAA and to see the Proposed Transaction consummated, the Petitioners are seeking approval of the Interim Financing Facility, which is to be provided by the Lenders. The material terms of the Interim Financing Facility have been set out in the Petition and accompanying Affidavit materials filed by the Petitioner and are not repeated in their entirety herein; however, the Proposed Monitor highlights the following for consideration by this Honourable Court:

a) pursuant to the terms of the Interim Financing Facility all cash receipts collected by MEC after the Initial Order is granted are applied against the balance of the Existing Credit Facility as at the date of the Initial Order and will be reduced over time. Post filing operating disbursements will be funded by drawing on the Interim Financing Facility which will increase during the pendency of the CCAA. The Interim Financing Facility will not be used to pay down the balance of the Existing Credit Facility (i.e. pre-filing obligations);
b) the Interim Financing Facility provides for a termination date that is the earlier of:
   i. November 30, 2020, or
   ii. the completion of the Proposed Transaction, which in aggregate is for all or substantially all of the Petitioners' assets, approved by the Court and results in the Lenders being repaid in full, or
   iii. the occurrence of any event of default; and
c) the Petitioners must seek and obtain an Interim Financing Charge (defined below) that will not secure any obligations other than post-filing draws under the Interim Financing Facility and such charge will be subordinate to the Court ordered Administration Charge, a D&O Charge and KERP Charge (approval for which will be sought by the Petitioners at the Comeback Hearing) should the CCAA Charges be granted by this Honourable Court.

7.8 The Proposed Monitor has been involved in the discussions and negotiations surrounding the terms of the Interim Financing Facility and is of the view that the Interim Financing is necessary as is the on-going support of the Lenders to ensure continuity of operations and financing up until the Proposed Transaction can be completed. Alternatives to the terms of the Interim Financing Facility were considered by Management and its advisors but appear less feasible given the senior secured position of the Lenders, the quantum of borrowings under the Existing Credit Facility, the potential costs, time and risk of seeking out an alternate lender and the potential for disruption to the underlying business of MEC should current cash management and banking processes require extensive transformation in order to conform to the requirements of a new lender.

7.9 Lastly, the Proposed Monitor is satisfied that the mechanics of the Interim Financing Facility described in 7.7(a) above do not appear to result in any material prejudice to other secured lenders (there are no apparent material subordinate secured lenders) or any other financial stakeholders.

8.0 PROPOSED COURT-ORDERED CHARGES

8.1 The proposed Initial Order provides for three Court-ordered charges summarized below.

Administration Charge

8.2 The proposed Initial Order provides for a charge on the assets, property and undertakings of the Petitioners in an amount not to exceed $1.0 million in favour of the Proposed Monitor, legal counsel to the Proposed Monitor and legal counsel to the Petitioners (the "**Administration Charge**"). The Administration Charge is to be granted in priority to all other Court ordered charges. It is the view of the Proposed Monitor that the quantum of the proposed Administration Charge is reasonable and appropriate in the circumstances, having regard to the scale and complexity of MEC and the CCAA proceedings and the size of the charges approved in similar CCAA proceedings.

D&O Charge

8.3 The proposed Initial Order provides for a charge on the assets, property and undertakings of the Petitioners in an amount not to exceed $4.5 million in favour of the directors and officers of the Petitioners (the "**D&O Charge**"). The D&O Charge sought by the Petitioners is a second-priority charge to rank in priority to all charges other than the Administration Charge.

8.4 The Proposed Monitor understands that the Petitioners' directors and officers have the benefit of an existing directors' and officers' liability insurance coverage providing a $10 million limit of coverage on all claims, and subject to a number of exceptions and exclusions (the "**D&O Coverage**"). The D&O Charge is intended to address potential claims that may be brought against directors and officers that are not covered under the D&O Coverage or to the extent coverage is insufficient to cover such claims.

