On the Road to Better.
member report 2016

UFA

UFA is a respected co-operative dedicated to serving agricultural producers.

UFA's achievements and success are significant. For more than 107 years, our co-operative has served the business and communities of farmers and ranchers. The evolution of our co-operative has been driven by what members need.

vision

To be recognized as the most trusted and reliable supplier of petroleum, crop, livestock, building products and services in the markets we serve.

mission statement

To accomplish this, we will:

- Unite our customers, member/owners, staff, and elected officials toward balancing our common purpose of improving economic and social well-being of agriculture owners and their communities with sound business decisions that drive profit growth.
- Develop and execute a strategic plan that strives for best-in-class customer experiences, recognizes and quickly adapts to relevant technology and promotes sustainable practices on behalf of and for our member/owners in all markets.
- Promote and support the establishment of strong, professional business relationships by understanding the needs of our loyal customers/members and providing relevant, worthwhile solutions.
- Remain connected to our roots and grounded in communities, Alberta's natural resources, rural involvement and awareness, and the ideal that cooperation, neighbour to neighbour, town to town, and member to member is a heritage to be proud of and protected.

core values

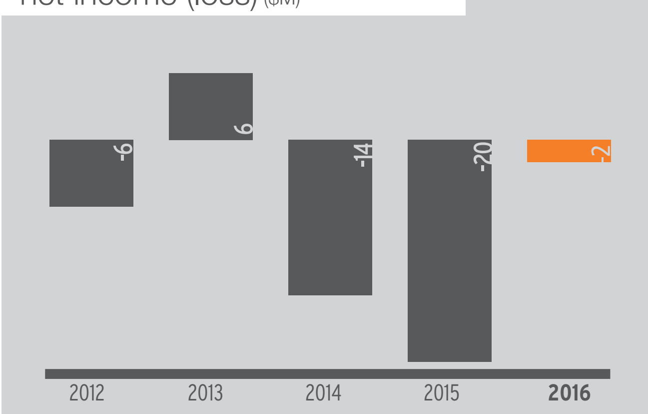
A company is defined by its values. These are the principles by which we go about the day-to-day business of serving our owners and customers, and how we treat each other as employees.

Performance | Integrity | Collaboration | Progressive Thinking
Accountability | Agility | Respect

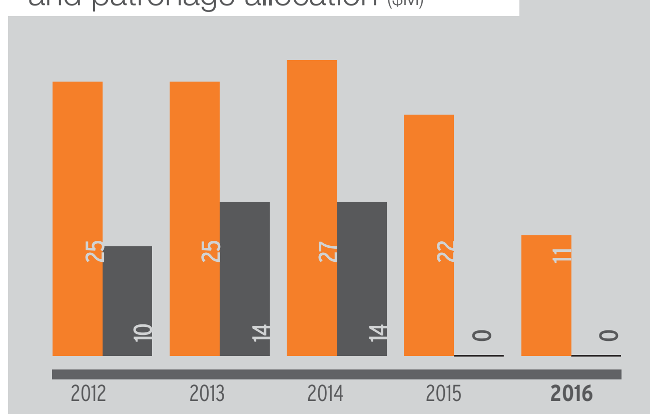
FINANCIAL HIGHLIGHTS & FIVE-YEAR SUMMARY

(All figures stated in thousands of Canadian dollars)	**2016**	2015	2014	2013	2012
Continuing Operations					
Revenue	**$ 1,330,627**	$ 1,591,239	$ 2,279,166	$ 2,126,750	$ 2,009,405
Gross margin	**184,941**	189,875	240,622	237,021	224,707
Operating and administrative expenses	**(152,147)**	(181,959)	(181,993)	(176,165)	(162,873)
EBITDA	**39,215**	18,208	66,040	64,076	63,167
(Loss) income from continuing operations before patronage allocation and income tax	**(4,974)**	(28,392)	5,681	43,262	4,274
Patronage allocation	**-**	-	(14,000)	(13,600)	(10,000)
Cash provided by (used in) operating activities	**59,568**	89,764	42,130	(5,089)	26,188
Total distribution to members	**$ 11,383**	$ 22,330	$ 26,773	$ 24,575	$ 24,588

net income (loss) ($M)

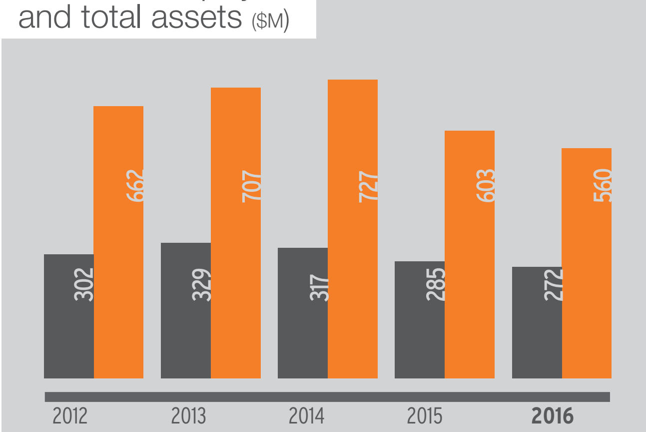


total distribution to members and patronage allocation ($M)



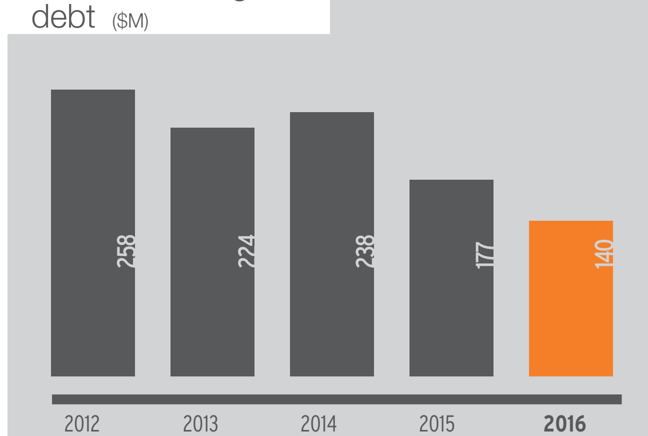
distribution to members patronage allocation

members' equity and total assets ($M)



member equity total assets

interest bearing debt ($M)



letter from the board chair

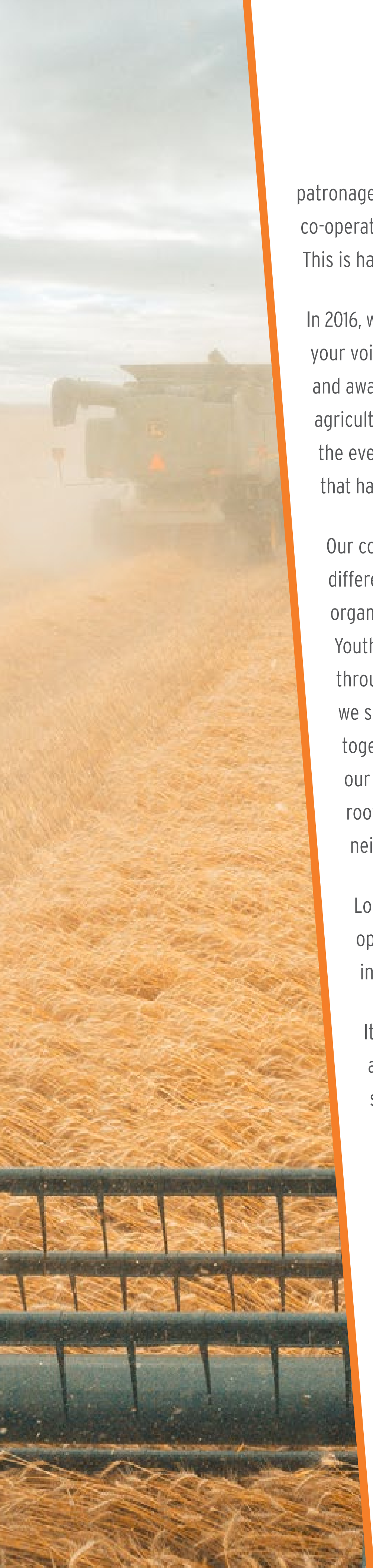
dear members,

Every day at UFA, we strive to make our co-operative a little better than the day before. From the board of directors to our senior leadership team, to our employees and agents, we ask ourselves how we can improve across our business. We ask ourselves how we can provide value for you, our members and customers — real value that will help your businesses thrive and make you proud to say “I am a member at UFA”.

These are important questions, and they can only be answered by listening to you. We acknowledge that there are many areas in which we can do better. So in 2016, we undertook to become what you have asked us to be. The board of directors in consultation with management has introduced a new vision and mission statement for UFA. This vision speaks to the co-operative that we aspire to be: the most trusted and reliable supplier of petroleum, crop, livestock, building products and services in the markets we serve. With this renewed sense of purpose I believe that together we are on the road to a better UFA, and as board chair I am honoured to present our 2016 annual report.

It was another challenging year in Alberta. Farming is a risky business and mother nature can be hard to predict. Alberta has been host to farmers and ranchers for well over 100 years and during this time we have endured numerous challenges. The harvest of 2016 will be remembered and talked about in coffee shops for years to come, as the challenging weather left many of my fellow farmers with crop in the field. The economy remained in recession and the energy sector continued to see minimal activity. We saw an increase in competitor consolidation in crop inputs, driving us to seek new value propositions and show up differently in the market. We are often faced with obstacles well beyond our control, and these challenges motivate us to accomplish our goals.

Our co-operative achieved year-end financial results that exceeded our conservative forecasts and ultimately resulted in a near break-even year at UFA. This can be seen as a major accomplishment as we navigate the worst recession our province has seen in the last 40 years. That being said, we still have a ways to go. We promised to maintain a conservative approach across the business until we see signs of market improvement, and for the second year in a row, UFA will not record earnings and will not be allocating



patronage. We aim to be in a position to deliver patronage to our members for the fiscal year of 2017. Our co-operative is in better shape than it was last year, from both an operational and financial perspective. This is hard-won progress, and you can expect these efforts to continue as we move forward.

In 2016, we introduced new value for our members that goes beyond traditional expectations. We carried your voice to the table on issues like farm safety and the new carbon tax. Through advocacy, education and awareness, we have built relationships at all levels of government. These efforts raise the profile of agriculture and the working environment in which you operate. This allows us to move in parallel with the ever-changing agriculture industry and regulatory environment, and benefits our members in a way that hasn't been demonstrated since the earliest days of our co-operative.

Our community investment division has been hard at work, remaining true to our purpose by making a difference where you live and raise your families. You will recognize important programs that support organizations such as Cattlemen's Young Leaders, Alberta Community and Co-operative Association Youth Leadership Program, Ag for Life — and of course — supporting the next generation of leaders through our longstanding relationship with 4-H Alberta. This commitment to the communities that we serve could not be more evident than during the Fort McMurray wildfires. Our co-operative came together to raise financial aid as well as to provide goods and services for those in need. We thank our employees, agents, members and customers for their generosity. Remaining connected to our roots and grounded in communities is an important part of our vision and mission. Co-operation, neighbour to neighbour, town to town, and member to member is a heritage to be proud of.

Looking ahead, I'm excited for what the future has in store. We will champion new and exciting opportunities to grow and develop, opportunities that make sense and benefit our members. In our industry competition is great but the rewards of earning your trust and business are even greater.

It has been a year of significant challenges and resilient achievement, and I'm proud of the accomplishments we've made at UFA. On behalf of the board of directors, I wish to offer my sincere gratitude to our employees, agents and delegates for their hard work, and to all of our members and customers for your continued loyalty. With your dedication and support, we are on the road to a better UFA.

Sincerely,

Kevin Hoppins
Chair, UFA Board of Directors

Alberta's economic conditions remained challenging and uncertain in 2016. Reduced oilfield activity as a result of the decline in global crude oil prices continued to be the norm. We began to see changes to the agribusiness landscape with announced consolidations and major mergers on a global and local scale that the industry has not seen in decades. These factors have contributed to a challenging year, and the full impact will not be known for some time.

Even as local economic conditions improve, UFA needs to increase the competitiveness and the service levels of our businesses. Improving the value proposition for our members and customers will enhance our ability to compete, regardless of market conditions. This can be achieved through internal execution as well as investments to enhance our existing business. I believe strong discipline, patience, and focus will be required for long-term acceptable returns.

Three categories best describe our focus in 2016:

- increasing engagement with members, customers, employees and other stakeholders
- driving the day-to-day execution of our business
- making it easier to do business with UFA

engagement with stakeholders

Over the past two years, I have spent much time engaging with our members, customers, delegates, and industry leaders in agriculture. The senior leadership team has invested time in the operations of our business. We continued our commitment to visiting all of our stores and connecting with key agencies at least twice a year, to meet and share important information about our business. Relationships between our leadership, support staff, front line employees and most importantly our customers are key to building a successful 'One UFA'.

It's important for our co-operative to provide value that goes beyond a product and a price. During 2016, we offered learning and collaborative opportunities to our members and customers across the province such as Cattle Colleges and Crop Insights events. We hosted a series of hands-on educational workshops with 4-H under the guidance of our employees and local experts. Through our partnership with Ag for Life, UFA employees and elected officials provided much-needed education to school children on the importance of farm safety. Ag for Life also delivers a classroom program that creates a broader understanding of the value of agriculture in Alberta. It is more important than ever to invest in the future leadership of our communities and our co-operative.

In 2016, UFA took the lead on raising the profile of agriculture through Farmer's Day. On the second Friday of June our employees and agents led the charge by hosting events across the province. These events were attended by our senior leadership team and Calgary support staff, and recognized in the Legislative Assembly of Alberta. We are excited to celebrate this legacy and potential by continuing to promote Farmer's Day in Alberta.

UFA leadership and delegates have engaged with government officials through working groups and other advocacy efforts on important topics like the new farm safety legislation, precision agriculture, and the provincial carbon levy. Through government relations and community partnerships, we are building value as a voice on behalf of our members.

making UFA easier to do business with

We understand that the agricultural industry is changing rapidly and that our members and customers need easy access to information, support and product availability. We have invested in improving our technology services, delivering a new online presence this summer with mobile compatibility and a product catalogue on UFA.com. You can now search our website for product information on over 5,000 articles, including local store availability for over 1,000 of these items. We are continuing to add products and bringing additional availability online in 2017. The site has a fresh new look and intuitive navigation, making it easy to find exactly what you are looking for. Our paperless statements and online account management systems through myUFA and Card Link Online provide you with convenient service and access to all of your account and credit information on a 'real time' basis. These initiatives are beneficial to our members and customers, and for our co-operative as well, as they reduce our impact on the environment and provide significant cost savings.

execution of our business

The restructuring of our AgriBusiness division is paying off, and the retail side of UFA has seen improvement in categories as we focus on store operations and inventory stocking. We are also starting to see the positive results of our supply chain activities, ensuring the products you need and expect are in stock and on the shelf. Our commercial AgriBusiness is growing from well positioned, priced and supported product, as well as a renewed focus on the livestock sector. After a full year of operation, Bridgeland, our joint venture with CHS in the Peace region, is hitting its stride. Many of the synergies that we expected are being realized, and though the late harvest disrupted the fall fertilizer business, we remain confident that the value proposition to farmers is stronger through the joint venture. Wholesale Sports continues to compete every day in an exceptionally competitive environment. Our Petroleum division managed through another year of declining volumes with responsible cuts to spending while providing alternate customer value propositions through joint offers and finding innovative ways of providing business solutions to our customers.

