Consolidated Financial Statements of

MOUNTAIN EQUIPMENT CO-OPERATIVE

Period from December 28, 2015 to February 26, 2017

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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 26, 2017, the consolidated statements of earnings (loss) and surplus (deficit) and cash flows for the period from December 28, 2015 to February 26, 2017, 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 26, 2017, and its consolidated results of operations and its consolidated cash flows for the period from December 28, 2015 to February 26, 2017 in accordance with Canadian accounting standards for private enterprises.

KPMG LLP

Chartered Professional Accountants

June 9, 2017
Vancouver, Canada

MOUNTAIN EQUIPMENT CO-OPERATIVE

Consolidated Balance Sheet
(Expressed in thousands of dollars)

	February 26, 2017	December 27, 2015
Assets		
Current assets:		
Cash and cash equivalents (note 3)	$ -	$ 23,452
Accounts receivable (note 4)	19,799	1,087
Inventory (note 5)	102,975	72,650
Prepaids and deposits	5,754	3,894
Investment in joint arrangement	1,515	1,514
	130,043	102,597
Asset held for sale (note 7)	-	5,902
Property and equipment (note 7)	224,238	164,374
Intangible assets (note 8)	17,555	11,547
Future income tax asset (note 12)	8,985	-
	$ 380,821	$ 284,420
Liabilities and Members' Equity		
Current liabilities:		
Amounts owing to suppliers, governments and employees (note 9)	$ 57,889	$ 40,844
Operating loan (note 10)	29,591	1,385
Gift cards and provision for sales returns	14,160	14,052
Current portion of capital lease obligation (note 11)	1,373	1,329
Current portion of deferred gain on sale and leaseback (note 7)	21,706	-
Current portion of deferred lease liability	873	143
	125,592	57,753
Capital lease obligation (note 11)	40,186	41,780
Deferred gain on sale and leaseback (note 7)	17,413	-
Deferred lease liability	10,314	786
Future income tax liability (note 12)	-	818
	193,505	101,137
Members' shares (note 13)	189,754	181,049
Contributed surplus (note 14)	767	787
Accumulated surplus (deficit)	(3,205)	1,447
	187,316	183,283
Commitments and contingencies (note 15)		
Subsequent events (note 17)		
	$ 380,821	$ 284,420

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

(signed) Rob Campbell Director (signed) Ellen Pekeles Director

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from December 28, 2015 to February 26, 2017	Period from December 29, 2014 to December 27, 2015
Sales	$ 464,876	$ 365,561
Cost of sales (note 5)	318,803	255,757
Gross margin	146,073	109,804
Selling and administration expenses (schedule)	156,694	110,250
	(10,621)	(446)
Other income (schedule)	8,957	3,703
Earnings (loss) before patronage return and income taxes	(1,664)	3,257
Patronage return	12,600	3,200
Earnings (loss) before income taxes	(14,264)	57
Provision for income taxes (note 12):		
Current	191	192
Future	(9,803)	(188)
	(9,612)	4
Net earnings (loss)	(4,652)	53
Surplus, beginning of period	1,447	1,394
Surplus (deficit), end of period	$ (3,205)	$ 1,447

See accompanying notes to consolidated financial statements.

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from December 28, 2015 to February 26, 2017	Period from December 29, 2014 to December 27, 2015
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ (4,652)	$ 53
Items not involving cash:		
Amortization	15,857	11,105
Gain on sale and leaseback transaction	(4,413)	-
Loss on disposal of property and equipment and intangible assets	451	55
Amortization of deferred lease inducements	(365)	(93)
Future income taxes	(9,803)	(188)
Shares issued by application of patronage return	12,600	3,200
	9,675	14,132
Change in non-cash operating working capital items related to operations	(20,859)	(7,328)
	(11,184)	6,804
Financing:		
Repayments of capital lease	(1,550)	(1,291)
Payment received from lease inducement	955	279
Draw on operating loan, net	28,206	1,385
Shares issued to new members	1,503	1,160
Shares redeemed	(97)	(164)
Shares withdrawn	(2)	(1)
Contributed surplus from unclaimed share redemptions, net	(20)	(21)
	28,995	1,347
Investing:		
Purchase of property and equipment	(73,272)	(11,830)
Purchase of intangible assets	(8,908)	(6,044)
Cash proceeds on disposal of asset held for sale	40,917	1,484
	(41,263)	(16,390)
Decrease in cash and cash equivalents	(23,452)	(8,239)
Cash and cash equivalents, beginning of period	23,452	31,691
Cash and cash equivalents, end of period	$ -	$ 23,452
The following non-cash transactions occurred in the year:		
Share redemption settled through issuance of gift cards	$ 5,299	$ 5,300
Deferred lease inducements included in accounts receivable and deferred lease liability	8,176	-
Transfer of land and building from property and equipment to asset held for sale	-	5,902
Transfer of land from property and equipment to investment in joint arrangement	-	1,500

