PARTNERS FOR THE LONG HAUL

UFA

MEMBER REPORT | 2015

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

UFA's achievements and successes are significant. For more than 106 years, our co-operative has served the businesses and communities of farmers and ranchers. The evolution of our co-operative has been driven by what members need.

CORPORATE PROFILE

UFA Co-operative Limited is an Alberta-based agricultural co-operative with more than 110,000 member-owners.

Founded in 1909, UFA's network comprises 113 bulk fuel and Petroleum Cardlock locations, 35 Farm & Ranch Supply stores and a support office located in Calgary. Independent Petroleum agents and more than 1,200 employees provide products, services and agricultural solutions to farmers, ranchers, members, consumers and commercial customers in Alberta, British Columbia, Saskatchewan and in the U.S. as well.

UFA also owns and operates an outdoor outfitter business called Wholesale Sports. With 13 locations and more than 600 employees, Wholesale Sports is the largest multi-channel retailer in Western Canada dedicated to the outdoor industry.

For more information, visit UFA.com.

CORE PURPOSE

To improve the economic and social well-being of our agricultural owners and their communities.

VISION

UFA is a market-leading agricultural co-operative providing quality products, services and solutions that support our owners and customers and serve the rural community.

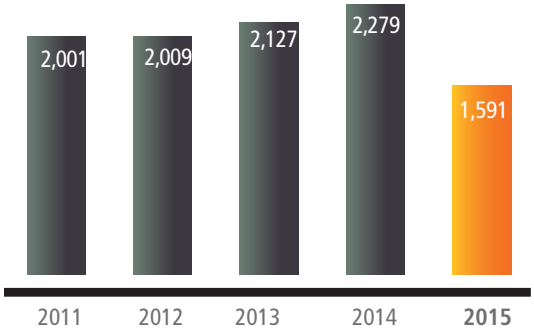
CORE VALUES

- accountability
- agility
- collaboration
- integrity
- performance
- progressive thinking
- respect

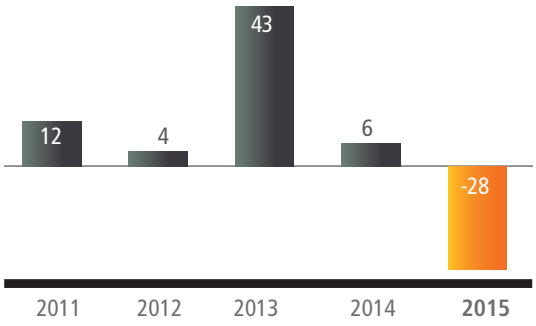
FINANCIAL HIGHLIGHTS & FIVE-YEAR SUMMARY

(Stated in thousands of Canadian dollars)	2015	2014	2013	2012	2011
Continuing Operations					
Revenue	**$ 1,591,239**	$ 2,279,166	$ 2,126,750	$ 2,009,405	$ 2,001,320
Gross margin	**189,875**	240,622	237,021	224,707	214,604
Operating and administrative expenses	**(181,959)**	(181,993)	(176,165)	(162,873)	(158,728)
(Loss) income before the following	**(23,397)**	26,178	24,288	23,169	11,529
Pension remeasurement	**4,126**	7,037	18,974	(13,183)	–
Impairments	**(9,121)**	(27,534)	–	(5,712)	–
(Loss) income from continuing operations	**(28,392)**	5,681	43,262	4,274	11,529
Patronage Allocation	**–**	(14,000)	(13,600)	(10,000)	(7,000)
Income tax recovery (expense)	**8,123**	(5,251)	(6,933)	7,092	3,847
Loss from discontinued operations	**–**	–	(16,724)	(7,862)	(8,139)
Net (loss) income	**(20,269)**	(13,570)	6,005	(6,496)	237
Distribution to members					
Cash portion of Patronage Allocation	**3,065**	2,568	1,826	1,412	–
Issuance of Class A Investment Shares	**9,637**	14,277	13,302	14,561	14,093
Dividends on Investment Shares	**2,982**	3,117	2,894	2,722	2,484
Dividend on Member Shares	**524**	452	397	–	–
Retirement of Members' Equity	**6,122**	6,359	6,156	5,893	6,119
Total distribution to members	**$ 22,330**	$ 26,773	$ 24,575	$ 24,588	$ 22,696

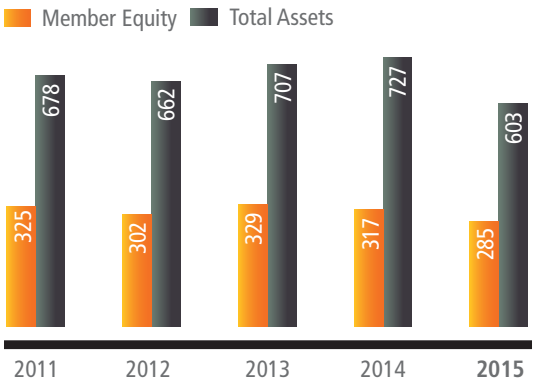
Revenue ($M)
from continuing operations



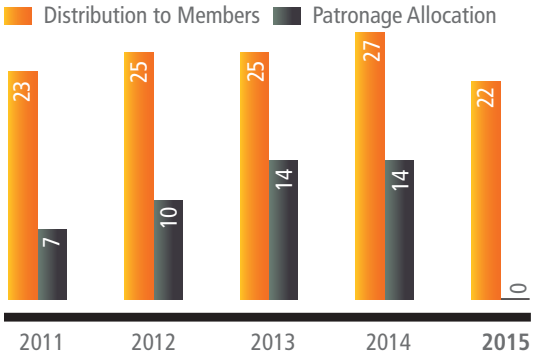
Net Income before Patronage Allocation and Income Taxes ($M)
from continuing operations



Members' Equity and Total Assets ($M)



Total Distribution To Members and Patronage Allocation ($M)



LETTER FROM THE BOARD CHAIR

Whether it is around the discussion of farm safety, food safety, or climate change, UFA can carry your voice as a member to the table on issues that impact your operation.

UFA exists to serve farmers and ranchers and our co-operative has been ag to the core since 1909.

Dear Members,

UFA is a partnership. It is a partnership between our members and customers, our employees, agents, and the communities that we call home. I have been a proud member of UFA since I was 16 years old and I have watched UFA grow and change, but over the years one thing remains clear: our commitment to working together to meet the needs of our members and customers. I consider it a great privilege to be UFA's chairman and on behalf of the UFA Board of Directors I am pleased to share with you our 2015 annual report.

2015 was a year of unforeseen circumstances in Alberta. Low oil prices, a province-wide drought and external factors beyond our control put our province in a vulnerable economic position. Many businesses were impacted by these factors and UFA was no exception. There were bright spots with sales growth in Wholesale Sports, but this year's economic downturn significantly impacted our financial performance and planning, particularly in our Petroleum and AgriBusiness units.

We took a conservative approach to spending, initiating innovative ways to find savings and reduce spending while making sure that it was not at the expense of our commitment to meet the needs of our membership. Unfortunately, we also had to make the difficult decision of not allocating patronage to our members for 2015. This was not an easy decision, but it was the responsible one and what is best for the stability of our co-operative in this environment. Going forward we will be maintaining a conservative approach until we see signs of market improvement.

As a member, you may be wondering "can UFA weather this storm?" The answer is yes. UFA is a strong and diversified co-operative and I can say to you with trust and confidence that our co-operative is a healthy place to be involved in and to invest. The uptake in our Member Loan Program is a clear example of this, exceeding our goal of fifteen million dollars by one hundred per cent.

There is economic uncertainty but we have seen these cycles before, and while we must respond to them, we are not defined by them. UFA is an agricultural organization and while the oil and gas industry is relevant to our economic prosperity, it is important for us to see the unique potential and opportunity that we have to raise the profile of agriculture and showcase our industry. Whether it is around the discussion of farm safety, food safety, or climate change, UFA can carry your voice as a member to the table on issues that impact your operation. We will do this by leveraging our community investment partnerships and by building new strategic relationships with industry leaders and all levels of government.

Under the leadership of Carol Kitchen, our President & CEO, we have made significant progress in refocusing on the core of our business: customer service. We have brought new leaders to our senior management team and have organized parts of our business to better serve you. We are taking proactive steps to develop the next generation of UFA leaders, and we have embraced new and innovative opportunities to add value for our members. You will begin to notice changes and initiatives in your communities, such as Bridgeland in the Peace Region – a new crop inputs company in partnership with CHS Country Operations Canada Inc. (CHS).

In 2016 we will continue to think outside of the box, seeking opportunities to provide value for our members and customers, for ag producers, and for rural communities. Carol is exceeding all expectations and we could not be happier with our selection.

Our co-operative is over 106 years old. Inevitably there will be bumps in the road, but it is how we learn and respond to these experiences that really matters. As farmers and ranchers this should not come as a surprise to us, as our livelihood depends on overcoming the obstacles in our way.

In my remarks to the assembly at last year's AGM I said the UFA Board of Directors will need to demonstrate courage in 2015. I strongly feel we have accomplished this, however we can't stop here. It is imperative that we continue to look ahead and ask ourselves what else our members will need from their co-operative. We are heading in the right direction. We may reasonably assume that oil prices will rise and that moisture levels will return to normal. When they do we will be prepared, better than ever, to support our members and customers in meeting the global demand for high quality ag products.

On behalf of the Board of Directors, I want to sincerely thank you, our members and customers, for your continued support and business. I would also like to thank our delegates and Board members, as well as our employees and agents for their tireless work in making UFA what it is today. As we move forward we remain invested in your success and are committed to being your partners for the long haul.

Sincerely

Kevin Hoppins
Chair, UFA Board of Directors

PRESIDENT AND CEO'S LETTER

2015 was a year of change for everyone at UFA and in Alberta. At UFA, we initiated a lot of changes: new leadership in parts of our business, digging in deep on our ag operations, launching a new relationship in the Peace Region, and getting a chance to connect with customers and talk about UFA and its role in Alberta agriculture.

We have made important progress in understanding what UFA could be, and initiatives continue to better serve our members and customers.

