Consolidated Financial Statements of

MOUNTAIN EQUIPMENT CO-OPERATIVE

Period from February 27, 2017 to February 25, 2018

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INDEPENDENT AUDITORS' REPORT

To the Members of Mountain Equipment Co-operative

We have audited the accompanying consolidated financial statements of Mountain Equipment Co-operative, which comprise the consolidated balance sheet as at February 25, 2018, the consolidated statements of earnings and surplus and cash flows for the period from February 27, 2017 to February 25, 2018, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mountain Equipment Co-operative as at February 25, 2018, and its consolidated results of operations and its consolidated cash flows for the period from February 27, 2017 to February 25, 2018 in accordance with Canadian accounting standards for private enterprises.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
June 8, 2018

MOUNTAIN EQUIPMENT CO-OPERATIVE

Consolidated Balance Sheet
(Expressed in thousands of dollars)

	February 25, 2018	February 26, 2017
Assets		
Current assets:		
Accounts receivable (note 3)	$ 955	$ 19,799
Inventory (note 4)	100,431	102,395
Prepaids and deposits	4,962	6,334
Investment in joint arrangement	492	1,515
	106,840	130,043
Property and equipment (note 6)	229,374	224,238
Intangible assets (note 7)	20,586	17,555
Future income tax asset (note 11)	5,355	8,985
	$ 362,155	$ 380,821
Liabilities and Members' Equity		
Current liabilities:		
Amounts owing to suppliers, governments and employees (note 8)	$ 45,281	$ 57,889
Operating loan (note 9)	19,456	29,591
Gift cards and provision for sales returns	14,661	14,160
Current portion of capital lease obligation (note 10)	1,414	1,373
Current portion of deferred gain on sale and leaseback (note 6)	16,593	21,706
Current portion of deferred lease liability	2,190	873
	99,595	125,592
Capital lease obligation (note 10)	38,772	40,186
Deferred gain on sale and leaseback (note 6)	820	17,413
Deferred lease liability	24,233	10,314
	163,420	193,505
Members' shares (note 12)	189,361	189,754
Contributed surplus (note 13)	834	767
Accumulated surplus (deficit)	8,540	(3,205)
	198,735	187,316
Commitments and contingencies (note 14)		
	$ 362,155	$ 380,821

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

(signed) Phil Arrata Director (signed) Ellen Pekeles Director

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from February 27, 2017 to February 25, 2018	Period from December 28, 2015 to February 26, 2017
Sales	$ 454,840	$ 466,176
Cost of sales (note 4)	311,704	319,800
Gross margin	143,136	146,376
Selling and administration expenses (schedule)	157,398	155,700
	(14,262)	(9,324)
Other income (schedule)	29,677	7,660
Earnings (loss) before patronage return and income taxes	15,415	(1,664)
Patronage return	-	12,600
Earnings (loss) before income taxes	15,415	(14,264)
Provision for income taxes (recovery) (note 11):		
Current	41	191
Future	3,629	(9,803)
	3,670	(9,612)
Net earnings (loss)	11,745	(4,652)
Surplus (deficit), beginning of period	(3,205)	1,447
Surplus (deficit), end of period	$ 8,540	$ (3,205)

See accompanying notes to consolidated financial statements.

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from February 27, 2017 to February 25, 2018	Period from December 28, 2015 to February 26, 2017
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ 11,745	$ (4,652)
Items not involving cash:		
Amortization	18,650	15,857
Gain on sale and leaseback transaction (note 6)	(21,706)	(4,413)
Gain on sale of land (note 6)	(4,990)	-
Loss on disposal of property and equipment and intangible assets	1,205	1,365
Equity loss (income) from joint arrangement	(1,083)	50
Amortization of deferred lease expense	(982)	(365)
Future income tax expense (recovery)	3,629	(9,803)
Shares issued by application of patronage return	-	12,600
	6,468	10,639
Change in non-cash operating working capital items related to operations	(8,377)	(21,823)
	(1,909)	(11,184)
Financing:		
Repayments of capital lease	(1,373)	(1,550)
Payment received from lease inducement	24,394	955
Proceeds from (repayment of) operating loan, net	(9,357)	28,206
Financing fees	(778)	-
Shares issued to new members	1,470	1,503
Shares redeemed	(104)	(97)
Shares withdrawn	(1)	(2)
Contributed surplus (deficit) from unclaimed share redemptions, net	67	(20)
	14,318	28,995
Investing:		
Purchase of property and equipment	(20,941)	(73,272)
Purchase of intangible assets	(7,393)	(8,908)
Proceeds on disposal of asset held for sale (note 6)	8,517	40,917
Proceeds on disposal of property and equipment (note 6)	5,302	-
Proceeds from investment in joint arrangement	2,106	-
	(12,409)	(41,263)
Decrease in cash and cash equivalents	-	(23,452)
Cash and cash equivalents, beginning of period	-	23,452
Cash and cash equivalents, end of period	$ -	$ -
The following non-cash transactions occurred in the year:		
Share redemption settled through issuance of gift cards	$ 1,758	$ 5,299
Deferred lease inducements included in accounts receivable and deferred lease liability	-	8,176
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.

