2017
MEMBER
REPORT

DRIVE

› On the Road to Better.®

DRIVING *momentum*

For more than a century, United Farmers of Alberta Co-operative Ltd. (UFA) has followed a co-operative business model to serve you, our members. We strongly believe that this business model is still as relevant today as it was back when our co-operative was first formed in 1909.

We recognize that much has changed since then. Consolidations both in the agriculture and petroleum industries are occurring at lightning speed. Technology seems to change as quickly as it can be imagined and consumers have higher expectations for immediate access to it. With all the choices of where to do business, it is not surprising that today more than ever customers also expect the best in product quality and customer service.

At UFA, we have embraced change and are moving forward. We have made customer service a priority and are listening closely to what our members expect from their co-operative. You told us that we needed to have the right product at the right time, have competitive prices, provide exceptional customer service, offer relevant agricultural business solutions and above all, be responsive to our members' needs.

We heard you.

You will find our 2017 member report details the highlights from a very dynamic and exciting year. Our members are the driving force behind our momentum. We are excited to tell you our story. And our journey starts with being:

On the Road to Better.®

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 the 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 co-operation, 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.

Here is how our co-operative values represent our core beliefs:

Accountability › Agility › Collaboration › Integrity ›
Performance › Progressive thinking › Respect ›

2017 YEAR IN *numbers*

$1.5
BILLION REVENUE

$47.3
MILLION EBITDA

$31.0
MILLION EARNINGS FROM CONTINUING OPERATIONS

$12.5
MILLION PATRONAGE DECLARED

$0.3
BILLION AGRIBUSINESS REVENUE

$1.2
BILLION PETROLEUM REVENUE

110,974*
ACTIVE MEMBERS

950
TOTAL EMPLOYEES

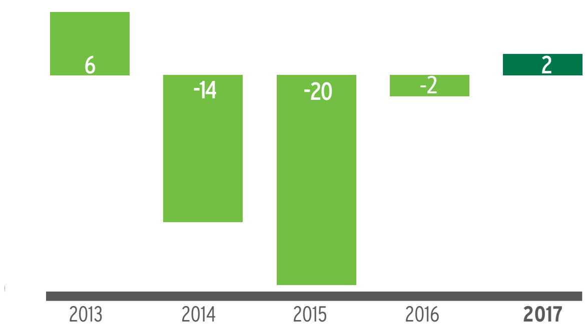
* Active member accounts set up as members with minimum $25 in purchases in 2017.

FINANCIAL HIGHLIGHTS & FIVE-YEAR SUMMARY

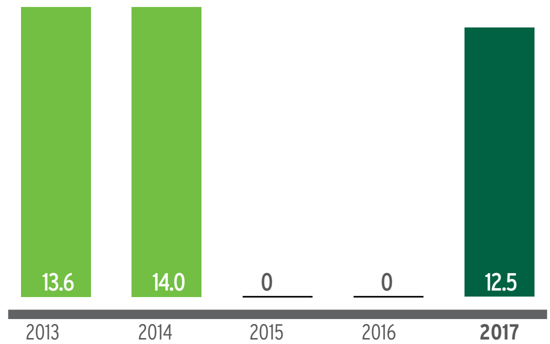
(All figures stated in thousands of Canadian dollars)

	2017	2016	2015	2014	2013
Continuing Operations					
Revenue	**$ 1,536,163**	$ 1,227,942	$ 1,478,250	$ 2,168,998	$ 2,019,873
Gross margin	**169,866**	151,199	155,028	206,424	198,083
Operating and administrative expenses	**(128,193)**	(119,338)	(148,214)	(147,146)	(142,750)
EBITDA (after other income)	**47,263**	38,282	16,948	66,100	58,633
Net income (loss) from Continuing Operations before income tax and Patronage Dividend	**$ 30,976**	$ (2,389)	$ (16,710)	$ 38,979	$ 46,719

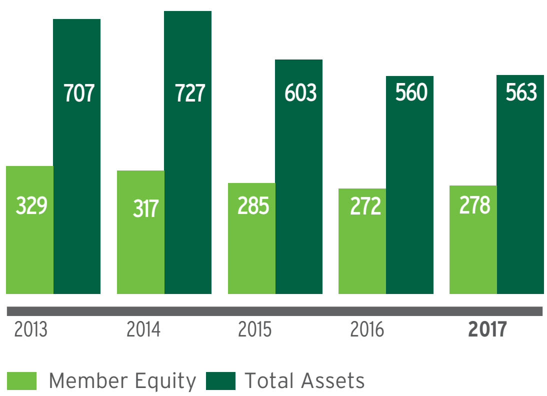
Net Income (Loss) ($M)



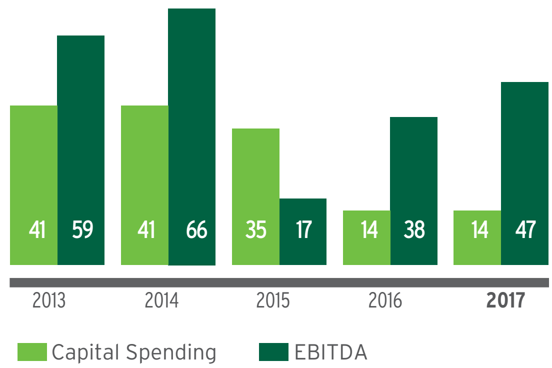
Patronage Dividend ($M)



Members' Equity and Total Assets ($M)



Capital Spending and EBITDA ($M)



This member report shares the story of our journey of being ***On the Road to Better.***

DEAR *Members*

Drive. It's a word that evokes a feeling of moving forward. We've selected it as the theme for our 2017 member report because it captures what we accomplished this past year. It also speaks clearly to the momentum we've gained heading into the future.

Our "drive" to improve our business over the last three years has paid off as we have achieved our goals of returning to profitability and paying patronage and while we recognize there is still work to do to improve our co-operative, we are pleased by our results to date. It is because of our combined efforts and your loyalty that earnings from continuing operations of $31.0 million positioned us to declare a patronage dividend of $12.5 million to our members in 2017. We believe this result strongly reflects that we are *On the Road to Better.* We sincerely thank our employees and petroleum agents for their hard work, our elected officials for their leadership as well as our members and customers for their loyalty.

One of the greatest drivers at UFA is our vision. It speaks to the co-operative we aspire to be: the most trusted and reliable supplier of petroleum, crop, livestock, building products and services in the markets we serve. We are very proud of the results achieved in 2017. Our pledge to our employees and to our membership is that we will not take our foot off the gas. We will continue to "drive" improvements in our business to achieve this vision.

This member report shares the story of our journey of being *On Road to Better.* The strong financial position we have achieved in 2017 now allows UFA to pivot. After many years of effort from our employees and UFA petroleum agencies in reducing costs and achieving efficiencies, we can now once again focus our attention on investing in and growing our business for the future benefit of our members and customers. Last year we promised you our focus would be to: increase our engagement with members, customers, employees and other stakeholders; "drive" the day-to-day execution of our business; and, make it easier for you to do business with UFA. We believe we have driven success in each of these areas in 2017.

We started down this road with our Board of Directors defining a renewed vision and mission statement. Senior management then created a three-year-plan for the business. Five strategic imperatives were identified within that business plan, which provided us with a road map for "driving" improvements within our business. These imperatives were:

- **TRANSFORM** UFA's assets to ensure our asset base is productive;
- **ENSURE** UFA is a relevant supplier to our customers and members;
- **ENABLE** the business to do what is needed to "drive" success;
- **SUPPORT** sustainability of the co-operative through good governance; and,
- **DRIVE** operational excellence throughout UFA.

Our plan guided us in our decision-making in 2017, as we worked to transform our assets throughout the year. First, we conducted an orderly wind down of the Wholesale Sports business. Faced with an increasingly competitive environment, the continued shift to online purchases and an overall slowing of consumer discretionary spending, including in the outdoor industry, it was very clear that we needed to make the strategic decision to close this business. We clearly communicated with all stakeholders and treated everyone, especially our employees, with great care and respect as we exited the business. We also wanted to recognize, that while the business was well-run, continuing to operate it would only detract from the strong financial position of our co-operative. The Wholesale Sports chapter of UFA's history is now closed as the litigation that was previously filed against us concluded in early 2018. The divestment of this business and the completion of the lawsuit now positions UFA to focus on its core businesses of agriculture and petroleum.

Transforming our assets also meant being proactive and responsible when it came time to optimizing our cardlock network. We made the decision to

We have 6,000 products online at UFA.com that show product availability at any UFA store location.

close our Delburne and Rockyford cardlock sites in 2017. However, transforming our assets didn't only involve closing facilities, we also reinvested significantly in our business this past year. We rebuilt our cardlock site in Spirit River, Alberta and opened a new location in Beaverlodge, Alberta which included a cardlock diesel exhaust fluid (DEF) dispenser. Investing in our petroleum network will continue to be a focus for UFA in 2018, as we look forward to building a new cardlock location in Fort Macleod and adding new DEF dispensers at additional locations for the convenience of our customers.

We also reinvested back into our business late in the year when we announced the acquisition of the Bridgeland Limited Partnership from CHS Inc. The decision reinforced UFA's commitment to our core business and to our members and customers in one of our most important agricultural geographies in the province. Reinvestment in the co-operative will continue in 2018 as we embark upon one of the largest investments your co-operative has made in a decade. UFA will be implementing a new enterprise resource planning system (Microsoft Dynamics 365) for our AgriBusiness division. We need to replace an outdated point of sale system and automate our business processes to best serve our members and customers going forward. This improvement to our internal systems will improve efficiency across our business. This investment will transform our AgriBusiness capabilities, drive operational excellence and enable us to provide e-commerce options for our customers and members in the very near future.

In 2017 we heard our members when they told us they wanted us to be a relevant supplier for their business. They told us to keep important programs such as Deferred Credit and myUFA, as well as to continue posting product and other information to UFA.com. In fact, more than 16,000 members and commercial customers now have online access to their account information through myUFA. We have 6,000 products online at UFA.com that show product availability at any UFA store location. We will continue to add products to our online assortment in 2018.

Perhaps one of our biggest good news stories of the year is found within our Retail AgriBusiness division and at our UFA Farm & Ranch Supply stores. This group has been diligently working to drive operational excellence and improve its operations and performance. Not only have they experienced increased traffic coming into our stores in 2017, their focus on delivering exceptional customer service and transforming internal supply chain operations has resulted in better selection and pricing for members and customers. Their continued perseverance and remarkable transformation is highlighted by year-over-year sales results that grew by eight per cent which were then driven by double digit same store sales increases over the last six periods of 2017. We are very optimistic about the positive momentum for the Retail AgriBusiness carrying over into 2018 and are already implementing improvements in our stores.

We committed to you in 2016 to improve on our government relations to better represent the interests of our membership. In 2017, we established a Government Relations committee consisting of UFA Delegates, Directors and dedicated internal resources to ensure our members' voices are heard at the table when important public policy decisions are being made. Issues such as the new small business tax changes, farm safety legislation, and the Canadian Agriculture Partnership are just a few areas where UFA is working with all levels of government to provide policy input on behalf of our membership. The government relations function supports a sustainable vision for our future, allows us to participate in an ever-changing regulatory environment and to be the voice of our members at a government level.

