Consolidated Financial Statements of

MOUNTAIN EQUIPMENT CO-OPERATIVE

And Independent Auditors’ Report thereon

Period from February 24, 2019 to February 23, 2020

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INDEPENDENT AUDITORS' REPORT

To the Members of Mountain Equipment Co-operative

Opinion

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

- the consolidated balance sheet as at February 23, 2020
- the consolidated statement of operations and surplus (deficit) for the period from February 25, 2019 to February 23, 2020
- the consolidated statement of cash flows for the period from February 25, 2019 to February 23, 2020
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at February 23, 2020, and its consolidated results of operations and its consolidated cash flows for the period from February 25, 2019 to February 23, 2020 in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Entity has incurred recurring net losses and has an accumulated deficit as of February 23, 2020.

As stated in Note 1 in the financial statements, these conditions along with other matters as set forth in Note 1 in the financial statements, indicate a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
July 7, 2020

MOUNTAIN EQUIPMENT CO-OPERATIVE

Consolidated Balance Sheet
(Expressed in thousands of dollars)

	February 23, 2020	February 24, 2019
		(restated - note 2(p))
Assets		
Current assets:		
Accounts receivable (note 3)	$ 1,122	$ 1,142
Inventory (note 4)	108,503	96,531
Prepaid expenses and deposits	4,308	4,704
Investment in joint arrangement	191	204
	114,124	102,581
Property and equipment (note 6)	262,306	247,944
Intangible assets (note 7)	12,564	13,220
	$ 388,994	$ 363,745
Liabilities and Members' Equity		
Current liabilities:		
Operating loan (note 8)	$ 81,055	$ 35,365
Amounts owing to suppliers, governments and employees (note 9)	55,001	57,333
Gift cards and provision for sales returns	15,221	14,978
Current portion of capital lease obligation (note 10)	1,842	1,538
Current portion of deferred gain on sale and leaseback (note 6)	-	1,867
Current portion of deferred lease liability	3,086	3,041
	156,205	114,122
Capital lease obligation (note 10)	35,556	37,234
Deferred lease liability	37,419	31,028
Other non-current liabilities	388	694
	229,568	183,078
Members’ shares (note 12)	192,122	190,737
Contributed surplus (note 13)	936	894
Accumulated deficit	(33,632)	(10,964)
	159,426	180,667
Nature of operations and going concern (note 1)		
Commitments and contingencies (note 14)		
Subsequent events (note 17)		
	$ 388,994	$ 363,745

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Judi Richardson Director   Robert Wallis Director

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from February 25, 2019 to February 23,	Period from February 25, 2018 to February 24, (restated - note 2(p))
Sales	$ 463,436	$ 462,445
Cost of sales (note 4)	313,772	305,899
Gross margin	149,664	156,546
Selling and administration expenses (schedule)	176,020	180,352
Net operating loss	(26,356)	(23,806)
Other income (schedule)	3,622	17,034
Impairment loss on intangible assets (note 7)	-	(4,092)
Loss before patronage return and income taxes	(22,734)	(10,864)
Patronage return	-	-
Loss before income taxes	(22,734)	(10,864)
Income tax expense (recovery) (note 11):		
Current	(66)	(326)
Future	-	5,355
	(66)	5,029
Net loss	(22,668)	(15,893)
(Deficit) / Surplus, beginning of period	(10,964)	4,929
Deficit, end of period	$ (33,632)	$ (10,964)

See accompanying notes to consolidated financial statements.