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 current 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 427 days (December 28, 2015 to February 26, 2017) and the comparative fiscal year consists of 364 days (December 29, 2014 to December 27, 2015). The Board of Directors approved the fiscal year change.

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 gift cards 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.

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 and that there is no legal obligation to remit the unredeemed gift card value to relevant jurisdictions. Amounts recognized on unclaimed share redemption gift cards are allocated to contributed surplus and have no impact on revenue.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, cash on deposit with banks, and short-term investments with maturities at date of acquisition of 30 days or less. Cash equivalents are short-term investments that are convertible to known amounts of cash and are subject to insignificant risk of changes in value.

2. Significant accounting policies (continued):

(d) Inventory:

Inventory is valued at the lower of weighted average cost and net realizable value. The cost of inventory includes all costs of purchase net of vendor allowances, costs of conversion, 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.

(e) 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, being Park Towns Development Limited Partnership.

(f) 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.

(g) Assets held for sale:

Long-lived assets are classified as an asset held for sale at the point in time when the asset is available for immediate sale, management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one-year period.

Assets to be disposed of are presented separately on the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The asset and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

2. Significant accounting policies (continued):

(h) 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	6 - 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 21 years.

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

(i) Intangible assets:

Asset	Basis	Rate
Computer software	Straight-line	5 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):

(j) 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.

(k) 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.

(l) 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.

(m) 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 $2,814 (December 27, 2015 - loss of $1,534).

(n) 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 $1,840 (December 27, 2015 - $1,433) were made during the current period.

2. Significant accounting policies (continued):

(o) 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 benefit 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.

(p) Use of estimates and measurement uncertainty:

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

(q) 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):

(q) 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. Cash and cash equivalents:

Cash and cash equivalents consist of the following:

	February 26, 2017	December 27, 2015
Cash and cash equivalents less outstanding cheques	$ -	$ 5,464
Bankers' acceptances and term deposits (December 27, 2015 at interest rates varying from 0.70% to 1.00%)	-	17,988
	$ -	$ 23,452

4. Accounts receivable:

	February 26, 2017	December 27, 2015
Accounts receivable	$ 3,208	$ 1,436
Real estate and lease inducement receivables	16,699	-
Allowance for doubtful accounts	(108)	(349)
	$ 19,799	$ 1,087

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

5. Inventory:

	February 26, 2017	December 27, 2015
Raw materials	$ 179	$ 337
Finished goods	104,236	73,743
Inventory provision	(1,440)	(1,430)
	$ 102,975	$ 72,650

The amount of inventories recognized as a component of cost of sales during the period was $273,384 (December 27, 2015 - $215,924).

Also included within cost of sales for the period ended February 26, 2017 are charges to inventory in the normal course of business, made throughout the period, of $4,775 (December 27, 2015 - $3,895). These charges include the disposal of obsolete and damaged product, shrinkage, and permanent markdowns to net realizable values.

6. 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$81,500 (December 27, 2015 - USD$75,100) at an average rate of CAD$1.29 (December 27, 2015 - CAD$1.25) that mature at various dates to July 20, 2018 (December 28, 2015 - to January 13, 2017) 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.

7. Property and equipment and asset held for sale:

			February 26, 2017	December 27, 2015
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 38,725	$ -	$ 38,725	$ 38,720
Buildings	87,269	24,554	62,715	41,307
Furniture, fixtures and equipment	54,617	34,527	20,090	11,982
Leasehold improvements	53,486	17,074	36,412	17,581
Asset under capital lease	44,712	5,159	39,553	42,132
	278,809	81,314	197,495	151,722
Capital projects in progress	26,743	-	26,743	12,652
	$ 305,552	$ 81,314	$ 224,238	$ 164,374

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

7. Property and equipment and asset held for sale (continued):

Amortization for the period amounted to $13,083 (December 27, 2015 - $9,481) and is recorded in cost of sales and selling and administration expenses in the consolidated statement of earnings and surplus.