Our journey *On the Road to Better* all started from listening to you, our members. We asked "How can we better serve you as your co-operative?" We wanted to be accountable to you and remain focused on paying patronage. This focus drove the decisions and changes we made in 2017. We are now in a strong financial position to capitalize on new opportunities. We can also assure you that our steadfast focus on improvement remains for 2018. With an environment that is changing quickly, we must continue to change as well. While we are happy to share these results with you, we are not satisfied with this alone. We will continue to push forward and drive the business to better serve you as your co-operative.

On behalf of the Board of Directors, Delegates, employees, and petroleum agencies, we believe our results demonstrate that we truly are *On the Road to Better*. Our foot is still on the gas, and as your co-operative we will continue to drive forward to deliver for you. We are thankful for our members and customers' continued loyalty and for trusting in their co-operative. We are grateful to be steering this 109-year-old co-operative and to be confidently in the driver's seat, travelling *On the Road to Better*!

Co-operatively yours,

Kevin Hoppins
Chairman of
the Board

Carol Kitchen
President &
Chief Executive
Officer

Our foot is
still on the
gas, and
as your
co-operative
we will
continue
to **DRIVE**
forward.

> AGRIBUSINESS >>>

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

Through 35 UFA Farm & Ranch Supply 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

RETAIL SALES

$145.8m

In 2017, Retail AgriBusiness sales increased by eight per cent or $11.0 million from 2016.

GROSS MARGIN

$41.2m

The gross margin for Retail AgriBusiness increased by seven per cent from 2016.

RETAIL AGRIBUSINESS

"As a trusted local and community supplier of products and services for our members and customers, our Retail AgriBusiness team provides hands-on product knowledge, expertise and competitive everyday pricing. Our 35 UFA Farm & Ranch Supply stores strive every day to provide the right products, services and value to support and meet the everyday needs of farmers, ranchers and acreage owners in rural Alberta. We are proudly part of and connected to the local community."

› Glenn Bingley

Chief Operating Officer, Retail Operations, AgriBusiness

Performance

In 2017, Retail AgriBusiness continued to drive towards improving our retail store business. Year-over-year sales results were positive showing eight per cent growth, driven by double digit same store sales increases over the last six periods of the year. We continue to focus on reliability and relevance to our members and started the year by conducting a series of five focus group meetings across the province. Our Retail AgriBusiness team made a targeted effort to engage with our members to learn how we could better serve their business needs. As a result of the feedback received at those meetings, and from the feedback received from our stores throughout the year, we continued to make numerous improvements to our retail business.

In January 2017, our first paper flyer in many years went to press to promote our Winter Sales Event. This was the start of new promotional and marketing efforts, which created excitement and drove customer traffic to our stores. Twelve marketing flyers were printed over the year, which were delivered as an insert in the Alberta Farmer Express newspaper and made available in our UFA Farm & Ranch Supply stores, petroleum agencies and online. We received positive feedback from our customers and stores and we plan to expand the distribution of our flyers in 2018.

Product merchants in our merchandising team conducted numerous product assortment reviews throughout the year. These reviews are focused on gathering input and feedback from our store teams with the goal to understand and strengthen

our overall product offering. The aim of these product reviews is to provide an improved and relevant product assortment and ultimately a more positive shopping experience for our members and customers.

The AgriBusiness Retail team also updated UFA's special order process which allows our store employees to quickly offer a quote and then process and expedite a customer's order. As a result of these process improvements our special order business was up over 26 per cent in 2017.

We continue to invest in refreshing and remerchandising our stores. Throughout the year, we launched new visual merchandising tools and operational initiatives to ensure our members and customers are better able to navigate our stores and find what they are looking for with greater ease.

Our Supply Chain team created a new first to market strategy focused on key categories, such as calving supplies or fence posts, to improve the availability of seasonal products when our members and customers need them. These items are now "front loaded" into our store inventory at the start of the season. This means seasonal items will be available when our members and customers need them.

We focused on keeping the top 1,500 best-selling product in-stock and available for our customers. Our Supply Chain team achieved a consistent 98 per cent in-stock performance throughout 2017 on these top 1,500 articles. In addition to our focus on keeping our top items in stock, we now have more than 6,000 items listed in our product catalogue on UFA.com displaying product in-stock and availability by store.

Customer service is at the core of everything we do in our UFA Farm & Ranch Supply stores, and it is our goal to drive operational excellence while empowering our store teams to provide an unparalleled customer experience. To help gauge our customer service, we utilize a third-party company to evaluate our stores with a "Mystery Shop" (or secret shopper as it's commonly known) program. This program measures a comprehensive view of the entire shopping experience including service levels, store standards and product knowledge.

In November, Fort McMurray-based Spruceland Lumber, owned by UFA since 2007, was proud to provide a $35,000 in-kind donation to the NSUUR (pronounced "insure") group of charities, as part of a $50,000 financial commitment UFA made when the wildfire hit the Fort McMurray community in May 2016. NSUUR is a group of charities that work together in a co-operative way, to support families who did not have sufficient insurance to rebuild their homes.

› Driving Forward ›››

AgriBusiness Retail looks forward to continuing to drive improvements in the overall shopping experience for our members and customers. We remain focused on delivering great customer service, in-stock position, improved product assortment, point of purchase materials and competitive pricing. We will continue to drive operational efficiencies, increase store productivity and grow our business in the markets we serve.

COMMERCIAL AGRIBUSINESS

COMMERCIAL SALES

$195.0m

In 2017, Commercial AgriBusiness sales increased by five per cent or $10.0 million over 2016.

GROSS MARGIN

$25.1m

The gross margin for Commercial AgriBusiness increased by two per cent from 2016.

"Our Commercial AgriBusiness model is based on a farm-gate relationship with grain producers, mixed farmers, ranchers, colonies and commercial feedlots. We do this through a vast network of specialized Customer Account Managers. We know our members have countless options on where they do business, so why do they choose UFA? Every day we seek to earn the business from our valued members by offering competitive products that provide timely solutions with advice from a team of specialists who are deeply committed to our members' business—that's what sets us apart and it's the reason farmers come back to UFA."

› Rob Giguere
Vice President, Commercial AgriBusiness

Performance

At UFA, we subscribe to the old adage that "you reap what you sow" and this past year, Commercial AgriBusiness reaped the benefits of rigorous pre-season planning, enabling our employees, staying focused on our core businesses, and remaining connected to the communities where our members and customers live and work. These efforts have allowed us to improve our business year-over-year, despite some very challenging weather in 2017. Adapting quickly to the ever-changing growing conditions in this dynamic and competitive market is critical to success and our efforts this past year have paid off. Despite unharvested acres from the previous year and a wet spring coupled with extreme dry conditions in southern Alberta, UFA grew almost all segments of its business and outpaced the market in the key product segments of seed, seed treatment, inoculant and commercial livestock in 2017.

From an operational perspective, the team continued to improve on our in-season availability of products through better forecasting, replenishment, inventory management and product movement processes. We also added capacity in our training and analytics areas. We continue to look for opportunities to build partnerships with like-minded vendors so that we can pass on vendor rebate programs to our members. These programs benefit the member and result in improved earnings for UFA. We are focused on remaining competitive in the market and building trust with our members as reliable partners on their farms.

In 2017 we implemented several integrated marketing campaigns that showcased UFA's full breadth of offer, from our Partner Plus program to Deferred Credit. During Farmer's Day we engaged our crop input vendors to celebrate with our members at several locations. We also showed our support for the beef industry with key sponsorships at the Canadian Industry Beef Conference and the Alberta Cattle Feeders Conference, among others. We support and remain active in Crop Life Canada, Cattlemen's Young Leaders, and other provincial and national forums in our industry.

Sourcing new products and technology is an important part of staying competitive in a quickly evolving agriculture industry. In August, we announced our exclusive partnership as the official Canadian distributor of automed®, a revolutionary cloud-based technology that gives livestock producers the ability to medicate, record, manage and integrate all in one single step. The new system provides a traceable, accurate, and tamper-proof way of administering and auditing drugs given to all animals from birth. The system means the end of under and over-dosing, as it integrates easily with existing livestock tools and farm management systems.

The Commercial AgriBusiness team added a new outlet for seed and crop protection products in Kindersley, Saskatchewan this past year. This provided a great opportunity to expand UFA's offering by locating on the existing petroleum site. This model is proving to be advantageous in certain areas of our network and is one that we will continue to explore for the benefit of our members.

UFA's Ag Structures business, which includes both structures and integrated bin projects, showed a tremendous recovery in 2017 by focusing on more standardized building packages and improving efficiency in the quoting and building processes.

After more than 70 years in the construction business, UFA is well-positioned for the future for both farms and acreages.

Although UFA is primarily based in Alberta, we continue to explore opportunities to both grow geographically and champion progressive technology into new markets. UFA's Micro Beef Technologies (MBT) does both. This production system, exclusive to UFA, is a real-time computerized beef feeding management system which facilitates individual animal information collection and management. It enables better decision-making and greater efficiency for feedlot operators from 5,000 to 30,000 head. With UFA serving many of the larger feedlots in western Canada, we are now promoting this technology in other Canadian markets. MBT is a real differentiator for UFA and for our members, and we look forward to its continued growth in the years to come.

In October, we publicly announced the acquisition of the assets that were formerly part of our joint venture with CHS Inc., known as Bridgeland. This acquisition is comprised of three fertilizer blending facilities and one Anhydrous Ammonia site in the Peace Region of Alberta. We have now completed the full integration of those sites and employees under the UFA umbrella.

› Driving Forward ›››

Looking ahead, the Commercial AgriBusiness team will embark on a number of new initiatives for 2018 that will continue to find efficiencies within our existing operations, all while looking for growth opportunities. We are executing a focused plan aimed at ensuring we have the right products and solutions in place that are supported by knowledgeable and committed local teams. We will continue to foster our key supplier relationships to ensure our members have what they need, when they need it, and that we remain competitive. We will keep investing in our sales and operations teams and ensure that they have the knowledge and support needed to help our members "drive" their business. We will remain visible in the communities that we operate in and be open to hearing how we can do better. 2017 has been an important year for Commercial AgriBusiness as we refine processes, build and develop our employees and promote our strategy. As we travel *On the Road to Better* we look forward to accelerating momentum and reaping greater results for 2018 to the benefit of our members. As Canada continues to lead the way with high quality crops and livestock on a global stage, the future for agriculture in western Canada has never been brighter. We are confident that UFA will remain an integral part of our members' efforts to remain productive and profitable in this complex industry.

> PETROLEUM >>>

UFA's extensive network of petroleum sites is comprised of 106 cardlock operations in Alberta, supplemented by two in B.C. and three in Saskatchewan. We are a reseller of fuels and lubricants to our members and customers and we do this through bulk delivery directly to member and customer sites and through our network of cardlocks, which are designed for 24/7, large vehicle access, with high speed pumps.

SALES VOLUME

1,236.5m

In 2017, Petroleum sales volume increased by 14 per cent or 149 million litres over 2016.

GROSS MARGIN

$103.6m

The gross margin for Petroleum increased by 18 per cent from 2016.