Some of the key accomplishments include:

- Working closely with our petroleum agents and our suppliers to compete in an extremely competitive marketplace.
- Implementing the first examples of comprehensive and aligned ag marketing programs.
- Furthering on our commitment to serve rural communities by opening new locations in Hinton and Airdrie.
- Engaging with our membership to refresh and expand a program that allows members to invest in their co-operative.
- Improving our supply chain, systems and processes to build more locally driven teams and clean up unproductive and unsaleable inventories. This work was an important first step in building a more responsive system in the ag marketplace.
- Designing and implementing new capabilities on myUFA that make it easier for our members to do business with us.
- Growing sales in Wholesale Sports in a competitive market.

All of this was done during one of the worst economic downturns Alberta has seen and with drought in much of the province. During this time many of us within UFA were learning to work together in new ways. The commitment and resilience demonstrated by our members, customers, employees and agents is impressive. This is by no means a comprehensive list but it is indicative of the hard work taken on and accomplished in 2015.

These economic times remind us of the importance of maintaining a long term point of view. Further, the passage of time will provide context to 2015 but I believe we can already look back and say we took important strategic steps forward for UFA in the past 12 months. While our total financial results do not

reflect it today, I firmly believe that the significant hard work invested in 2015 is already contributing and will pay even greater dividends over the long haul.

One example comes to mind immediately: inventory reduction across all of UFA contributed over twelve million dollars to our cash flow. Our financial commitments are critical to what we do and certainly we need to hold fast to those metrics. At the same time, we should also consider the bigger picture and be very proud of our accomplishments.

Many opportunities lie ahead in 2016. I am excited about the planning and collaboration I see across our business to bring meaningful offers to our customers. I see a new look in many of our stores as we continue to revamp and refocus our ag retail model. I see WSS persevering in a tough environment where consumers are rethinking discretionary spending. I see the Petroleum team doing even more hard work to ensure we can play in a tough landscape in Alberta. I see our new Bridgeland venture with CHS as a message to the market that UFA is here to play differently and is investing in a key market. A new regulatory environment will give UFA a chance to engage innovatively with our members, other industry players, and government organizations with the intent to help our members through new requirements for themselves and farm workers. I am excited about all of these things plus all of the unknown opportunities that lie around the corners that we can't yet see.

At UFA, we need to put our members and customers at the center of what we do every day and we are doubling down on our efforts to meet their expectations. We have achieved some important accomplishments in 2015 and now is the time to celebrate them and get energized for the road ahead.

My family and I sincerely appreciate the warm welcome we have received as we have joined the UFA organization. It has made our long road trip to Alberta much more enjoyable. I look forward to seeing you down the road.

Thank you again for your support and your business! Be safe in all you do.

Sincerely,

Carol Kitchen
President & CEO, UFA

AT UFA, we need to put our members and customers at the center of what we do every day and we are doubling down on our efforts to meet their expectations.

PARTNERS FOR THE LONG HAUL

Making the whole greater than the sum of its parts

BUILDING ONE UFA

In the recent past, UFA's business units have largely approached their markets individually, and WSS was held separately from UFA's ag operations. Though this approach allowed each group to focus their individual efforts it did not leverage unique opportunities across the business.

In order for UFA to succeed it is imperative that we collaborate, driving business to bring all assets to bear on behalf of our members. By collaborating more effectively, we can bring new ways for 'One UFA' to compete and serve members in the marketplace and realize cost savings. The first examples of this work are the Pincher Creek Wholesale Sports Express Store that we tested inside our Farm & Ranch location, and collaboration on supplying ammunition to our Farm & Ranch locations via our Wholesale Sports purchasing power. Expanded collaboration has already identified other potential opportunities.

INVESTING IN OUR PEOPLE AND COMMUNITIES

Our strategy must include our greatest asset – our employees and agents. UFA must invest in and cultivate talent. In order to do so, UFA must offer a well-rounded and rewarding opportunity for top quality people to choose to come and stay, investing their talent in our co-operative. To do so, we must make our employees and agents our priority by:

- Ensuring that UFA people are safe at work, dependably returning home to their families. In 2015, we built on an improving safety culture and retained our Certificate of Recognition.
- Being an organization that employees and agents are proud to be associated with because it is admired for being socially, ethically, and environmentally responsible. We are honored and proud to be continuously named among Alberta's Top 70 Employers.

We have long created value for the communities where our members, customers, employees and agents live by investing in programs, initiatives and infrastructure that are important to ag producers and their families. In 2015 we built on that important legacy with over one million dollars of targeted support.

Through our community investment partnerships with rural communities, 4-H, Ag for Life, the Calgary Stampede, the Cattlemen's Young Leaders, and the ACCA Co-operative Youth Program, we support programs and initiatives that cultivate the next generation of ag producers and UFA members.

INVESTING IN OUR CO-OPERATIVE

The lifeblood of our co-operative depends on active engagement with our membership. UFA must develop a sustainable plan for recruiting talent into our governance system. It is important that we recognize demographic shifts in owner and membership, in the ag landscape, and in our employees and agents. With this in mind we have undertaken succession initiatives to develop the next generation of members, directors and delegates. This year UFA introduced the Co-operative Leadership Council, inviting leading ag producers to come together and contribute to UFA's knowledge of member expectations and producer needs. We are excited to invest in the knowledge and development of the young producers who comprise the council.

In 2015 the Board of Directors approved a detailed Democratic Structure Review designed to assure that UFA's governance and democratic structure is aligned with UFA's strategic direction. The changes ensure that control of the co-operative remains with core ag producers who are engaged with and patronizing the co-operative as well as ensuring that we are compliant with our by-laws specific to delegate representation.

RENEWING LONG TERM CO-OPERATIVE VALUE

Throughout our over 106 years of existence UFA has had a rich history dedicated to serving ag producers. It is our duty to reflect the needs of our ownership in our actions and to provide value to our members which can go above and beyond a transactional relationship.

BUILDING RELATIONSHIPS: GOVERNMENT RELATIONS

It is important that UFA recognizes the potential impact that public policy, regulations, and funding decisions made by government can have on an organization's business objectives, its commercial success and the operations of its membership.

In today's environment, government relations is about building relationships and communication channels, and influencing how UFA is viewed as an organization. UFA is a significant stakeholder in agriculture and can serve as a constructive partner and advisor on important issues.

The Board of Directors has struck a government relations committee to carry out the following objectives:

- Participate and provide input at policy round tables and consultation sessions.
- Act as a voice that supports the values and expectations of our members.
- Expand on UFA's strong industry network and partner on areas of interest.
- Ensure that our membership is up-to-date and aware of government policy and legislation that may affect their operations.
- Strengthen UFA's image as a credible advocate for Alberta agriculture.

Raising the profile of agriculture

With eighty per cent of our province's population living in an urban environment, most Albertans know very little about agriculture. However, they are becoming increasingly interested in learning about where their food comes from and how it was made. They want to know that their food is safe and that it was produced using best practices.

As producers we know that food safety and maintaining the vitality of our land and livestock is top priority. It is important that we actively seek every opportunity to increase awareness and to educate the general population on the facts of exactly what we do.

Through our co-operative partnerships, and supporting agriculture advocacy and education initiatives, UFA is committed to helping tell the story of our ag producers.

POSITIONING UFA TODAY FOR THE LONG HAUL

In an increasingly competitive marketplace we must continuously seek new opportunities to stand out from the crowd. We know that producers have choices with whom to do business with. It is up to us to find innovative ways and solutions to provide the best possible service to our membership.

Customer-Focused Business Model

We recognize that the ruler used to measure our success in meeting customer expectations depends on the context of the particular business.

- Feedback suggests you measure your Farm & Ranch Supply store experience against other retailers with whom you do business. Product offering, availability, and in-store knowledge are key drivers.
- Discussion on farm specific categories like crop inputs and petroleum suggest that members and customers value deep relationships, customer-specific service and technical expertise.

To better reflect these differences, we have structured our business into two key streams: Retail and Commercial. We must satisfy members in both streams on a much more consistent basis. Successfully doing so requires that we build and improve on capabilities specific to each stream.

Retail Operations

"Retail Operations" includes all of UFA's retail components including Wholesale Sports and UFA Farm & Ranch stores. Under one management umbrella we will be better able to leverage the retail expertise of our Wholesale Sports and Farm & Ranch businesses by building on each other's strengths and leveraging operational best practices. While each has distinct customer requirements, they share capabilities required for success such as supply chain and supplier relationships.

Commercial Operations

Our "Commercial Operations" stream will allow us to focus on the needs of commercial ag accounts. It starts with a more focused AgriBusiness unit working jointly with our Petroleum agents to support member needs incorporating crop inputs, fuels, feedlot technologies, buildings and storage facilities and financing options. The right combination of products, service, and technical expertise is demonstrated best by our launch of Bridgeland with CHS on January 1, 2016.

WELCOME TO BRIDGELAND

Bridgeland is a new value proposition to our members and customers in the Peace Country consisting of an enhanced crop inputs offering. This is a partnership between UFA and North America's largest agricultural co-operative, CHS. Our combined assets and technology will improve supply access and margin structure. This innovative solution provides access to world-class fertilizer production, training and tools.

Summary

UFA cannot do the same things over and over and expect different results. To this end, important steps have been taken to deliver on key commitments and to position our co-operative strategically for the future. These actions are driven by our core purpose and our promise to better serve our members and customers. A shared vision of success drives our pursuit of these goals.

UFA has a long history of serving producers in Alberta. The changes that we have launched in 2015 and will accelerate in 2016 are important steps forward in realizing the strategic vision and purpose of UFA. This kind of transformation is integral to what we do at UFA and how we do it. It is transformation that serves well in weak economies and strong economies. It is transformation that builds capabilities for the future.

It is transformation for the long haul.

BUSINESS UNIT OVERVIEWS

AGRIBUSINESS

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

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

2015 PERFORMANCE

The 2015 year was impacted by an economic downturn driven by declines in the price of oil and a prolonged drought affecting most growing regions in Alberta. As farmers and ranchers sought solutions to a diminished supply of forage and pasture, UFA was able to provide feed solutions with demand for fencing supplies, feeds and supplements, and animal production products.