8.5 The Proposed Monitor has reviewed the underlying assumptions upon which the Petitioners have based the estimate of the potential liability in respect of the officers' and directors' statutory obligations and is of the view that the size of the D&O Charge is reasonable in the circumstances.

Interim Financing Charge

8.6 The Proposed Monitor understands that the Petitioners will be seeking an Interim Financing Charge as part of the Initial Order. As set out in the Cash Flow Forecast, the Petitioners anticipate that draws under the Interim Financing Facility of approximately $15 million will be required between the date the Initial Order is granted and the date of the Comeback Hearing.

8.7 The Interim Financing Charge would rank subordinate to the Administration Charge and the D&O Charge and possibly a KERP Charge (subsequently defined) should that be granted by this Honourable Court at the Comeback Hearing (refer to paragraph 8.9 below).

8.8 The Proposed Monitor is of the view that the Interim Financing Facility represents a necessary and timely financing solution which affords the Petitioners the opportunity to reorganize the financial affairs of MEC and to pursue completion of the Proposed Transaction and as such, it is not unreasonable to expect that obtaining an Interim Financing Charge would be a condition of the Interim Financing Facility.

KERP Charge

8.9 It is contemplated that the Petitioners will seek an order at the Comeback Hearing that provides the beneficiaries of a proposed Key Employee Retention Plan ("**KERP**") the benefit of a Court ordered charge on the assets, property and undertakings of the Petitioners (the "**KERP Charge**"). The KERP Charge is intended to be a third-priority charge to rank behind the Administration Charge and the D&O Charge but ahead of the Interim Financing Charge should it be approved at the Comeback Hearing.

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All of which is respectfully submitted to this Honourable Court this 13th day of September, 2020.

Alvarez & Marsal Canada Inc.,
in its capacity as Proposed Monitor of
MEC and not in its personal or corporate capacity

Todd M. Martin, CPA,CA,CIRP,LIT
Senior Vice President

Appendix A

Consent to Act as Monitor

No. ____________
Vancouver Registry

In the Supreme Court of British Columbia

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,*
R.S.C. 1985, c. C-36, AS AMENDED

AND

IN THE MATTER OF MOUNTAIN EQUIPMENT CO-OPERATIVE AND 1314625 ONTARIO LIMITED

Petitioners

CONSENT TO ACT AS MONITOR

Alvarez & Marsal Canada Inc. hereby consents to act as Monitor of the Petitioners with respect to the *Companies' Creditors Arrangement Act* proceedings to be commenced on or about September 14, 2020 or following.

DATED at the City of Vancouver, in the Province of British Columbia, this 11th day of September, 2020.

Alvarez & Marsal Canada Inc.

Per: ______________________
Todd M. Martin, Senior Vice President

Appendix B

CCAA Cash Flow Forecast for the Period of September 13, 2020 to November 29, 2020

Mountain Equipment Co-Operative
CCAA Cash Flow Forecast (Note 1)
(Unaudited, in 000s CAD)