"UFA Petroleum is committed to providing effective business solutions that enable our customers and members to be at their competitive best in an ever-changing economic environment. Our group literally fuels our customers' ability to operate and grow their businesses. We are where our members and customers need us to be, particularly in rural locations, where our service is second to none. Broad geographic coverage means members and customers can easily find our locations in their communities and we can be on-site quickly, so they can get back to doing business."

› Don Smith
Vice President, Petroleum

Performance

We proudly source from the best western Canadian refiners and top lubricant manufacturers to provide high quality fuel and lubricant solutions that our members and customers need and expect. We are also proud of our partnership with the Commercial Fueling Network, which allows us to provide customers with access to a network of more than 2,500 locations in B.C. and across the United States.

For our agricultural-based members, fuel and lubricants are major inputs into their operations. Crops and livestock don't wait so we have developed our model to ensure our members have what they need, when they need it.

We also have a significant non-member customer base, which is largely associated with oilfield service work. Their requirements are for on-time, safe and high-quality fuel and lubricants and we go above and beyond to service our valuable customers in the oilfield sector.

From Lethbridge to La Crete and all throughout the network we serve, our customers rely on high-quality fuel. This is why our fuels meet or exceed the stringent quality standards set by the Canadian General Standards Board for commercial fuel quality. We continually monitor the quality of all our fuels, and conduct benchmark testing, to ensure that our products meet the rigorous demands of today's agricultural, commercial, construction, oil field and on-road equipment. In 2017 we produced a fuel quality video to explain where we source our fuel from and how we deliver high quality fuel to our customers and members. Visit UFA.com/FuelQuality to see our latest video on fuel quality.

The Petroleum team is happy to share that our volumes are well-ahead of the last two years and our margins are solid. We know that one of the main drivers in the improvement in volume is thanks to a recovery in oil field activity, particularly in the western corridor of Alberta. Member volumes continue to increase, which provides evidence that


Petroleum
UFA

our competitive pricing efforts and strategies are paying off. Our Bar W Petroleum & Electric business supports two major industry sectors in Alberta: the industrial/commercial electrical industry and the downstream petroleum industry. It maintained revenues in 2017, and remains as the primary service provider for a major fuel distributor in its northern Alberta locations.

We continued with the hedging program that was created in 2016 to reduce exposure to significant inventory holding losses. Our hedging strategy has paid off, reducing UFA's exposure to inventory losses in 2017.

We continued to test 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 all successful propositions we extended to our members and customers in 2017. We also increased our focus on lubricant product offerings with strong results.

At the end of 2017 we supported the North West Redwater Partnership and Sturgeon Refinery when it was announced that the first Alberta diesel was flowing from the facility. We hosted a celebratory event at the Morinville UFA Petroleum Agency where we accepted the first litre of diesel fuel produced by the refinery. This significant moment marked the upgrader's milestone on its way to full commercial operation in 2018. We completed rebuilds of our agencies in Spirit River and Beaverlodge in 2017, recognizing and filling a need in those communities. Through projects like these, we strengthen the local economies of municipalities across the province through employment, spending and community investment.

At UFA, we care for the land and about the communities in which we live and work. This past year, we saw an 85 per cent reduction in the volume of product releases, our lowest level since 2014. We've implemented new processes and technology to improve our safety results such as automatic tank gauging, which gives our carrier agents remote visibility to their tanks. We also have a new valve management process which eliminates the risk of large spills. Our continued work with third-party carriers and our agent network to implement new operating procedures that are environmentally safe, reduces risk and improves our environmental stewardship.

› Driving Forward ›››

The UFA Petroleum team is focused on adding greater value to our members and customers. We will continue to train and develop our employees, agents, and contractors to better serve you. In addition, we will also be evaluating our product lines to understand where we can potentially offer you new products and make UFA the preferred choice for our members and customers.

> COMMUNITY INVESTMENT >>>

As a co-operative, UFA knows there is power in people working together. Our community investment program supports that belief by responding to members' needs and lending a helping hand. In 2017, UFA invested in rural communities across the province sponsoring rink boards, Lions' clubs, high school rodeos, village beautification projects, performing arts festivals, rural museums, bonspiels and many more projects—we gave to 405 rural community projects in 2017. In 2018, we plan on engaging more closely with our rural staff – UFA petroleum agents, UFA Farm & Ranch Supply store managers and sales staff – to better support what matters to the communities where our members live and work.

> 2017 >>> YEAR IN *numbers*

COMMUNITY INVESTMENT 2017

$750k

APPROXIMATELY

FUNDS DISTRIBUTED

405

EVENTS

FACEBOOK: ↑ 33.5% FOLLOWERS **TWITTER:** ↑ 15.9% FOLLOWERS **INSTAGRAM:** ↑ 120% FOLLOWERS

Ag For Life

"As someone who has worked with Ag for Life, I am glad to see UFA supporting their initiatives. Ag for Life is taking farm safety and agriculture education to the next level, and I see the commitment and energy they put into all their programs. We are in a time where we need to connect the urban population with rural, and Ag for Life is bridging the gap."

Tara Sawyer, Chair, Outstanding Young Farmers of Alberta program, Sawyer Farms Ltd., UFA family since 1999, Acme, Alberta

Helping deliver programs focused on reducing farm injuries and promoting agriculture through educational awareness programs is a key reason for UFA's ongoing support as a founding partner of Ag for Life. In 2017, UFA participated in the Grande Prairie Safe Communities program, where 600 children from kindergarten to Grade 6 learned how to identify and control various dangers they could encounter in rural areas and on the farm. UFA also proudly supported Ag for Life's new Agriculture Education Teachers' Symposium initiative, which was designed to include agriculture in the K-12 curriculum.

UFA Cattle Trail, Calgary Stampede

"As a producer, I really appreciate UFA's investment into the Calgary Stampede's UFA Cattle Trail. It allows the collaboration of the entire beef value chain to showcase all that it is doing to produce beef that is safe for the consumer and yet fully adheres to the need to be environmentally sound, focus on animal welfare and be a world class leader in new technologies."

Cherie Copithorne-Barnes, Calgary Stampede International Committee Chair and CEO, CL Ranches, UFA family since 1965, Jumping Pound, Alberta

From pasture to plate, the UFA Cattle Trail tells the story of beef, and provides an opportunity to showcase the stories and lifestyles of UFA members and customers across Alberta. 2017 was the second year UFA sponsored this live animal display of beef cattle, which is bolstered by informative and engaging displays about the industry. With more than 120,000 visitors to the UFA Cattle Trail in 2017, the interactive display showcased industry practices that enhance animal welfare, ensure food safety, protect natural resources and improve health and nutrition for consumers. It also allows UFA to continue work with other important agriculture industry partners to bring producers, vendors and consumers together.

Cattlemen's Young Leaders

"Many young people have been inspired, motivated and given hands-on opportunities to shape our industry through the Cattlemen's Young Leaders (CYL) Program. I applaud UFA for supporting such a valuable leadership program that helps to ensure the sustainability of the local producer."

Mona Howe, 2017 CYL participant, Owner, Two Rivers Ranch, UFA member since 2005, Empress, Alberta

The CYL development program provides industry specific training and mentorships to young producers between the ages of 18 and 35. Participants have the chance to take part in provincial, national and international high-level discussions that define the direction and future of the Canadian cattle and beef industry. In 2017, Carol Kitchen, UFA President & CEO, mentored Kristy-Layne Carr, a beef producer from Manitoba as part of the program. Both women are both passionate about leadership and about advancing women in the agriculture industry. Kristy-Layne is also interested in exploring the global beef trade, market forces which impact domestic beef prices and fostering better relationships between cow/calf and feedlot sectors.

4-H Alberta

"As a volunteer with 4-H Alberta for the past 25 years I have seen first-hand the positive impact UFA has had on this youth program. This partnership is a natural fit as both organizations support rural families and their communities. Continued partnership with 4-H Alberta will help UFA to engage and educate our youth and help them understand the value and importance of co-operatives."

Mark Sayers, Past President 4-H Alberta Council, UFA Delegate Lethbridge District, UFA member since 1983, Lethbridge, Alberta

For almost 80 years, UFA has supported the Alberta 4-H Foundation as part of our commitment to supporting our members in the work they do to feed the world. In 2017, UFA provided more than $100,000 to the Alberta 4-H Foundation to support their programming and special events. UFA was part of the special 4-H Centennial Fever weekend at the beginning of August, to celebrate the organization's 100 years of 4-H in Alberta at its provincial birthplace: Olds College!

> LEADERS AND DIRECTORS >>>

Running a co-operative is different because we have many member-owners and we're bound to each and every one of them. Our senior leadership bring valuable experience with co-operative entities and in public and private businesses, and with national and international experience. Together, they are leading UFA from a successful past into a bright future.

SENIOR LEADERSHIP FOR 2018-19

Pictured standing (from left to right) Glenn Bingley (Chief Operating Officer Retail Operations), Carol Kitchen (President and Chief Executive Officer), Scott Bolton (Chief Financial Officer). Seated are (from left to right) Julie Giles (Managing Director Information Technology), Don Smith (Vice President Petroleum), Rob Giguere (Vice President Commercial AgriBusiness) and Bob Fink (Chief Corporate Affairs Officer).

The delegates and directors who represent UFA members re-elected one director and elected two new directors during the co-operative's annual general meeting in March. Director Harold Haugen was re-elected, while UFA welcomed David Kolotylo and Don Cormack. All candidates were elected to three-year terms. Thank you to Tim Nakaska and Mic Thiessen for their many years of dedicated service to UFA.

UFA BOARD OF DIRECTORS FOR 2018-19
Pictured standing (from left to right) are Harold Haugen, Jim Bettcher, Jim Laverick, Kevin Hoppins (chair), Henry Vos and Rick Hansen.
Seated are (from left to right) Cindy Bjorklund, Don Cormack, Patricia Henderson, David Kolotylo and Harvey Hagman.

UFA has been a co-operative serving members for more than 109 years. Today, more than 110,000 members are represented by delegates in 42 geographic regions. These delegates and UFA directors elect the board. Through these delegates, UFA members retain control of their co-operative.

Matt Sawyer
Airdrie

David Salé
Athabasca

Arlene Good
Brooks

Pauline Hjalte
Calgary

Brent Christensen
Camrose

Sydney Gray
Claresholm

Vacant
Drayton Valley

Darcy Jensen
Drumheller

Christine Lentz
Fairview

Claude Smith
Falher

Lydia Hittinger
Ft. Saskatchewan

Larry Holthe
Fort St. John

Nico Van Der Giessen
Grande Prairie E.

Loren Damer
Grande Prairie W.

Vacant
Grimshaw

Glenn Groeneveld
High River

Garry Baker
Kindersley

Trevor Dyck
La Crete

Donald Sendziak
Leduc

Mark Sayers
Lethbridge

Rebecca King
Lloydminster

Tom Thompson
Mayerthorpe

Frank Crooks
Medicine Hat

Jim Donner
Olds

Brad Howe
Oyen

John Vallieres
Pincher Creek

Allen Leighton
Ponoka

Pak Wong
Provost

John Pogmore
Red Deer

Roland Grutterink
Rocky Mountain House

Ken Wagner
Spruce Grove

John Wozniak
St. Paul

Guy Neitz
Stettler

Joseph Van Bavel
Strathmore

Larry Caswell
Swift Current

Leroy Holthe
Taber

Norene Page
Trochu

David Kolotylo
Two Hills

Trent Selte
Vermilion

Noel Flitton
Vulcan

Kerry Degenhardt
Wainwright

Lonnie Brown
Westlock

MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS

The following Management Discussion and Analysis (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 2017 and 2016, 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 UFA 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 and holds special meetings from time to time as and when necessary. The Board and its committees, as listed below, operate independently from management to protect owner interests. In addition, UFA also has other sub-committees made up of a varying combination of management, members, UFA delegates and Board members to provide additional governance and leadership to UFA. The current members of the Board have served between one and ten years. Board members have the right to seek independent advice should they so desire or deem necessary.