Providing a safe and rewarding work environment is critical to our business and this year, UFA was recognized in both of these areas. Our Environment, Health & Safety team has been ingraining a culture of safety at UFA. As a result of this commitment, we achieved 99 per cent on our Certificate of Recognition (COR) audit this fall, a government certification that recognizes industry standards of safety achievement. Our Human Resources team has been focusing on building a well-rounded, rewarding opportunity for employees, and in 2016 we were proud to be named a Top Employer in Alberta for the fifth year in a row. I am extremely proud of the talent we are able to attract as a result of our commitment to our people.

Among our top priorities in 2016 was bringing customer service to the heart of everything we do at UFA. To this end, we introduced an employee recognition program, "Going the Extra Mile". The program recognizes nominations from members, customers and employees for those who have done an exceptional job in providing customer service. This allows us to build a culture of sincerity and appreciation in how we work together on a daily basis. The program has demonstrated early success, receiving over 1,200 nominations in the first year.

planning ahead - UFA three year plan

With this success we have held our ground, and now we can look to the future. A renewed vision and mission statement, developed by the board of directors, speaks to our purpose as a co-operative and a business. It deepens the commitment at the heart of our identity — to serve our members and customers and provide trusted solutions for their businesses.

As the new mission and vision were completed, your co-operative's senior management team got to work on building a three-year strategic plan for UFA. A three-year plan sets a high level direction for business. It lays out key imperatives that will drive us forward, aligning with our goal to deliver knowledge and technology-based solutions for your business.

The first imperative focuses on transforming UFA's asset portfolio to focus on long-term, sustainable service and technology-enabled business. This will ensure that our asset base is productive and that our service offerings meet business requirements and customer expectations.

The second imperative relates to positioning UFA as a relevant supplier to progressive customers in petroleum, agriculture and livestock segments. We will evaluate our options in bringing technology solutions to our customers, and we will focus on relevant offers that support the UFA brand and enable our customers' business. It will be important to capitalize on the breadth of our offering and focus on demonstrating 'One UFA'.

The third imperative concerns evaluating and transforming key enablers needed to successfully drive UFA's defined mission and vision. This will require developing and retaining a high performing, engaged workforce that is technology enabled and relationship-based. We will aim to ingrain data analytics, supply chain and merchandising skill sets. We will seek to implement a 'fit for purpose' IT model that includes enterprise operating systems and point-of-sale systems. We will develop and build culture and capabilities that leverage high quality, fact-based decision making and risk management.

The fourth imperative will focus on supporting the success and sustainability of our co-operative. It is important to modernize member equity to integrate with enterprise systems. We will support our members' needs through our governance structure, represented by the board of directors and elected delegates. Also, we are building value as a voice for our members and for agriculture through government relations and community partnerships.

Last but not least, our fifth imperative focuses on instilling a mindset that drives operational excellence throughout UFA, allowing us to weather the commodity volatility and risk inherent in our industry segments. We must understand, evaluate and implement effective risk management practices throughout our businesses and continue to drive a safety culture within the organization. We will focus on continuous improvement, encouraging all employees to drive out inefficiencies and deliver cost-saving opportunities.

conclusion

These are important steps to prepare for the future. We have made progress but there is still much work to be done. We are more positive about the economic climate going forward and the opportunities that are ahead of us in our business.

We are "On the Road to Better". Thank you for your continued support during what has been a difficult year for many. Our employees and agents, our members and customers have demonstrated remarkable resolve in the face of terrific headwinds. I'm looking forward to all that we can accomplish together in 2017.

Sincerely,

Carol Kitchen
President & CEO, UFA

AGRIBUSINESS

UFA's core purpose is to improve the economic and social well-being of our agricultural owners and their communities.

Through 35 stores and dedicated on-farm and ranch support teams, AgriBusiness is focused on providing products and services to support the growing of crops, the raising of livestock and the construction of ag buildings and storage solutions.

RETAIL AGRIBUSINESS

2016 performance

In 2016, AgriBusiness was restructured into two distinct business units: Retail and Commercial. This allows our teams to get closer to our customers, to better understand their product and service needs and to provide a better customer experience both at the farm gate and at our stores.

On the retail side, we restructured to a best in-class retail organization that includes the following components: store operations, supply chain, merchandising, field merchandising and loss prevention. These changes were made to improve in-stock position, customer service, product assortment, store product presentation and to provide stronger operational processes and controls.

2016 was very challenging from a sales perspective with overall retail sales down approximately 13 per cent. We were significantly affected by abnormal weather conditions that impacted most of our growing regions, and by the effects of the economic downturn on construction sectors. The majority of our sales declines were in lumber, building materials, pre-fab buildings and fencing. We realized positive improvements in our feed business mainly driven by improved in-stock position and expanded assortments. We also experienced sales declines in our Spruceland Lumber business due to the devastating forest fires in Fort McMurray.

Our retail supply chain team improved the in-stock position on our top 1,500 articles. These are the highest ranked products, those most important to our members and customers. We have also driven efficiencies into the flow of products to our stores from our distribution center (DC) and vendor partners. Our DC in Edmonton has executed on operational efficiencies to improve productivity and the flow of freight. Our merchandising team has focused on improving the product assortment in our stores. Our goal is simple: to ensure we meet the product needs of our farmers, ranchers and small acreage owners in each of the communities we serve. Our customers and store teams have provided excellent feedback on areas of product assortment that we need to improve upon in 2017.

Our store operations teams have focused on improving store standards and customer service during 2016. In addition to this, we have seen very positive improvements in the look and feel of our stores. Customers are also noticing these changes and we are hearing positive feedback. We had one goal in mind by providing our store teams with better tools and support – allow them to do what they do best, and that is to take care of our customers.

focus for 2017

Continual improvement on retail fundamentals is the focus in 2017. This will include an expansion on in-stock activities with data reporting at a store level, and continuing to drive costs out of our supply chain network. At the same time this will accelerate our ability to rapidly replenish our store shelves, feed sheds and yards. The drive towards improving our product assortment of high quality products combined with competitive pricing will continue. The expansion of our product assortment listed on UFA.com will better serve our customers and improve their online experience. Our store operations teams will be ready to drive the execution of merchandising and marketing promotional campaigns as we bring exciting new products and special buys to our customers. UFA is committed to providing great customer service and improving the overall experience for our customers who rely on UFA to take care of their product and service needs. Our Spruceland business and team have built strong partnerships within the community of Fort McMurray, and will continue to support the rebuilding efforts during 2017.

summary

2016 was a year of major changes for our Retail business and store teams. While there is still significant work to be done, we are very confident that the changes made in 2016 will continue to improve the overall store shopping experience for our UFA members and customers.

COMMERCIAL AGRIBUSINESS

2016 performance

After almost a full year in operation as a dedicated division within AgriBusiness, a renewed focus and dedicated expertise on commercial crop and livestock production is being rewarded by our customers. The current offer, which includes crop inputs (seed, chemistry and fertilizer), livestock inputs (supplies and Micro Beef Technology), grain storage and equipment, and ag structures, enjoyed respectable growth in 2016 despite many challenges. In almost all categories there was year over year growth in sales, despite some pressure on product margins due to an excess supply carried forward from the 2015 drought and slower economic activity in general. Canola seed in particular is becoming more and more commoditized, which shrunk returns, and our buildings division was hit hard with fewer projects initiated. Our product strategy team continues to ensure that UFA is aligned with the right supplier partners and programs to position UFA as the first choice amongst farmers and ranchers.

UFA's professional outbound sales team is comprised of 55 Customer Account Managers (CAMs) located throughout Alberta. This team is specialized in crop production, livestock production or building construction and they meet with customers on farm to provide products and information that is timely and relevant. They were focused and better equipped to guide producers through a challenging year, and our team continues to upgrade their knowledge and expertise during the winter months so we are prepared well in advance of the first wheel turning in the spring.

In 2016, we conducted 12 integrated marketing campaigns that were timed with production cycles. We participated in key trade events and delivered a series of knowledge events — Crop Insights and Cattle College — held in a variety of locations across Alberta. These events provide knowledge and access to industry experts, enabling the success of our members and customers. UFA continued to partner with the Cattlemen's Young Leaders program, as well as the inaugural Beef Industry Conference in Calgary which was very well received.

From an operational perspective, the team continued to improve our in-season availability of key products through better forecasting, replenishment and product movement. We have added capacity in our training and analytics teams to ensure that we are capitalizing on every opportunity. Truly understanding and enhancing the value at every part of our business is the key to our long-term value proposition to our members and customers.

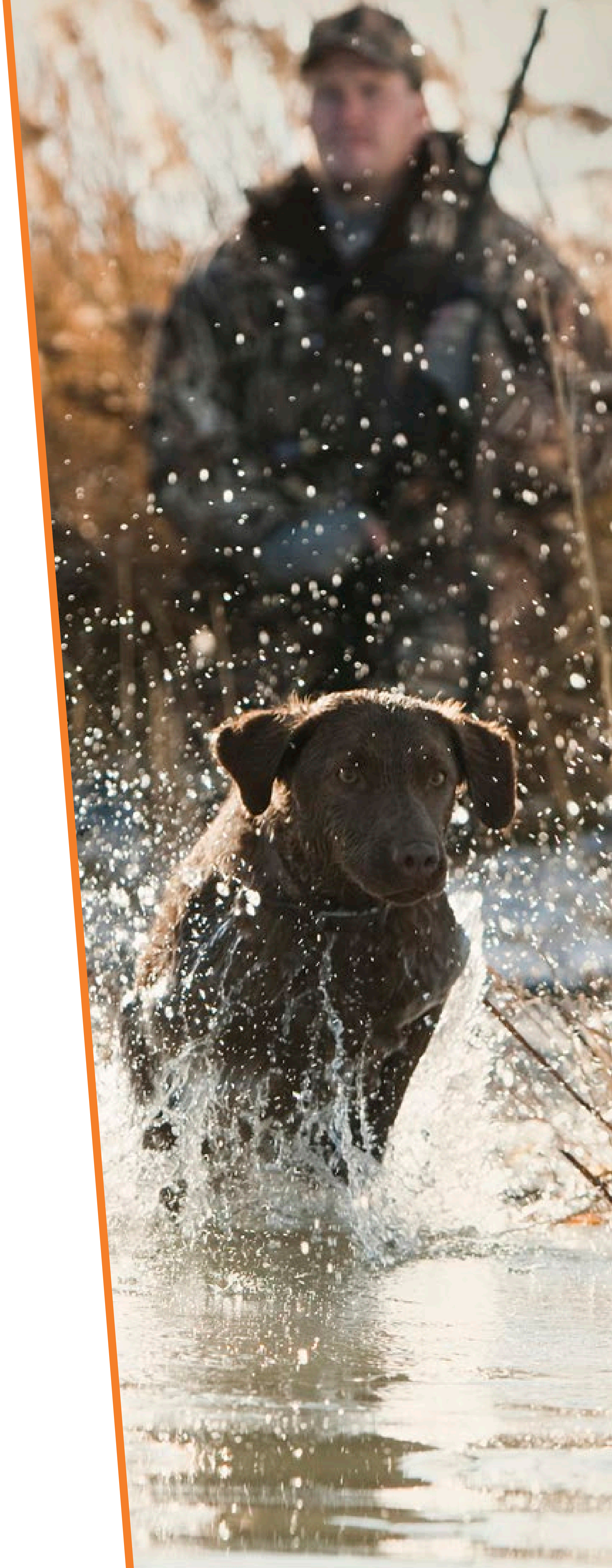
focus for 2017

Looking ahead, the Commercial AgriBusiness team has embarked on a number of key initiatives to build on this year. The following areas of focus will allow us to remain competitive while providing enhanced value to members:

- strategic vendor partnerships that increase our profitability while still offering choices to members;
- joint marketing initiatives that promote the full breadth of offer across all divisions of UFA;
- focused and well equipped sales team to bring our offer to the farm gate;
- expanded seed and chemistry distribution points;
- enhanced animal health offer to ranchers; and
- better in-season execution of product movement.

summary

At the heart of UFA's business is a commitment to the agriculture producers who founded the co-operative so many years ago. Though this landscape has changed considerably, the Commercial AgriBusiness team is well positioned to provide value to farmers and ranchers where they live and operate.



WHOLESALE SPORTS

Wholesale Sports Outdoor Outfitters aspires to be one of Canada's most respected multi-channel retailers dedicated to the sportsmen and women who have a passion for hunting, fishing and camping, and a love of the great outdoors.

For our core customers, outdoor sport is more than a recreational pursuit and more than a hobby – it's an obsession. We strive to be the one-stop shopping destination for outdoor enthusiasts looking for top-quality gear and the expertise to go with it.

With 12 stores, e-commerce business and 440,000 square feet of retail space across British Columbia, Alberta, Saskatchewan and Manitoba, Wholesale Sports is the largest multi-channel outdoor retailer in Western Canada dedicated to the outdoors. We have been part of the Canadian outdoor industry for more than 30 years.

2016 performance

During 2016, Wholesale Sports focused on continual improvements on customer service and inventory productivity, all while facing a very challenging economic and competitive environment. Consumer spending slowed considerably on high-ticket purchases including firearms, archery and optics across our store network.

While overall sales were down 9 per cent from 2015, our e-commerce business had positive growth of 21 per cent. Our gross margin improved by 2.1 per cent during 2016, driven mainly by cost-out initiatives. These initiatives helped to offset gross margin dilution due to aggressive marketing and promotional campaigns.

Our store operations teams continued to drive operational efficiencies in many areas of our business to manage and control expenses during 2016. In Q4 of 2016, we made the difficult decision to close our Regina location and held a store closing inventory event that ended on December 31, 2016. Overall, our EBITDA contribution in 2016 was positive $0.9 million.

focus for 2017

Our priorities for 2017 are to drive comparative store sales while continuing to improve the in-store and online experience for our customers. We will accomplish this through best-in-class customer service, competitive value pricing and in-stock position, and having the right products at the right times of season for our customers. Our website is one of the most important marketing and sales channels for our business, and will continue to be an important focus in 2017. Our operations and supply chains team will continue to drive efficiencies in moving products from our vendors and distribution center to our store shelves. We will continue to build on our community, regional and national partnerships that participate and celebrate the great outdoors.

summary

During 2016, we continued to improve our retail fundamentals in all areas of our business including category and inventory management, while continuing to strengthen our customer service levels and overall store operations. For 2017, the economic and competitive environment will continue to be challenging. We will stay focused on driving the business and we remain confident in our ability to compete in the marketplaces that we serve.