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from February 25, 2019 to February 23, 2020	Period from February 25, 2018 to February 24, 2019
		(restated - note 2(p))
Cash provided by (used in):		
Operations:		
Net loss	$ (22,668)	$ (15,893)
Items not involving cash:		
Amortization of property and equipment and intangible assets	17,652	18,120
Amortization of deferred lease expense	(915)	(2,528)
Impairment loss on intangible assets (note 7)	-	4,092
Gain on sale and leaseback transaction (note 6)	(1,867)	(15,546)
Loss on disposal of property and equipment and intangible assets	1,023	344
Equity loss from joint arrangement	13	88
Future income tax expense	-	5,355
	(6,762)	(5,968)
Change in non-cash operating working capital items related to operations	(11,054)	17,034
	(17,816)	11,066
Financing:		
Repayments of capital lease obligations	(1,374)	(1,414)
Payment received from lease inducement	1,525	10,174
Proceeds from operating loan, net	45,690	17,606
Financing fees	(2,897)	(1,697)
Shares issued to new members	1,398	1,416
Shares redeemed	(13)	(37)
Shares withdrawn	-	(3)
Contributed surplus from unclaimed share redemptions, net	42	60
	44,371	26,105
Investing:		
Purchase of property and equipment	(23,987)	(34,210)
Purchase of intangible assets	(2,568)	(3,161)
Proceeds from investment in joint arrangement	-	200
	(26,555)	(37,171)
Change in cash, being cash, end of period	$ -	$ -
The following non-cash transactions occurred in the period:		
Increase to property and equipment and deferred lease liabilities for capitalized operating rent costs	$ 5,826	$ -

See accompanying notes to consolidated financial statements.

1. Nature of operations and going concern:

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.

These consolidated financial statements have been prepared using Canadian accounting standards for private enterprises ("ASPE") which assumes that MEC will continue in operation for the foreseeable future and be able to realize its assets and settle its liabilities in the normal course of business.

For the period ended February 23, 2020, MEC incurred a net loss of $22,668 (February 24, 2019: $15,893), had negative cash flow of $17,386 (February 24, 2019: positive $11,066) and as at February 23, 2020 had a working capital deficiency of $42,081 (February 24, 2019: $11,541). Subsequent to year-end, COVID-19 has impacted the financial results of MEC (see note 17).

Additionally, MEC's loan matures on August 3, 2020. A committed credit facility agreement would be necessary for MEC to finance and continue operations for the foreseeable future. An extension to the credit agreement or new facility was not in place as of the date of the auditors' report.

As a result of these conditions, a material uncertainty exists that may cast doubt about MEC's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis notwithstanding these conditions.

If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenue and expenses and the classifications used in the balance sheet, and these adjustments may be material.

2. Significant accounting policies:

(a) Basis of consolidation and presentation:

These consolidated financial statements include the accounts of MEC's wholly-owned subsidiary, 1314625 Ontario Limited, a substantially inactive company.

The fiscal year of MEC ends on the last Sunday in February. The inclusion of an extra week (from 52-weeks to 53-weeks) will occur every fifth or sixth fiscal years due to MEC's floating period-end date. The periods ended February 23, 2020 and February 24, 2019 contained 52 weeks.

2. Significant accounting policies (continued):

(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 received by the member. MEC reports its revenue net of sales discounts and returns.

Revenue is presented net of an allowance for estimated returns, which is based on historic experience. MEC's liability for sales return refunds is recognized net within accrued liabilities.

MEC sells gift cards which entitle the holder to use the value for purchasing products and services. Purchased gift cards are non-refundable and cannot be redeemed for cash. Gift cards have no associated fees or expiration dates. Amounts paid for gift cards are deferred and recorded on the balance sheet as a gift card liability. The balance of the gift card liability at February 23, 2020 represents MEC’s outstanding obligation for these gift cards as well as gift cards that were issued by MEC as part of a redemption of shares. Revenue from gift cards is recognized as cards are redeemed.

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

(c) Inventory:

Inventory is valued at the lower of weighted average cost and net realizable value. The cost of inventory includes all costs of purchase net of vendor allowances, costs of conversion, if any, and other costs incurred in bringing the inventories to their present location and condition before distribution to retail stores. Other costs associated with acquiring, storing, and transporting inventory to retail stores are expensed as incurred and included in cost of sales.