Week		*Week 1*	*Week 2*	*Week 3*	*Week 4*	*Week 5*	*Week 6*	*Week 7*	*Week 8*	*Week 9*	*Week 10*	*Week 11*	**11 Week**
Week Ending	**Notes**	**Sep 20**	**Sep 27**	**Oct 4**	**Oct 11**	**Oct 18**	**Oct 25**	**Nov 1**	**Nov 8**	**Nov 15**	**Nov 22**	**Nov 29**	**Total**
Receipts													
Sales	2	$ 5,645	$ 5,271	$ 5,473	$ 5,386	$ 5,519	$ 5,301	$ 5,596	$ 7,314	$ 7,030	$ 7,332	$ 8,543	$ 68,410
Canada Emergency Wage Subsidy (CEWS)	3	-	-	2,467	-	-	3,312	-	-	-	663	-	6,442
Other receipts		-	-	-	-	-	-	-	-	-	-	-	-
Total Receipts		**5,645**	**5,271**	**7,940**	**5,386**	**5,519**	**8,613**	**5,596**	**7,314**	**7,030**	**7,995**	**8,543**	**74,853**
Disbursements													
Merchandise	4	(3,037)	(5,014)	(5,014)	(4,887)	(4,887)	(4,887)	(1,887)	(7,254)	(1,254)	(4,629)	(2,129)	(44,877)
Freight & other non-merchandise	5	(484)	(484)	(1,030)	(420)	(420)	(420)	(937)	(606)	(606)	(606)	(1,332)	(7,347)
Wages & Salary	6	(1,904)	(840)	(2,935)	(50)	(1,904)	(840)	(2,844)	(50)	(1,904)	(840)	(2,743)	(16,854)
SG&A	7	(568)	(588)	(1,543)	(604)	(604)	(677)	(575)	(628)	(528)	(672)	(848)	(7,837)
Insurance	8	-	-	-	-	-	-	-	-	-	-	-	-
Rent and property taxes	9	-	-	(1,319)	-	(795)	-	(891)	-	(584)	-	-	(3,589)
Sales tax	10	(100)	-	(2,200)	-	(70)	-	(1,866)	-	(50)	-	(1,815)	(6,102)
Total Disbursements		**(6,092)**	**(6,926)**	**(14,042)**	**(5,962)**	**(8,681)**	**(6,824)**	**(9,000)**	**(8,538)**	**(4,927)**	**(6,747)**	**(8,867)**	**(86,606)**
Net Operating Cash Flow		**(447)**	**(1,655)**	**(6,102)**	**(575)**	**(3,162)**	**1,789**	**(3,404)**	**(1,224)**	**2,104**	**1,249**	**(325)**	**(11,753)**
Other Disbursements													
Professional fees	11	(254)	(224)	(246)	(361)	(117)	(352)	(246)	(306)	(117)	(258)	(138)	(2,618)
Debt Service	12	(331)	(88)	(176)	(98)	(99)	(103)	(187)	(106)	(108)	(109)	(195)	(1,601)
Other (contingency)	13	(98)	(112)	(226)	(96)	(140)	(110)	(145)	(138)	(79)	(109)	(143)	(1,397)
Total Financing and Professional Fees		**(683)**	**(423)**	**(648)**	**(555)**	**(356)**	**(565)**	**(578)**	**(550)**	**(304)**	**(476)**	**(476)**	**(5,615)**
		-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow		**$ (1,130)**	**$ (2,078)**	**$ (6,750)**	**$ (1,130)**	**$ (3,518)**	**$ 1,224**	**$ (3,982)**	**$ (1,774)**	**$ 1,799**	**$ 773**	**$ (801)**	**$ (17,369)**
Opening Borrowing Balance		**$ (71,040)**	**$ (72,171)**	**$ (74,795)**	**$ (80,935)**	**$ (82,066)**	**$ (85,584)**	**$ (84,877)**	**$ (88,528)**	**$ (90,302)**	**$ (88,503)**	**$ (88,457)**	**$ (71,040)**
Surplus/ deficit		(1,130)	(2,078)	(6,750)	(1,130)	(3,518)	1,224	(3,982)	(1,774)	1,799	773	(801)	(17,369)
Net prefunding		-	(546)	609	-	-	(517)	331	-	-	(726)	572	(276)
Ending Borrowing Balance		**(72,171)**	**(74,795)**	**(80,935)**	**(82,066)**	**(85,584)**	**(84,877)**	**(88,528)**	**(90,302)**	**(88,503)**	**(88,457)**	**(88,685)**	**(88,685)**
Add: LC / LG Utilization		(3,747)	(3,747)	(3,747)	(3,747)	(3,747)	(3,747)	(3,747)	(3,747)	(3,747)	(3,747)	(3,747)	(3,747)
Ending Borrowing Exposure		**$ (75,918)**	**$ (78,542)**	**$ (84,682)**	**$ (85,813)**	**$ (89,331)**	**$ (88,623)**	**$ (92,275)**	**$ (94,049)**	**$ (92,250)**	**$ (92,203)**	**$ (92,432)**	**$ (92,432)**
Continuity of Interim Financing													
Existing Credit Facility													
Opening balance		$ 71,040	$ 65,395	$ 60,124	$ 52,184	$ 46,797	$ 41,279	$ 32,666	$ 27,070	$ 19,756	$ 12,726	$ 4,731	$ 71,040
Less: cash receipts		(5,645)	(5,271)	(7,940)	(5,386)	(5,519)	(8,613)	(5,596)	(7,314)	(7,030)	(7,995)	(4,731)	(71,040)
Ending Existing Credit Facility balance		**65,395**	**60,124**	**52,184**	**46,797**	**41,279**	**32,666**	**27,070**	**19,756**	**12,726**	**4,731**	**-**	**-**
Interim Financing Facility	14												
Opening balance		-	6,776	14,671	28,752	35,268	44,305	52,211	61,458	70,546	75,777	83,726	-
Draws (repayments)		6,776	7,349	14,690	6,517	9,037	7,389	9,578	9,088	5,231	7,223	5,531	88,409
Net pre-funding		-	546	(609)	-	-	517	(331)	-	-	726	(572)	276
Ending Interim Financing Facility balance		**6,776**	**14,671**	**28,752**	**35,268**	**44,305**	**52,211**	**61,458**	**70,546**	**75,777**	**83,726**	**88,685**	**88,685**
		72,171	74,795	80,935	82,066	85,584	84,877	88,528	90,302	88,503	88,457	88,685	88,685
LC / LG Utilization		3,747	3,747	3,747	3,747	3,747	3,747	3,747	3,747	3,747	3,747	3,747	3,747
Total Indebtedness		**$ 75,918**	**$ 78,542**	**$ 84,682**	**$ 85,813**	**$ 89,331**	**$ 88,623**	**$ 92,275**	**$ 94,049**	**$ 92,250**	**$ 92,203**	**$ 92,432**	**$ 92,432**