PETROLEUM

UFA Petroleum is committed to providing effective business solutions that enable our customers and members to be at their competitive best in an ever challenging economic environment. UFA's extensive network of Petroleum sites is comprised of 108 card-lock operations in Alberta, supplemented by two in B.C. and three in Saskatchewan. Regionally, our extensive coverage is also supported by 81 bulk plants.

These plants are operated by our independent Agent network, who deliver exceptional service along with top quality fuels and lubricants. In partnership with the Commercial Fueling Network, UFA also provides customers with access to a network of more than 2,500 locations in B.C. and across the United States.

UFA purchases fuels primarily from Western Canadian refiners for re-sale into the agriculture and industrial/commercial market segments. With our bulk fuel and oil deliveries, storage tank offering and local Agents offering service and support, customers can count on having the dyed and clear fuels, lubricants and fluids that they need, whenever and wherever they work.

2016 performance

Energy pricing found the bottom of the market in 2016. Rig counts, the industry's barometer for overall oil and natural gas activity, hit lows the industry hasn't seen in over 15 years. In May, both the US and Canada hit their lowest numbers with 404 active rotary rigs and 36 rigs respectively. These numbers are less than half of what they were a year earlier in an already depressed 2015. The year began with West Texas Intermediate (WTI) Cushing priced at $36.76 US/bbl, and the market had more yet to give up. We hit our low for the year in February with WTI at $26.21 US/bbl. The world market was highly volatile, reacting sharply to the incredible amount of geopolitical instability, and struggled to find the right level to reflect the fundamental weakness driven by the growing supply overhang. We saw the bottom being formed earlier in the year and those price levels did their job by having the required effect on production levels around the world. With US and Russian production declining, combined with a surprising show of OPEC resolve, prices did start to increase towards the back |half of the year. On November 30, OPEC met in Vienna, Austria, and for the first time since 2008, reached an agreement to cut production to firm up world oil prices. We ended the year with WTI at $53.72 US/bbl.

operating

The Petroleum division's consolidated EBITDA was well below budgeted targets, unfortunately due to the unforeseen degree to which the world's oil market — and therefore Alberta's — would devalue. To address the situation, UFA responded with responsible cuts to expense and capital spending. Additionally, we tested the market with alternate value propositions that demonstrated a commitment to finding different ways of providing business solutions to our customers. Joint offers with AgriBusiness, deferred credit options, tank and fuel offers were among many of the propositions we brought to our customers in 2016.

Fuel sales volumes were down 13 per cent from the previous year, with industrial/commercial sales dropping by 20 per cent; agricultural sales essentially held steady. Gross margins were improved from 2015 primarily due to effective risk management and new pricing tactics that allowed UFA to respond to the market's extreme price volatility. Lubricant sales volumes were off from the previous year by 16 per cent, also suffering directly from the impacts of the energy sector. Margins on lubricants dropped slightly from 2015 and budget levels due to aggressive pricing for volume defense and a general lack of activity.

In response to this challenging environment, operating and administration expenses were managed down, even from the lows of 2015. Maintenance costs were reduced by 32 per cent from budget as the overall Petroleum division costs were reduced by almost $7 million. We also deferred $3.5 million of capital spending with disciplined decision-making and the implementation of effective risk management controls.

Bar W Petroleum & Electric (Bar W), a wholly owned division of UFA, provides expertise in electrical and downstream petroleum maintenance and capital activities. Through their exceptional service to our Agent network, as well as to third party customers, Bar W kept assets operational and participating in the construction activities of new sites and rebuilds. 2016 was another successful year as they surpassed their budgeted EBITDA contribution through very hard work and through the signing of some new service contracts.

network management

In an effort to serve our customers better and align ourselves with the industry, we adjusted our fuel pricing models in 2016 to be more competitive in the marketplace. We also successfully implemented system changes related to linking fuel permits to UFA Cardlock Cards. Those customers who hold multiple fuel permits for cross-border operations can now easily attach all their permits to a single UFA Cardlock and/or Fuel Link Card.

Seven new cardlock diesel exhaust fluid (DEF) dispensers were added throughout our network, enhancing the Cardlock experience for our customers and giving UFA the competitive advantage within the DEF market. Maintenance also continued network-wide, as we upgraded pumps in Kindersley, Pincher Creek, Picture Butte and Morinville and completed a site rebuild at the High Prairie location.

Several marketing initiatives and campaigns were delivered throughout the year to showcase UFA's value and drive an increase to both member and commercial volumes, thanks to strong vendor relationships. UFA branded lubricants also added value by offering a selection of high quality products at a value price.

focus for 2017

Learning from the challenges of 2016, UFA Petroleum will continue to forge ahead with programs to maintain a strong financial performance. We will continue to face challenges as the recovery of the Alberta economy remains uncertain. UFA Petroleum has always had a strong financial performance, and our agents and employees continue to demonstrate outstanding customer service. It will be important to demonstrate how our unique and powerful offer differentiates us by providing value to our members and customers.

We will focus on working closely with our suppliers to reflect the current market conditions while maximizing our offer for members and customers. Putting our market offerings together, combined with targeted programs designed to add value for existing customers, will be key for retaining and potentially gaining share of the market.

summary

We continue to achieve ongoing success by offering a total value proposition to our members and customers. UFA Petroleum's extensive network of assets, agents and employees offers a unique business relationship for our members and customers. Add to this new programs and joint offers, and the division is optimistic going into 2017.

MANAGEMENT DISCUSSION & ANALYSIS

The following MD&A provides management's perspective on UFA, our performance and our strategy for the future. This MD&A includes UFA's operating and financial results for 2016 and 2015 should be read in conjunction with our financial statements.

Forward-looking Statements

This disclosure contains forward-looking statements and includes phrases such as "believe," "expect," "anticipate," "intend," "estimate," "outlook," "should," "would," "could" and other similar expressions. These forward-looking statements are based on certain assumptions and current expectations about future events. Inherent in these forward-looking statements are known and unknown risks, uncertainties and other factors beyond UFA's ability to control or predict. Readers are cautioned that actual results or events may differ materially from those forecasted in this disclosure because of risks and uncertainties associated with UFA's business and the general economic environment. Management does not intend to publicly update or revise this discussion and analysis as a result of new information, future events or otherwise.

Non-GAAP Financial Measures

UFA uses certain financial indicators within the MD&A that are not specifically defined by Generally Accepted Accounting Principles (GAAP). These non-GAAP indicators may or may not be comparable to similar measures presented by other enterprises and are presented on a consistent basis within this annual report to members. UFA believes EBITDA (earnings before interest, tax, depreciation and amortization) is a critical measure of its operating performance. EBITDA allows UFA to compare its operating performance on a consistent basis year over year. EBITDA excludes certain items that depend on accounting methods or reflect financing choices.

Interest-bearing debt is another non-GAAP disclosure, which provides a measure of all interest-bearing borrowings both short-term and long-term, less unencumbered cash balances available for funding those payments. This indicator is important to UFA as it identifies future obligations that it must meet in order to comply with borrowing agreements, as well as the liquid funds available to meet those obligations. UFA also believes that the ratio of interest-bearing debt to Members' Equity is an important non-GAAP measure that identifies how UFA finances its assets and operations, and the amount of risk UFA is willing to accept.

Governance Structure

The UFA Board of Directors (the Board) and management are unified in their belief that sound corporate governance practices are necessary for the achievement of strategic and operational goals, and for the effective management and sustainability of UFA. In addition to the annual general meeting, the Board meets with management at least five times per year to deal with general business and strategic matters. The Board and its committees, as listed below, operate independently from management to protect owner interests. The existing members of the Board have served between one and nine years. Board members have the right to seek independent advice should they so desire or deem necessary.

The Board has established three standing committees: audit; governance; and human resources compensation. Each committee meets regularly throughout the year and provides regular updates to the Board.

Code of Business Ethics

UFA continually works to make positive contributions to the communities we serve and we believe our conduct is critical to our reputation and success. In order to ensure our daily business is conducted in a safe, fair, honest and respectful manner, all employees formally renew their commitment to UFA's code of business ethics each year. We support our employees through the development of policies, processes and training, and we maintain multiple open channels for discussion. Additionally, the internal audit team continues to manage UFA's Integrity Hotline (call toll free: 1-877-258-4605 or email: Integrity.Hotline@ufa.com). This hotline is available for use by our employees, agents, elected officials and visitors to report and resolve ethical questions or issues that may arise through the course of business.

We continue to promote awareness of our code of business ethics, and we will continue to uphold the high standards of conduct set by our co-operative.

Environment, Health & Safety (EH&S)

UFA is committed to providing all workers, agents, contractors and customers with a safe place to work. UFA conducts business in a manner that minimizes impacts in the areas it operates. UFA makes best efforts to adhere to or exceed EH&S federal, provincial and municipal legislation and regulations. In so doing, UFA maintains an effective EH&S management system.

Partnering with other UFA business divisions, the EH&S team work centers around minimizing the co-operative's risks typically found in our industries. Key risk areas of focus include: physical injuries; environmental contamination and chemical releases; handling, distribution and storage of products and materials; equipment and physical site network infrastructure; and power tool, machinery and fleet management.

With full support of the Board, the CEO and senior management, the co-operative enjoys substantial EH&S focus and discipline. Together, UFA continues to diligently work to mitigate risks.

2016 SUMMARY OF OPERATIONS

CONSOLIDATED STATEMENT OF OPERATIONS

(All figures stated in thousands of Canadian dollars)

For the period ended	December 25, 2016	December 27, 2015
Revenue	$ 1,330,627	$ 1,591,239
Cost of sales	(1,145,686)	(1,401,364)
Gross margin	184,941	189,875
Operating and administrative expenses	(152,147)	(181,959)
Other income	6,421	10,292
Earnings before the under noted (EBITDA)	39,215	18,208
Depreciation and amortization	(30,376)	(33,035)
Pension remeasurement	(6,617)	4,126
Impairment of intangibles	(685)	(4,187)
Impairment of property & equipment	–	(4,934)
Interest	(6,921)	(7,378)
Foreign currency exchange gain (loss)	410	(1,192)
Loss before income taxes	(4,974)	(28,392)
Income tax recovery	2,533	8,123
Net loss	$ (2,441)	$ (20,269)

Revenue from operations was $1,330.6 million in 2016, down from $1,591.2 million the previous year.

The Petroleum division ended the year with sales of $908.2 million, a decrease of nineteen per cent from 2015 sales of $1,121.2 million. Commercial sales volumes were negatively affected by a further contraction in energy sector activity. Member volumes were flat to prior year volumes. Demand for fuel during the growing season was down due to unfavorable weather conditions in parts of Alberta but picked up during harvest and year end. In addition, average diesel and gas prices remained low throughout 2016, which reduced the dollar value of sales.

Combined 2016 Commercial and Retail AgriBusiness sales decreased by five per cent to $319.7 million. The sales decline was largely in the retail and Ag structure sectors, both of which were severely impacted by the depressed economic conditions in the province. These declines were partially offset by sales growth in crop and livestock inputs. AgriBusiness sales excludes crop input sales in the Peace Region. On January 4, 2016 UFA entered into a partnership agreement with CHS to sell seed, chemical and fertilizer inputs in this region. This partnership is recorded as an equity investment under the name of Bridgeland.

Wholesale Sports' sales decreased by nine per cent or $10.3 million during the same period, from $113.0 million in 2015 to $102.7 million in 2016. Sales were negatively impacted by the lower retail spending due to the economic downturn and increased competition.

Gross margin decreased by $5.0 million, from $189.9 million in 2015 to $184.9 million in 2016. AgriBusiness lost margin of $3.9 million due to lower sales volumes even with an increase in margin rate from 2015. Wholesale Sports' sales decline resulted in a margin decrease of $1.1 million. Petroleum margin was flat.

Operating and administrative expenses were $152.1 million in 2016, a sixteen per cent reduction from $182.0 in 2015. Excluding a legal provision of $15.5 million made in 2015 relating to the disposition of Wholesale Sports USA, Inc., overall costs were $14.4 million less than the previous year. Legal charges in 2016 were lower by $2.8 million largely due to costs related to these legal proceedings incurred in 2015. Salaries and benefits were $76.8 million in 2016, $1.4 million lower than 2015. Outside services were $4.2 million lower than prior year due to reduced consulting charges. Advertising was reduced by $1.1 million from 2015 due to lower discretionary spending in this area. Maintenance expense was $0.3 million lower than 2015 due to lower expenditures at Petroleum sites and Farm & Ranch Supply stores. Fleet operating expenses were lower by $0.7 million in 2016 compared to 2015 due to various cost saving initiatives. Additionally, UFA executed initiatives that resulted in savings of $2.0 million in office costs, travel and communication expenses.

Other income in 2016 was $6.4 million compared to $10.3 million in 2015. The main components of other income are interest on overdue accounts and gains (losses) on asset sales. Other income in 2015 include a $4.1 million gain on the sale of the old Airdrie farm store site.

EBITDA increased by $21.0 million from a $29.8 million decrease in operating and administrative expenses, partially offset by a $4.9 million decrease in gross margin and a $3.9 million decrease in other income.

An actuarial valuation of the defined benefit pension plan was completed as at 31 December 2015. Consequent to the sharp drop in bond yields in 2015, the plan's obligations increased since the previous valuation date. As a result, a pension remeasurement loss of $6.6 million was recognized in 2016, compared to a gain of $4.1 million in 2015.

In 2016, the Petroleum division closed its Convenience store business. This resulted in the impairment of $0.7 million of intangible assets.

UFA realized a foreign currency exchange gain of $0.4 million in 2016 compared with a loss of $1.2 million in 2015.

The consolidated net loss for 2016 was $2.4 million compared to a net loss of $20.3 million in 2015. As a result of the co-operative being in a net loss position, a patronage payment will not be proposed for 2016.

The Petroleum Division

Petroleum sales volumes in 2016 were 13 per cent or 157.5 million litres lower than 2015. Of this overall decrease, diesel volumes decreased by 136.3 million litres and gasoline volumes decreased by 21.2 million litres.