- An outstanding achievement was the delivery of an improved crop input value proposition in the Peace Region with the launch of Bridgeland in partnership with CHS Inc. A new high-volume fertilizer storage and blending facility began operating in early 2016 near Sexsmith, Alberta.
- Successful cattle colleges provided educational webinars for customers and increased the livestock knowledge of our outbound sales team. The third year of Spring & Fall livestock training sessions continued across the province with sessions throughout the week on livestock production, nutrition, animal health, equipment and electric fencing. This improves UFA's position as an information leader and solutions provider for the cattle industry.
- We are investing in people and processes by developing the ag expertise of our employees. Enhanced learning tools, aids and materials for store staff will increase product knowledge and expertise, and improve our ability to better serve members and customers.
- In 2015 UFA made operational efficiencies which enable us to meet the needs of our core customer group – farmers and ranchers.
- We undertook a project to refine the selection of products specific to supporting the operations of farmers and ranchers and to reduce the selection of non-core products. Sales and operating plans have been completed and inventory has been prioritized. We recognize that there is more work to be done.
- Our Strathmore, Mayerthorpe, and Lethbridge Farm & Ranch Supply stores were remerchandised to reflect a customer- and member-focused design with merchandising and layout improvements. Our customers and members have noticed positive changes. This model will be further developed, as we plan to extend these improvements to other locations with local input to meet the specific needs of growers in the area.

FOCUS FOR 2016

- In 2016 AgriBusiness will focus on product assortment and we will continue making operational improvements. We will build on the successes of last year to improve our product selection, inventory, and customer service.
- Opportunities will include an anticipated average crop size, with continued demand for storage. Staff expertise in bins will support growth and improve customer service. A lower Canadian dollar, the repeal of COOL legislation in the United States, and trade deals opening borders to beef have been beneficial to the cattle industry.
- Marketing strategies will focus on key seasons and be supported by vendor programs and sales tools.
- Closer alignment and connectivity with store operations, outbound sales and product line management will ensure that we are optimizing our efforts.

SUMMARY

At the heart of UFA's business is a commitment to the ag producers who founded our co-operative in 1909. UFA promised to improve the business that is closest to our members. We have made real progress, but there is still much to do and we are taking important steps to becoming our members' preferred supplier of crop inputs, livestock inputs, and building services.

PETROLEUM

UFA's Petroleum division is committed to supporting our members and customers with a total value proposition designed to meet the needs of their businesses in today's competitive economic environment.

UFA Petroleum has an impressive network that includes 108 cardlock operations in Alberta, supplemented by two in B.C. and three in Saskatchewan. Our extensive regional coverage is also supported by 81 bulk plants operated by our independent Agent network who deliver exceptional service along with top quality fuels and lubricants. In partnership with the Commercial Fueling Network, UFA also provides customers with access to a network of more than 2,500 locations in B.C. and across the United States

UFA purchases fuels primarily from Western Canadian refiners for re-sale into the agriculture and industrial/commercial market segments. UFA offers bulk fuel and oil deliveries, storage tank offering and the service and support of local Agents.

2015 PERFORMANCE

Operating

The economic downturn in 2015 significantly affected Petroleum operations.

Fuel sales volumes were down eighteen per cent from last year, with industrial/commercial sales dropping and agricultural sales dropping modestly. Margins were also lower than the previous year, as all marketers fought for market share as the magnitude of the economic environment impact became apparent.

Lubricant sales volumes were off from the previous year, also suffering directly from the impacts of the energy sector. Margins held their own for the most part, as our sales mix shifted more towards the higher quality synthetic lubricants.

Petroleum's consolidated EBITDA was below budgeted targets due to the erosion of energy commodity prices.

Operating and admin expenses were cut back significantly in direct and swift response to the rapidly eroding market. Network maintenance and expenditures relating to environmental response are the largest portion of UFA Petroleum's expenses. Cancellation and deferral of growth capital programs enabled us to prioritize spending while maintaining operating standards and remaining responsible to our communities.

Network Management

The implementation of EMV/debit card acceptance at the pump has enhanced our cardlock system and makes us a market leader with a competitive advantage. We continue to add diesel exhaust fluid (DEF) to sites throughout our network.

Two successful new locations were opened in Airdrie and Hinton and are driving member and commercial fuel volume. Each has an eight lane cardlock and offer cardlock diesel exhaust fluid. These sites include six 125,000 litre above ground tanks for diesel storage, minimizing our footprint and maximizing our land use. They also have underground gasoline storage to minimize evaporative losses.

Vegreville received a complete new cardlock, tank farm, load rack, and warehouse as well as cardlock diesel exhaust fluid. Trochu received a complete new cardlock, tank farm and warehouse. A dyed diesel satellite pump was added to benefit ag members.

Adhering to environment, health and safety standards is extremely important and ensures a safe environment for our employees, agents, and customers. The Agent Network maintained a 95% certification rate in Certificate of Recognition (COR) and Small Employer Certificate of Recognition (SECOR). Our Agents now operate at an elevated level of EH&S and exceed the requirements of provincial legislation.

An electronic web-based maintenance system was implemented to improve our service level and track the status of repairs and maintenance. It was well received by both our Agents and contractors. We've combined several of our sales teams into an integrated group to drive even more creative value into our co-operative.

Bar W Petroleum & Electric is a wholly owned subsidiary of UFA that provides expertise in electrical and downstream petroleum maintenance and capital activities. They provide exceptional service to our Agent network, keeping our assets operational and participating in the construction activities of new sites and rebuilds. 2015 was another successful year as they maintained their EBITDA despite the reduction in capital spending by their customers.

Marketing initiatives and campaigns were delivered throughout the year to drive member and commercial volume, benefiting from our strong vendor relationships and adding value for our members and customers.

FOCUS FOR 2016

2016 will continue to have challenges as the recovery of the Alberta economy remains uncertain. UFA Petroleum has always had a strong financial performance, and our agents and employees demonstrate outstanding customer service. It will be important to demonstrate our unique and powerful offer that provides value to our members and customers and differentiates us from the competition.

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

SUMMARY

Demonstrating a total value proposition to our members and customers will be essential to our ongoing success.

With the passion and the appetite for innovation that exists throughout our network of assets, agents and employees, we are confident that we will deliver this value to our members and customers throughout 2016.

WHOLESALE SPORTS

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

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

With 13 stores, e-commerce business and 470,000 square feet of retail space across British Columbia, Alberta, Saskatchewan and Manitoba, Wholesale Sports is the largest multi-channel retailer in Western Canada dedicated to the outdoors. We have been part of the Canadian outdoor industry for more than 30 years.

2015 PERFORMANCE

During 2015, WSS focused on increasing same-store sales while reducing overall network inventory levels. This was accomplished despite the challenges of operating in a slowing and challenging economic environment that is impacting discretionary consumer spending.

Wholesale Sports' EBITDA contribution increased from 2014, and consolidated revenue increased three per cent from 2014 levels. This result was driven across all locations, with strong increases in our BC market stores.

We reduced year-end inventory levels. This reflects the efforts of the merchandising, replenishment and operations teams in attacking aged inventory, along with strong discipline and processes in managing our inventory purchases.

During 2015, we focused primarily on reporting tools and standard operating procedures for our merchandising and replenishment team. We have embraced these tools while reducing overall inventory levels. This will significantly improve our ability to forecast sales and replenish product.

In 2015 WSS launched an enhanced website. The new web platform and website design have improved the overall user experience, resulting in increased conversion rates on sales.

FOCUS FOR 2016

Our number one priority for 2016 is to increase same-store sales while driving cost-out initiatives and operational efficiencies.

As the competitive landscape intensifies, we will demonstrate our ability to drive profitable sales while growing and protecting market share. The continued strengthening of our retail fundamentals remains critical to success. Key areas of focus are centered on supply chain activities, merchandising assortments and inventory productivity.

The online experience is one of the most important marketing channels for the business and e-commerce is a cornerstone of our growth strategy. The next phase focuses on continued enhancements to the functionality of the website, creating an integrated experience across all channels for our customers to interact with us.
In addition to driving sales growth, these technologies will reduce operational costs, improve customer service and enhance online security.

SUMMARY

Throughout the year, we made positive improvements in many areas of our business including category and inventory management, while strengthening our customer service and overall store operations.

We remain confident in our ability to compete and grow market share in a very competitive retail market. Wholesale Sports will continue to increase overall profitability and be a positive contributor to the UFA business portfolio.

MANAGEMENT DISCUSSION & ANALYSIS

The following MD&A provides management's perspective on UFA, our performance and our strategy for the future. This MD&A includes UFA's operating and financial results for 2015 and 2014 and 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 financial assets and operations, and the amount of risk UFA is willing to accept.

GOVERNANCE STRUCTURE

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

The Board has established three standing committees: audit; governance; and human resources compensation. Each committee meets regularly throughout the year and provides regular updates to the Board. In addition to these standing Board committees there were two ad hoc committees struck in 2015. These were the Capital Structure Review Committee and the Democratic Structure Review Committee.

CODE OF BUSINESS ETHICS

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

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

2015 SUMMARY OF OPERATIONS

CONSOLIDATED STATEMENT OF OPERATIONS

(All figures stated in thousands of Canadian dollars)

For the period ended	Dec. 27, 2015	Dec. 28, 2014
Revenue	$ 1,591,239	$ 2,279,166
Cost of sales	(1,401,364)	(2,038,544)
Gross margin	189,875	240,622
Operating and administrative expenses	(181,959)	(181,993)
Other income	10,292	7,411
Earnings before the under noted (EBITDA)	18,208	66,040
Depreciation and amortization	(33,035)	(30,984)
Pension remeasurement	4,126	7,037
Impairment of goodwill	–	(27,534)
Impairment of intangibles	(4,187)	–
Impairment of property & equipment	(4,934)	–
Interest	(7,378)	(8,755)
Foreign currency exchange loss	(1,192)	(123)
(Loss) income before Patronage Allocation and income taxes	(28,392)	5,681
Patronage Allocation	–	(14,000)
Income tax recovery (expense)	8,123	(5,251)
Net loss	$ (20,269)	$ (13,570)

Revenue from operations was $1,591.2 million in 2015, down from $2,279.2 million the previous year. The Petroleum division ended the year with sales of $1,121.2 million, a decrease of thirty seven per cent from 2014 sales of $1,766.0 million. Sales volumes were significantly impacted by a drop in commercial volumes due to reduced energy sector activity. Member volumes were five per cent lower than prior year. The growing season started with drought conditions which were followed by unfavorable weather conditions in parts of Alberta, reducing the demand for fuel. In addition, diesel and gas prices fell sharply, which further reduced the dollar value of sales.