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

MEC periodically reviews its inventories and makes a provision as necessary to appropriately value goods that are obsolete, have quality issues, or are damaged. The amount of the provision is equal to the difference between the cost of the inventory and its net realizable value based upon assumptions about product quality, damages, future demand, selling prices, and market conditions. If changes in market conditions result in reductions in the estimated net realizable value of its inventory below its previous estimate, MEC would increase its reserve in the period in which it made such a determination.

2. Significant accounting policies (continued):

(d) Investment in joint arrangement:

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

(e) Related party transactions:

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

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

(f) Property and equipment:

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

Asset	Rate
Buildings	4 - 6%
Furniture, fixtures and equipment	20 - 55%

Assets under capital leases are depreciated over their expected useful lives on the same basis as owned assets, however, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the term of the lease plus one renewal period. The amortization terms range from 1 to 25 years.

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

2. Significant accounting policies (continued):

(g) Intangible assets:

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

(*i*) Separately acquired at cost:

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

(*ii*) Internally generated:

Research activities and implementation costs related to software as a service arrangements are expensed as incurred (note 2(p)). Development activities are recognized as an asset provided they meet the capitalization criteria, which include MEC’s ability to demonstrate: technical feasibility of completing the intangible asset so that it will be available for use or sale; MEC’s intention to complete the asset for use or for sale; MEC’s ability to use or sell the asset; the adequacy of MEC’s resources to complete the development; MEC’s ability to measure reliably the expenditures during the development; and MEC’s ability to demonstrate that the asset will generate future economic benefits.

(h) Leases:

Leases that MEC enters into as lessee, in which substantially all the benefits and risks of ownership are transferred to MEC, are recorded as capital leases. The assets held under capital lease are initially recorded at the lesser of the present value of minimum lease payments and the fair value of the asset at the inception of the lease. The assets held under capital lease are amortized over the shorter of the lease term and the estimated useful life.

All other leases are classified as operating leases and leasing costs are expensed on a straight-line basis over the term of the lease. Accordingly, rent escalations are amortized straight-line over the lease term.

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

(i) Patronage return:

In years where a patronage return is declared, the patronage return is deducted from earnings for the year in which the return is declared by the Board of Directors and represents a refund of a portion of the current year’s net surplus to the members based on their purchases during the period.

2. Significant accounting policies (continued):

(j) Derivative financial instruments and hedge accounting:

MEC uses foreign exchange contracts in its hedging strategy to manage its exposure to currency risks on highly probable United States (“US”) dollar inventory purchases.

Where the requirements for hedge accounting are met, MEC designates and documents the foreign exchange contracts as hedges of anticipated US dollar inventory purchases. The documentation identifies the anticipated transaction being hedged, the risk that is being hedged, the type of hedging instrument used and the term of the hedging relationship. The critical terms of the hedging instrument and the hedged item must match the life of the instrument. Hedge accounting is discontinued prospectively if it is determined that the hedging instruments’ critical terms no longer match the hedged item, the hedging instrument is terminated, or upon the sale or early termination of the hedge.

The foreign exchange contracts held by MEC at year-end that qualify for hedge accounting are not presented on the year-end balance sheet at their fair value. The gains and losses relating to these contracts are recognized as an adjustment to any gain or loss arising on the settlement of the hedged inventory purchases.

(k) Foreign currency translation:

MEC translates assets and liabilities denominated in foreign currencies at exchange rates in effect at the end of the period. 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 $2,641 (February 24, 2019: $2,279).

(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 $1,649 (February 24, 2019: $1,758) were made during the current period.

(m) Income taxes:

MEC follows the asset and liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or recovery is the sum of MEC’s provision for current income taxes and the difference between the opening and ending balances of future income tax assets and liabilities.

2. Significant accounting policies (continued):

(n) Use of estimates and measurement uncertainty:

In preparing MEC's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. Areas of measurement uncertainty include the useful lives and carrying value of property and equipment and intangible assets, inventory valuation, allowance for sales returns, warranty liabilities, valuation provision for future income taxes, restructuring costs and contingencies, 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 (note 2(j)) and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. MEC has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal period 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.