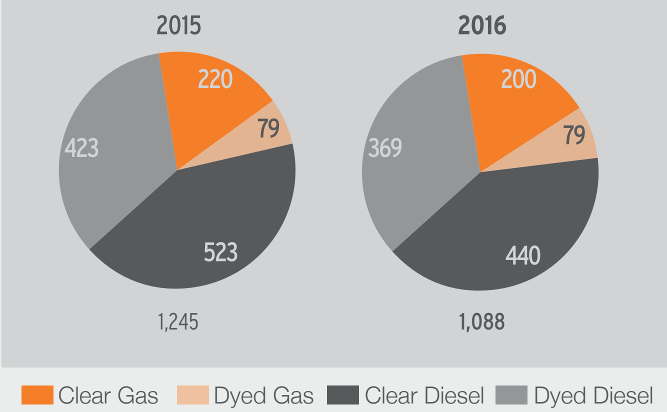
Commercial volumes were down throughout the year due to the reduced oil patch activity, from a further contraction of the energy sector and warmer weather at the start of the year. UFA recognized an inventory valuation loss of $1.3 million which includes the cost of a put option put in place to protect petroleum inventory against a drop in fuel prices. By comparison the co-operative incurred a $12.3 million inventory revaluation loss in 2015.

Average gross margin in 2016 increased to 7.96 cents per litre (cpl) compared to 6.89 cpl in 2015 due to the reduction in the inventory holding loss. However, total dollar margins remained flat to 2015, due to reduced volumes.

Operating costs decreased over 2015 by $0.1 million.

The increase in margin rates, partially offset by a decrease in sales volume resulted in an increase to EBITDA of $0.6 million to $61.3 million from $60.7 million in 2015.

fuel volumes by fuel type
All figures in millions of litres



The AgriBusiness Division

In 2016, UFA restructured AgriBusiness into separately managed Retail and Commercial divisions.

Retail - In 2016, Retail sales decreased by 13 per cent or $20.2 million over 2015. The economic downturn in Alberta continued to affect foot traffic and overall sales results in our farm supply stores. Further, the fire at Fort McMurray forced the shut down of the Spruceland store for over a month and impacted its sales significantly.

Retail is comprised of feed, fencing, livestock equipment and supplies, building products, tools and clothing.

The gross margin for Retail decreased by $2.7 million, from $42.2 million in 2015 to $39.5 million in 2016. The reduction in gross margin is due to a decrease in sales volume, while there was an increase in gross margin rate, from 27.4 per cent in 2015 to 29.5 per cent in 2016. The increase in gross margin rate was driven by the reduction in inventory provision required due to a significant decrease in 2016 aged inventory balances over 2015.

Commercial - In 2016, Commercial sales increased by two per cent or $3.4 million over 2015, after removing sales of $20.5 million from 2015, which shifted to Bridgeland. The downturn in the oil and gas industry negatively affected the structures business due to reduced municipal and energy sector spending. These reductions were offset by increased sales in crop production and animal health.

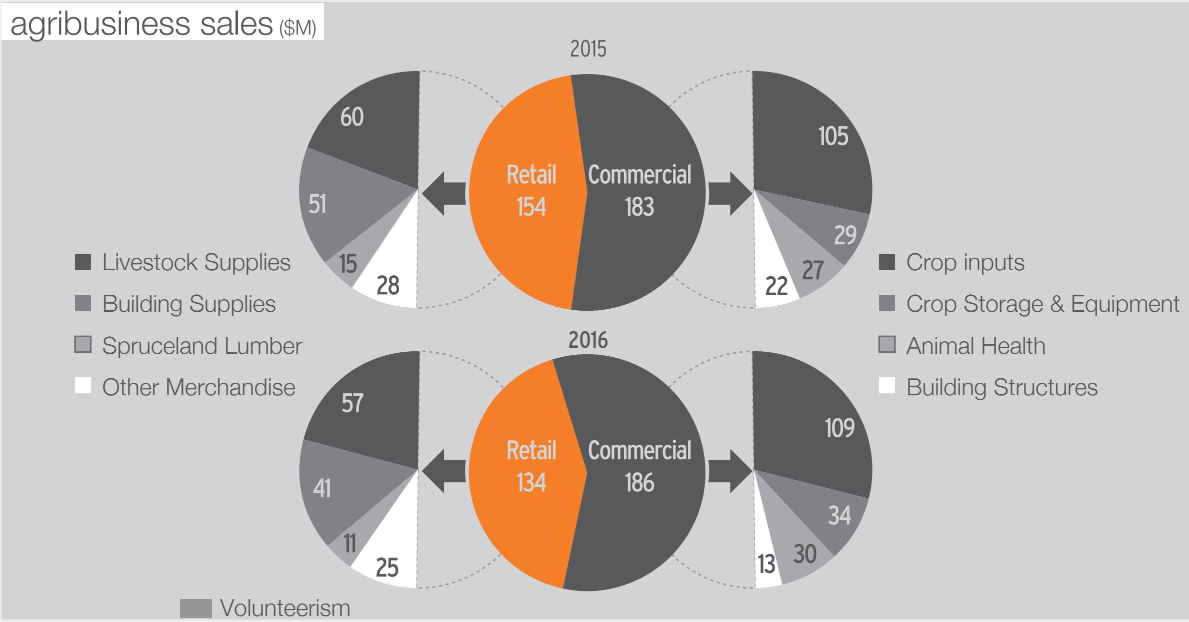
The gross margin for Commercial decreased by $1.2 million, from $24.9 million in 2015 to $23.7 million in 2016. The reduction in gross margin resulted from increased pressure on product margins due to an excess supply carried forward from the 2015 drought and reduced volume in building structures. However, as there was a significant decrease in aged inventory balances, less inventory provision was required, and the gross margin rate increased to 12.7 per cent in 2016 from 12.2 per cent in 2015.

Commercial is comprised of crop inputs, livestock health, grain storage and equipment, and buildings and structures.

AgriBusiness - Operating expenses for AgriBusiness in 2016 decreased by twelve per cent or $7.6 million over 2015 levels. Savings were achieved across a variety of expense categories, especially employee related costs, which reflects the co-operative focus on cost containment.

AgriBusiness inventory levels decreased from $112.2 million in 2015 to $96.7 million in 2016 due to improved inventory management practices.

EBITDA for 2016 was $8.3 million, up from $4.6 million in 2015 largely as a result of decreased operating costs and improved inventory management.



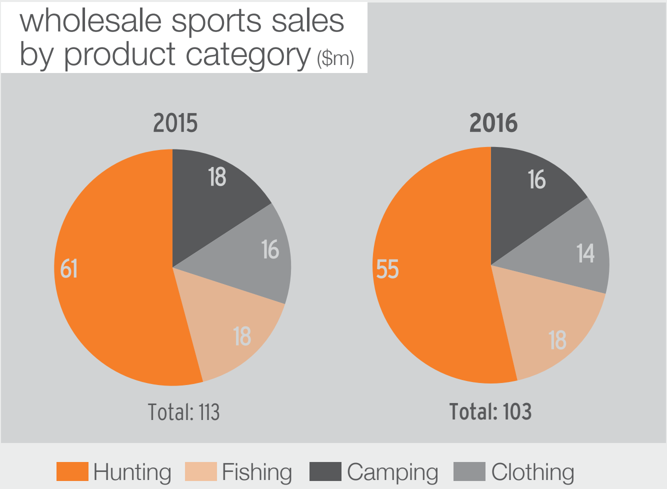
Wholesale Sports

Wholesale Sports' sales decreased by nine per cent in 2016 to $102.7 million from $113.0 million in 2015. The sales decrease was the result of a very difficult economic and competitive environment. Consumer spending was down considerably on high-ticket purchases which had its largest effect in the hunting category. This effect was felt across the network.

In 2016, the margin rate was 32.9 per cent compared to 30.8 per cent in 2015. Better management of inventory, use of a hedging program in the procurement process and responsive pricing strategy increased the overall margin rate. However, overall gross margins were down $1.1 million to $33.7 million compared to $34.8 million in 2015 from reduced sales. Operating costs decreased by $0.9 million, largely attributable to reduced labor charges.

In 2016, Wholesale Sports decreased inventory from $50.7 million in 2015 to $42.8 million largely due to improved inventory management practices and the closing of the Regina Store.

Despite lower sales, Wholesale Sports recorded EBITDA of $0.9 million in 2016, down $0.2 million from 2015. Decreased operating costs of $0.9 million and better gross margin realization offset the sales decline. Overall, Wholesale Sports was effective at maintaining profitability despite a challenging economic climate, increased competition and a declining dollar.



Centralized Services

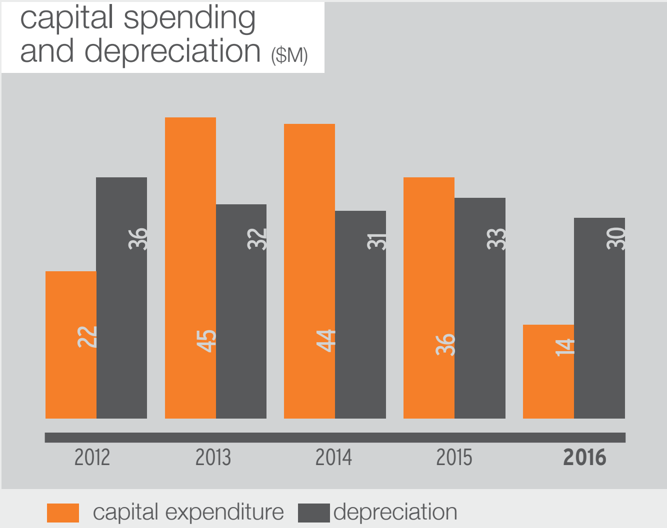
Centralized services include all core business activities required to support the business units within UFA and the consolidated enterprise as a whole. Services are provided by functional departments and include Finance; Human Resources; Information Technology; Internal Audit; Legal; Integrated Services; Marketing Communications, Corporate Communications & Co-operative & Community Relations. Internal Audit reports directly to the Board.

In 2016, total Centralized Services costs were $37.7 million, $5.2 million lower than the previous year. Cost savings were attributable to lower consulting and other outside services of $3.0 million and legal expenses of $3.1 million, offset by small increases in other categories. In 2015, significant legal costs were incurred relating to the 2013 disposition of Wholesale Sports USA, Inc.

Capital Spending and Depreciation

The net book value of capital assets, excluding goodwill and intangible assets, was $203.5 million ending 2016. During 2016, UFA invested $13.8 million in assets consisting primarily of property and equipment, which represented a significant decrease from $36.4 million in 2015. The additions for 2016 include $2.0 million for AgriBusiness assets including a fertilizer blending facility in the Peace Region; $7.4 million for petroleum maintenance investments, diesel emission fluid technology and site upgrades; $1.8 million for capital leases consisting of replacement rolling stock and $2.2 million for information technology projects and system upgrades.

A depreciation and amortization charge of $30.4 million was incurred in 2016 representing a decrease from the prior year charge of $33.0 million.

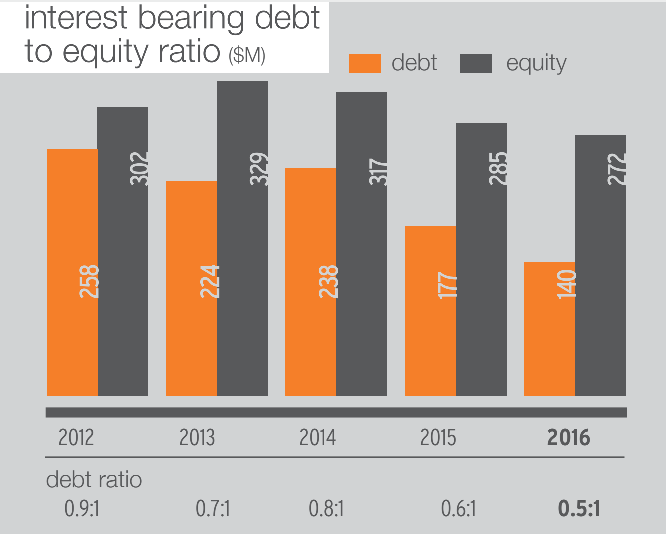


Long-Term Debt

At Dec. 25, 2016, UFA had long-term debt of $66.7 million (2015 - $103.9 million) net of a current portion of $2.9 million (2015 - $2.6 million). The majority of this balance is comprised of borrowings on an asset-based lending agreement (Credit Agreement). The remainder of long-term debt is comprised of capital leases on IT infrastructure, trucks and other equipment. The decrease in borrowings is attributable to reduced working capital financing requirements due to improved inventory management and lower petroleum accounts receivable.

UFA has three different voluntary member loan programs: the on-demand Member Loan program, the High Yield Member Investment Plan (HYMIP) program and the 5.5-for-3 Member Investment Plan (5.5for3MIP) program. At the end of 2016, the total outstanding under the three programs was $69.9 million ($70.8 million in 2015), of which $44.5 million ($44.9 million in 2015) is classified as long-term debt. The $0.9 million net decrease in total member loans relates primarily to redemption of the 4-for-1 Member Investment Plan (4for1MIP) and withdrawals from the on-demand Member Loan. UFA's member investment programs will continue to be an important component in UFA's long-term debt arrangements.

Total financing costs for 2016 were $6.9 million, down from $7.4 million in 2015.



Members' Equity and Dividend Payments

During 2016, UFA paid dividends of $2.8 million on its Class A investment shares, compared to $3.0 million in 2015. This slight decrease is due to a decrease in the amount of investment shares outstanding. In 2016, UFA declared and distributed a member share dividend comprised of investment shares and cash in the amount of $0.5 million, the same as 2015.

Loss before Patronage Allocation and Income Taxes

Profit from operations before taxes, patronage and pension remeasurement costs was $1.6 million. The loss from operations, before patronage allocation and taxes, was $5.0 million in 2016, compared to a loss of $28.4 million in 2015.

Patronage Allocation

UFA's ability to pay a patronage allocation is determined by a number of factors including the taxable income of UFA Co-operative Limited. Financial results from Wholesale Sports Canada Ltd. are excluded from the determination of patronage.

Due to insufficient earnings, no patronage payment is proposed for 2016.

LIQUIDITY

UFA depends on its ability to generate cash from operating activities and attract adequate supplies of capital from both internal and external sources to finance its business operations, to execute its strategic plans and to maintain an enduring and sustainable organization. UFA's liquidity needs are affected by the seasonal business environment of the markets we serve.

Working capital requirements increase significantly over the spring and early summer months when UFA is building its inventory in Commercial AgriBusiness and agricultural customers are financing their supplies. UFA's liquidity needs have been reduced by credit finance plans provided by Farm Credit Corporation and the Bank of Nova Scotia which allow accounts to remain outstanding until crops are harvested.

Internal Capital

Internal sources of capital are reflected in the members' equity section of the balance sheet as member entitlements and retained earnings. As at December 25, 2016, internal sources of capital amounted to $272.0 million compared to $284.5 million in 2015.

External Capital

UFA's Credit Agreement is an asset-based revolving credit facility in the maximum aggregate amount of $275.0 million. The amount available to be drawn under the Credit Agreement will vary from time to time based on UFA's inventory and accounts receivable balances among other factors. Available funds on the Credit Agreement were $104.0 million at December 25, 2016 compared to $82.2 million at December 27, 2015.