During the previous fiscal period, MEC changed its year end from the last Sunday in December to the last Sunday in February. The current fiscal year consists of 364 days (February 27, 2017 to February 25, 2018) and the comparative fiscal year consists of 427 days (December 28, 2015 to February 26, 2017).

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 year end 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.

2. Significant accounting policies (continued):

(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.

(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.

2. Significant accounting policies (continued):

(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.

(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.

2. Significant accounting policies (continued):

(h) Lease inducements:

MEC records rent 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 expense.

(i) Patronage return:

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

(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 $3,262 (February 26, 2017 - $2,814).

(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 $1,737 (February 26, 2017 - $1,840) were made during the current period.

2. Significant accounting policies (continued):

(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.

(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, 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.

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

2. Significant accounting policies (continued):

(o) Financial instruments (continued):

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 25, 2018	February 26, 2017
Accounts receivable	$ 816	$ 3,208
Real estate and lease inducement receivables	215	16,699
Allowance for doubtful accounts	(76)	(108)
	$ 955	$ 19,799

4. Inventory:

	February 25, 2018	February 26, 2017
Raw materials	$ 235	$ 179
Finished goods	101,636	103,656
Inventory provision	(1,440)	(1,440)
	$ 100,431	$ 102,395

The amount of inventories recognized as a component of cost of sales during the period was $264,311 (February 26, 2017 - $273,384).

Also included within cost of sales for the period ended February 25, 2018 are charges to inventory in the normal course of business, made throughout the period, of $4,551 (February 26, 2017 - $4,775). These charges include the disposal of obsolete and damaged product, shrinkage, and permanent markdowns to net realizable values.

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

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$86,000 (February 26, 2017 - USD$81,500) at an average rate of CAD$1.29 (February 26, 2017 - CAD$1.29) that mature at various dates to August 2, 2019 (February 27, 2017 - to July 20, 2018) 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 25, 2018	February 26, 2017
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 38,425	$ -	$ 38,425	$ 38,725
Buildings	88,429	28,410	60,019	63,207
Furniture, fixtures and equipment	54,647	34,019	20,628	19,598
Leasehold improvements	77,853	18,024	59,829	36,412
Asset under capital lease	44,712	7,398	37,314	39,553
	304,066	87,851	216,215	197,495
Assets under construction	13,159	-	13,159	26,743
	$ 317,225	$ 87,851	$ 229,374	$ 224,238

Amortization for the period amounted to $15,301 (February 26, 2017 - $13,083) and is recorded in cost of sales and selling and administration expenses in the consolidated statement of earnings and surplus.

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 $21,706 has been recognized in the current year (February 26, 2017 - $4,413). The remaining $17,413 of the gain is deferred and is being amortized over the expected lease term. During the year, the final payment of $8,517 was received (February 26, 2017 - $40,917) related to the sale.

On January 19, 2018, MEC sold a parking lot for net proceeds of $5,285, of which $4,990 is included in gain on sale of land and included in other income.

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

7. Intangible assets:

			February 25, 2018	February 26, 2017
	Cost	Accumulated amortization	Net book value	Net book value
Computer software	$ 31,021	$ 15,628	$ 15,393	$ 9,409
Intangible assets	574	384	190	279
	31,595	16,012	15,583	9,688
Assets under development	5,003	-	5,003	7,867
	$ 36,598	$ 16,012	$ 20,586	$ 17,555

Amortization for the period amounted to $3,349 (February 26, 2017 - $2,774) and is recorded in cost of sales and selling and administration expenses in the consolidated statement of earnings and surplus. During the year, MEC wrote off $858 (February 26, 2017 - $914) in assets under development which is recorded in loss on disposal of property and equipment and intangible assets which is included in selling and administration expenses.

8. Amounts owing to suppliers, governments and employees:

Government remittances payable at February 25, 2018 in the amount of $5,349 (February 26, 2017 - $4,175) 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. Prior to the credit facility, MEC had a revolving demand credit facility determined based on MEC's inventory levels, less relevant liabilities, less amounts drawn on the facility to a maximum available facility of $90,000.

(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.

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 25, 2018, MEC had $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 25, 2018 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 25, 2018	February 26, 2017
2017	$ -	$ 2,597
2018	2,597	2,597
2019	2,677	2,677
2020	2,906	2,906
2021	2,857	2,857
2022	2,857	2,857
Thereafter	37,889	37,889
Total minimum lease payments	51,783	54,380
Less amount representing interest at 3%	(11,597)	(12,821)
Present value of net minimum capital lease payments	40,186	41,559
Less current portion of obligation under capital lease	(1,414)	(1,373)
	$ 38,772	$ 40,186

Interest of $1,221 (February 26, 2017 - $1,477) 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 $37,314 (February 26, 2017 - $39,553) net of accumulated amortization of $7,398 (February 26, 2017 - $5,159).