AgriBusiness division sales fell by eleven percent or $45.9 million, from $403.0 million in 2014 to $357.1 million in 2015. The sales decline in AgriBusiness was primarily in the crop production, buildings and retail categories as a result of drought conditions, compounded by the economic downturn.

Wholesale Sports' sales increased by two and a half per cent during the same period, from $110.2 million in 2014 to $113.0 million in 2015.

Gross margin decreased by $50.7 million, from $240.6 million in 2014 to $189.9 million in 2015. Of this net decrease, Petroleum margin was down $34.2 million while AgriBusiness lost margin of $17.2 million, due to lower sales volumes and decreased margins. Wholesale Sports' margin increased by $0.7 million.

Operating and administrative expenses were $182.0 million in 2015, unchanged from 2014, and includes a legal liability provision of $15.5 million relating to the 2013 disposition of Wholesale Sports USA, Inc. In 2015, UFA was found liable for damages of $11.9 million US dollars to the landlords of two stores formerly leased by Wholesale Sports USA, Inc. The damages related to lost rent and the landlords' costs of demising and leasing the premises. UFA is appealing the judgment but has recorded the liability in the 2015 financial statements.

Excluding this item, overall costs were $15.5 million less than 2014. Salaries and benefits were $90.3 million, $11.6 million lower than 2014 levels due to staff reductions. Also, no bonuses were paid in 2015. Maintenance expense was $3.4 million lower than 2014 due to reduced discretionary expenditures at Petroleum sites and Farm & Ranch Supply stores. Utilities and rent expenses were lower by $0.7 million in 2015 compared to 2014.

Other income in 2015 was $10.3 million, exceeding the prior year by $2.9 million. Of this, $5.4 million relates to gains experienced from 2015 asset dispositions.

EBITDA decreased by $47.8 million from a $50.7 million decrease in gross margin offset by a $2.9 million increase in other income.

In 2014, the adoption of the new accounting standards relating to employee future benefits required the recognition in the balance sheet of the fair value of the plan obligations net of plan assets, measured at the balance sheet date. As a result of this new standard a pension re-measurement gain of $4.1 million was realized in 2015.

In 2015, UFA performed impairment tests on intangible assets of Wholesale Sports and long lived assets of certain Wholesale Sports and UFA farm stores. This resulted in a determination that patents and trademarks relating to Wholesale Sports amounting to $4.2 million was impaired and written off. Long lived assets of three stores in Wholesale Sports and one UFA farm store were also tested for impairment, resulting in assets of $4.9 million being impaired and written off.

UFA incurred a foreign currency exchange loss of $1.0 million arising from the revaluation of the US dollar legal liability provision relating to the disposition of Wholesale Sports USA, Inc. Excluding this, foreign currency exchange loss was $0.2 million compared with $0.1 million in 2014.

The consolidated net loss for 2015 was $20.3 million compared to a net loss of $13.6 million in 2014. As a result, a patronage payment will not be proposed for 2015.

THE PETROLEUM DIVISION

Petroleum sales volumes in 2015 were 18 per cent or 277.1 million litres lower than 2014. Of this overall decrease, diesel volumes decreased by 213.4 million litres while heating oil volumes decreased by 28.1 million litres and gasoline volumes decreased by 35.6 million litres.

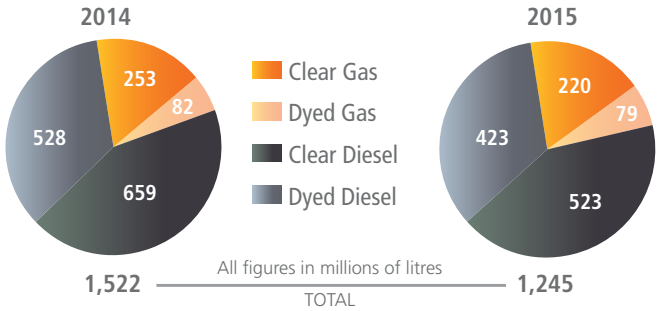
Volumes were down throughout the year due to the fall in the price of oil, which negatively impacted commercial volumes and poor weather during the growing season which negatively affected member volume. UFA also recognized an inventory revaluation loss of $12.3 million due to the sharp drop in fuel prices experienced in 2015.

Average gross margin in 2015 was 6.89 cents per litre (cpl) compared to 7.90 cpl in 2014. This, combined with a lower product volume of 277.1 million litres, contributed to an unfavorable gross margin decrease of 28 per cent or $34.2 million over 2014.

Operating costs decreased over 2014 by $5.0 million. Salaries and benefits accounted for $0.7 million of this change and maintenance accounted for $3.3 million as discretionary maintenance projects were reduced. Various other operating costs such as bad debt, business and property taxes, fleet and utilities made up the remainder of the operating cost decrease.

The net decrease in sales volume and margin partially offset by decreased operating costs resulted in a $29.2 million decrease in EBITDA to $60.7 million from $89.9 million in 2014.

Fuel Volumes by Fuel Type



THE AGRIBUSINESS DIVISION

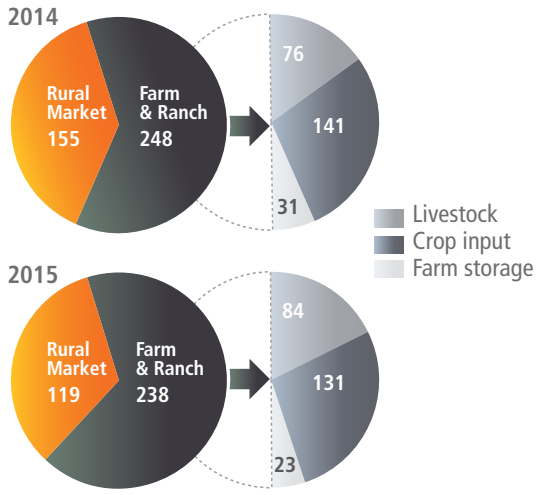
In 2015, sales for AgriBusiness decreased by eleven percent or $45.9 million over 2014. A drought year combined with a competitive market resulted in a reduction of sales for canola seed, crop chemical and crop storage. In addition to the drought, the downturn in the oil and gas industry negatively impacted results in AgriBusiness farm stores and the buildings department due to reduced municipal and energy sector spending. These reductions were partially offset by increased sales in the livestock category.

The gross margin for AgriBusiness decreased by $17.2 million, from $84.3 million in 2014 to $67.1 million in 2015. The reduction in gross margin is due to both a decrease in sales volume and a drop in gross margin rate, from 20.9 percent in 2014 to 18.8 percent in 2015. Margin rates dropped for canola seed, crop chemical and crop storage due to competitive market conditions. The decrease in margin rate for the retail categories was due to planned reduction of aged inventory.

Operating expenses for AgriBusiness in 2015 decreased by nine percent or $6.1 million over 2014 levels and reflects the co-operative's efforts to carefully manage its cost structure.

EBITDA for 2015 was $4.6 million, down from $15.7 million in 2014.

AgriBusiness Sales ($M)



WHOLESALE SPORTS

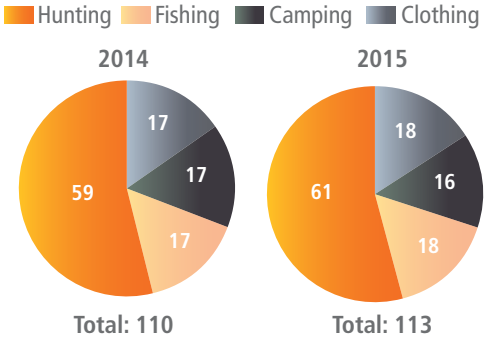
Wholesale Sports' sales increased by two and a half per cent in 2015 to $113.0 million from $110.2 million in 2014. The sales increase was generated mainly from improved in-stock position, strong promotional activity and a reduction in aged inventory. Additional sales were attributed to increased promotional sales activity. However, sales were adversely influenced in the last half of 2015 by the slowdown in the Alberta economy. Additionally, competitors continued to enter key markets. Interestingly, in markets the competition entered in 2014, Wholesale Sports was able to recover market share in 2015.

In 2015, gross margins were up $0.7 million to $34.9 million compared to $34.2 million in 2014 while the margin rate in 2015 was 30.8 per cent compared to 31.0 per cent in 2014. Better management of inventory, use of a hedging program in the procurement process and responsive pricing strategy promoted the gross margin increase while mitigating margin rate decline. Operating costs decreased by $0.4 million. This decline was a direct result of a more efficient labor deployment.

Despite the unfavorable increase in exchange rates affecting inventory costs, Wholesale Sports decreased inventory from $60.1M in 2014 to $50.7M in 2015, due to improved inventory management practices.

Positive sales combined with increased margins and decreased operating costs resulted in an increase in EBITDA to $1.1 million in 2015 from negligible EBITDA in 2014. Overall, Wholesale Sports was successful at driving a positive result in an environment of economic uncertainty, a competitive environment and a declining dollar.

Wholesale Sports Sales by Product Category ($M)



CENTRALIZED SERVICES

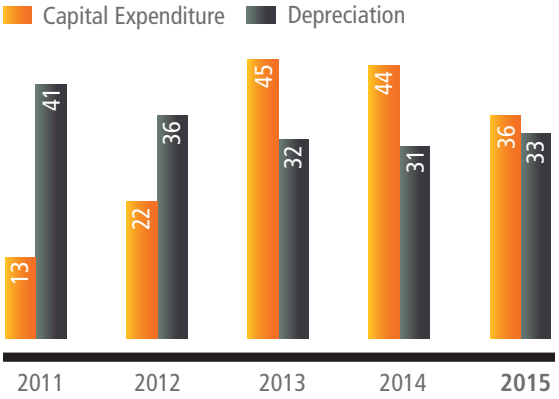
Centralized services include all core business activities required to support the business units within UFA and the consolidated enterprise as a whole. Services are provided by functional departments and include Finance; Human Resources; Information Technology; Internal Audit; Legal; Strategy and Integrated Services; and Marketing Communications, Corporate Communications & Co-operative & Community Relations. In 2015, total costs amounted to $42.9 million, which included severance costs of $2.0 million and legal expenses of $2.0 million incurred in defending and appealing the litigation relating to Wholesale Sports USA, Inc. After absorbing these additional costs, Centralized Services cost in 2015 was lower by $4.0 million from the previous year.