The Credit Agreement has 2 years remaining on the original five-year term, and is due for renewal in December 2018. The average borrowing rate in 2016 was 3.18 per cent. Rates are based on London Interbank Offered Rate (LIBOR), BA or prime rates.

UFA has also successfully introduced various unsecured member loans programs to provide another source of external capital. These programs currently include the following:

- On-Demand Loan Program, which pays interest at bank prime plus one per cent;
- High Yield Member Investment Plan (HYMIP), which pays interest at 6 per cent annually over the three year term; and
- 5.5-for-3 Member Investment Plan (5.5for3MIP) which pays interest at 5.5 per cent annually over the three-year term.

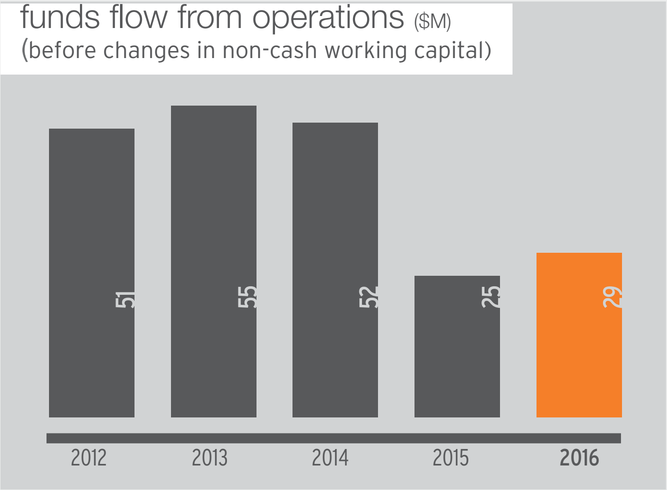
UFA also accesses available lease financing for certain capital equipment and IT infrastructure purchases.

Financial Covenants

UFA is subject to certain financial and collateral covenants related to the Credit Agreement. In 2016 UFA was in compliance with the lender covenants.

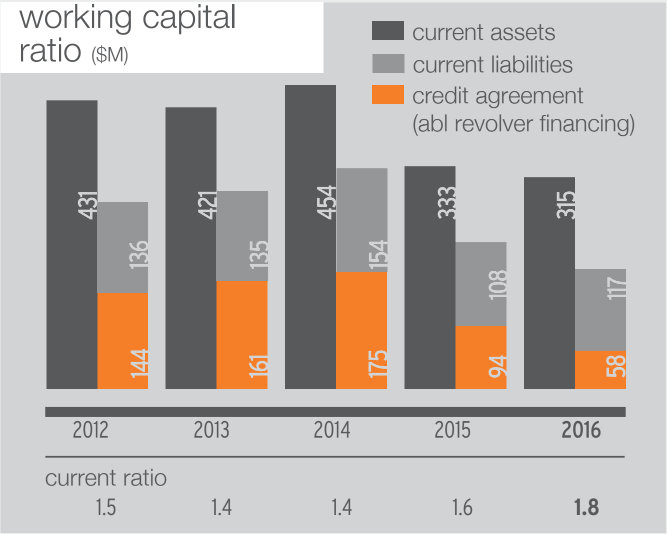
Funds Flow from Operations

Funds flow from operations, before non-cash working capital changes was $29.2 million, an increase of $3.9 million from 2015. Cash provided by operating activities including working capital changes was $59.6 million in 2016 compared to $89.8 million in 2015.



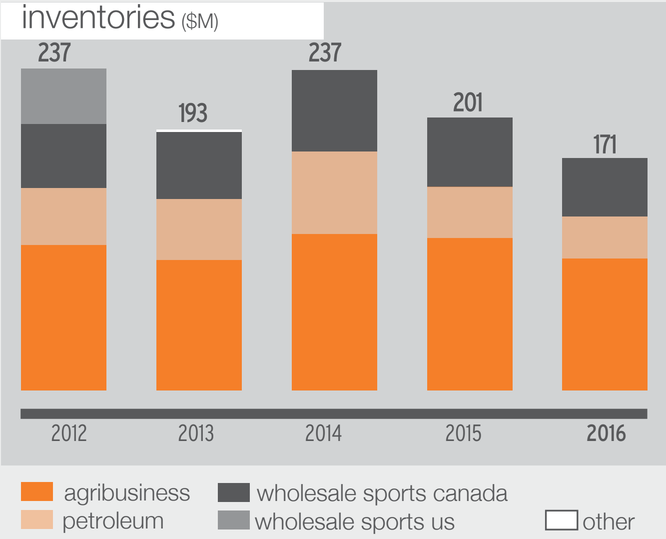
Working Capital Ratio

Working capital ratio of 1.8:1 in 2016 represents an improvement from the 2015 ratio of 1.6:1. The working capital ratio, which is defined as current assets divided by the total of current liabilities and the Credit Agreement financing, represents the ability to manage the short-term financing requirements of the business.



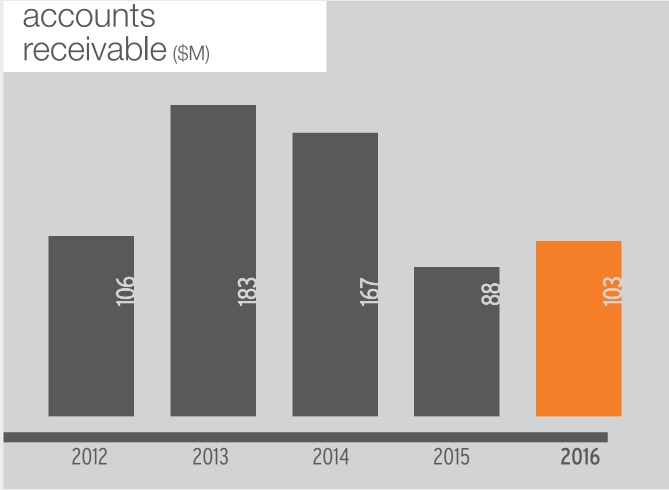
Inventories

At year-end 2016, inventory was $30.3 million lower than 2015. AgriBusiness inventories decreased by $15.4 million mainly due to the decreases in Crop Production and Structures, offset by increases in Animal Production. Due to an overall reduction in aged inventory, the inventory provision has been reduced by $2.3 million. Petroleum inventory decreased by $7.0 million due to reduction in volumes held throughout the network and lower prices. Wholesale Sports' inventories were $7.9 million lower in 2016, from improved inventory management and the closure of the Regina store in December 2016.



Accounts Receivable

In 2016, accounts receivable increased to $103.0 million from $88.0 million in prior year. This increase is attributable to a partial recovery from increased activity in the oil and gas industry, particularly in December. The bad debt write-off in 2016 was $0.8 million an increase of $0.5 million over prior year, net of prior year recoveries of $0.4 million ($0.4 million in 2015), Days sales outstanding (DSO) decreased by one day to 26 days in 2016 from 27 days in 2015.



MEMBER'S EQUITY

UFA's equity structure is a source of capital and considerable financial strength. As a co-operative, UFA provides members' benefits by allocating a portion of its taxable earnings to members in the form of a patronage allocation.

Member shares, patronage allocation, revolving equity, investment shares and contributed surplus are considered member entitlements of UFA. A summary of member entitlements is outlined in the notes to the consolidated financial statements.

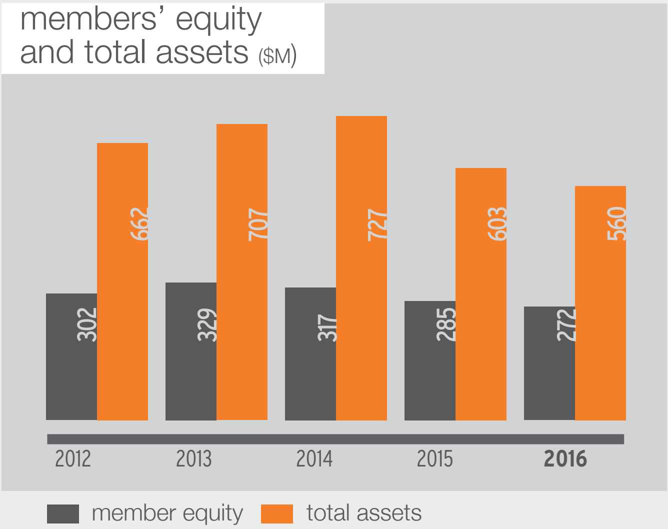
UFA is authorized to issue an unlimited number of member shares with a par value of $5. Member shares are redeemable at par value when the member reaches age 65, moves out of the trading area, or upon a member's death. Member shares are eligible for a Board declared annual dividend. A dividend of $0.5 million was paid out on member shares in 2016 (2015 - $0.5 million).

When UFA Co-operative Ltd. has taxable income before patronage allocation and income taxes, a patronage allocation may be ratified by elected officials at the annual general meeting. If approved by the assembly, under UFA's by-laws, the patronage allocation is distributed. For 2016, no patronage has been allocated for distribution due to insufficient earnings.

Revolving equity is non-interest bearing, non-redeemable by the member (except in specific circumstances) and is converted to investment shares in equal amounts over a 12-year period unless waived by the Board. The Board has waived the conversion of Revolving Equity into Investment Shares for 2017. In addition, revolving equity automatically converts to investment shares at age 65.

Investment shares have a par value of $100; are non-voting; and are redeemable at par value at the option of the holder subject to Board approval. They are also retractable at par value at the option of UFA and are paid a dividend at bank prime rate less 0.5 per cent. Dividends on investment shares totaled $2.8 million in 2016 compared to $3.0 million in 2015, and are charged against retained earnings.

Distributions to members in the five years ending in 2016 totaled $109.7 million and consist of the cash portion of the annual patronage allocation, the issuance of investment shares, dividends on investment shares, dividends on member shares and retirement of members' equity.



EMPLOYEE PENSION PLAN

UFA administers a defined-benefit (DB) pension plan and a defined-contribution (DC) pension plan for employees of UFA. In accordance with the Alberta Employment Pension Plans Act, a registered pension plan (RPP), provides benefits to all participating salaried employees. UFA's RPP includes both a DB component and DC component. The RPP is funded by contributions from plan members and UFA.

Employees hired or transferred into pension-eligible positions on or after October 1, 2012 participate in the DC pension plan which became effective January 1, 2013. Employees hired or transferred into pension-eligible positions prior to October 1, 2012 remain in the DB pension plan.

Pensions provided under the DB pension plan are related to the employee's income up to maximum pension limits set out by the Income Tax Act. A provision for pensions associated with employee income above RPP levels, is made under a second pension plan, called the supplemental employee retirement plan (SERP). This plan is not governed by any regulatory body and UFA funds its obligations under this plan only as requirements arise.

UFA's accounting for pension obligations is dependent on management's accounting policies and assumptions used in calculating such amounts.

UFA's management pension committee manages both plans and is comprised of representation from management and an employee representative for the DB plan and a separate employee representative for the DC plan. The pension committee acts in accordance with a governance plan which sets out roles and responsibilities regarding the administration of the plan, and a statement of investment policies and procedures, which sets out limits and guidelines for investment of the pension fund assets. The pension committee manages both plans on behalf of the Board, with ultimate responsibility remaining with the Board. UFA's current DB plan investment policy identifies the benchmark asset mix as 20 per cent Canadian equities, 40 per cent Global equities and 40 per cent Canadian fixed income. The DC plan members choose from a variety of investment choices. All assets continue to be actively managed against specific bench marks.

The assets of the DB RPP totaled $143.1 million at Dec. 25, 2016 compared to $134.3 million in 2015, while the accrued benefit obligation, excluding the unfunded SERP obligation, was $131.2 million in 2016 compared to $119.6 million in 2015. The unfunded SERP obligation at year-end 2016 was $3.3 million, compared to $4.1 million at year-end 2015.

In 2016, UFA incurred a net pension expense of $3.2 million compared to $3.7 million in 2015.

UFA performed an actuarial valuation for funding purposes as at December 31, 2015. Due to sharp decline in bond yields since the previous valuation in 2013, plan obligations increased, resulting in a pension remeasurement loss of $6.6 million in the fiscal year 2016.

RISK MANAGEMENT

Enterprise Risk Management

UFA is exposed to various risks and uncertainties in the normal course of business. To mitigate these risks, UFA follows an enterprise risk management process to manage the major risks it faces. Each department and operating division is responsible for identifying all major risks that they face in their businesses as well as the cause of each major risk. These risks are prioritized based on the potential enterprise impact and the likelihood of occurrence. Using a systematic process, UFA establishes a risk profile for its business and develops appropriate strategies to mitigate such risks. We believe that acceptance of some risk is both necessary and advantageous in any business. Moreover, acceptance of some risk is necessary to achieve UFA's vision. The Board has standing agenda items to address enterprise risk management and environment, health and safety business.

Financial Risk

UFA undertakes certain transactions denominated in foreign currencies and, as a result, foreign currency exposures arise. Certain financial risks may be reduced through insurance, forward contract or hedging programs, while other risks are prioritized in relation to the potential impact on the business and strategies are developed to mitigate the risk. In 2016, UFA utilized a hedging program to assist in the management of financial risks relating to interest rates and foreign exchange.

Business Cycles and Commodity Risk

UFA's business is affected by the seasonal business cycles of the agriculture industry, the Canadian retail sector and the oil and gas industry. Risk is mitigated within the agriculture industry as different segments and areas may experience offsetting business cycles. UFA's diversified customer base mitigates much of the risk associated with being economically dependent on core members.

Petroleum sales revenue is closely linked to crude oil pricing, wholesale "rack-back" margins and local supply/demand balances which impact "rack-forward" margins. UFA follows a number of strategies to mitigate risks associated with this volatility. One strategy is centralized control over selling prices that allows UFA to react quickly to changes in purchasing prices from suppliers. UFA's exposure to price risk is limited to quantities carried in inventory.

Credit Risk

UFA is exposed to credit risk on accounts receivable for approximately 30 to 45 days of regular sales, at any time throughout the year, as most accounts receivable are due by the 25th day of the month following a purchase. Although UFA offers a deferred credit finance program for agricultural products, Farm Credit Canada and Bank of Nova Scotia provide the financing for the plan and assume the credit risk.

UFA partly mitigates exposure to credit risk through the diversity of its member and customer base and the large geographic area in which it operates. In addition, a full credit review and monitoring is conducted by an experienced credit department. UFA follows established policies regarding credit limits, payment terms and account reviews. In addition, delinquent accounts are followed up regularly, including engaging external collection agencies and legal assistance when required.