The Board has established four standing committees: audit; governance; government relations; and human resources compensation. Sub-committees include the nominating committee (made up of delegates and Board members) and the delegate representative committee (made up of delegates). 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 and Board members formally renew their commitment to UFA's Code of Business Ethics (*COBE*) each year. We support our employees and Board members 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, members and customers to report and resolve ethical questions or issues that may arise through the course of business.

We continue to promote awareness of our COBE, 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 a safe place to work that protects our employees, agents, contractors, customers, and the environment. UFA conducts business in a manner that minimizes impacts and promotes sustainability in the communities in which we operate. UFA complies with or exceeds EH&S federal, provincial and municipal legislation and regulations. In so doing, UFA maintains an effective EH&S management system.

Partnering with UFA business divisions and actively involving our workers, the EH&S team work centers around minimizing the co-operative's risks typically found in our industries. We have seen an 85 per cent reduction in volume of releases to the environment since 2014 and a drop in forklift related incident claims of 75 per cent since 2015 due to identified and focused training programs.

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.

2017 SUMMARY OF OPERATIONS

CONSOLIDATED STATEMENT OF CONTINUING OPERATIONS

(All figures stated in thousands of Canadian dollars)

For the period ended	**December 31, 2017**	December 25, 2016
Revenue	**$ 1,536,163**	$ 1,227,942
Cost of sales	**(1,366,297)**	(1,076,743)
Gross margin	**169,866**	151,199
Operating and administrative expenses	**(128,193)**	(119,338)
Other income	**5,590**	6,421
Earnings before the under noted (EBITDA)	**47,263**	38,282
Depreciation and amortization	**(23,725)**	(27,614)
Pension remeasurement	**13,875**	(6,617)
Impairment of intangibles	**-**	(685)
Interest	**(6,305)**	(6,165)
Foreign currency exchange (loss) gain	**(132)**	410
Income (loss) before Patronage and income taxes	**30,976**	(2,389)
Patronage Dividend	**(12,500)**	-
Income tax (expense) recovery	**(6,241)**	806
Net income (loss) from continuing operations	**12,235**	(1,583)
Net (loss) from discontinued operations	**(10,062)**	(858)
Net income (loss)	**$ 2,173**	$ (2,441)

The MD&A addresses the 2017 business performance of UFA's continuing operations: the Petroleum division, the AgriBusiness Retail and Commercial divisions and Centralized Services. Continuing operations excludes the business performance of Wholesale Sports Canada Ltd. (Wholesale Sports Canada).

Due to a number of external factors including increasing competition in the outdoor products sector and in order to refocus its operations on agriculture and petroleum products, in September 2017 UFA announced the wind-down and closure of Wholesale Sports Canada's operations. Operations ceased on December 28, 2017. The results of Wholesale Sports Canada are reflected as a discontinued operation in the financial statements.

SUMMARY OF CONTINUING OPERATIONS

Consolidated revenue from operations was $1,536.2 million in 2017, up from $1,227.9 million the previous year.

The Petroleum division ended the year with sales of $1,195.4 million, an increase of 32 per cent from 2016 sales of $908.2 million. The increase resulted from a combination of higher volumes and prices compared to last year. Commercial sales volumes were positively affected by an increase in energy sector activity. Member volumes were slightly above prior year volumes. In addition, average diesel and gas prices increased throughout 2017, which increased the dollar value of sales.

Combined 2017 Commercial and Retail AgriBusiness sales increased by seven per cent to $340.8 million up from $319.7 million in 2016. The sales increase was split evenly between our commercial and retail business units.

AgriBusiness sales excluded crop input sales in the Peace Region until October 31, 2017. On this date, UFA acquired CHS Inc.'s 50.0 per cent ownership of the Bridgeland partnership and other capital assets. Commencing October 31, 2017, Bridgeland's financial results are consolidated with UFA's financial results.

Consolidated gross margin increased by 12 per cent ($18.7 million) to $169.9 million up from $151.2 million in 2016. The majority of the increase was a result of higher fuel volumes and improved margins in the Petroleum division. AgriBusiness gained margin of $3.0 million due to higher sales volumes partially offset by a slight margin rate decrease.

Operating and administrative expenses were $128.2 million in 2017, a seven per cent increase from $119.3 million in 2016. The largest cost component, salaries and benefits was $82.1 million, a $9.9 million increase over previous year. The increase is mainly attributable to higher variable pay for staff as a result of improved financial performance, higher benefits charges from our insurance provider and severance payments related to staff reductions, mainly at head office. Overall salary levels and field headcount levels were largely consistent to the prior year. The increase in salaries and benefits cost was offset by lower legal costs associated with the completion of the Wholesale Sports USA, Inc. litigation. All other material expense categories were in line with plan and prior year.

Other income in 2017 was $5.6 million compared to $6.4 million in 2016. The main components of other income are interest on overdue accounts and dividend income.

Consolidated 2017 EBITDA increased by $9.0 million compared to 2016 resulting from an $18.7 million increase in gross margin offset by an $8.9 million increase in operating and administrative expenses and a $0.8 million decrease in other income.

An actuarial valuation of the defined benefit pension plan was completed as at December 31, 2015. Equity returns and plan assets increased in 2017, resulting in a pension revaluation gain of $13.9 million compared to a loss of $6.6 million in the fiscal year 2016.

For 2017, UFA has allocated a Patronage Dividend of $12.5 million for declaration at the annual meeting of the Co-operative in March 2018.

Consolidated net income from continuing operations in 2017 was $12.2 million compared to a net loss of $1.6 million in 2016.

In December 2017, UFA completed the closure of Wholesale Sports Canada. The operating results for Wholesale Sports Canada combined with the associated wind down costs net of the future tax benefits resulted in a net loss from discontinued operations of $10.1 million in 2017 ($0.9 million 2016). An analysis of the loss is provided in note 22 to the consolidated financial statements.

THE PETROLEUM DIVISION

Petroleum sales volumes in 2017 were 14 per cent or 149 million litres higher than 2016. Commercial volumes were higher throughout the year mainly due to increased energy sector activity.

Average gross margin in 2017 increased slightly compared to 2016 due to a reduction in inventory holding losses and improved margin management.

Operating costs increased by $1.6 million over the same period last year. Salary related cost increases relating to higher variable pay, higher benefit costs and severance accounted for most of this increase.

The increase in sales volume and margin rates resulted in an increase to divisional EBITDA of $14.0 million to $75.3 million from $61.3 million in 2016.

THE AGRIBUSINESS DIVISION

AgriBusiness Retail

In 2017, Retail sales were $145.8 million, an increase of eight per cent or $11.0 million over 2016. After a slow start due to cold, wet weather conditions, overall same store sales improved each month starting in May. A strong focus on customer service, improved merchandising, improved in-stock metrics, particularly for key products and an extra week in the fiscal year were key drivers of the increase. Additionally, Spruceland lumber results rebounded after a difficult 2016 caused by the Fort McMurray fire.

Retail gross margin was $41.2 million, an increase of seven per cent or $2.6 million over 2016. The increase in gross margin is due to increased sales. Overall margins decreased slightly from 2016 levels.

AgriBusiness Commercial

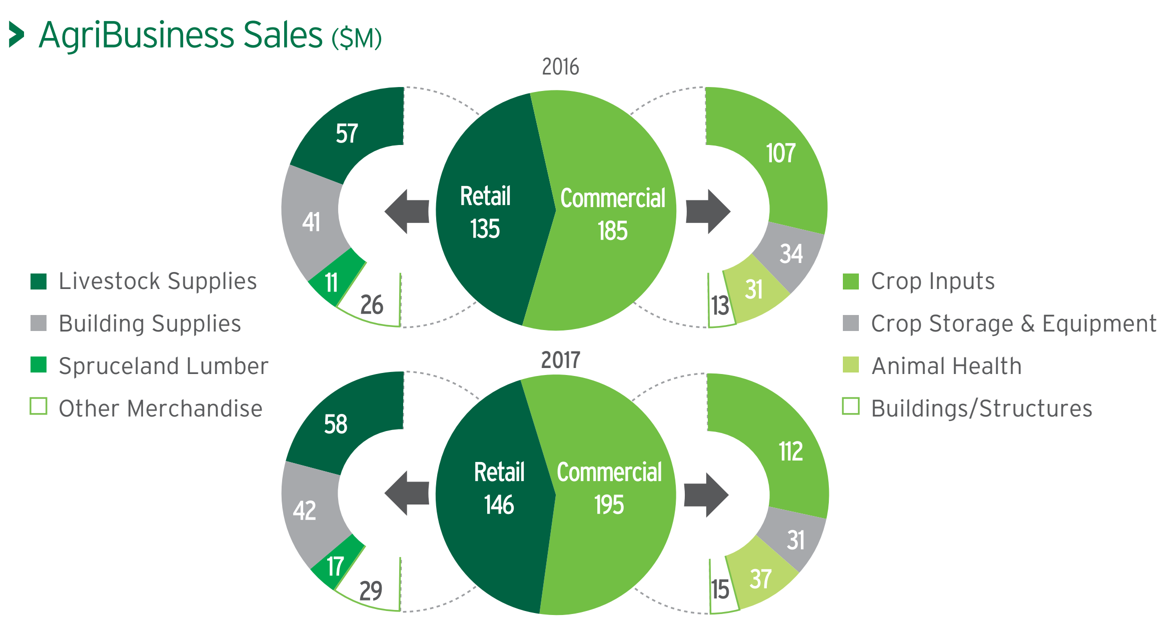
In 2017, Commercial sales were $195.0 million, an increase of five per cent or $10.0 million over 2016. The increase was driven by sales increases in seed, animal production, feedlot technologies and building structures. The increases were partially offset by lower fertilizer sales due to supply issues.

Commercial gross margin was $25.1 million, an increase of two per cent over 2016. The increase in gross margin is due to increased sales. Overall gross margins decreased slightly in 2016 mainly due to lower chemical margins.

AgriBusiness - 2017 operating expenses increased by five per cent or $2.9 million over 2016 levels. The increase was mainly driven by higher salary and benefits costs from variable pay and employee benefit programs. Fleet, maintenance and utility costs were also higher offset by reductions in outside services and travel.

AgriBusiness inventory levels increased from $96.8 million in 2016 to $105.2 million in 2017 mainly due to higher chemistry and crop storage inventory as a result of drought conditions in southern Alberta.

Divisional AgriBusiness EBITDA was $8.4 million in 2017 up slightly from $8.3 million earned in 2016.