Mountain Equipment Cooperative
CCAA Cash Flow Forecast
Notes and Assumptions

1 The weekly cash flow projection of Mountain Equipment Cooperative ("MEC") has been prepared by Management to set out the cash flow of MEC (the "CCAA Cash Flow Forecast") during the Companies' Creditors Arrangement Act proceedings (the "CCAA Proceedings").

The CCAA Cash Flow Forecast has been prepared and is based on unaudited financial information and Management's estimates of its projected receipts and disbursements. Readers are cautioned that since the estimates are based on future events and conditions that are not ascertainable, the actual results achieved will vary, even if the assumptions materialize, and such variations may be material. MEC makes no representations, warranties or other assurances that any of the estimates, forecasts, or projections will be realized.

The CCAA Cash Flow Forecast reflects estimates and assumptions summarized below with respect to operations most notably, that MEC continues to operate within the protections afforded under the CCAA and the Initial Order being sought on September 14, 2020 (as may be amended from time to time) during the CCAA Proceedings. Management may update this CCAA Cash Flow Forecast from time to time.

2 Collection of accounts receivables and forecast sales include expected cash receipts for products ordered by customers but not yet shipped and anticipated sales, which are consistent with historical run rates of MEC but also reflect assumptions in respect of seasonality and the potential impact of the CCAA Proceedings.

3 Canada Emergency Wage Subsidy ("CEWS") applications are expected to continue to be submitted by MEC and corresponding subsidies totaling approximately $6.4 million are expected to be received during the Forecast Period.

4 Merchandise vendors include payments for non-private label merchandise and materials for private label merchandise. Disbursements are based on expected and historical run rates and are assumed to be paid based on accelerated payment terms or cash-on-delivery terms as a result of the possible effect of the CCAA Proceedings on supplier credit.