Due to the economic decline in Alberta, specialized reporting and work plans were developed to mitigate potential bad debt and aging of accounts receivable. This reporting identified key industries most affected by the collapse of oil prices, including oilfield exploration and transportation, with increased monitoring and analysis to proactively manage problematic accounts. In addition, the credit department focused their attention on establishing appropriate credit limits driven by decreased usage to avoid customers making slower payments within previously approved credit lines.

There is nominal exposure to credit risk in the subsidiary, Wholesale Sports, as no credit programs are offered to retail customers.

Liquidity Risk

UFA manages liquidity risk to ensure it has sufficient liquidity to meet liabilities when they come due. At Dec. 25, 2016, UFA had current assets of $315.1 million to settle current liabilities of $131.6 million. All accounts payable, accrued liabilities and deferred revenue are subject to normal trade terms.

Interest Rate Risk

To manage interest rate risk, UFA utilizes short-term floating interest rate borrowings issued under the Credit Agreement and through the on-demand member loans program. Under its hedging program, UFA utilizes swap agreements to manage interest rate risk on its asset-based revolving credit facility. The swap interest contracts apply an effective rate of interest at 1.32% plus a spread of 1.25% on a hedged loan amount of $75.0 million. The contracts are established through to 2018 when the Credit Agreement is due for renewal. UFA has not hedged any of the interest rate risk associated with other short-term borrowings as it considers the risk to be acceptable.

Foreign Currency Risk

UFA is exposed to foreign currency risks in relation to US dollar cash balances and short-term loans required for its ongoing operations. Under its hedging program, UFA entered a forward agreement to purchase US currency for the replenishment of inventory from US based suppliers during 2016. UFA also entered into a financial derivative contract to protect its Wholesale Sports legal liability exposure which is denominated in US dollars.

In 2016, UFA incurred a gain of $0.4 million (2015 loss $1.2 million) largely from the revaluation of litigation recognized in 2015 denominated in US dollars.

Commodity Risk

UFA entered into a commodity hedge contract in 2016 to manage inventory holding risk on its diesel inventory. The contract is valid until January 2017.

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The management of United Farmers of Alberta Co-operative Limited (UFA) is responsible for the preparation of the accompanying financial statements. The financial statements have been prepared in accordance with Canadian Accounting Standards for Private Enterprises, which recognize the necessity of relying on management's judgment and the use of estimates. Management has determined such amounts on a reasonable basis to ensure the financial statements are presented fairly in all material respects.

Management's responsibility to ensure integrity of financial reporting is fulfilled by maintenance of a system of internal accounting controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. Controls include a comprehensive planning system and processes to ensure timely reporting of periodic financial information.

Final responsibility for the financial statements and their presentation to members rests with the Board of Directors. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee meets separately with management and UFA's external auditors, to review financial statements, discuss internal controls, the financial reporting process and other financial and auditing matters; all to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reports its findings to the Board for its consideration when the Board approves the financial statements prepared by management.

The financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. The external auditors have had full and free access to management, the Audit Committee and the Board of Directors.

Carol Kitchen
President and Chief Executive Officer
February 23, 2017

Scott Bolton
Chief Financial Officer
February 23, 2017

pwc

February 23, 2017

Independent Auditor's Report

To the Members of
United Farmers of Alberta Co-operative Limited

We have audited the accompanying consolidated financial statements of United Farmers of Alberta Co-operative Limited and its subsidiaries, which comprise the consolidated balance sheet as at December 25, 2016 and the consolidated statement of operations, changes in members' equity and cash flows for the 52 week period then ended, and the related notes, which comprise 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.

Auditor's 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 the auditor's 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, the auditor considers 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of United Farmers of Alberta Co-operative Limited and its subsidiaries as at December 25, 2016 and the results of their operations and their cash flows for the 52 week period then ended in accordance with Canadian accounting standards for private enterprises.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta

United Farmers of Alberta Co-operative Limited

CONSOLIDATED BALANCE SHEET

As at *(Stated in thousands of Canadian dollars)*	**December 25, 2016**	December 27, 2015
Assets		
Current Assets		
Cash	**$ 17,892**	$ 13,400
Accounts receivable *(note 3)*	**102,988**	88,015
Current income tax receivable	**575**	8,199
Inventories	**171,029**	201,314
Prepaid expenses and deposits	**19,259**	17,738
Future income tax asset *(note 10)*	**3,402**	4,085
	315,145	332,751
Property held for sale *(note 4)*	**7,230**	13,952
Investments *(note 5)*	**2,259**	601
Other long-term assets *(note 6)*	**10,119**	12,564
Goodwill and intangible assets *(note 7)*	**9,046**	12,997
Future income tax asset *(note 10)*	**12,604**	8,221
Property and equipment *(note 8)*	**203,454**	222,073
	$ 559,857	$ 603,159
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable and accrued liabilities *(note 18)*	**$ 88,003**	$ 78,202
Deferred revenue	**15,318**	16,151
Current portion of member loans *(note 9)*	**15,005**	15,067
Demand member loans *(note 9)*	**10,377**	10,815
Current portion of long-term debt *(note 11)*	**2,893**	2,631
Current portion of long-term liabilities *(note 13)*	**-**	1,249
	131,596	124,115
Long-term debt *(note 11)*	**66,731**	103,905
Member loans *(note 9)*	**44,536**	44,947
Asset retirement obligations *(note 12)*	**23,959**	23,818
Long-term liabilities *(note 13)*	**21,023**	21,866
	287,845	318,651
Members' Equity		
Member entitlements *(note 15)*	**207,127**	213,873
Retained earnings	**64,885**	70,635
	272,012	284,508
	$ 559,857	$ 603,159

See accompanying notes to consolidated financial statements

On behalf of the Board Chairman Director

United Farmers of Alberta Co-operative Limited

CONSOLIDATED STATEMENT OF OPERATIONS

For the period ended *(Stated in thousands of Canadian dollars)*		**December 25, 2016**		December 27, 2015
Revenue *(note 19)*	**$**	**1,330,627**	$	1,591,239
Cost of sales		**(1,145,686)**		(1,401,364)
Gross margin		**184,941**		189,875
Operating and administrative expenses *(note 22)*		**(152,147)**		(181,959)
Other income		**6,421**		10,292
Earnings before the under noted		**39,215**		18,208
Depreciation and amortization		**(30,376)**		(33,035)
Pension remeasurement *(note 17)*		**(6,617)**		4,126
Impairment of intangibles *(note 7)*		**(685)**		(4,187)
Impairment of property & equipment *(note 8)*		**-**		(4,934)
Interest (notes 9,11)		**(6,921)**		(7,378)
Foreign currency exchange gain (loss) *(note 16)*		**410**		(1,192)
Loss before income taxes		**(4,974)**		(28,392)
Income tax recovery *(note 10)*		**2,533**		8,123
Net loss	**$**	**(2,441)**	$	(20,269)

See accompanying notes to consolidated financial statements

United Farmers of Alberta Co-operative Limited

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

As at *(Stated in thousands of Canadian dollars)*	**December 25, 2016**	December 27, 2015
Member Entitlements *(note 15)*		
Beginning of period	**$ 213,873**	$ 222,418
Dividends paid in cash	**(110)**	(3,139)
Redemptions / repayments	**(7,288)**	(6,122)
Member share dividend	**512**	524
Less than minimum, unclaimed and other adjustments	**140**	129
Patronage distribution	**-**	63
	207,127	213,873
Retained Earnings		
Beginning of period	**70,635**	94,474
Net loss	**(2,441)**	(20,269)
Member share dividend	**(512)**	(524)
Patronage recovery (distribution) net of closeouts	**3**	(64)
Dividends on investment shares	**(2,800)**	(2,982)
	64,885	70,635
Total Members' Equity	**$ 272,012**	$ 284,508

See accompanying notes to consolidated financial statements

United Farmers of Alberta Co-operative Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended *(Stated in thousands of Canadian dollars)*	**December 25, 2016**	December 27, 2015
Operating activities		
Net loss for the year	**$ (2,441)**	$ (20,269)
Items not requiring an outlay of cash		
Gain on disposal of property and equipment	**(1,042)**	(5,372)
Asset retirement obligation accretion *(note 12)*	**1,316**	1,919
Future income tax recovery *(note 10)*	**(3,699)**	(2,088)
(Decrease) increase in other long-term liabilities	**(2,413)**	13,827
Other amortization	**110**	(145)
Impairment of intangibles *(note 7)*	**685**	4,187
Impairment of property & equipment *(note 8)*	**-**	4,934
Pension remeasurement	**6,617**	(4,126)
Depreciation and amortization *(notes 7,8)*	**30,376**	33,035
Other non-cash items	**530**	-
Funds flow	**30,039**	25,902
Asset retirement obligations settled *(note 12)*	**(852)**	(599)
Changes in non-cash working capital *(note 20)*	**30,381**	64,461
Cash provided by operating activities	**59,568**	89,764
Investing activities		
Additions to property and equipment	**(13,794)**	(27,650)
Investment in Bridgeland *(note 5)*	**(2,250)**	-
Additions to intangible assets	**(976)**	(5,096)
Proceeds from disposal of property and equipment	**6,037**	7,115
Decrease (increase) in other long-term assets	**3,897**	(2,469)
Cash used in investing activities	**(7,086)**	(28,100)
Financing activities		
Long-term debt repaid *(note 11)*	**(37,021)**	(75,915)
Net member loans (redeemed) issued *(note 9)*	**(911)**	15,332
Repayment of revolving equity	**(521)**	(411)
Dividends on investment shares	**(2,800)**	(2,982)
Redemption / repayment of shares	**(6,627)**	(5,582)
Patronage allocation and member share dividends paid in cash	**(110)**	(3,139)
Cash used in financing activities	**(47,990)**	(72,697)
Increase (decrease) in cash	**4,492**	(11,033)
Cash, beginning of period	**13,400**	24,433
Cash, end of period	**$ 17,892**	$ 13,400

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts are stated in thousands of Canadian dollars except unit numbers)

1. Nature of Operations

United Farmers of Alberta Co-operative Limited (UFA) was incorporated by special act under the laws of Alberta and operates as three business segments distributing fuel products, farm supplies, and outdoor recreation products to its customers. As a co-operative, a significant portion of its business is with its member-owners. The outdoor recreation products segment operates through a wholly-owned subsidiary, Wholesale Sports Canada Ltd. operating in Western Canada. Bar W Petroleum & Electric Inc. (Bar W), a part of the business segment distributing fuel products since 2005, was set up as a separate legal entity in 2016.

In 2016, UFA entered into a limited partnership Bridgeland Agribusiness Solutions Limited Partnership (Bridgeland) with CHS Country Operations Canada, Inc. to sell fertilizer, seed and crop chemical products in the Peace Country region of Alberta and British Columbia. These financial statements include the partnership's financial results accounted for using the equity method.

2. Significant Accounting Policies

UFA prepares its consolidated financial statements on a retail calendar basis. The fiscal period end reflected in the consolidated financial statements is December 25, 2016 and the comparative period is December 27, 2015.

Basis of Presentation
These consolidated financial statements have been prepared in accordance with Canadian Accounting Standards for Private Enterprises.

New Accounting Policy
Effective January 1, 2016, the company adopted Section 3056, Interests in Arrangements and the amendments to Section 3051, Investments, as issued by the Canadian Accounting Standards Board. The new and amended Sections reduce the available accounting policy options for joint arrangements. The accounting for contributions to a joint arrangement has also been amended, removing the requirement to defer and amortize the portion of a gain that does not relate to the fair value of cash or certain other assets received. These standards and amendments have been applied consistently in all periods presented. The adoption of the new standard and amendments did not result in any changes to the company's accounting for joint arrangements

Consolidation
The consolidated financial statements include the accounts of UFA and its wholly-owned subsidiaries. Transactions between UFA and its wholly-owned subsidiaries are eliminated on consolidation. These consolidated financial statements are expressed in Canadian dollars.

Income Taxes
UFA follows the future tax method of tax allocation in accounting for income taxes. Under this method, income taxes are recognized for the differences between financial statement carrying values and the respective income tax basis of assets and liabilities (temporary differences), and for the carry-forward of unused tax losses and income tax reductions. Future income tax assets and liabilities are measured using income tax rates expected to apply in the periods in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that the change is substantively enacted. Temporary differences relating to subsidiaries are accounted for using inside basis

differences, unless it is apparent that the temporary differences will reverse in the foreseeable future, in which case the outside basis differences are recorded. Future income tax assets are evaluated and recorded as required in the consolidated financial statements if realization is considered more likely than not. Valuation allowances are established for amounts not likely to be realizable.

Revenue Recognition

UFA recognizes revenue when products, goods and services are delivered to the customer or when the risks and rewards associated with ownership are transferred to the customer. Revenue related to building and construction projects is recognized using the percentage of completion basis. Under the percentage of completion method of accounting, the actual costs incurred and the budgeted costs to complete the project are used to measure progress on each contract. Revenue and cost estimates are revised periodically based on changes in circumstances. Revenue invoiced but not yet earned is recorded as deferred revenue.

Cash

Cash consists of cash on account and bank balances.

Inventories

Inventories are comprised of finished goods and are valued at the lower of cost and net realizable value, with cost being determined using the weighted average cost method. The cost of inventories includes the cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs, administrative overheads that do not contribute to bringing the inventories to their present location and condition, and selling costs are specifically excluded from the cost of inventories and are expensed in the period incurred. The amount of inventory recognized as a cost of sales in the current period was $1,108.7 million (2015 – $1,352.0 million).

Investments

Investments are primarily held in other co-operative enterprises that are not publicly traded. For financial instrument purposes, these investments are measured at amortized cost. Provisions are made for impairments that are considered to have a significant adverse change to the carrying value of the investment.

Investments in jointly controlled enterprises are accounted for using the equity method whereby an investment is initially recorded at cost and subsequently adjusted to reflect UFA's share of net income (loss).

Property and Equipment

Property and equipment are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets at the rates indicated below commencing the month that the assets are placed into service. Capital leases which transfer significant ownership rights to UFA are recorded as property and equipment.

Buildings, fences and yards	15 to 25 years
Equipment	2 to 8 years
Computer equipment and system software	3 to 5 years
Automotive equipment	4 to 5 years
Leased assets	3 to 15 years

Property and equipment classified as "In progress" is expected to be placed into productive use within 12 months and represents work commenced but not completed on major projects. Depreciation will commence once these assets are put into service.

Property Held for Sale

Property held for sale is recorded at the lower of cost or fair value less selling costs.

Goodwill and Intangible Assets
UFA records as goodwill the excess amount of the purchase price of entities acquired over the fair value of the identifiable net assets acquired, including intangible assets, at the date of acquisition. Goodwill is not amortized but is tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit. In the event of impairment, the excess of the carrying amount (including goodwill) of a reporting unit over its fair value would be charged to earnings. Intangible assets are amortized on a straight-line basis over the estimated useful life of the assets identified.