CENTRALIZED SERVICES

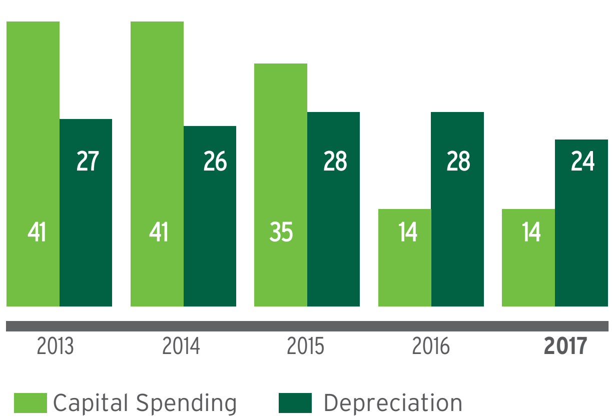
In 2017, Centralized Service costs were $42.1 million, an increase of $4.4 million over 2016. The increase was mainly driven by higher variable pay for staff, increased benefit costs and severance costs associated with staffing reductions at head office. Additionally, information technology consulting costs were higher related to the implementation of a new dividend equity system and other projects. These increases were partially offset by reductions in legal and rent costs.

CAPITAL SPENDING AND DEPRECIATION

During 2017, UFA invested $14.4 million in capital additions compared to $14.0 million in 2016. The additions included $8.1 million in investments in petroleum assets including the new Beaverlodge site as well as important investments in AgriBusiness, new rolling stock and information technology assets. In 2017, UFA commenced a significant multi-year investment in a new point of sale system at the stores and a new enterprise reporting system for AgriBusiness.

A depreciation and amortization charge from continuing operations of $23.7 million was incurred in 2017, a $3.9 million reduction from the prior year charge of $27.6 million. As at December 31, 2017, UFA had capital assets of $200.6 million.

Capital Spending and Depreciation ($M)



LONG-TERM DEBT

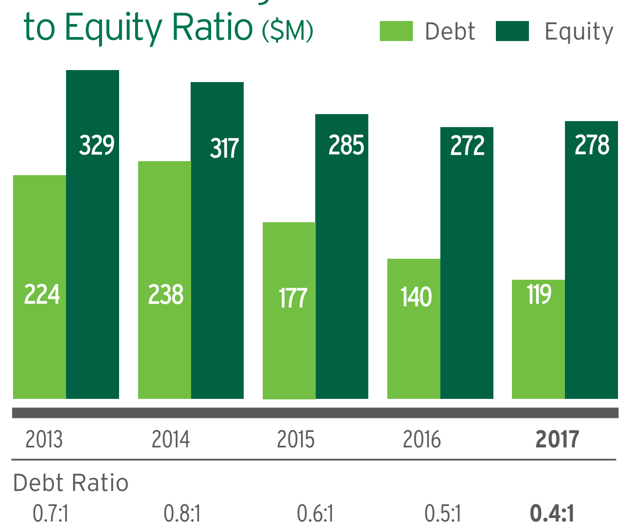
As at December 31, 2017, UFA had long-term debt of $47.7 million, including a current portion of $40.3 million. Long-term debt is primarily comprised of an asset-based lending agreement with a banking syndicate (Credit Agreement). The Credit Agreement is due for renewal in December 2018 and is shown as a current liability. The remainder of long term debt is comprised of capital leases for rolling stock and information technology assets. The decrease from 2016 is due to cash generated from sale of inventory relating to the closure of Wholesale Sports Canada.

MEMBER LOANS

UFA has multiple voluntary member loan programs in place including the Demand Loan program, which pays interest at prime plus 1 per cent and three separate three year fixed term programs, which pay interest at rates ranging from between 5 and 5.5 per cent. As at December 31, 2017, the total outstanding under these programs is $70.8 million compared to $69.9 million in 2016. The demand program ($10.9 million) and the fixed program maturing in September 2018 ($29.4 million) are classified as current liabilities. The other two fixed programs mature in June 2019 and 2020 and are classified as long-term liabilities.

Total financing costs for 2017 were $6.3 million, compared to $6.2 million in 2016.

Interest Bearing Debt to Equity Ratio ($M)



LONG-TERM LIABILITIES

Included in long-term liabilities is a legal liability provision of $14.9 million relating to the disposition of Wholesale Sports USA, Inc. Based on a court ruling in December 2017 this liability was settled in full in January 2018 and has therefore been classified as current in the 2017 financial statements.

LIQUIDITY

UFA depends on its ability to generate cash from operating activities and attract capital from internal and external sources to finance its business operations, 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 market it serves.

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 31, 2017, internal sources of capital amounted to $277.8 million compared to $272.0 million in 2016.

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 $132.1 million at December 31, 2017 compared to $104.0 million at December 25, 2016.

The Credit Agreement is due for renewal in December 2018, at which time UFA plans to have a suitable credit facility in place. The average borrowing rate in 2017 was 3.32 per cent. Rates are based on 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:

- Demand Member Loan Program, which pays interest at bank prime plus one per cent;
- 5.5-for-3 Member Investment Plan (5.5for3MIP) which pays interest at 5.5 per cent annually over the three year term;
- 5.5-for-3 til 2019 Member Investment Plan (5.5til2019MIP) which pays interest at 5.5 per cent annually over the three year term; and
- 5.0-til-2020 Member Investment Plan (5.0til2020MIP) which pays interest at 5.0 per cent annually over the three year term.

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

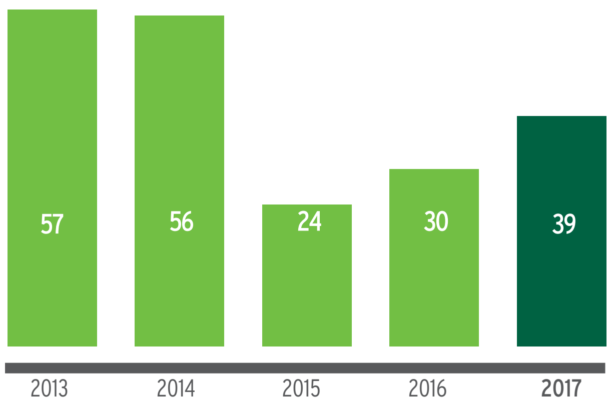
FINANCIAL COVENANTS

UFA is subject to certain financial and collateral covenants related to the Credit Agreement. In 2017 UFA was in compliance with the lender covenants.

FUNDS FLOW FROM OPERATIONS

Funds flow from continuing operations was $39.5 million, an increase of $9.4 million from 2016. Net cash generated by operating activities including working capital changes from continuing operations, was $9.0 million in 2017 compared to $60.2 million in 2016. Non-cash working capital used in 2017 was $29.5 million compared to $31.0 million generated in 2016 largely due to the increase in 2017 inventory and receivables for continuing operations.

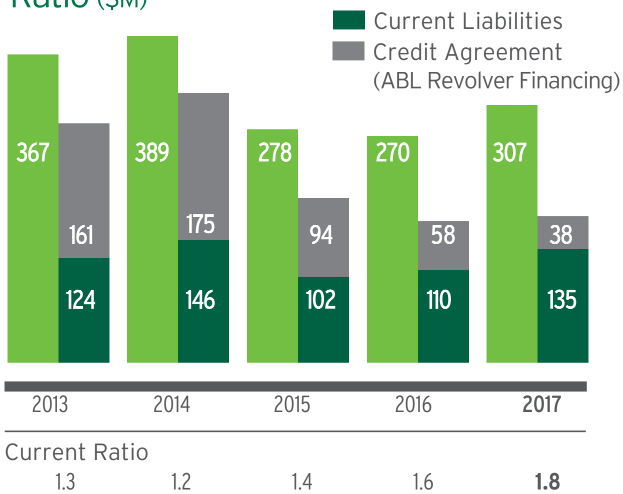
Funds Flow from Operations ($M)



WORKING CAPITAL RATIO

Working capital ratio from continuing operations of 1.8:1 in 2017 represents an improvement from the 2016 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.

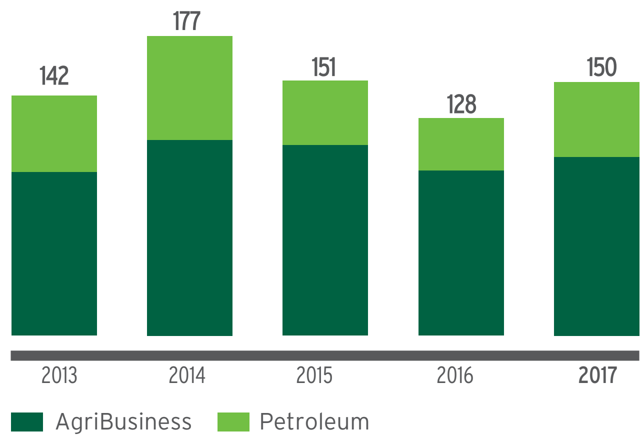
Working Capital Ratio ($M)



INVENTORIES

At year-end 2017, inventory from continuing operations was $21.9 million higher than 2016. AgriBusiness inventories increased by $8.4 million mainly due to the increase in chemical inventory. Petroleum inventory increased by $13.5 million due to increase in volumes held throughout the network and higher prices.

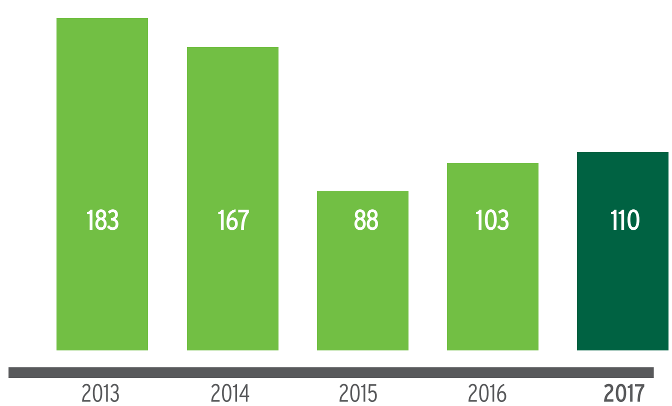
Inventories ($M)



ACCOUNTS RECEIVABLE

In 2017, accounts receivable from continuing operations increased to $110.1 million from $102.6 million in prior year. This increase is attributable to increased activity in the oil and gas industry, particularly in December. The bad debt write-off in 2017 was $0.8 million, same as prior year, net of prior year recoveries of $0.6 million ($0.4 million in 2016), Days sales outstanding (DSO) was at 28 days in 2017 unchanged from 2016.

Accounts Receivable ($M)



MEMBERS' EQUITY

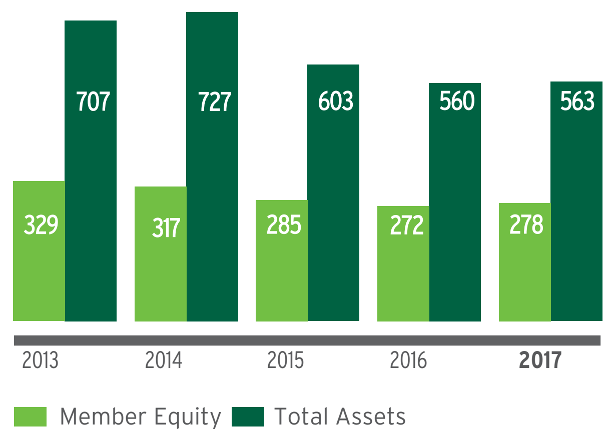
UFA's equity structure is a source of capital and considerable financial strength. As a co-operative, UFA provides members' benefits by allocating a portion of its taxable earnings to members in the form of a Patronage Dividend. Under UFA's by-laws, a Patronage Dividend for the year is declared at the next annual meeting of the co-operative. Up to December 31, 2017, Member Entitlements consisted of Member Shares, the current period's Patronage Dividend, Revolving Equity, Class A Investment Shares (Investment Shares) and Contributed Surplus.