On December 15, 2015, MEC entered into an Agreement of Purchase and Sale (the "Agreement") to sell land and building for the Toronto retail store, subject to certain conditions and final closing adjustments. The net book value of the land and building as at December 15, 2015 was $5,902. As of December 15, 2015, the criteria for classifying the asset as held for sale was met and the building ceased being amortized and was classified as held for sale.

On December 15, 2016, MEC sold the land and building for net proceeds of $49,434, of which $8,517 is included in accounts receivable at year end. MEC leased back the retail location for a base term of 18 months with renewal options of up to 42 months. The total gain on the sale and leaseback transaction was $43,532, of which $4,413 has been recognized in the current year. The remaining $39,119 of the gain is deferred and is being amortized over the expected lease term, of 24 months.

8. Intangible assets:

			February 26, 2017	December 27, 2015
	Cost	Accumulated amortization	Net book value	Net book value
Computer software	$ 21,789	$ 12,380	$ 9,409	$ 4,317
Intangible assets	562	283	279	318
	22,351	12,663	9,688	4,635
Capital projects in progress	7,867	-	7,867	6,912
	$ 30,218	$ 12,663	$ 17,555	$ 11,547

Amortization for the period amounted to $2,774 (December 27, 2015 - $1,624) and is recorded in cost of sales and selling and administration expenses in the consolidated statement of earnings and surplus.

9. Amounts owing to suppliers, governments and employees:

Government remittances payable at February 26, 2017 in the amount of $4,175 (December 27, 2015 - $4,885) relating to federal and provincial sales taxes, payroll taxes, and workers' safety insurance are included in amounts owing to suppliers, governments and employees.

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

10. Operating loan:

MEC has available a revolving demand credit facility that has been arranged to fund general operations and capital expenditures. The facility can be drawn through bankers' acceptances, Canadian and US dollar operating loans, LIBOR loans and letters of credit. On February 24, 2017, MEC amended its facility agreement to temporarily increase the maximum available facility amount from $45,000 to $90,000. The amended facility agreement expires on August 29, 2017, at which time the maximum available facility is reduced to $45,000. The loan is secured by a general security agreement and a first charge on certain property. As at February 26, 2017, $29,627 (December 27, 2015 - $41,838) of the facility was available. The available facility is determined based on MEC's inventory levels, less relevant liabilities, less amounts drawn on the facility, to a maximum available facility of $90,000.

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

The draws on the facility as at February 26, 2017 were outstanding letters of credit and the operating loans (notes 15(b) and (c)).

11. Capital lease obligation:

Capital lease repayments are due as follows:

	February 26, 2017	December 27, 2015
2016	$ -	$ 2,604
2017	2,597	2,604
2018	2,597	2,604
2019	2,677	2,646
2020	2,906	2,865
2021	2,857	2,865
Thereafter	40,746	41,223
Total minimum lease payments	54,380	57,411
Less amount representing interest at 3%	(12,821)	(14,302)
Present value of net minimum capital lease payments	41,559	43,109
Less current portion of obligation under capital lease	(1,373)	(1,329)
	$ 40,186	$ 41,780

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

11. Capital lease obligation (continued):

Interest of $1,477 (December 27, 2015 - $1,311) relating to the capital lease obligation has been included in interest expense. The total amount of asset under capital lease is $39,553 (December 27, 2015 - $42,132) net of accumulated amortization of $5,159 (December 27, 2015 - $2,580).

12. 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 26.47% (December 27, 2015 - 26.32%).