Application software	3 to 5 years
Trademarks/Trade names	10 years
Lease/Licenses	10 years
Non-competition agreements	4 years
Customer relationships	3 years

Impairment of long-lived assets
UFA tests its long-lived assets including property and equipment and intangible assets when a significant change in circumstances indicates that the carrying amount of an asset may not be recoverable. Impairment losses are recognized when the carrying value of an asset exceeds the total projected undiscounted future cash flows expected from its use and eventual disposition. The impairment recognized is measured as the amount by which the carrying value of the property and equipment or intangible asset exceeds its fair value.

Asset Retirement Obligations
UFA recognizes the current best estimate of the expenditure required to settle the asset retirement obligation for all long-lived assets in the period when the liability is incurred or the period when it can be reasonably estimated, whichever is earlier. The liability is adjusted due to revisions in the associated estimated timing and amount of costs. Estimates are determined using management's best judgment supplemented by historical experience, market information and, in some cases, a review of engineering data. UFA also recognizes a corresponding increase in the carrying cost of the asset. The carrying cost of the asset is depreciated on a straight-line basis, similar to the underlying assets for which the liability is recognized.

Employee Future Benefits
UFA operates a defined benefit pension plan for its regular employees along with an unfunded supplemental employee retirement plan for those employees affected by the Canada Revenue Agency maximum pension and contribution limits. A defined contribution pension plan was adopted in 2013 for new employees starting from October 1, 2012; the defined benefit pension plan remained intact for employees who entered this plan prior to October 1, 2012. The obligations of the plans are determined using the projected benefit method pro-rated on service and UFA's best estimate of salary growth and demographic changes.

Gains or losses arising from actual changes in plan assets or from experience differing from assumptions are recognized immediately in the Consolidated Statement of Operations as pension remeasurement. The corresponding Net Funded Status of the plan is represented in Employee Future Benefits *(Note 17)*. The market value of plan assets is used for all calculations. Company contributions to employees under the defined contribution pension plan are charged to expenses.

UFA has elected to use the actuarial valuation for funding purposes (funding valuation) for the defined benefit pension plans.

Foreign Currency Translation
UFA translates foreign currency assets and liabilities into Canadian dollars at the period-end exchange rate for monetary items and at the historical exchange rate for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rate in effect on the date of the related transaction. Foreign currency gains and losses are included in income immediately.

Financial Instruments
CPA CANADA Handbook, Part II, Section 3856 provides the disclosure and presentation requirements for privately-owned organizations. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Financial assets and financial liabilities will be recognized on the balance sheet when UFA becomes party to the contractual provisions of the financial instrument. UFA classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement.

All financial instruments are measured at fair value upon initial recognition. Subsequent measurement is at amortized cost or at fair value depending on the type of the financial instrument.

UFA recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value without any adjustments for transaction costs arising from disposals. Where UFA elects to apply hedge accounting, it documents the relationship between the derivative and the hedged item at inception of the hedge, and then assesses at each reporting period whether the derivative has been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of the hedged item.

For derivative instruments that are not designated as accounting hedges, changes in fair value are recognized in earnings in the period of change.

Use of Estimates
The preparation of the consolidated financial statements in conformity with Canadian Accounting Standards for Private Enterprises requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that UFA may undertake in the future. Management believes that the estimates are reasonable; however, actual results could differ from those estimates. Estimates are used when accounting for such items as inventory provisions, depreciation, pension obligation, percentage of completion, future income tax asset, income and other taxes, allowance for doubtful accounts, asset retirement obligations and long-lived assets for impairment. Information presented and estimates used in the financial statements do not reflect anticipated resolutions to uncertainties by management.

3. Accounts Receivable

Accounts receivable is comprised of customer and member receivables of $93.5 million (2015 – $81.9 million) extended under commercial terms, and other miscellaneous receivables of $9.5 million (2015 – $6.1 million). The customer and member receivables are net of an allowance of $2.6 million (2015 – $2.3 million). In 2016, UFA recorded $0.8 million in bad debts (2015 – $0.3 million), which are net of $0.4 million (2015 – $0.4 million) in credit recoveries for amounts written off in prior years.

Other miscellaneous receivables consist of vendor rebates, Alberta Federal Excise Tax recoverable and other related receivables from the normal course of business.

In 2016, UFA earned interest on overdue accounts receivable of $3.9 million (2015 – $4.2 million).

4. Property Held for sale

	2016	2015
Land and equipment	$ 7,230	$ 13,952
	$ 7,230	$ 13,952

Property held for sale represents assets which management has evaluated as not integral to business operations. The assets are vacant land and equipment held for sale. In 2016, $3.3 million of equipment and $5.3 million of land held for sale were sold for cash to unrelated parties.

5. Investments

	2016	2015
Initial investment in Bridgeland	$ 2,250	$ -
Share of Bridgeland loss	(530)	-
Investment in Bridgeland, end of period	1,720	-
Other investments	539	601
	$ 2,259	$ 601

On January 4, 2016, UFA entered into the Bridgeland limited partnership with CHS Country Operations Canada, Inc. to sell fertilizer, seed and crop chemical products in the Peace Country region of Alberta and British Columbia. UFA holds 50.0 per cent of Class A shares of the Partnership. The partnership is accounted for using the equity method.

6. Other long-term assets

	2016	2015
Accrued pension benefit asset *(note 17)*	$ 7,912	$ 10,288
Deferred charges	2,207	2,276
	$ 10,119	$ 12,564

7. Goodwill and Intangible Assets

	2016			
	Cost	Accumulated Depreciation, Amortization	Accumulated Impairment	Net Book Value
Application software	$ 67,823	$ 60,297	$ 685	$ 6,841
Goodwill	29,384	-	27,534	1,850
Trademark/trade names	9,276	6,716	2,205	355
Leases/licenses	7,994	6,012	1,982	-
Non-competition agreements	3,113	3,113	-	-
Customer relationships	100	100	-	-
	$ 117,690	$ 76,238	$ 32,406	$ 9,046

	2015			
	Cost	Accumulated Depreciation, Amortization	Accumulated Impairment	Net Book Value
Application software	$ 67,752	$ 57,012	$ -	$ 10,740
Goodwill	29,384	-	27,534	1,850
Trademark/trade names	9,276	6,716	2,205	355
Leases/licenses	7,994	6,012	1,982	-
Non-competition agreements	3,113	3,061	-	52
Customer relationships	100	100	-	-
	$ 117,619	$ 72,901	$ 31,721	$ 12,997

In 2016, UFA tested application software for impairment. The test was conducted as UFA had exited the convenience store business at its petroleum sites. The impairment test compares the carrying value of the assets against the fair value, and the amounts exceeding fair value result in impairment. The conclusion of this testing resulted in an impairment of $0.7 million.

In 2015, UFA's wholly owned subsidiary, Wholesale Sports Canada Ltd. recognized an impairment of $4.2 million relating to trademarks and licenses.

8. Property and Equipment

	2016			
	Cost	Accumulated Depreciation, Amortization	Accumulated Impairment	Net Book Value
Land	$ 53,338	$ -	$ -	$ 53,338
Buildings, fences and yards	178,497	98,919	2,248	77,330
Equipment	157,731	109,799	481	47,451
Computer equipment and system software	21,763	18,708	59	2,996
Automotive equipment	6,726	5,710	-	1,016
Leased assets	39,352	19,645	2,146	17,561
Assets under construction	3,762	-	-	3,762
	$ 461, 169	$ 252,781	$ 4,934	$ 203,454

	2015			
	Cost	Accumulated Depreciation, Amortization	Accumulated Impairment	Net Book Value
Land	$ 53,837	$ -	$ -	$ 53,837
Buildings, fences and yards	178,400	92,240	2,248	83,912
Equipment	157,816	105,561	481	51,774
Computer equipment and system software	22,998	17,231	59	5,708
Automotive equipment	8,280	7,250	-	1,030
Leased assets	37,817	15,401	2,146	20,270
Assets under construction	5,542	-	-	5,542
	$ 464,690	$ 237,683	$ 4,934	$ 222,073

Assets under construction at December 25, 2016 are expected to be placed into productive use during fiscal 2017 and represent work commenced but not completed on buildings, equipment, computer equipment and systems software. Depreciation and amortization will commence once these assets are put into service. Leased assets include $1.8 million (2015 – $6.4 million) of capital leases, entered into in 2016.

In 2015, UFA's wholly owned subsidiary, Wholesale Sports Canada Ltd. recognized an impairment of $2.7 million of long lived assets in certain store locations comprising furniture & fixtures, computer equipment, and leasehold improvements. In 2015, UFA also recognized an impairment loss of $2.2 million relating to a farm store. These impairments were booked as the carrying value of the assets exceeded the fair value.

9. Member Loans

	December 25, 2016	December 27, 2015
Member demand loan	$ 10,377	$ 10,815
4for1MIP	-	371
HYMIP - 2 Year	-	14,696
HYMIP - 3 Year	15,005	15,005
5.5for3MIP	44,536	29,942
	69,918	70,829
Less: current portion	(25,382)	(25,882)
	$ 44,536	$ 44,947

UFA has three different voluntary member loan programs — the on-demand Member Loan program, the High Yield Member Investment Plan (HYMIP) program and the 5.5-for-3 Member Investment Plan (5.5for3MIP) program, all of which provide members, employees, and agents the opportunity to invest in UFA and earn a return on their investment. All member loans are unsecured.

The on-demand Member Loans earn a rate of return equal to the bank prime rate, as stated by the Royal Bank of Canada, plus 1%. The balance of the on-demand Member Loans, including accumulated interest, as at December 25, 2016 was $10.4 million (2015 – $10.8 million), and interest of $0.4 million (2015 – $0.4 million) is included in interest expense.

The HYMIP program introduced in June 16, 2014 offered investors three investment choices: a three-year term with a fixed rate of 6% interest maturing on June 15, 2017, a two-year term with a fixed rate of 5% that matured on June 15, 2016, and a one-year term with a fixed rate of 4% interest that matured on June 15, 2015. Investors in the two-year program that matured on June 15, 2016 had the option of principal repayment or rolling into the 5.5for3MIP program. $12.3 million was rolled into the 5.5for3 MIP program with the balance repaid in cash. The HYMIP balance as at December 25, 2016 was $15.0 million, all in the three-year program (2015 - $29.7 million). Interest of $1.2 million (2015 – $1.7 million) is included in interest expense.

There are three 5.5for3MIP programs. The original 5.5for3MIP program was introduced on September 16, 2015. $29.5 million (2015 - $29.9 million) is currently invested in the program. The program pays interest of 5.5% semi-annually and matures on September 15, 2018. The second 5.5for3MIP program was introduced on June 16, 2016. $15.0 million is currently invested in the program. The program pays interest of 5.5% semi-annually and matures on June 15, 2019. The third 5.5for3MIP program was introduced on September 16, 2016 and is exclusively for members of the Board of Directors. Interest on these three programs of $2.1 million (2015 - $0.5 million) is included in interest expense.

The repayment of member loans may be redirected in order to repay delinquent amounts owing to UFA, and is subject to UFA meeting the covenants contained under the Asset-Based Credit Agreement *(see note 11)*.

10. Income Taxes

Income tax expense differs from the amount that would be computed by applying the Canadian Federal and Provincial statutory income tax rates to earnings before income taxes as set out below:

	December 25, 2016	December 27, 2015
Net loss before income taxes	$ (4,974)	$ (28,392)
Statutory income tax rate	26.98%	26.01%
Expected income tax recovery	(1,342)	(7,385)
Non-deductible items and other	(22)	75
Rate adjustment	53	(2,457)
True ups and other	2,245	106
Future income tax valuation allowance	(3,467)	1,538
Income tax recovery	(2,533)	(8,123)
Income taxes consists of:		
Current income tax expense (recovery)	1,166	(6,035)
Future income tax recovery	(3,699)	(2,088)
	$ (2,533)	$ (8,123)

The net future income tax asset at the fiscal period end is comprised of the tax effect of the following temporary differences:

	December 25, 2016	December 27, 2015
Current future income tax asset:		
Inventories	$ 1,910	$ 2,786
Payables, warranty and other	1,492	1,299
	3,402	4,085
Long-term future income tax asset:		
Long-term debt and other long-term liabilities	3,203	3,992
Asset retirement obligation	6,465	6,427
Tax loss	11,046	9,315
Goodwill and intangibles	5,250	8,939
Property and equipment	2,151	(832)
Pension	(2,135)	(2,776)
Valuation allowance	(13,376)	(16,844)
	$ 12,604	$ 8,221

11. Long-Term Debt

	December 25, 2016	December 27, 2015
Asset-Based Credit Agreement - Revolving loans	$ 58,232	$ 93,911
Obligations under capital leases	11,605	12,947
Deferred financing charges	(213)	(322)
	69,624	106,536
Less: current portion	(2,893)	(2,631)
	$ 66,731	$ 103,905

Asset-Based Credit Agreement

UFA entered into an amended and restated Asset-Based Credit Agreement (Credit Agreement) on December 10, 2013. The Credit Agreement has a five-year term, maturing on December 10, 2018 and provides for an asset-based revolving credit facility in the maximum aggregate amount of $275.0 million. There are no fixed terms of repayment under the revolving credit facility.

The Credit Agreement also has an accordion feature, which permits UFA to request an increase in the revolving credit facility up to an additional amount of $75.0 million. Any increase under the accordion feature is not committed and must first be approved by the lenders.

Borrowing Base

The amount available to be drawn under the Credit Agreement will vary from time to time based on UFA's inventory and accounts receivable balances. Advances under the Credit Agreement cannot exceed lower of the revolving loans borrowing base determined according to terms under the agreement that factors UFA's inventory and receivables, and the maximum aggregate amount of $275.0 million. In addition, reserves are calculated under the Credit Agreement to take into account factors such as priority payables and additional collateral requirements.

At December 25, 2016, under the Credit Agreement, the borrowing bases for accounts receivable, inventory and prepayments were margined at $73.4 million (2015 – $63.5 million) and $116.0 million (2015 – $129.4 million) respectively. In 2016, the total amount of reserve deducted from the borrowing bases was $27.2 million (2015 – $16.8 million). At December 25, 2016, $104.0 million (2015 – $82.2 million) of credit was available to fund operations and working capital requirements.

Terms

Under the Credit Agreement, UFA can borrow using Prime, LIBOR or BA. Pricing for Canadian and US prime loans is equal to their respective prime rates. LIBOR loans and BA balances are priced at their respective rates plus a spread of 1.25%.

Security

The financing agreements entered into pursuant to the Credit Agreement grant a security interest in all of UFA's personal and real property.

Covenants

UFA is subject to certain financial and collateral covenants related to the Credit Agreement. In 2016, UFA was in compliance with all covenants.