5 Non-merchandise vendors include credit and debit card processing services, logistics and transportation costs. Disbursements are based on expected and historical run rates and are assumed to be paid based on accelerated payment terms or cash-on-delivery terms due to the impact of the CCAA Proceedings on supplier credit.

6 Payroll, benefits, and source deductions are forecast based on actual payroll expenses for approximately 1,500 employees assuming that operations at currently active locations continue uninterrupted with all payroll tax remittances kept current during the CCAA Proceedings.

7 General and administrative costs include utilities, information technology, marketing, building maintenance and repairs and other administrative costs and are based on current run rates for the remainder of 2020.

8 Insurance costs include property insurance, commercial general liability insurance, umbrella insurance, marine cargo and directors and officers insurance policies, among others. All premiums on active policies have been paid up to date.

9 Rent and property taxes include monthly occupation rent for MEC's 16 leased retail stores, 1 leased distribution centre and 1 leased head office located across British Columbia, Alberta, Manitoba, Quebec, Ontario and Nova Scotia. Additionally, MEC owns 6 retail stores and 1 distribution centre for a total of 22 retail stores and 2 distribution centres across Canada. Subsequent to the Initial Order being granted in the CCAA, it is assumed 15 retail locations will remain open for business.

10 Sales taxes include post-filing GST, PST, HST and QST remittances. Remittances are expected to remain current.

11 Professional fees have been forecast based on the preliminary estimates of the professional services expected to be provided during the CCAA Proceedings and include fees of MEC's legal counsel, the Monitor and its legal counsel, and the Lender's legal counsel and financial advisor.

12 Debt service fees and interest include costs associated with servicing the Existing Credit Facility and Interim Financing Facility.

13 Contingency costs are included in the Cash Flow Forecast to account for any unexpected expenses.

14 Detailed forecast borrowing base and availability amounts and covenant thresholds tests are assumed to be calculated in accordance with the terms of Interim Financing Facility. The covenant tests are based on detailed projections that underly the CCAA Cash Flow Forecast presented herein.

MEC

September 11, 2020
Alvarez & Marsal Canada Inc.
Commerce Place
Suite 1680, 400 Burrard Street
Vancouver, BC, Canada V6C 3A6

Attention: Todd Martin

Re: Proceedings under the *Companies' Creditors Arrangement Act* ("CCAA") for Mountain Equipment Cooperative and 1314625 Ontario Limited (collectively, "MEC") Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections

In connection with the application by MEC for the commencement of proceedings under the CCAA in respect of the MEC, the management of the MEC ("Management") prepared the attached cash flow statement and the assumptions on which the cash flow statement is based.
MEC confirms that:

1. the cash flow statement and the underlying assumptions are the responsibility of MEC;

2. all material information relevant to the cash flow statement and to the underlying assumptions has been made available to Alvarez & Marsal Canada Inc. in its capacity as Monitor; and

3. Management has taken all actions that it considers necessary to ensure:

    a. that the individual assumptions underlying the cash flow statement are appropriate in the circumstances;
    b. that the assumptions underlying the cash flow statement, taken as a whole, are appropriate in the circumstances; and
    c. that all relevant assumptions have been properly presented in the cash flow statement or in the notes accompanying the cash flow statement.

4. Management understands and agrees that the determination of what constitutes a material adverse change in the projected cash flow or financial circumstances, for the purposes of our monitoring the on-going activities of the Debtor, is ultimately at your sole discretion, notwithstanding that Management may disagree with such determination.

5. Management understands its duties and obligations under the CCAA and that breach of these duties and obligations could make MEC's Management liable to fines and imprisonment in certain circumstances.

6. The cash flow statement and assumptions have been reviewed and approved by the MEC's board of directors or Management has been duly authorized by MEC's board of directors to prepare and approve the cash flow assumptions.

Yours Truly,

Joanna Ban

Joanna Ban
Chief Financial Officer

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Mountain Equipment Co-operative