	February 26, 2017	December 27, 2015
Provision for income taxes (recovery) based on statutory rates	$ (3,775)	$ 15
Permanent differences	(5,667)	(45)
Effect of change in income tax rates	8	6
Other adjustments/recoveries of over accruals	(178)	28
	$ (9,612)	$ 4

(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 26, 2017	December 27, 2015
Future income tax assets:		
Gain on sale and leaseback transaction	$ 9,292	$ -
Deferred lease inducements	2,960	245
General reserves	1,188	905
Capital lease obligation	10,996	11,348
Non-capital loss carryforward	364	-
Other assets	106	234
	24,906	12,732
Future income tax liabilities:		
Accounts receivable	(2,163)	-
Property and equipment	(13,758)	(13,550)
Future income tax asset (liability)	$ 8,985	$ (818)

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

13. 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 26, 2017		December 27, 2015	
	Number of shares	Amount	Number of shares	Amount
Membership shares issued	4,872	$ 24,357	4,571	$ 22,856
Shares, and partial shares, issued by application of patronage return	33,079	165,397	31,638	158,193
	37,951	$ 189,754	36,209	$ 181,049

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

	February 26, 2017		December 27, 2015	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	36,209	$ 181,049	36,430	$ 182,154
Shares issued to new members	301	1,503	232	1,160
Shares, and partial shares, issued by application of patronage return	2,520	12,600	640	3,200
Shares redeemed	(1,079)	(5,396)	(1,093)	(5,464)
Shares withdrawn	-	(2)	-	(1)
	37,951	$ 189,754	36,209	$ 181,049

During the period ended February 26, 2017, MEC redeemed patronage shares with a total value of $5,396 (December 27, 2015 - $5,464). 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, 2016. As at February 26, 2017, $4,105 (December 27, 2015 - $3,562) of these historical gift cards remain outstanding on the consolidated balance sheet.

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

14. Contributed surplus:

The changes in contributed surplus are as follows:

	February 26, 2017	December 27, 2015
Balance, beginning of period	$ 787	$ 808
Unclaimed share redemption amounts	3	3
Claims of share redemption amounts previously allocated to contributed surplus	(23)	(24)
Balance, end of period	$ 767	$ 787

15. 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:

2017	$ 12,716
2018	17,470
2019	17,869
2020	16,636
2021	15,156
Thereafter	162,417

(b) Letters of credit:

At February 26, 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 26, 2017 amounted to USD$16 (CAD$21 equivalent) (December 27, 2015 - USD$365 (CAD$505 equivalent)). Of this amount, USnil (CADnil equivalent) (December 27, 2015 - US$352 (CAD$486 equivalent)) has been included in amounts owing to suppliers, governments and employees in the consolidated balance sheet of MEC.

(c) Capital project commitments:

MEC is committed to future construction costs of $12,662 (December 27, 2015 - $12,937). At February 26, 2017, MEC has standby letters of credit relating to delivery of certain municipal requirements on construction projects and real estate contracts of $7,451 (December 27, 2015 - $1,272). 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)

16. 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 26, 2017		December 27, 2015	
	CAD	USD	CAD	USD
Outstanding cheques in excess of cash and cash equivalents	$ 2,087	$ 1,592	$ 1,192	$ 861
Amounts owing to suppliers	4,339	3,310	6,052	4,371

(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 demand-operating loan 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, bankers' acceptances and term deposits, and accounts receivable. MEC uses reputable financial institutions for cash, bankers' acceptances and term deposits and believes the risk of loss to be remote. MEC has accounts receivable from 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 credit facilities to meet its operating obligations. The magnitude and timing of share redemptions are considered in managing liquidity risk.

There has been no change to the areas of risk exposure from 2015.

17. Subsequent events:

Subsequent to year end, MEC completed a redemption of shares with a value of $1,845, which had originally been issued by the application of patronage returns to members in financial years 2015 and earlier.

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from December 28, 2015 to February 26, 2017	Period from December 29, 2014 to December 27, 2015
Selling and administration expenses:		
Salaries, wages and employee benefits	$ 86,261	$ 63,634
Supplies and services	32,455	21,063
Rent and occupancy	21,054	14,331
Amortization	14,303	9,834
Interest (notes 10 and 11)	2,170	1,333
Loss on disposal of property and equipment	451	55
	$ 156,694	$ 110,250
Other income:		
Gain on sale and leaseback transaction (note 7)	$ 4,413	$ -
Rent and parking	1,024	857
Gear swap and MEC events proceeds	1,610	1,233
Gift certificates unlikely to be redeemed	748	785
Miscellaneous income	100	494
Interest	22	87
GST, HST and QST to be recovered in respect of patronage dividend, net of costs incurred	1,040	247
	$ 8,957	$ 3,703