Capital Lease Obligations

The capital leases under leased assets *(see note 8)* are the security for the respective obligations. Scheduled minimum lease payments for the next five periods total $6.2 million, including $0.8 million in financing expenses. The lease terms range from two five years at interest rates between 3.2% and 6.0% for 2016 (2015 – 3.2% and 6.0%).

	Principal		Interest		Total	
2017	$	2,255	$	362	$	2,617
2018		1,486		223		1,709
2019		1,028		131		1,159
2020		525		85		610
2021		83		9		92
	$	5,377	$	810	$	6,187

12. Asset Retirement Obligations

	2016		2015	
Balance, beginning of year	**$**	**23,818**	$	23,266
Accretion expense		**1,316**		1,919
Revisions in estimated cash flows		**(323)**		(768)
Liabilities settled		**(852)**		(599)
Balance, end of year	**$**	**23,959**	$	23,818

Estimated undiscounted future cash flows, adjusted for inflation, are $58.9 million (2015 – $59.2 million) and are expected to be incurred up to and including fiscal 2065. The present value or discounted fair value of the obligations was determined using a 7.7% discount rate and a 2.2% inflation rate (2015 – 7.7% and 2.2% respectively). The estimates used in determining UFA's asset retirement obligations could change due to changes in regulations and the timing, nature and extent of environmental remediation required. Changes in estimates are accounted for prospectively in the period that the estimate is revised.

13. Long-Term Liabilities

	December 25, 2016		December 27, 2015	
Accrued liabilities	**$**	**15,977**	$	16,457
Other long-term liabilities		**5,046**		6,658
		21,023		23,115
Less: current portion		**-**		(1,249)
	$	**21,023**	$	21,866

Accrued liabilities is a legal liability provision of $16.0 million (2015 - $16.5 million) relating to the 2013 disposition of Wholesale Sports USA, Inc. Other long-term liabilities include $1.4 million (2015 - $2.8 million) relating to long-term incentive programs and $2.0 million (2015 - $1.9 million) relating to deferred lease inducements.

14. Commitments, Contingencies and Guarantees

Future minimum payments under operating leases for certain facilities and equipment are due as listed:

2017	$	10,317
2018		9,032
2019		7,210
2020		5,441
2021		4,453
After 2021		9,261
	$	45,714

UFA's by-laws provide indemnification to its current and former directors, officers and employees to the extent permitted by law, against liabilities arising from their service to UFA. The broad nature of these indemnification by-laws does not permit a reasonable estimate of the maximum potential amount of any liability. No amount has been accrued in the consolidated financial statements in this respect.

15. Member Entitlements

Member Entitlements consist of Member Shares, the current period's Patronage Allocation, Revolving Equity, Class A Investment Shares (Investment Shares) and Contributed Surplus. The total Revolving Equity amount converts to Investment Shares when a member turns 65 years of age (Senior Members). Member Shares for members that turn 65 years of age are converted at the option of the member into Investment Shares, with the exception of one $5.00 Member Share.

Details of Member Entitlements are as follows:

	December 25, 2016		December 27, 2015	
Member Shares	**$**	**31,472**	$	32,334
Revolving Equity		**38,529**		39,913
Class A Investment Shares		**127,493**		132,846
Contributed Surplus		**9,633**		8,780
	$	**207,127**	$	213,873

The repayment and redemption of Equity and the payment of a Patronage Allocation and dividends are subject to the right of offset of any amounts owing to UFA, and are subject to UFA meeting the covenants contained under the Credit Agreement *(see note 11)*.

Member Shares

UFA is authorized to issue an unlimited number of Member Shares with a par value of $5.00. Member Shares are redeemable at the option of the holder subject to Board approval at par value when the member reaches age 65, moves out of the trading area or, at the request of the member's estate, upon the member's death. The maximum dollar amount of Member Shares held by each member is $5,000 and Member Shares are eligible for a Board of Directors' declared annual dividend. A dividend of $0.5 million was paid out on Member Shares in 2016 (2015 - $0.5 million).

	2016			2015		
Ordinary shares issued:	**Number**		**Amount**	Number		Amount
Balance, beginning of period	**6,467**	**$**	**32,334**	5,908	$	29,538
Patronage Allocation	**-**		**-**	712		3,560
Redemption	**(127)**		**(633)**	(108)		(541)
Contributed Surplus	**(46)**		**(229)**	(45)		(223)
Balance, end of period	**6,294**	**$**	**31,472**	6,467	$	32,334

Patronage Allocation

UFA may distribute a portion of its current fiscal period taxable earnings to its members in the form of a Patronage Allocation. The Patronage Allocation must be ratified by UFA's elected delegates at the Annual General Meeting held in March of the following period. As part of the ratification of the Patronage Allocation and as provided for under UFA's by-laws, the delegates also approve the distribution of the current period allocation to Member Shares, non-interest bearing Revolving Equity, Investment Shares and the amount to be paid in cash. No patronage allocation is proposed for 2016.

	2016		2015	
Balance, beginning of period	**$**	**-**	$	14,000
Current period distribution				
Member Shares		**-**		(3,560)
Cash		**-**		(3,065)
Revolving Equity		**-**		(5,534)
Class A Investment Shares		**-**		(1,904)
Distribution adjustments		**-**		63
Balance, end of period	**$**	**-**	$	-

Revolving Equity

Revolving Equity is non-interest bearing, non-redeemable by the member except in specific circumstances and is converted into Investment Shares on a straight-line basis over a 12-year period unless conversion is waived by the Board of Directors. The Board of Directors has waived the conversion of Revolving Equity into Investment Shares for 2017.

	2016		2015	
Balance, beginning of period	**$**	**39,913**	$	42,626
Patronage Allocation		**-**		5,534
Conversion to Class A Investment Shares		**-**		(6,902)
Senior Members conversion to Class A Investment Shares		**(783)**		(831)
Repayment		**(521)**		(411)
Contributed Surplus		**(91)**		(107)
Adjustments		**11**		4
Balance, end of period	**$**	**38,529**	$	39,913

Class A Investment Shares

Class A Investment Shares are non-voting, have a par value of $100 and are redeemable at par value at the option of the holder, subject to Board approval. The Board has the authority to restrict redemptions in any given year, even in situations where such redemptions are not unfavorable to UFA.

Investment Shares are retractable at par value at the option of UFA and provide a dividend at bank prime rate less 0.5%. Dividends of $2.8 million (2015 – $3.0 million) on the Investment Shares are charged against retained earnings. The minimum payment required for a dividend check to be issued is $50 per member and the amount owing is held in Investment Shares until the minimum is met.

	2016		2015	
	Number	**Amount**	Number	Amount
Balance, beginning of period		**$ 132,846**		$ 128,287
Patronage Allocation	**-**	**-**	19	1,904
Conversion from Revolving Equity	**-**	**-**	69	6,902
Senior Members conversion from Revolving Equity	**8**	**783**	8	831
Member Share Dividend	**4**	**402**	5	450
Redemption	**(61)**	**(6,134)**	(52)	(5,170)
Contributed Surplus	**(5)**	**(533)**	(5)	(483)
Less than minimum and unclaimed	**-**	**129**	-	125
Balance, end of period		**$ 127,493**		$ 132,846

Contributed Surplus

The By-laws of the Co-operative provide for termination of a member's membership due to inactivity. When a member's membership is terminated for inactivity, the member has no further entitlement to be paid any amount in respect of the member's Investment Shares, Member Shares, Revolving Equity or Unclaimed Funds (together, the Member's Equity), and the membership number and Equity shall be cancelled without any payment or notice to the member. In 2016, Members' Equity of $0.9 million (2015 - $0.8 million) was cancelled and classified as Contributed Surplus, as outlined below.

	2016	2015
Balance, beginning of period	**$ 8,780**	$ 7,967
Current period additions:		
Member Shares	**229**	223
Revolving Equity	**91**	107
Class A Investment Shares	**533**	483
Balance, end of period	**$ 9,633**	$ 8,780

16. Financial Instruments

UFA's risk exposures and the impact on UFA's financial instruments are summarized below:

Credit Risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. UFA is exposed to the credit risk on its accounts receivable from members and customers. The accounts receivable are net of applicable allowances for doubtful accounts, which are established based on the specific credit risks associated with individual members and customers and other relevant information. Concentration of credit risk with respect to receivables is limited, due to the large number of members and customers.

Liquidity Risk

UFA's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. At December 25, 2016, UFA had current assets of $315.1 million (2015 – $332.8 million) to settle current liabilities of $131.6 million (2015 – $124.1 million). All of UFA's accounts payable, accrued liabilities and deferred revenue are subject to normal trade terms (see notes 9 and 11 for information on payment terms of member loans and current and long-term debt).

Interest Rate Risk

UFA is exposed to interest rate risk under the Credit Agreement and demand member loans. Based on the Credit Agreement, the interest rates paid on Canadian dollar advances and US dollar advances are Canadian or US prime rate (2015 – Canadian or US prime rate). For BAs the interest rate is BA plus 1.25% (2015 – BA plus 1.25%). Further, the amortized transaction costs impacted the interest rate by 0.27% (2015 – 0.22%) making the effective interest rate 3.18% (2015 – 2.60%). A 1.0% change in the prime rate is anticipated to have an annual interest impact of approximately $0.23 million. UFA is not exposed to interest rate risk on capital lease obligations as the rates are fixed. Interest expense of $2.5 million was recognized in 2016.

UFA has entered into an interest rate swap agreement in order to mitigate the interest rate risk for $75.0 million of long-term debt. Under the terms of the agreement, UFA can borrow funds at 1.32% plus a spread of 1.25% for the notional amount of $75 million. UFA has elected to apply hedge accounting for the transactions and has recorded the amount due to the counterparty in accrued liabilities. The hedge had a fair value of zero at inception and remains in effect until November 2018.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices. As these fluctuations may be significant on UFA's financial position, UFA has mitigated certain risks through the use of a hedging program. UFA at times will enter into financial instruments to help manage commodity price risks, these are recognized on a marked to market basis in the Statement of Operations.

Foreign Currency Risk

UFA is exposed to foreign currency risk on exchange fluctuations related to its US dollar borrowings through the company's Credit Agreement (see note 11) and short-term foreign payables. UFA has entered into foreign currency forward contracts to manage its exposure to foreign exchange rate risk arising from certain payables of foreign suppliers.

Certain foreign currency forward contracts have met the criteria for hedge accounting and are designated as hedging instruments for accounting purposes in these financial statements. When hedge accounting is applied, the foreign currency forward contracts are recognized at maturity with changes to their fair values being accounted for through adjustment of the hedged item.

In fiscal 2015, UFA entered into foreign currency exchange agreements that became effective in fiscal 2016. These agreements were designated as hedge instruments for UFA's USD inventory purchases. Hedge accounting was also applied to these transactions with the appropriate adjustments recognized in these financial statements. The carrying value of the foreign currency exchange agreements as at December 25, 2016 was nil. UFA entered into similar foreign currency exchange agreements as at December 25, 2016 that will become effective in fiscal 2017.

At the consolidated balance sheet date, the fair values of the foreign currency exchange agreements were determined by using Bank of Canada published foreign exchange rates. [UFA has entered into derivative contracts to hedge foreign exchange exposure associated with the Wholesale Sports USA, Inc. legal liability *(see note 13)*.]

17. Employee Future Benefits

UFA administers two defined benefit pension plans: a funded registered plan (RPP) for all employees and an unfunded supplemental employee retirement plan (SERP) for those employees whose earnings exceed the maximum allowable under government guidelines for the RPP. UFA funds the RPP in accordance with current pension legislation. UFA does not fund the SERP, but has the obligation to pay SERP benefits out of general revenue in the period payments are made. Pension benefits are provided to qualified employees and are based, in general, on years of service and compensation near retirement.

UFA employees who were hired into a pension-eligible position prior to October 1, 2012 are participants of the defined benefit pension plan. Employees newly hired or transferred into a pension eligible position on or after October 1, 2012 are participants of the defined contribution pension plan. The employer contribution towards the defined contribution plan, recognized as an expense, was $0.7 million (2015 - $0.7 million).

UFA measures its accrued benefit obligation and the fair value of plan assets in its pension plans as at the end of each fiscal period. The accrued benefit obligations are computed based on assumptions used in actuarial valuations for funding purposes. The most recent actuarial valuation for funding purposes was as at December 31, 2015.

Information regarding UFA's defined benefit plans is as follows:

	December 25, 2016	December 27, 2015
Accrued benefit obligation, end of year	**$ 134,531**	$ 123,716
Market value of plan assets, end of year	**143,111**	134,335
Surplus of plan at end of year	**8,580**	10,619
Employer contribution made after measurement date	**(668)**	(331)
Accrued asset	**$ 7,912**	$ 10,288

Included in the accrued benefit obligation is $3.3 million related to the SERP (2015 – $4.1 million).

Key assumptions used in the computation of the defined benefit obligations are:

	2016	2015
Discount rate for funded status	**4.90%**	5.35%
Rate of compensation increase	**0.0% to 2.5%**	3.00%

18. Government Remittances

Accounts payable and accrued liabilities as at December 25, 2016 include $17.5 million (2015 – $9.7 million) in respect of government remittances other than income taxes. Included in this total are federal and provincial sales and excise taxes, payroll related taxes, and environmental levies.

19. Revenue Segmentation

UFA derives a significant portion of its revenue by providing products and services to its members. The Company's business reflects three distinct categories of activity, including fuel products, farm supplies, and outdoor recreation merchandise as outlined below.

Category	December 25, 2016	%	December 27, 2015	%
Petroleum	$ 908,248	68.3	$ 1,121,200	70.5
AgriBusiness	319,694	24.0	357,051	22.4
Outdoor recreation	102,685	7.7	112,988	7.1
	$ 1,330,627		$ 1,591,239	

20. Changes in non-cash working capital

Non-cash working capital generated cash flows of $30.4 million in fiscal year 2016 (2015 - generated $64.5 million).

	December 25, 2016	December 27, 2015
Accounts receivable and current income tax receivable	$ (7,349)	$ 70,975
Inventory	30,285	35,467
Prepaid expenses	(1,521)	3,788
Accounts payable and accrued liabilities	9,799	(41,222)
Deferred revenue and other	(833)	(4,547)
	$ 30,381	$ 64,461

21. Interest and income taxes paid

Interest paid in fiscal year 2016 is $6.8 million (2015 – $7.3 million). Income taxes paid in fiscal year 2016 was $0.9 million (2015 – $2.2 million paid).

22. Operating and administrative expenses

Operating and administrative expenses in 2016 were $152.1 million (2015 - $182.0 million).

In 2015, UFA recognized $15.5 million in operating and administrative expenses related to the legal liability for events relating to the 2013 disposition of Wholesale Sports USA, Inc. UFA has posted two surety bonds totaling $12.0 million US dollars that will remain in effect until litigation is concluded. UFA was not required to provide collateral to support the bonds.