At the annual meeting of the Co-operative in March 2017, the delegates approved changes to UFA's by-laws governing Member Entitlements. Effective January 1, 2018, Member Entitlements consists of Member Shares, the current period's Patronage Dividend, Investment Shares and Contributed Surplus. In accordance with the revised by-laws, effective January 1, 2018, $36.6 million, representing the total of individual members' Revolving Equity was repaid by the issuance of Member Shares and $0.6 million was repaid in cash. A summary of Member Entitlements is outlined in the Notes to the Financial Statements.

For 2017, a Patronage Dividend of $12.5 million has been proposed for declaration at the 2018 annual meeting of the Co-operative. Effective January 1, 2018, Patronage Dividends declared are applied 60 per cent in Member Shares and 40 per cent in cash less withholding taxes for individual members' balances less than $30,000. For members who are at the $30,000 cap, the Dividend is paid in cash less withholding taxes.

In 2017, Dividends on investment shares totalled $2.9 million compared to $2.8 million in 2016.

Members' Equity and Total Assets ($M)



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 10 per cent Canadian equities, 30 per cent Global equities, 20 per cent in alternative investments 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 $164.4 million at December 31, 2017 compared to $143.1 million in 2016, while the accrued benefit obligation, excluding the unfunded SERP obligation, was $134.2 million in 2017 compared to $131.2 million in 2016. The unfunded SERP obligation at year-end 2017 was $3.1 million, compared to $3.3 million at year-end 2016.

In 2017, UFA incurred a net pension expense of $3.4 million compared to $3.2 million in 2016.

An actuarial valuation of the defined benefit pension plan was completed as at December 31, 2015. Equity returns and plan assets increased in 2017, resulting in a pension revaluation gain of $13.9 million compared to a 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.

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. UFA also utilizes 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. UFA also utilizes a hedging program to assist in the management of inventory hedging risk

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. UFA offers a deferred credit finance program for agricultural customers, Farm Credit Canada, Bank of Nova Scotia and several leasing partners provide alternate finance options and assume a shared portion of 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, UFA has an experienced, in-house credit department that monitors adherence to terms and conditions, studies trends and identifies changes in payment behaviors and performs regular credit reviews to mitigate potential bad debt. 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 reduction 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.

UFA continues to utilize current technology and tools to proactively monitor and review customer credit accounts. Companies such as Equifax Canada, Dun & Bradstreet, Corporate Registry and CreditRisk Monitor provide additional support to UFA's proprietary credit risk database, ensuring the highest level of proactive credit risk mitigation.

LIQUIDITY RISK

UFA manages liquidity risk to ensure it has sufficient liquidity to meet liabilities when they come due. At December 31, 2017, UFA had current assets of $313.0 million (2016 - $269.6 million) to settle current liabilities of $202.6 million (2016 - $125.3 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 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 1.29 per cent plus a spread of 1.25 per cent 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 2017. UFA also entered into a financial derivative contract to protect foreign currency exposure related to legal liability provision for Wholesale Sports USA, Inc. The liability was settled in full in January 2018.

COMMODITY RISK

UFA entered into a commodity hedge contract in 2017 to manage inventory holding risk on its diesel inventory. The contract is valid until January 2019.

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 21, 2018

Scott Bolton
Chief Financial Officer
February 21, 2018

February 21, 2018

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 31, 2017 and the consolidated statement of operation, changes in members' equity and cash flows for the 53 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.

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 31, 2017 and the results of their operations and their cash flows for the 53 week period then ended in accordance with Canadian accounting standards for private enterprises.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta

PricewaterhouseCoopers LLP
111 – 5th Avenue SW, Suite 3100, Calgary, Alberta T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

CONSOLIDATED BALANCE SHEET

As at *(Stated in thousands of Canadian dollars)*	**December 31, 2017**	December 25, 2016
Assets		
Current Assets		
Cash	**$ 13,760**	$ 16,727
Accounts receivable *(note 3)*	**110,131**	102,618
Inventories	**150,177**	128,262
Prepaid expenses and deposits	**28,972**	19,052
Property held for sale *(note 4)*	**6,029**	-
Future income tax asset *(note 10)*	**3,930**	2,912
	312,999	269,571
Property held for sale *(note 4)*	**-**	7,230
Investments *(note 5)*	**542**	2,259
Other long-term assets *(note 6)*	**29,271**	10,119
Goodwill and intangible assets *(note 7)*	**6,473**	8,754
Future income tax asset *(note 10)*	**19,297**	8,260
Property and equipment *(note 8)*	**194,147**	197,413
Current assets of discontinued operations *(note 22)*	**700**	45,572
Long-term assets of discontinued operations *(note 22)*	**-**	10,679
	$ 563,429	$ 559,857
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable and accrued liabilities *(note 18)*	**$ 93,812**	$ 83,782
Deferred revenue	**13,088**	13,285
Current portion of member loans *(note 9)*	**29,384**	15,005
Demand member loans *(note 9)*	**10,877**	10,377
Current portion of long-term debt *(note 11)*	**40,257**	2,893
Current portion of long-term liabilities *(note 13)*	**15,141**	-
	202,559	125,342
Long-term debt *(note 11)*	**7,441**	66,731
Member loans *(note 9)*	**30,544**	44,536
Asset retirement obligations *(note 12)*	**24,720**	23,959
Long-term liabilities *(note 13)*	**5,152**	19,898
Current liabilities of discontinued operations *(note 22)*	**15,240**	6,253
Long-term liabilities of discontinued operations *(note 22)*	**-**	1,126
	285,656	287,845
Members' Equity		
Member entitlements *(note 15)*	**214,144**	207,127
Retained earnings	**63,629**	64,885
	277,773	272,012
	$ 563,429	$ 559,857

See accompanying notes to consolidated financial statements

On behalf of the Board   Chairman   Director

CONSOLIDATED STATEMENT OF OPERATIONS

For the period ended *(Stated in thousands of Canadian dollars)*	**December 31, 2017**	December 25, 2016
Revenue *(note 19)*	**$ 1,536,163**	$ 1,227,942
Cost of sales	**(1,366,297)**	(1,076,743)
Gross margin	**169,866**	151,199
Operating and administrative expenses	**(128,193)**	(119,338)
Other income	**5,590**	6,421
Earnings before the under noted	**47,263**	38,282
Depreciation and amortization	**(23,725)**	(27,614)
Gain (loss) from pension remeasurement *(note 17)*	**13,875**	(6,617)
Impairment of intangibles *(note 7)*	**-**	(685)
Interest *(notes 9,11)*	**(6,305)**	(6,165)
Foreign currency exchange (loss) gain *(note 16)*	**(132)**	410
Income (loss) before Patronage Dividend and taxes	**30,976**	(2,389)
Patronage Dividend *(note 15)*	**(12,500)**	-
Income tax (expense) recovery *(note 10)*	**(6,241)**	806
Net income (loss) from continuing operations	**12,235**	(1,583)
Net loss from discontinued operations *(note 22)*	**(10,062)**	(858)
Net income (loss)	**$ 2,173**	$ (2,441)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

As at *(Stated in thousands of Canadian dollars)*	**December 31, 2017**	December 25, 2016
Member Entitlements *(note 15)*		
Beginning of period	**$ 207,127**	$ 213,873
Patronage Dividend	**12,500**	-
Dividends paid in cash	**(108)**	(110)
Redemptions / repayments	**(5,452)**	(7,288)
Member share dividend	**500**	512
Less than minimum, unclaimed and other adjustments	**77**	140
Contribution to UFA Rural Communities Foundation	**(500)**	-
	214,144	207,127
Retained Earnings		
Beginning of period	**64,885**	70,635
Net income (loss)	**2,173**	(2,441)
Member share dividend	**(500)**	(512)
Patronage recovery net of closeouts	**2**	3
Dividends on investment shares	**(2,931)**	(2,800)
	63,629	64,885
Total Members' Equity	**$ 277,773**	$ 272,012

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended *(Stated in thousands of Canadian dollars)*	**December 31, 2017**	December 25, 2016
Operating activities		
Net income (loss) for the year - continuing operations	**$ 12,235**	$ (1,583)
Items not requiring an outlay of cash		
Patronage Dividend	**12,500**	-
Gain on disposal of property and equipment	**(78)**	(1,042)
Asset retirement obligation accretion *(note 12)*	**1,144**	1,316
Future income tax expense (recovery) *(note 10)*	**3,050**	(1,972)
Increase (decrease) in other long-term liabilities	**947**	(2,223)
Other amortization and expenses	**(188)**	110
Impairment of intangibles *(note 7)*	**-**	685
Pension remeasurement	**(13,875)**	6,617
Depreciation and amortization *(notes 7,8)*	**23,725**	27,614
Other non-cash items	**-**	530
Funds flow	**39,460**	30,052
Asset retirement obligations settled *(note 12)*	**(935)**	(852)
Changes in non-cash working capital *(note 20)*	**(29,512)**	31,022
Cash from operating activities - continuing operations	**9,013**	60,222
Cash from operating activities - discontinued operations	**38,248**	731
Cash from operating activities	**47,261**	60,953
Investing activities		
Additions to property and equipment	**(14,040)**	(13,063)
Investment in Bridgeland *(note 5)*	**(1,533)**	(2,250)
Additions to intangible assets	**(406)**	(976)
Proceeds from disposal of property and equipment	**1,329**	6,037
(Increase) decrease in other long-term assets	**(5,517)**	3,897
Cash used in investing activities - continuing operations	**(20,167)**	(6,355)
Cash used in investing activities - discontinued operations	**-**	(731)
Cash used in investing activities	**(20,167)**	(7,086)
Financing activities		
Long-term debt repaid *(note 11)*	**(22,034)**	(37,021)
Net member loans issued (redeemed) *(note 9)*	**887**	(911)
Repayment of revolving equity	**(358)**	(521)
Dividends on investment shares	**(2,931)**	(2,800)
Redemption/repayment of shares	**(5,017)**	(6,627)
Contribution to UFA Rural Communities Foundation	**(500)**	-
Member share dividends paid in cash	**(108)**	(110)
Cash used in financing activities - continuing operations	**(30,061)**	(47,990)
Cash used in financing activities - discontinued operations	**-**	-
Cash used in financing activities	**(30,061)**	(47,990)
(Decrease) increase in cash	**(2,967)**	5,877
Cash, beginning of period	**16,727**	10,850
Cash, end of period	**$ 13,760**	$ 16,727

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 two business segments distributing fuel products and farm supplies to its customers. As a co-operative, a significant portion of its business is with its member-owners. The outdoor recreation products segment operated through a wholly-owned subsidiary, Wholesale Sports Canada Ltd. concluded operations on December 28, 2017.