(p) Change in accounting policy:

During the period, MEC changed its accounting policy in accordance with ASPE Section 3064, *Goodwill and Intangible Assets* to expense internally developed intangible assets related to implementation costs associated with software as a service arrangements which were previously capitalized. This change has been applied retrospectively and accordingly, the comparative amounts in the consolidated financial statements as at and for the period ended February 24, 2019 have been adjusted to reflect the change in accounting policy to decrease intangible assets by $8,017, increase selling and general expenses of $4,406 (comprised of a decrease in amortization of $1,292 and increase in supplies and service expense of $5,698) and decrease in the beginning surplus of $3,611.

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

2. Significant accounting policies (continued):

(p) Change in accounting policy (continued):

	As previously reported	Adjustment	As restated
Consolidated balance sheet:			
Intangible assets	$ 21,237	$ (8,017)	$ 13,220
Accumulated deficit	(2,947)	(8,017)	(10,964)
Consolidated statement of operations and surplus (deficit):			
Selling and administrative expenses	175,946	4,406	180,352
Surplus, beginning of period	8,540	(3,611)	4,929
Consolidated statement of cash flows:			
Cash flows from operations	16,763	(5,697)	11,066
Cash flows used for investing	(42,868)	5,697	(37,171)

3. Accounts receivable:

	February 23, 2020	February 24, 2019
Accounts receivable	$ 1,135	$ 1,034
Real estate and lease inducement receivables	44	244
Allowance for doubtful accounts	(57)	(136)
	$ 1,122	$ 1,142

4. Inventory:

	February 23, 2020	February 24, 2019
Raw materials	$ 70	$ 157
Finished goods	112,433	98,154
Inventory provision	(4,000)	(1,780)
	$ 108,503	$ 96,531

The amount of inventory recognized as a component of cost of sales during the period was $266,967 (February 24, 2019: $263,180).

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

5. Foreign exchange contracts:

MEC holds several 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$36,500 (February 24, 2019 - USD$35,000) at an average rate of CAD$1.31 (February 24, 2019 - CAD$1.28) that mature at various dates to December 31, 2020 (February 24, 2019: to December 27, 2019) when the inventory purchases are expected to occur. Hedge accounting has been elected on all these forward contracts, and as a result the contracts are not recorded on the balance sheet as at period end. As at February 23, 2020, the unrealized gain associated with the foreign exchange contracts was $480 (February 24, 2019: $1,361).

6. Property and equipment:

			February 23, 2020	February 24, 2019
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 38,425	$ -	$ 38,425	$ 38,425
Buildings	89,226	35,207	54,019	56,884
Furniture, fixtures and equipment	59,695	40,593	19,102	18,141
Leasehold improvements	98,251	27,461	70,790	58,362
Building under capital lease	44,902	11,908	32,994	35,068
	330,499	115,169	215,330	206,880
Assets under construction	46,976	-	46,976	41,064
	$ 377,475	$ 115,169	$ 262,306	$ 247,944

Amortization for the period amounted to $15,207 (February 24, 2019: $15,296) with $1,618 recorded in cost of sales and $13,589 recorded in selling and administration expenses in the consolidated statement of operations and surplus (deficit).

During the period, MEC recognized the remaining portion of the gain on the sale and leaseback transaction relating to the Toronto retail store of $1,867 (February 24, 2019: $15,546).

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

7. Intangible assets:

	Cost	Accumulated amortization	February 23, 2020 Net book value	February 24, 2019 Net book value (restated – note 2(p))
Computer software	$ 27,198	$ 19,801	$ 7,397	$ 10,803
Intangible assets	-	-	-	108
	27,198	19,801	7,397	10,911
Assets under development	5,167	-	5,167	2,309
	$ 32,365	$ 19,801	$ 12,564	$ 13,220

Amortization for the period amounted to $2,445 (February 24, 2019: $2,824) with $330 recorded in cost of sales and $2,115 recorded in selling and administration expenses in the consolidated statement of operations and surplus (deficit). During the prior year, MEC reviewed development costs incurred within computer software and assets under development and determined that $4,092 were impaired, which are recorded on the consolidated statement of operations and surplus (deficit).