CAPITAL SPENDING AND DEPRECIATION

The net book value of capital assets, excluding goodwill and intangible assets, was $222.1 million ending 2015. During 2015, UFA invested $36.4 million in assets consisting primarily of property and equipment, which represented a decrease from $44.4 million in 2014. The additions for 2015 include $4.7 million at the new Airdrie location related primarily to the completion of the Ag Farm & Ranch Supply store, $3.9 million for new Bridgeland partnership, $4.6 million for the Hinton petroleum location and a further $9.5 million for petroleum maintenance and site upgrades, $6.4 million for capital leases consisting of replacement rolling stock and $5.1 million for information technology projects and system upgrades.

A depreciation and amortization charge of $33.0 million was incurred in 2015 representing a slight increase from the prior year charge of $31.0 million.

Capital Spending and Depreciation ($M)



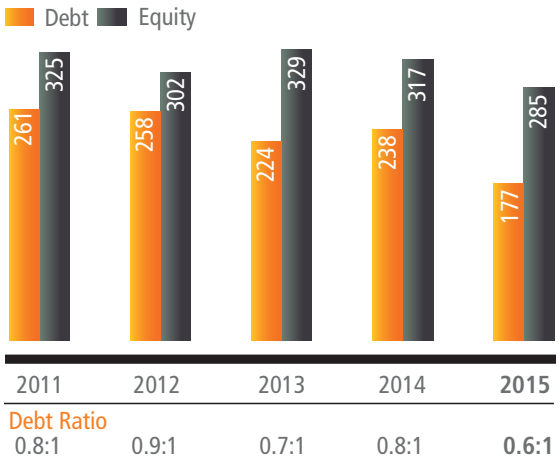
LONG-TERM DEBT

At Dec. 27, 2015, UFA had long-term debt of $103.9 million (2014 – $180.3 million) net of a current portion of $2.6 million (2014 – $2.1 million). The majority of this balance is comprised of borrowings on an asset-based lending agreement (Credit Agreement). The remainder of long-term debt is comprised of capital leases on IT infrastructure, trucks and other equipment. The decrease in borrowings is attributable to reduced working capital financing requirements due to improved inventory management and lower accounts receivable related to lower petroleum sales.

UFA has four different voluntary member loan programs: the on-demand Member Loan program, the High Yield Member Investment Plan (HYMIP) program, the 4-for-1 Member Investment Plan (4for1MIP) program and the 5.5-for-3 Member Investment Plan (5.5for3MIP) program. At the end of 2015, the total outstanding under the four programs was $70.8 million ($55.5 million in 2014), of which $44.9 million ($29.8 million in 2014) is classified as long-term debt. The $15.3 million net increase in total member loans relates primarily to the fully subscribed 5.5for3MIP. UFA's member investment programs will continue to be an important component in UFA's long-term debt arrangements.

Total financing costs for 2015 were $7.4 million, down from $8.8 million in 2014.

Interest Bearing Debt to Equity Ratio ($M)



MEMBERS' EQUITY AND DIVIDEND PAYMENTS

During 2015, UFA paid dividends of $3.0 million on its Class A investment shares, compared to $3.1 million in 2014. This slight decrease is due to a decrease in the prime rate during 2015. In 2015, UFA declared and distributed a member share dividend comprised of investment shares and cash in the amount of $0.5 million, the same as 2014.

LOSS BEFORE PATRONAGE ALLOCATION AND INCOME TAXES

The loss from continuing operations, before patronage allocation and taxes, was $28.4 million in 2015, compared to income of $5.7 million in 2014.

PATRONAGE ALLOCATION

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

Due to insufficient earnings, no patronage payment is proposed for 2015.

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LIQUIDITY

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

Working capital requirements increase significantly over the spring and early summer months when UFA is building its inventory in 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 allows 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 2015, internal sources of capital amounted to $284.5 million compared to $316.9 million in 2014.

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 $82.2 million at Dec. 27, 2015 compared to $74.4 million at Dec. 28, 2014.

The Credit Agreement has 3 years remaining on the original five-year term, and is due for renewal in December 2018. The average borrowing rate in 2015 was 2.6 per cent. Rates are based on London Interbank Offered Rate (LIBOR), BA or prime rates.

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

- On-Demand Loan Program, which pays interest at bank prime plus one per cent;
- High Yield Member Investment Plan (HYMIP), which has a three-year (six per cent) component and a two-year (five per cent) component;
- 4-for-1 Member Investment Plan (4for1MIP) which pays interest at four per cent over the one-year term; and
- 5.5-for-3 Member Investment Plan (5.5for3MIP) which pays interest at 5.5 per cent annually over the three-year term.

The HYMIP program closed in June 2014. The two year component matures in June 2016 and the three year component matures in June 2017. The 4for1MIP and 5.5for3MIP were introduced in September 2015 as replacements for the 567MIP. The 4for1MIP matures in September 2016 and the 5.5for3MIP matures in September 2018.

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

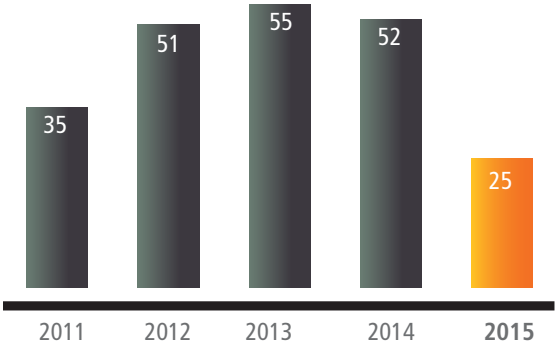
FINANCIAL COVENANTS

UFA is subject to certain financial and collateral covenants related to the Credit Agreement. In 2015, two technical events of default took place related to the Credit Agreement. In the first case, UFA increased its member loans above the stated maximum in the Credit Agreement. In the second case, UFA incurred a legal liability related to the sale of Wholesale Sports USA, Inc., which was over the stated threshold. Both events were waived by the lender prior to December 27, 2015. In addition, the member loan maximum was raised to $75 million.

CASH FLOW FROM OPERATIONS

Cash flow from operations, before non-cash working capital changes was $25.3 million, a decrease of $26.4 million from 2014. Net cash generated by operating activities including working capital changes was $89.8 million in 2015 compared to $42.1 million in 2014.

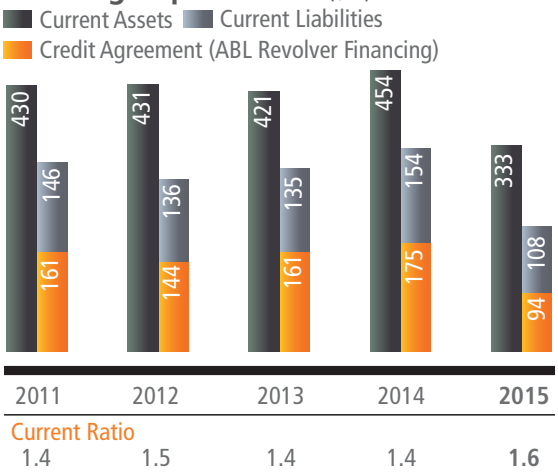
Cash Flow from Operations ($M)
(before changes in non-cash working capital)



WORKING CAPITAL RATIO

Working capital ratio of 1.6:1 in 2015 represents an improvement from the 2014 ratio of 1.4:1. 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.

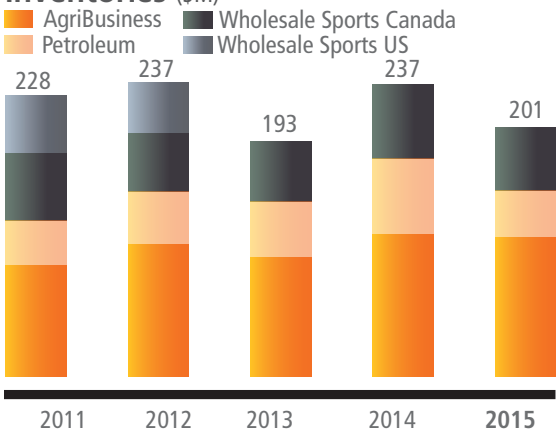
Working Capital Ratio ($M)



INVENTORIES

At year-end 2015, inventory was $35.5 million lower than 2014. AgriBusiness inventories decreased by $3.0 million attributed mainly to decreases of $2.7 million in Buildings and $4.8 million in Retail, offset by increases of $2.1 million in Crop Production and $2.9 million in Animal Production. Decreased petroleum inventory value of $23.1 million was from a significant reduction in rack price year over year. Wholesale Sports' inventories were $9.4 million lower in 2015, primarily from improved working capital management.

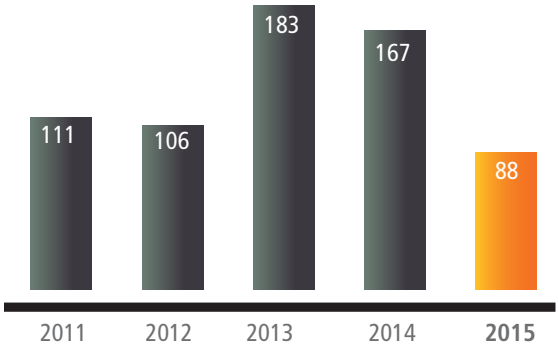
Inventories ($M)



ACCOUNTS RECEIVABLE

In 2015, accounts receivable decreased to $88.0 million from $167.2 million in prior year. This decrease is due to falling fuel prices and reduced 2015 sales volumes, attributable to a slowdown from activity in the oil and gas industry. The bad debt write-off in 2015, net of prior year recoveries of $0.4 million, was $0.3 million, equal to 2014. Days sales outstanding decreased by two days to 27 days in 2015 from 29 days in 2014.

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 allocation.

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

UFA is authorized to issue an unlimited number of member shares with a par value of $5. Member shares are redeemable at par value when the member reaches age 65, moves out of the trading area, or upon a member's death. Member Shares are eligible for a Board declared annual dividend. A dividend of $0.5 million was paid out on Member Shares in 2015 (2014 – $0.5 million).