Bar W Petroleum & Electric Inc. (Bar W), a part of the business segment distributing fuel products since 2005, was established 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. (CHS) to sell fertilizer, seed and crop chemical products in the Peace Country region of Alberta and British Columbia. In 2017, UFA acquired 100 per cent of Bridgeland through the entire purchase of the partner's investment and influence. These financial statements include Bridgeland's financial results accounted for using the equity method until the date of acquisition. As of October 31, 2017, UFA owns and manages 100 per cent of the Bridgeland company, at which time the reporting of this entity was included in the consolidated reporting of UFA.

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 31, 2017 and the comparative period is December 25, 2016. Financial figures and tables do not include Wholesale Sports Canada Ltd. as it was no longer part of continuing operations at the reporting date.

Basis of Presentation

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

Comparative Figures

Certain comparative financial information has been reclassified to be consistent with the presentation adopted for 2017.

Retail calendar requires 53 weeks for period ending December 31, 2017 and 52 weeks for the comparable period.

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 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 $1,323.2 million (2016 – $1,040.6 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 "assets under construction" 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

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 *(see 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.

Financial instruments will include cash, accounts receivable, accounts payable, various debt-based instruments and certain derivatives products. 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 $101.1 million (2016 – $93.5 million) extended under commercial terms, a financial instrument of $1.4 million (2016 - nil) and other miscellaneous receivables of $7.6 million (2016 – $9.1 million). The customer and member receivables are net of an allowance of $2.1 million (2016 – $2.6 million). In 2017, UFA recorded $0.8 million in bad debts (2016 – $0.8 million), which are net of $0.6 million (2016 – $0.4 million) in credit recoveries for amounts written off in prior years.

In 2017, UFA earned interest on overdue accounts receivable of $4.3 million (2016 – $3.9 million).

4. PROPERTY HELD FOR SALE

		2017		2016
Land and equipment	**$**	**6,029**	$	7,230
Less: current portion		**(6,029)**		-
	$	**-**	$	7,230

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.

5. INVESTMENTS

		2017		2016
Initial investment in Bridgeland	**$**	**1,720**	$	2,250
Share of Bridgeland loss		**(187)**		(530)
Fair value of acquisition		**1,533**		-
Investment eliminated upon consolidation		**(3,066)**		-
Investment in Bridgeland, end of period		**-**		1,720
Other investments		**542**		539
	$	**542**	$	2,259

On January 4, 2016, UFA entered into the Bridgeland limited partnership with CHS Inc. to sell fertilizer, seed and crop chemical products in the Peace Country region of Alberta and British Columbia. The partnership was accounted for using the equity method. On October 31, 2017, UFA acquired CHS Inc.'s 50.0 per cent ownership of Class A shares of the Bridgeland partnership. The purchase price and the fair value of the acquired assets and liabilities assumed, were as follows:

Cash	**$**	**37**
Capital assets		**2,241**
Accounts payable		**(740)**
Leases payable		**(5)**
Fair value of assets acquired	**$**	**1,533**
Purchase consideration paid	**$**	**1,533**

As part of the transaction UFA also acquired capital assets from CHS totaling $0.7 million. Commencing October 31, 2017, Bridgeland's financial results are consolidated with UFA's financial results.

6. OTHER LONG-TERM ASSETS

		2017		2016
Accrued pension benefit asset *(note 17)*	**$**	**27,066**	$	7,912
Deferred charges		**2,205**		2,207
	$	**29,271**	$	10,119

7. GOODWILL AND INTANGIBLE ASSETS

	2017			
	Cost	Accumulated Depreciation, Amortization	Accumulated Impairment	Net Book Value
Application software	**$ 61,799**	**$ 56,846**	**$ 685**	**$ 4,268**
Goodwill	**2,205**	**-**	**-**	**2,205**
	$ 64,004	**$ 56,846**	**$ 685**	**$ 6,473**

	2016			
	Cost	Accumulated Depreciation, Amortization	Accumulated Impairment	Net Book Value
Application software	$ 61,957	$ 54,723	$ 685	$ 6,549
Goodwill	2,205	-	-	2,205
	$ 64,162	$ 54,723	$ 685	$ 8,754

In 2016, an impairment test was conducted as UFA had exited the convenience store business at its petroleum sites. The conclusion of this testing resulted in an impairment of $0.7 million.

8. PROPERTY AND EQUIPMENT

	2017			
	Cost	Accumulated Depreciation, Amortization	Accumulated Impairment	Net Book Value
Land	**$ 55,628**	**$ -**	**$ -**	**$ 55,628**
Buildings, fences and yards	**185,148**	**107,294**	**2,248**	**75,606**
Equipment	**156,435**	**112,894**	**481**	**43,060**
Computer equipment and system software	**20,594**	**19,176**	**59**	**1,359**
Automotive equipment	**6,571**	**4,591**	**-**	**1,980**
Leased assets	**29,878**	**15,407**	**2,146**	**12,325**
Assets under construction	**4,189**	**-**	**-**	**4,189**
	$ 458,443	**$ 259,362**	**$ 4,934**	**$ 194,147**

	2016			
	Cost	Accumulated Depreciation, Amortization	Accumulated Impairment	Net Book Value
Land	$ 53,338	$ -	$ -	$ 53,338
Buildings, fences and yards	173,054	96,281	2,248	74,525
Equipment	157, 016	109,799	481	46,736
Computer equipment and system software	21,107	18,176	59	2,872
Automotive equipment	6,726	5,710	-	1,016
Leased assets	32,381	15,071	2,146	15,164
Assets under construction	3, 762	-	-	3,762
	$ 447,384	$ 245,037	$ 4,934	$ 197,413

Assets under construction at December 31, 2017 are expected to be placed into productive use during fiscal 2018 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 $1.5 million (2016 – $1.8 million) of capital leases, entered into in 2017.

9. MEMBER LOANS

	December 31, 2017		December 25, 2016	
Demand member loans	**$**	**10,877**	$	10,377
High Yield Member Investment Plan		**-**		15,005
5.5-for-3 Member Investment Plan (maturing 2018)		**29,384**		29,496
5.5-til-2019 Member Investment Plan (maturing 2019)		**15,040**		15,040
5.0-til-2020 Member Investment Plan (maturing 2020)		**15,504**		-
		70,805		69,918
Less: current portion		**(40,261)**		(25,382)
	$	**30,544**	$	44,536

UFA offers voluntary member loan programs 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 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 Demand Member Loans, including accumulated interest, as at December 31, 2017 is $10.9 million (2016 – $10.4 million), and interest of $0.4 million (2016 – $0.4 million) is included in interest expense.

The High Yield Member Investment Plan (HYMIP) program was introduced on June 16, 2014 and paid interest at 6% semi-annually. The plan matured on June 15, 2017. Investors had the option of principal repayment or investing into the new 5.0-til-2020 Member Investment Plan. $11.8 million was invested into this program with the balance repaid in cash. Interest of $0.4 million (2016 – $1.2 million) is included in interest expense.

On September 16, 2015, UFA introduced the 5.5-for-3 Member Investment Plan program. $29.4 million (2016 - $29.5 million) is currently invested in the program. The program pays interest of 5.5% semi-annually and matures on September 15, 2018. Interest of $1.7 million (2016 – $1.7 million) is included in interest expense.

The 5.5-til-2019 Member Investment Plan was introduced on June 16, 2016. $15.0 million (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. Another Member Investment Plan exclusively for members of the Board of Directors was introduced on September 16, 2016. This Board of Directors Member Investment Plan also pays interest at 5.5% semi-annually and matures on September 15, 2019. Interest on these two programs of $0.8 million (2016 - $0.4 million) is included in interest expense.

On June 16, 2017, UFA introduced the 5.0-til-2020 Member Investment Plan. $15.5 million is currently invested in the program. The program pays interest of 5.0% semi-annually and matures on June 15, 2020. Interest of $0.4 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 31, 2017	December 25, 2016
Income (loss) before patronage dividend and income taxes	$ 30,976	$ (2,389)
Patronage dividend	(12,500)	-
Net income (loss) before income taxes	18,476	(2,389)
Statutory income tax rate	26.99%	26.98%
Expected income tax expense (recovery)	4,986	(645)
Non-deductible items and other	53	(27)
Rate adjustment	(11)	-
True ups and other	1,211	(52)
Future income tax valuation allowance	2	(82)
Income tax expense (recovery)	6,241	(806)
Income taxes consists of:		
Current income tax expense	3,191	1,166
Future income tax expense (recovery)	3,050	(1,972)
	$ 6,241	$ (806)

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

	December 31, 2017	December 25, 2016
Current future income tax asset:		
Inventories	$ 1,553	$ 1,420
Payables, warranty and other	2,377	1,492
	3,930	2,912
Long-term future income tax asset:		
Long-term debt and other long-term liabilities	3,137	2,958
Asset retirement obligation	6,674	6,465
Tax loss	21,620	8,369
Goodwill and intangibles	65	134
Property and equipment	3,372	730
Pension	(7,308)	(2,135)
Valuation allowance	(8,263)	(8,261)
	$ 19, 297	$ 8,260

Included in tax loss and property and equipment is $15,105 (2016 - nil) of future income tax relating to the wind up of Wholesale Sports Canada Ltd. UFA has non-capital losses carried forward of $49,459 (2016 - nil). The losses carried forward result in a future tax asset of $13,354 (2016 - nil). These non-capital losses will begin to expire in 2034 – 2037.

11. LONG-TERM DEBT

	December 31, 2017		December 25, 2016	
Asset-Based Credit Agreement - Revolving loans	$	38,185	$	58,232
Capital leases obligations		9,618		11,605
Deferred financing charges		(105)		(213)
		47,698		69,624
Less: current portion		(40,257)		(2,893)
	$	7,441	$	66,731

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 31, 2017, under the Credit Agreement, the borrowing bases for accounts receivable, inventory and prepayments were margined at $77.9 million (2016 – $73.4 million) and $112.0 million (2016 – $116.0 million) respectively. In 2017, the total amount of reserve deducted from the borrowing bases was $19.6 million (2016 – $27.2 million). At December 31, 2017, $132.1 million (2016 – $104.0 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 Credit Agreement grants 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 2017, UFA was in compliance with all covenants.

Capital Lease Obligations

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 $6.0 million, including $1.0 million in financing expenses. The lease terms range from two to five years at interest rates between 3.2% and 6.0% for 2017 (2016 – 3.2% and 6.0%).

	Principal	Interest	Total
2018	$ 1,835	$ 462	$ 2,297
2019	1,455	340	1,795
2020	887	168	1,055
2021	442	40	482
2022	363	6	369
	$ 4,982	$ 1,016	$ 5,998

12. ASSET RETIREMENT OBLIGATIONS

	2017	2016
Balance, beginning of year	**$ 23,959**	$ 23,818
Accretion expense	**1,144**	1,316
Revisions in estimated cash flows	**552**	(323)
Liabilities settled	**(935)**	(852)
Balance, end of year	**$ 24,720**	$ 23,959

Estimated undiscounted future cash flows, adjusted for inflation, are $58.4 million (2016 – $58.9 million) and are expected to be incurred up to and including fiscal 2067. The present value or discounted fair value of the obligations was determined using a 7.7% discount rate and a 2.2% inflation rate (2016 – 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 31, 2017	December 25, 2016
Accrued liabilities	**$ 14,865**	$ 15,977
Other long-term liabilities	**5,428**	3,921
	20,293	19,898
Less: current portion	**(15,141)**	-
	$ 5,152	$ 19,898

Accrued liabilities is a legal liability provision of $14.9 million (2016 - $16.0 million) relating to the 2013 disposition of Wholesale Sports USA, Inc. This liability was settled in full in January 2018. Other long-term liabilities include $3.2 million (2016 - $1.4 million) relating to long-term incentive programs and $2.2 million (2016 - $2.0 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:

2018	$ 4,327
2019	4,537
2020	4,467
2021	3,608
2022	3,608
After 2022	4,761
	$ 25,308

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.