8. 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.

The credit facility can be drawn through CAD banker's acceptance ("BA") rate loans, CAD prime rate loans, USD base rate loans, USD LIBOR loans, or letters of credit. BA rate loans accrue interest at the BA rate plus 1.5%; LIBOR loans accrue interest at LIBOR plus 1.5%; prime rate loans accrue interest at prime rate; and base rate loans accrue interest at base rate. During the period, the interest rate on the credit facility ranged from 3.4% - 6.0% (February 24, 2019: 3.1% - 6.0%). Interest expense on the credit facility was $2,897 for the period (February 24, 2019: $1,697) and recorded in selling and administration expenses.

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 23, 2020, MEC had $34,182 (February 24, 2019: $62,576) 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 23, 2020 were outstanding letters of credits, BA rate loans and prime rate operating loans (notes 14(b) and (c)).

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

9. Amounts owing to suppliers, governments and employees:

Government remittances payable at February 23, 2020 in the amount of $3,991 (February 24, 2019: $4,318) relating to federal and provincial sales taxes, payroll taxes, and workers' safety insurance are included in amounts owing to suppliers, governments, and employees.

10. Capital lease obligation:

Capital lease repayments are due as follows:

	February 23, 2020	February 24, 2019
2019	$ -	$ 2,677
2020	2,961	2,906
2021	2,911	2,857
2022	2,911	2,857
2023	2,877	2,854
2024	2,942	2,941
Thereafter	32,094	32,094
Total minimum lease payments	46,696	49,186
Less amount representing interest at 3.0%	(9,298)	(10,414)
Present value of net minimum capital lease payments	37,398	38,772
Less current portion of obligation under capital lease	(1,842)	(1,538)
	$ 35,556	$ 37,234

Interest of $1,141 (February 24, 2019: $1,180) 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 $32,993 (February 24, 2019: $35,068) net of accumulated amortization of $11,908 (February 24, 2019: $9,644).

(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 during the period is 26.54% (February 24, 2019: 26.86%).

	Period from February 25, 2019 to February 23, 2020	Period from February 26, 2018 to February 24, 2019'
		(restated - note 2(p))
Provision for income taxes (recovery) based on statutory rates	$ (6,033)	$ (2,918)
Permanent differences	61	80
Effect of change in income tax rates	105	9
Valuation allowance of non-capital loss carryforward	6,543	8,360
Other adjustments/recoveries of over accruals	(742)	(502)
	$ (66)	$ 5,029

(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 23, 2020	February 24, 2019
		(restated - note 2(p))
Future income tax assets:		
Gain on sale and leaseback transaction	$ -	$ 502
Deferred lease inducements	10,851	9,152
General reserves and accruals	1,598	1,956
Capital lease obligation	9,924	10,416
Non-capital loss carryforward	14,602	7,320
Other assets	654	417
	37,629	29,763
Valuation allowance of non-capital loss carryforward	(14,903)	(8,360)
	22,726	21,403
Future income tax liabilities:		
Property and equipment and intangible assets	(22,726)	(21,403)
Future income tax asset (liability)	$ -	$ -

MEC has approximately $54,510 (February 24, 2019: $26,000) of non-capital losses available for income tax purposes to reduce taxable income of future years that begin to expire in 2040.

(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 23, 2020		February 24, 2019	
	Number of shares	Amount	Number of shares	Amount
Membership shares issued	5,727	$ 28,637	5,448	$ 27,240
Shares, and partial shares, issued by application of patronage return	32,697	163,485	32,699	163,497
	38,424	$ 192,122	38,147	$ 190,737

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

	February 23, 2020		February 24, 2019	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	38,147	$ 190,737	37,872	$ 189,361
Shares issued to new members	280	1,398	283	1,416
Shares, and partial shares, issued by application of patronage return	-	-	-	-
Shares redeemed	(3)	(13)	(7)	(37)
Shares withdrawn	-	-	(1)	(3)
	38,424	$ 192,122	38,147	$ 190,737

During the period ended February 23, 2020, MEC redeemed patronage shares with a total value of $13 (February 24, 2019: $37). There was no share redemption in the current period. As at February 23, 2020, $3,169 (February 24, 2019: $3,385) of historical share redemption gift cards remain outstanding on the consolidated balance sheet.