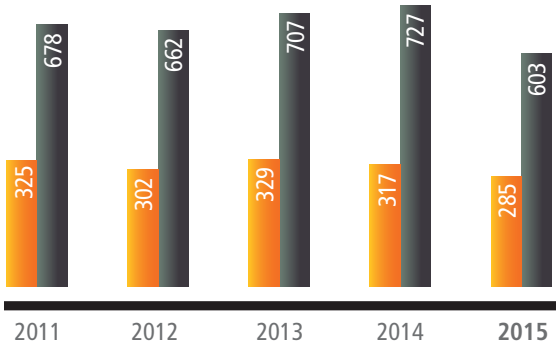
When UFA Co-operative Ltd. has taxable income before patronage allocation and income taxes, a patronage allocation may be ratified by elected officials at the annual general meeting. If approved by the assembly, under UFA's by-laws, the patronage allocation is distributed. For 2015, no patronage has been allocated for distribution due to insufficient earnings.

Revolving equity is non-interest bearing, non-redeemable by the member (except in specific circumstances) and is converted to investment shares in equal amounts over a 12-year period unless waived by the Board. The Board has waived the conversion of Revolving Equity into Investment Shares for 2016. In addition, revolving equity automatically converts to investment shares at age 65.

Investment shares have a par value of $100; are non-voting; and are redeemable at par value at the option of the holder subject to Board approval. They are also retractable at par value at the option of UFA and are paid a dividend at bank prime rate less 0.5 per cent. Dividends on investment shares totaled $3.0 million in 2015 compared to $3.1 million in 2014, and are charged against retained earnings.

Distributions to members in the five years ending in 2015 totaled $121.0 million and consist of the cash portion of the annual patronage allocation, the issuance of investment shares, dividends on investment shares, dividends on member shares and retirement of members' equity.

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

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

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

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

The assets of the DB RPP totaled $134.3 million at Dec. 27, 2015 compared to $124.6 million in 2014, while the accrued benefit obligation, excluding the unfunded SERP obligation, was $119.6 million in 2015 compared to $114.2 million in 2014. The unfunded SERP obligation at year-end 2015 was $4.1 million, compared to $3.9 million at year-end 2014.

In 2015, UFA incurred a net pension expense of $3.7 million compared to $4.1 million in 2014.

RISK MANAGEMENT

ENTERPRISE RISK MANAGEMENT

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

FINANCIAL RISK

UFA undertakes certain transactions denominated in foreign currencies and, as a result, foreign currency exposures arise. Certain financial risks may be reduced through insurance, forward contract or hedging programs, while other risks are prioritized in relation to the potential impact on the business and strategies are developed to mitigate the risk. In 2015, UFA utilized a hedging program to assist in the management of financial risks relating to interest rates and foreign exchange.

BUSINESS CYCLES AND COMMODITY RISK

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

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

CREDIT RISK

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

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

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

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

LIQUIDITY RISK

UFA manages liquidity risk to ensure it has sufficient liquidity to meet liabilities when they come due. At Dec. 27, 2015, UFA had current assets of $332.8 million to settle current liabilities of $124.1 million. All accounts payable, accrued liabilities and deferred revenue are subject to normal trade terms.

INTEREST RATE RISK

To manage interest rate risk, UFA utilizes short-term floating interest rate borrowings issued under the Credit Agreement and through the on-demand member loans program. Under its hedging program, UFA utilizes swap agreements to manage interest rate risk on its asset-based revolving credit facility. The swap interest contracts apply an effective rate of interest at approximately 1.32% plus a spread of 1.25% on a hedged loan amount of $75.0 million. The contracts are established through to 2018 when the Credit Agreement is due for renewal. UFA has not hedged any of the interest rate risk associated with 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 2015. UFA has entered into similar forward agreements in 2016 under this risk management initiative.

In 2015, UFA incurred a loss of $1.2 million (2014 – $0.1 million) largely from the revaluation of litigation recognized in 2015 denominated in US dollars.

COMMODITY RISK

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

ENVIRONMENT, HEALTH & SAFETY (EH&S)

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

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

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

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 generally accepted accounting principles, which recognize the necessity of relying on management's judgment and the use of estimates. Management has determined such amounts on a reasonable basis to ensure the financial statements are presented fairly in all material respects.

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

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

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

Carol Kitchen
President and Chief Executive Officer
February 23, 2016

Scott Bolton
Chief Financial Officer
February 23, 2016

February 23, 2016

Independent Auditor's Report

To the Delegates/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 27, 2015 and December 28, 2014 and the consolidated statement of operations, changes in members' equity and cash flows for the 52 week period ended December 27, 2015 and December 28, 2014, 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 audits. We conducted our audits 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 audits is sufficient and appropriate to provide a basis for our audit opinion.

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

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 27, 2015 and December 28, 2014 and the results of their operations and their cash flows for the 52 week period ended December 27, 2015 and December 28, 2014 in accordance with Canadian accounting standards for private enterprises.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

CONSOLIDATED BALANCE SHEET

As at

(Stated in thousands of Canadian dollars)	December 27, 2015	December 28, 2014
Assets		
Current Assets		
Cash and cash equivalents	$ 13,400	$ 24,433
Accounts receivable *(note 3)*	88,015	167,189
Current income tax receivable	8,199	–
Inventories	201,314	236,781
Prepaid expenses and deposits	17,738	21,526
Future income tax asset *(note 9)*	4,085	3,875
	332,751	453,804
Property held for sale *(note 4)*	13,952	11,343
Investments	601	707
Other long-term assets *(note 5)*	12,564	8,472
Goodwill and intangible assets *(note 6)*	12,997	16,048
Future income tax asset *(note 9)*	8,221	6,343
Property and equipment *(note 7)*	222,073	230,175
	$ 603,159	$ 726,892
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable and accrued liabilities *(note 17)*	$ 78,202	$ 119,424
Deferred revenue	16,151	20,698
Current portion of member loans *(note 8)*	15,067	15,854
Demand member loans *(note 8)*	10,815	9,842
Current portion of long-term debt *(note 10)*	2,631	2,105
Current portion of long-term liabilities *(note 12)*	1,249	1,489
	124,115	169,412
Long-term debt *(note 10)*	103,905	180,250
Member loans *(note 8)*	44,947	29,801
Asset retirement obligations *(note 11)*	23,818	23,266
Long-term liabilities *(note 12)*	21,866	7,271
	318,651	410,000
Members' Equity		
Member entitlements *(note 14)*	213,873	222,418
Retained earnings	70,635	94,474
	284,508	316,892
	$ 603,159	$ 726,892

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 27, 2015	December 28, 2014
Revenue *(note 18)*	$ 1,591,239	$ 2,279,166
Cost of sales	(1,401,364)	(2,038,544)
Gross margin	189,875	240,622
Operating and administrative expenses (*note 21)*	(181,959)	(181,993)
Other income	10,292	7,411
Earnings before the under noted	18,208	66,040
Depreciation and amortization	(33,035)	(30,984)
Pension remeasurement	4,126	7,037
Impairment of goodwill *(note 6)*	–	(27,534)
Impairment of intangibles *(note 6)*	(4,187)	–
Impairment of property & equipment *(note 7)*	(4,934)	–
Interest *(notes 8,10)*	(7,378)	(8,755)
Foreign currency exchange loss *(note 15)*	(1,192)	(123)
(Loss) income before patronage and income taxes	(28,392)	5,681
Patronage allocation *(note 14)*	–	(14,000)
Income tax recovery (expense) *(note 9)*	8,123	(5,251)
Net loss	$ (20,269)	$ (13,570)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

As at *(Stated in thousands of Canadian dollars)*	December 27, 2015	December 28, 2014
Member Entitlements *(note 14)*		
Beginning of period	$ 222,418	$ 218,424
Patronage allocation	–	14,000
Dividends paid in cash	(3,139)	(2,587)
Redemptions / repayments	(6,122)	(6,359)
Member share dividend	524	452
Contribution to UFA Rural Communities Foundation	–	(1,000)
Less than minimum, unclaimed and other adjustments	129	79
Patronage distribution (recovery)	63	(591)
	213,873	222,418
Retained Earnings		
Beginning of period	94,474	111,025
Net loss	(20,269)	(13,570)
Member share dividend	(524)	(452)
Patronage (distribution) recovery net of closeouts	(64)	588
Dividends on investment shares	(2,982)	(3,117)
	70,635	94,474
Total Members' Equity	$ 284,508	$ 316,892

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended

(Stated in thousands of Canadian dollars)	December 27, 2015	December 28, 2014
Operating activities		
Net loss for the year	$ (20,269)	$ (13,570)
Items not requiring an outlay of cash		
Patronage allocation	–	14,000
Gain on disposal of property and equipment	(5,372)	(610)
Asset retirement obligation accretion *(note 11)*	1,919	1,781
Future income tax (recovery) expense *(note 9)*	(2,088)	193
Increase in other long-term liabilities	13,827	384
Other amortization	(145)	(259)
Impairment of goodwill *(note 6)*	–	27,534
Impairment of intangibles *(note 6)*	4,187	–
Impairment of property & equipment *(note 7)*	4,934	–
Pension remeasurement	(4,126)	(7,037)
Depreciation and amortization *(notes 6,7)*	33,035	30,984
	25,902	53,400
Asset retirement obligations settled *(note 11)*	(599)	(1,682)
Changes in non-cash working capital *(note 19)*	64,461	(9,588)
Cash provided by operating activities	89,764	42,130
Investing activities		
Additions to property and equipment	(27,650)	(41,344)
Additions to goodwill and intangible assets	(5,096)	(3,036)
Proceeds from disposal of property and equipment	7,115	3,329
(Increase) decrease in other long-term assets	(2,469)	882
Cash used in investing activities	(28,100)	(40,169)
Financing activities		
Long-term debt (redeemed) issued *(note 10)*	(75,915)	15,974
Net member loans issued (redeemed) *(note 8)*	15,332	(1,995)
Repayment of revolving equity	(411)	(437)
Dividends on investment shares	(2,982)	(3,117)
Redemption of shares	(5,582)	(5,844)
Contribution to UFA Rural Communities Foundation	–	(1,000)
Patronage allocation and member share dividends paid in cash	(3,139)	(2,587)
Cash (used) provided by financing activities	(72,697)	994
(Decrease) increase in cash	(11,033)	2,955
Cash and cash equivalents, beginning of period	24,433	21,478
Cash and cash equivalents, end of period	$ 13,400	$ 24,433

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. NATURE OF OPERATIONS

United Farmers of Alberta Co-operative Limited (UFA) was incorporated by special act under the laws of Alberta and operates as three business segments distributing fuel products, farm supplies, and outdoor recreation products to its customers. As a co-operative, a significant portion of its business is with its member-owners. The outdoor recreation products segment operates through a wholly-owned subsidiary, Wholesale Sports Canada Ltd. operating in Western Canada.