UFA is involved in various claims arising in the normal course of business. UFA has made adequate provisions, wherever required, based on the expected outcomes of the claims.

15. MEMBER ENTITLEMENTS

Up to December 31, 2017, Member Entitlements consisted of Member Shares, the current period's Patronage Dividend, Revolving Equity, Class A Investment Shares (Investment Shares) and Contributed Surplus. A member's Revolving Equity and Member Shares (with the exception of one $5.00 Member Share) converted to Investment Shares when a member turned 65 years of age.

At the annual meeting of the co-operative in March 2017, the delegates approved changes to UFA's by-laws governing Member Entitlements. Effective January 1, 2018, Member Entitlements consists of Member Shares, the current period's Patronage Dividend, Investment Shares and Contributed Surplus. In accordance with the revised by-laws, effective January 1, 2018 Revolving Equity was repaid by the issuance of Member Shares. The only exception was in cases where a member's combined Member Shares and Revolving Equity exceeded $30,000. In these cases the excess was repaid in cash. In total, $36.6 million of Revolving Equity was repaid in Member Shares and $0.6 million was repaid in cash.

Details of Member Entitlements are as follows:

	December 31, 2017	December 25, 2016
Member Shares	**$ 30,744**	$ 31,472
Patronage Dividend	**12,500**	-
Revolving Equity	**37,208**	38,529
Class A Investment Shares	**123,658**	127,493
Contributed Surplus	**10,034**	9,633
	$ 214,144	$ 207,127

The repayment and redemption of Member Entitlements and the payment of the Patronage Dividend is 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.

Up to December 31, 2017, Member Shares were redeemable at the option of the holder at par value when the member reached age 65, moved out of the trading area or, at the request of the member's estate. The maximum dollar amount of Member Shares held by each member was $5,000 and Member Shares were eligible for a Board of Directors' declared annual dividend. A dividend of $0.5 million was paid out on Member Shares in 2017 (2016 - $0.5 million).

Effective January 1, 2018, Member Shares are redeemable (subject to any limitations as set out in the by-laws) at the option of the holder at par value when the member reaches age 70, moves out of the trading area or, at the request of the member's estate. The maximum dollar amount of Member Shares held by a member is $30,000. Also, Member Shares are no longer eligible for Member Share dividends.

	2017		2016	
Member shares issued:	**Number**	**Amount**	Number	Amount
Balance, beginning of period	**6,294**	**$ 31,472**	6,467	$ 32,334
Redemption	**(101)**	**(506)**	(127)	(633)
Contributed Surplus	**(44)**	**(222)**	(46)	(229)
Balance, end of period	**6,149**	**$ 30,744**	6,294	$ 31,472

Patronage Dividend

UFA may distribute a portion of its current fiscal period taxable earnings to its members in the form of a Patronage Dividend. The Patronage Dividend for the year must be declared (approved) by the UFA's elected delegates at its next Annual General Meeting. For 2017, the Board of Directors has recommended a $12.5 million Patronage Dividend for approval at the March 2018 Annual Meeting.

Effective January 1, 2018, the Patronage Dividend approved at the Annual Meeting of the co-operative will be applied in the following manner:

- 60% is applied toward the purchase by the member of Member Shares until the member has purchased Member Shares having an aggregate par value of $30,000
- After application of the Patronage Dividend to Member Shares, the remaining amount shall be paid to the member in cash subject to withholding or other taxes

The minimum check issued is $50 per member. Amounts less than $50 will be paid in Member Shares.

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. For 2016 and 2017, the Board of Directors waived the conversion of Revolving Equity into Investment Shares. In accordance with the revised by-laws, effective January 1, 2018 Revolving Equity was repaid by the issuance of Member Shares. The only exception was in cases where a member's combined Member Shares and Revolving Equity exceeded $30,000. In these cases the excess was repaid in cash. In total, $36.6 million of Revolving Equity was repaid in Member Shares and $0.6 million was repaid in cash.

	2017		2016	
Balance, beginning of period	$	38,529	$	39,913
Senior Members conversion to Class A Investment Shares		(859)		(783)
Repayment		(358)		(521)
Contributed Surplus		(102)		(91)
Adjustments		(2)		11
Balance, end of period	$	37,208	$	38,529

Investment Shares

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

Investment Shares are retractable at par value at the option of UFA and provide a dividend at the bank prime rate less 0.5%. In 2017, dividends of $2.9 million (2016 - $2.8 million) were paid and charged against retained earnings. The minimum check issued is $50 per member. Amounts less than $50 are held in Investment Shares until the minimum is met.

	2017			2016		
	Number	Amount		Number	Amount	
Balance, beginning of period		$	127,493		$	132,846
Senior Members conversion from Revolving Equity	9		859	8		783
Member Share dividends	4		392	4		402
Redemption	(46)		(4,588)	(61)		(6,134)
Contributed Surplus	(6)		(577)	(5)		(533)
Less than minimum and unclaimed	-		79	-		129
Balance, end of period		$	123,658		$	127,493

Contributed Surplus

The By-laws of the Co-operative provide for termination of a 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 member's Equity shall be cancelled without any payment or notice to the member. In 2017, Members' Equity of $0.9 million (2016 - $0.9 million) was cancelled and classified as Contributed Surplus, as outlined below. In 2017, as provided for in the By-laws, Contributed Surplus of $0.5 million was allocated to the UFA Rural Communities Foundation, an independent foundation committed to rural sustainability. The UFA Rural Communities Foundation invested the $0.5 million with UFA as a Demand Member Loan.

	2017	2016
Balance, beginning of period	**$ 9,633**	$ 8,780
Current period additions:		
Member Shares	**222**	229
Revolving Equity	**102**	91
Class A Investment Shares	**577**	533
Contribution to UFA Rural Communities Foundation	**(500)**	-
Balance, end of period	**$ 10,034**	$ 9,633

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 31, 2017, UFA had current assets of $313.0 million (2016 – $269.6 million) to settle current liabilities of $202.6 million (2016 – $125.3 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 (2016 – Canadian or US prime rate). For BAs the interest rate is BA plus 1.25% (2016 – BA plus 1.25%). Further, the amortized transaction costs impacted the interest rate by 0.31% (2016 – 0.27%) making the effective interest rate 3.32% (2016 – 3.18%). A 1.0% change in the prime rate is anticipated to have an annual interest impact of approximately $0.7 million. UFA is not exposed to interest rate risk on capital lease obligations as the rates are fixed.

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 1.29% plus a spread of 1.25% for the notional amount of $75 million. This financial instrument was evaluated on a marked to market basis which resulted in a $0.3 million gain.

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.

On December 29, 2017, UFA entered into an additional Petroleum put option based on heating oil providing UFA an option to purchase 6.5 million GAL at 1.95 USD per GAL of heating oil. The option will expire on December 31, 2018. The purchase price of the put option was $1.0 million USD.

On December 30, 2016, UFA entered into a Petroleum option contract whereby UFA had the right to exercise its option to sell 7.0 million GAL at 1.80 USD per GAL of heating oil. The option expired on December 31, 2017 and the purchase price of the option was $1.4 million USD. Additionally, a USD foreign exchange swap was entered into on January 3, 2017 for $1.0 million USD at the rate of 1.34 CAD/USD to become effective on January 2, 2018 and expire on January 31, 2018.

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 2017, UFA entered into foreign currency exchange agreements that will become effective in fiscal 2018. 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 31, 2017 was nil.

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 had entered into derivative contracts to hedge foreign exchange exposure associated with the legal liability related to the 2013 disposition of Wholesale Sports USA, Inc. *(see note 13)*. On January 12, 2018 UFA paid the full amount of the provision of $14.9 million.

17. EMPLOYEE FUTURE BENEFITS

UFA employees who were hired into a pension-eligible position prior to October 1, 2012 are participants of the defined benefit pension plan. 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.

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 $0.8 million (2016 - $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 31, 2017	December 25, 2016
Accrued benefit obligation, end of year	$ 137,285	$ 134,531
Market value of plan assets, end of year	164,351	143,111
Surplus of plan at end of year	27,066	8,580
Employer contribution made after measurement date	-	(668)
Accrued asset	$ 27,066	$ 7,912

Included in the accrued benefit obligation is $3.1 million related to the SERP (2016 – $3.3 million).

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

	2017	2016
Discount rate for funded status	4.90%	4.90%
Rate of compensation increase	1.0% to 2.5%	0.0% to 2.5%

The closure of Wholesale Sports Canada Ltd. operations resulted in $1.2 million of termination expenses recognized in 2017 and was included within the Consolidated Statement of Operations under net loss from discontinued operations. UFA also recognized termination costs of $2.2 million (2016 - $0.6 million). These amounts were included within operating and administrative expenses of continuing or discontinued operations.

18. GOVERNMENT REMITTANCES

Accounts payable and accrued liabilities as at December 31, 2017 include $14.4 million (2016 – $16.5 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 two distinct categories of activity, including fuel products and farm supplies as outlined below.

Category	December 31, 2017	%	December 25, 2016	%
Petroleum	$ 1,195,408	77.8	$ 908,248	74.0
AgriBusiness	340,755	22.2	319,694	26.0
	$ 1,536,163		$ 1,227,942	

20. CHANGES IN NON-CASH WORKING CAPITAL

Non-cash working capital used cash flows of $29.5 million in fiscal year 2017 (2016 - generated $31.0 million).

	December 31, 2017	December 25, 2016
Accounts receivable and current income tax receivable	$ (7,513)	$ 1,066
Inventory	(21,915)	22,392
Prepaid expenses	(9,920)	(1,501)
Accounts payable and accrued liabilities	10,030	9,210
Deferred revenue and other	(194)	(145)
	$ (29,512)	$ 31,022

21. INTEREST AND INCOME TAXES PAID

Interest paid in fiscal year 2017 was $6.3 million (2016 – $6.1 million). Income taxes paid in fiscal year 2017 was $1.3 million (2016 – $0.9 million paid).

22. DISCONTINUED OPERATIONS

Due to a number of external factors including the increasing competition in the outdoor products sector and in order to refocus its operations on agriculture and distributing fuel products, in September 2017, UFA announced the closure of Wholesale Sports Canada Ltd. operations.

Sales of inventory began on September 15, 2017 and the business ceased operation on December 28, 2017. 2017 operational results for Wholesale Sports Canada Ltd. are provided below.

	December 31, 2017	December 25, 2016
Revenue from discontinued operations	$ 134,774	$ 102,685
Loss from discontinued operations before taxes	(20,331)	(2,584)
Income tax recovery	10,269	1,726
Loss from discontinued operations	$ (10,062)	$ (858)

For more information about your Co-operative, visit UFA.com or talk to us by calling our customer service centre at 1-877-258-4500 and select Option #1.