(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 26.91% (February 26, 2017 - 26.47%).

	February 25, 2018	February 26, 2017
Provision for income taxes (recovery) based on statutory rates	$ 4,148	$ (3,775)
Permanent differences	(550)	(5,667)
Effect of change in income tax rates	(153)	8
Other adjustments/recoveries of over accruals	225	(178)
	$ 3,670	$ (9,612)

(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 25, 2018	February 26, 2017
Future income tax assets:		
Gain on sale and leaseback transaction	$ 4,686	$ 9,292
Deferred lease inducements	7,111	2,960
General reserves and accruals	1,310	1,188
Capital lease obligation	10,815	10,996
Non-capital loss carryforward	2,296	364
Other assets	355	106
	26,573	24,906
Future income tax liabilities:		
Accounts receivable	-	(2,163)
Property and equipment and intangible assets	(21,188)	(13,758)
Other assets	(30)	-
Future income tax asset	$ 5,355	$ 8,985

(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 25, 2018		February 26, 2017	
	Number of shares	Amount	Number of shares	Amount
Membership shares issued	5,165	$ 25,827	4,872	$ 24,357
Shares, and partial shares, issued by application of patronage return	32,707	163,534	33,079	165,397
	37,872	$ 189,361	37,951	$ 189,754

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

	February 25, 2018		February 26, 2017	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	37,951	$ 189,754	36,209	$ 181,049
Shares issued to new members	294	1,470	301	1,503
Shares, and partial shares, issued by application of patronage return	-	-	2,520	12,600
Shares redeemed	(373)	(1,862)	(1,079)	(5,396)
Shares withdrawn	-	(1)	-	(2)
	37,872	$ 189,361	37,951	$ 189,754

During the period ended February 25, 2018, MEC redeemed patronage shares with a total value of $1,862 (February 26, 2017 - $5,396). For the current period share redemption, members were provided with the opportunity to exchange their share redemption gift cards for cash between June 1 and October 31, 2017. As at February 25, 2018, $3,841 (February 26, 2017 - $4,105) of these historical 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 25, 2018	February 26, 2017
Balance, beginning of period	$ 767	$ 787
Unclaimed share redemption amounts	83	3
Claims of share redemption amounts previously allocated to contributed surplus	(16)	(23)
Balance, end of period	$ 834	$ 767

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:

2018	$ 14,912
2019	17,068
2020	16,868
2021	15,095
2022	14,745
Thereafter	149,966

(b) Letters of credit:

At February 25, 2017, MEC had outstanding letters of credit in USD through its financial institutions to provide guarantees to certain suppliers. The letters of credit outstanding at February 25, 2018 amounted to USD$231 (CAD$293 equivalent) (February 26, 2017 - USD$16 (CAD$21 equivalent)).

(c) Capital project commitments:

MEC is committed to future construction costs of $46,678 (February 26, 2017 - $12,662). At February 25, 2018, MEC has standby letters of credit relating to delivery of certain municipal requirements on construction projects and real estate contracts of $8,223 (February 26, 2017 - $7,451). 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 25, 2018		February 26, 2017	
	CAD	USD	CAD	USD
Outstanding cheques in excess of cash and cash equivalents	$ 1,292	$ 1,020	$ 2,087	$ 1,592
Amounts owing to suppliers	5,459	4,309	4,339	3,310

(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, banker's acceptances and term deposits, and accounts receivable. MEC uses reputable financial institutions for cash, bankers' acceptances and term deposits and believes the risk of loss to be remote. MEC has accounts receivable from 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. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from February 27, 2017 to February 25, 2018	Period from December 28, 2015 to February 26, 2017
Selling and administration expenses:		
Salaries, wages and employee benefits	$ 83,561	$ 86,261
Supplies and services	31,921	30,547
Rent and occupancy	21,623	21,054
Amortization	16,496	14,303
Interest (notes 9 and 10)	2,592	2,170
Loss on disposal of property and equipment and intangible assets	1,205	1,365
	$ 157,398	$ 155,700
Other income:		
Gain on sale of land (note 6)	$ 4,990	$ -
Gain on sale and leaseback transaction (note 6)	21,706	4,413
Rent and parking	458	1,024
Equity income (loss) from joint arrangement	1,083	(50)
Gift cards unlikely to be redeemed	623	748
Miscellaneous income	798	463
Interest	19	22
GST, HST and QST to be recovered in respect of patronage dividend, net of costs incurred	-	1,040
	$ 29,677	$ 7,660