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 27, 2015 and the comparative period is December 28, 2014.

Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for private enterprises.

Consolidation

The consolidated financial statements include the accounts of UFA and its wholly-owned subsidiary, Wholesale Sports Canada Ltd. Transactions between UFA and its wholly-owned subsidiary 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 and interests in joint ventures are accounted for using inside basis differences, unless it is apparent that the temporary differences will reverse in the foreseeable future, in which case the outside basis differences are recorded. Future income tax assets are evaluated and recorded as required in the consolidated financial statements if realization is considered more likely than not. Valuation allowances are established for amounts not likely to be realizable.

Revenue Recognition

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

Cash and Cash Equivalents

Cash and cash equivalents 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 $1,352.0 million (2014 – $1,988.4 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.

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	5 to 8 years
Computer equipment and system software	3 to 5 years
Automotive equipment	5 years
Leased assets	3 to 15 years

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

Property Held for Sale

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

Goodwill and Intangible Assets

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

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

Impairment of long-lived assets

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

Asset Retirement Obligations

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

Employee Future Benefits

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

Gains or losses arising from actual changes in plan assets or from experience differing from assumptions are recognized immediately in the Consolidated Statement of Operations as pension remeasurement. The corresponding Net Funded Status of the plan is represented in Employee Future Benefits *(note 16)*. The market value of plan assets is used for all calculations. Company contributions to employees under the defined contribution pension plan are charged to expenses.

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

Foreign Currency Translation

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

Financial Instruments

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

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

All financial instruments are measured at fair value upon initial recognition. Subsequent measurement is at amortized cost, with the exception of cash and cash equivalents which are held at fair value.

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, 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 $81.9 million (2014 – $156.2 million) extended under commercial terms, and other miscellaneous receivables of $6.1 million (2014 – $11.0 million). The customer and member receivables are net of an allowance of $2.3 million (2014 – $2.0 million). In 2015, UFA recorded $0.3 million in bad debts (2014 – $0.3 million), which are net of $0.4 million (2014 – $1.3 million) in credit recoveries for amounts written off in prior years.

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

In 2015, UFA earned interest on overdue accounts receivable of $4.2 million (2014 – $6.4 million).

4. PROPERTY HELD FOR SALE

	2015	2014
Land and equipment	$ 13,952	$ 10,647
Relocation properties	–	696
	$ 13,952	$ 11,343

Property held for sale represents assets which management has evaluated as not integral to business operations. The assets include vacant land and equipment held for sale. In January 2016 $3.3 million of equipment held for sale was sold to an unrelated party.

5. OTHER LONG-TERM ASSETS

	2015	2014
Accrued pension benefit asset *(note 16)*	$ 10,288	$ 6,196
Deferred charges	2,276	2,276
	$ 12,564	$ 8,472

6. GOODWILL AND INTANGIBLE ASSETS

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

	2014			
	Cost	Accumulated Depreciation, Amortization	Impairment	Net Book Value
Application software	$ 62,612	$ 54,706	$ –	$ 7,906
Goodwill	29,384	–	27,534	1,850
Trademark/trade names	9,276	5,820	–	3,456
Leases/licenses	7,994	5,210	–	2,784
Non-competition agreements	3,113	3,061	–	52
Customer relationships	100	100	–	–
	$ 112,479	$ 68,897	$ 27,534	$ 16,048

In 2014, UFA's wholly owned subsidiary, Wholesale Sports Canada Ltd. recognized an impairment of $27.5 million relating to goodwill.

In 2015, UFA's wholly owned subsidiary, Wholesale Sports Canada Ltd. tested intangible assets comprised of trademarks and licenses for impairment. The test was conducted due to a reduced economic outlook of foreseeable earnings. The impairment test compares the carrying value of the assets against the fair value, and the amounts exceeding fair value result in an impairment. The conclusion of this testing resulted in an impairment of $4.2 million for Wholesale Sports Canada Ltd.

7. PROPERTY AND EQUIPMENT

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

	2014			
	Cost	Accumulated Depreciation, Amortization	Impairment	Net Book Value
Land	$ 52,563	$ –	$ –	$ 52,563
Buildings, fences and yards	168,073	88,876	–	79,197
Equipment	155,142	101,083	–	54,059
Computer equipment and system software	22,274	16,445	–	5,829
Automotive equipment	13,747	12,381	–	1,366
Leased assets	37,697	16,824	–	20,873
Assets under construction	16,288	–	–	16,288
	$ 465,784	$ 235,609	$ –	$ 230,175

Assets under construction at December 27, 2015 are expected to be placed into productive use during fiscal 2016 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 $6.4 million (2014 – $4.1 million) of capital leases, entered into in 2015.

In 2015, UFA's wholly owned subsidiary, Wholesale Sports Canada Ltd. recognized an impairment of $2.7 million of long lived assets in certain store locations comprising furniture & fixtures, computer equipment, and leasehold improvements. Wholesale Sports Canada Ltd. determined these assets had reduced economic value due to lower foreseeable earnings. For the purposes of determining the amount to be recognized as impairment, the carrying value over the fair value was recognized as a charge.

UFA also recognized an impairment loss of $2.2 million relating to a farm store. These impairments were booked as the carrying value of the assets exceeded the fair value.

8. MEMBER LOANS

	December 27, 2015	December 28, 2014
Member demand loan	$ 10,815	$ 9,842
5-6-7MIP	–	14,304
HYMIP - 1 Year	–	1,550
HYMIP - 2 Year	14,696	14,696
HYMIP - 3 Year	15,005	15,105
4for1MIP	371	–
5.5for3MIP	29,942	–
	70,829	55,497
Less: current portion	(25,882)	(25,696)
	$ 44,947	$ 29,801

UFA has four different voluntary member loan programs — the on-demand Member Loan program, the High Yield Member Investment Plan (HYMIP) program, the 4-for-1 Member Investment Plan (4for1MIP) program and the 5.5-for-3 Member Investment Plan (5.5for3MIP) program, all of which provide members, employees, and agents the opportunity to invest in UFA and earn a return on their investment. All member loans are unsecured.

The on-demand Member Loans earn a rate of return equal to the bank prime rate, as stated by the Royal Bank of Canada, plus 1%. The balance of the on-demand Member Loans, including accumulated interest, as at December 27, 2015 was $10.8 million (December 28, 2014 – $9.8 million), and interest of $0.4 million (December 28, 2014 – $0.4 million) was included in interest expense.

The 5-6-7MIP program introduced September 16, 2012 concluded on September 15, 2015. Investors in the 5-6-7MIP had the option of principal repayment or rolling their existing investment into the 5.5for3MIP or the 4for1MIP; $11.4 million of this program was rolled over with $11.0 million funded to the 5.5for3MIP, $0.4 million funded to 4for1MIP and the remaining amounts paid in cash. Interest of $0.6 million (December 28, 2014 – $0.9 million) was included in interest expense.

The HYMIP program introduced in June 16, 2014 offered investors three investment choices: a three-year term with a fixed rate of 6% interest maturing on June 15, 2017, a two-year term with a fixed rate of 5% maturing on June 15, 2016, and a one-year term with a fixed rate of 4% interest that matured on June 15, 2015. Total investment in the two-year and the three-year terms was capped at $30 million cumulative. The program has no early redemption options, and pays interest semi-annually on June 15th and December 15th. The minimum investment allowed was $2,500. The HYMIP program was closed to new investment in June 2014. Investors in the one-year program that matured on June 15, 2015 had the option of principal repayment or extending their investment at 4% interest until September 15, 2015 when it would roll into the new 5.5for3MIP program. $0.9 million was rolled into the 5.5for3 program with the balance paid in cash.

The HYMIP balance as at December 27, 2015 was $29.7 million, with $15.0 million in the three-year program and $14.7 million in the two-year program (December 28, 2014 – $31.4 million). Interest of $1.7 million (December 28, 2014 – $2.0 million) was included in interest expense.

The 5.5for3MIP program and 4for1MIP program were introduced on September 16, 2015. The 4for1MIP program pays a fixed rate of 4.0% interest and matures on September 15, 2016. The 5.5for3MIP program has a three-year term that pays a fixed rate of 5.5% interest and matures on September 15, 2018. The programs have no early redemption options, and pay interest semi-annually on March 15th and September 15th. The minimum investment allowed under the programs was $2,500 while the maximum investment allowed was $1.0 million. The programs were fully subscribed and closed to new investment in September 2015.

The 4for1MIP balance as at December 27, 2015 was $0.4 million and a minimal amount was included in interest expense.

The 5.5for3MIP balance as at December 27, 2015 was $29.9 million and interest of $0.5 million was 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 10)*.