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

13. Contributed surplus:

The changes in contributed surplus are as follows:

	February 23, 2020	February 24, 2019
Balance, beginning of period	$ 894	$ 834
Unclaimed share redemption amounts	62	79
Claims of share redemption amounts previously allocated to contributed surplus	(20)	(19)
Balance, end of period	$ 936	$ 894

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:

2020	$ 16,875
2021	15,581
2022	15,232
2023	15,030
2024	15,077
Thereafter	125,725
	$ 203,520

(b) Letters of credit:

At February 23, 2020, MEC had outstanding letters of credit in USD through its financial institutions to provide guarantees to certain suppliers of USD$284 (CAD$380 equivalent) (February 24, 2019: USD$7 (CAD$8 equivalent)).

(c) Commitments:

MEC is not committed to any significant construction costs as at February 23, 2020 (February 24, 2019: $11,013). At February 23, 2020, MEC has standby letters of credit of $111 relating to landscaping guarantees. In the prior year MEC had standby letters of credit related to the delivery of certain municipal requirements on construction projects and real estate contracts of $1,692 (February 24, 2019: $2,547).

(d) Contingencies:

Certain claims exist against MEC in the normal course of operations. These claims are not expected to have a material impact on the financial position or operating results of the Company. Settlement of accrued claims, in excess of those provided, are accounted for prospectively.

(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 23, 2020		February 24, 2019	
	CAD	USD	CAD	USD
Outstanding cheques in excess of cash and cash equivalents	$ 446	$ 337	$ 429	$ 325
Amounts owing to suppliers	9,150	6,919	4,787	3,634

(b) Interest rate risk:

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

(c) Credit risk:

Financial instruments that potentially subject MEC to credit risk consist of cash and cash equivalents and accounts receivable. MEC uses reputable financial institutions for cash and believes the risk of loss to be remote. MEC has accounts receivable from landlords, corporate members and government agencies, none of which MEC believes represent a significant credit risk.

(d) Liquidity risk:

Liquidity risk is the risk that MEC will not be able to meet its obligations as they become due. MEC's approach to managing liquidity risk is to ensure that it always has sufficient cash flows and cash on hand and availability within the credit facility to meet its operating obligations (see note 1 for assessment of going concern). The magnitude and timing of share redemptions are considered in managing liquidity risk.

Except as noted, 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 consolidated financial statement presentation adopted in the current period.

17. Subsequent events:

Subsequent to the fiscal year end, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian Federal and Provincial governments, enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. As a result of COVID-19, MEC has taken actions to further control its costs.

The current challenging economic climate have had an adverse impact on MEC's operating results and financial position with a reduction in sales as a result of the retail store closures as well as impacting the issuance of these consolidated financial statements. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on MEC and other retailers is not fully known at this time.

MOUNTAIN EQUIPMENT CO-OPERATIVE

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

	Period from February 25, 2019 to February 23, 2020	Period from February 25, 2018 to February 24, 2019
		(restated - note 2(p))
Selling and administration expenses:		
Salaries, wages and employee benefits	$ 87,364	$ 93,594
Supplies and services	40,959	43,885
Rent and occupancy	26,666	23,812
Amortization	15,704	16,182
Interest (notes 8 and 10)	4,304	2,877
Loss on disposal of property and equipment and intangible assets	1,023	2
	$ 176,020	$ 180,352
Other income (loss):		
Gain on sale and leaseback transaction (note 6)	$ 1,867	$ 15,546
Rent and parking	478	523
Equity loss from joint arrangement	(13)	(88)
Gift cards breakage	660	670
Miscellaneous income	627	362
Interest	3	21
	$ 3,622	$ 17,034