9. 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 27, 2015	December 28, 2014
Income before patronage and income taxes	$ (28,392)	$ 5,681
Patronage allocation	–	(14,000)
Net loss before income taxes	(28,392)	(8,319)
Statutory income tax rate	26.01%	25.01%
Expected income tax recovery	(7,385)	(2,081)
Non-deductible items and other	75	120
Rate adjustment	(2,457)	(185)
True ups and other	106	713
Future income tax valuation allowance	1,538	6,684
Income tax (recovery) expense	(8,123)	5,251
Income taxes consists of:		
Current income tax (recovery) expense	(6,035)	5,058
Future income tax (recovery) expense	(2,088)	193
	$ (8,123)	$ 5,251

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

	December 27, 2015	December 28, 2014
Current future income tax asset:		
Inventories	$ 2,786	$ 2,564
Payables, warranty and other	1,299	1,311
	4,085	3,875
Long-term future income tax asset:		
Long term debt and other long-term liabilities	3,992	2,267
Asset retirement obligation	6,427	5,819
Tax loss	9,315	9,290
Goodwill and intangibles	8,939	7,047
Property and equipment	(832)	(1,224)
Pension	(2,776)	(1,550)
Valuation allowance	(16,844)	(15,306)
	$ 8,221	$ 6,343

10. LONG-TERM DEBT

	December 27, 2015	December 28, 2014
Asset-Based Credit Agreement - Revolving loans	$ 93,911	$ 175,212
Obligations under capital leases	12,947	7,518
Deferred financing charges	(322)	(375)
	106,536	182,355
Less: current portion	(2,631)	(2,105)
	$ 103,905	$ 180,250

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 27, 2015, under the Credit Agreement, the borrowing bases for accounts receivable and inventory were margined at $63.5 million (2014 – $122.1 million) and $129.4 million (2014 – $152.6 million) respectively. In 2015, the total amount of reserve deducted from the borrowing bases was approximately $16.8 million (2014 – $25.1 million). At December 27, 2015, $82.2 million (2014 – $74.4 million) of credit was available to fund operations and working capital requirements.

As at December 27, 2015 UFA's balance in revolving loans under the Credit Agreement included $93.9 million (2014 – $175.2 million) drawn in Canadian dollars. The Canadian dollar borrowings consisted of $90.0 million (2014 – $160.0 million) of 30 day Banker's Acceptances (BA) and $3.9 million of prime loans (2014 – $15.2 million). Any US debt balances carried throughout the year are held in prime loans.

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 2015, two technical events of default took place related to the Credit Agreement and were subsequently waived by the lender prior to December 27, 2015. There was no requirement to accelerate payment of outstanding debt due to the events of default. UFA provided monthly compliance reporting to its agent under the Credit Agreement and also provided an annual forecast of its availability.

Capital Lease Obligations

The capital leases under leased assets *(see note 7)* are the security for the respective obligations. Scheduled minimum lease payments for the next five periods total $7.8 million, including $1.0 million in financing expenses. The lease terms range from one to five years at interest rates between 3.2% and 6.0% for 2015 (2014 – 4.3% and 6.0%).

	Principal	Interest	Total
2016	$ 2,498	$ 439	$ 2,937
2017	1,995	305	2,300
2018	1,194	176	1,370
2019	772	97	869
2020	320	29	349
	$ 6,779	$ 1,046	$ 7,825

11. ASSET RETIREMENT OBLIGATIONS

	2015	2014
Balance, beginning of year	**$ 23,266**	$ 23,135
Accretion expense	**1,919**	1,781
Revisions in estimated cash flows	**(768)**	32
Liabilities settled	**(599)**	(1,682)
Balance, end of year	**$ 23,818**	$ 23,266

Estimated undiscounted future cash flows, adjusted for inflation, are $59.2 million (2014 – $59.1 million) and are expected to be incurred up to and including fiscal 2063. The present value or discounted fair value of the obligations was determined using a 7.7% discount rate and a 2.2% inflation rate (2014 – 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.

12. LONG-TERM LIABILITIES

	December 27, 2015	December 28, 2014
Accrued liabilities	**$ 16,457**	$ –
Other long-term liabilities	**6,658**	8,760
	23,115	8,760
Less: current portion	**(1,249)**	(1,489)
	$ 21,866	$ 7,271

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

13. COMMITMENTS, CONTINGENCIES AND GUARANTEES

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

2016	$ 10,282
2017	10,317
2018	9,032
2019	7,210
2020	5,441
After 2020	13,714
	$ 55,996

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.

14. MEMBER ENTITLEMENTS

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

Details of Member Entitlements are as follows:

	December 27, 2015	December 28, 2014
Member Shares	**$ 32,334**	$ 29,538
Patronage Allocation	**–**	14,000
Revolving Equity	**39,913**	42,626
Class A Investment Shares	**132,846**	128,287
Contributed Surplus	**8,780**	7,967
	$ 213,873	$ 222,418

The repayment and redemption of Equity and the payment of a Patronage Allocation and dividends are subject to the right of offset of any amounts owing to UFA, and are subject to UFA meeting the covenants contained under the Credit Agreement *(see note 10)*.

Member Shares

UFA is authorized to issue an unlimited number of Member Shares with a par value of $5.00. Member Shares are redeemable at the option of the holder subject to Board approval at par value when the member reaches age 65, moves out of the trading area or, at the request of the member's estate, upon the member's death. The maximum dollar amount of Member Shares held by each member is $5,000 and Member Shares are eligible for a Board of Directors' declared annual dividend. A dividend of $0.5 million was paid out on Member Shares in 2015 (2014 – $0.5 million).

	2015		2014	
Ordinary shares issued:	**Number**	**Amount**	Number	Amount
Balance, beginning of period	**5,908**	**$ 29,538**	5,323	$ 26,616
Patronage Allocation	**712**	**3,560**	727	3,634
Redemption	**(108)**	**(541)**	(96)	(482)
Contributed Surplus	**(45)**	**(223)**	(46)	(230)
Balance, end of period	**6,467**	**$ 32,334**	5,908	$ 29,538

Patronage Allocation

UFA may distribute a portion of its current fiscal period taxable earnings to its members in the form of a Patronage Allocation. The Patronage Allocation must be ratified by UFA's elected delegates at the Annual General Meeting held in March of the following period. As part of the ratification of the Patronage Allocation and as provided for under UFA's by-laws, the delegates also approve the distribution of the current period allocation to Member Shares, non-interest bearing Revolving Equity, Investment Shares and the amount to be paid in cash. No patronage allocation is proposed for payment relating to the year 2015.

	2015	2014
Balance, beginning of period	**$ 14,000**	$ 13,600
Current period distribution		
Member Shares	**(3,560)**	(3,634)
Cash	**(3,065)**	(2,568)
Revolving Equity	**(5,534)**	(5,849)
Class A Investment Shares	**(1,904)**	(958)
Distribution adjustments	**63**	(591)
Current period allocation	**–**	14,000
Balance, end of period	**$ –**	$ 14,000

Revolving Equity

Revolving Equity is non-interest bearing, non-redeemable by the member except in specific circumstances and is converted into Investment Shares on a straight-line basis over a 12-year period unless conversion is waived by the Board of Directors. The Board of Directors has waived the conversion of Revolving Equity into Investment Shares for 2016.

	2015	2014
Balance, beginning of period	$ 42,626	$ 50,660
Patronage Allocation	5,534	5,849
Conversion to Class A Investment Shares	(6,902)	(12,485)
Senior Members conversion to Class A Investment Shares	(831)	(834)
Repayment	(411)	(437)
Contributed Surplus	(107)	(130)
Adjustments	4	3
Balance, end of period	$ 39,913	$ 42,626

Class A Investment Shares

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

Investment Shares are retractable at par value at the option of UFA and provide a dividend at bank prime rate less 0.5%. Dividends of $3.0 million (2014 – $3.1 million) on the Investment Shares are charged against retained earnings. The minimum payment required for a dividend check to be issued is $50 per member and the amount owing is held in Investment Shares until the minimum is met.

	2015		2014	
	Number	Amount	Number	Amount
Balance, beginning of period		$ 128,287		$ 119,398
Patronage Allocation	19	1,904	10	958
Conversion from Revolving Equity	69	6,902	125	12,485
Senior Members conversion from Revolving Equity	8	831	8	834
Member Share Dividend	5	450	4	432
Redemption	(52)	(5,170)	(54)	(5,440)
Contributed Surplus	(5)	(483)	(46)	(457)
Less than minimum and unclaimed	–	125	–	77
Balance, end of period		$ 132,846		$ 128,287

Contributed Surplus

The By-laws of the Co-operative provide for termination of a member's membership due to inactivity. When a member's membership is terminated for inactivity, the member has no further entitlement to be paid any amount in respect of the member's Investment Shares, Member Shares, Revolving Equity or Unclaimed Funds (together, the Member's Equity), and the membership number and Equity shall be cancelled without any payment or notice to the member. In 2015, Members' Equity of $0.8 million (2014 – $0.8 million) was cancelled and classified as Contributed Surplus, as outlined below.

	2015	2014
Balance, beginning of period	$ 7,967	$ 8,150
Current period additions:		
Member Shares	223	230
Revolving Equity	107	130
Class A Investment Shares	483	457
Contribution to UFA Rural Communities Foundation	–	(1,000)
Balance, end of period	$ 8,780	$ 7,967

15. 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 27, 2015, UFA had current assets of $332.8 million (2014 – $453.8 million) to settle current liabilities of $124.1 million (2014 – $169.4 million). All of UFA's accounts payable, accrued liabilities and deferred revenue are subject to normal trade terms *(see notes 8 and 10 for information on payment terms of member loans and current and long-term debt)*.

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. These fluctuations may be significant.

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 without spread rate (2014 – Canadian or US prime rate plus 0.75%). For BAs the interest rate are BA plus 1.25% (2014 – BA plus 2.25%). Further, the amortized transaction costs impacted the interest rate by 0.22% (2014 – 0.04%) making the effective interest rate 2.60%. A 1.0% change in the prime rate may have an annual interest impact of approximately $0.25 million. UFA is not exposed to interest rate risk on capital lease obligations as the rates are fixed.

Interest expense of $3.7 million was recognized in 2015. UFA has entered into an interest rate swap agreement in order to mitigate the interest rate risk for $75 million of long-term debt. Under the terms of the agreement, UFA can borrow funds at 1.32% plus a spread of 1.25% for the notional amount of $75 million. UFA has elected to apply hedge accounting for the transactions and has recorded the amount due to the counterparty in accrued liabilities.

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 10)* and short-term payables related to foreign suppliers. UFA entered into foreign currency forward contracts to manage its exposure to foreign exchange rate risk arising from certain payables to foreign suppliers. Having met the criteria to apply hedge accounting to those anticipated transactions, UFA has not recognized the foreign currency forward contract in these consolidated financial statements.

As at December 27, 2015 UFA had entered into foreign currency forward agreements that will become effective in fiscal 2016.

16. EMPLOYEE FUTURE BENEFITS

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

UFA employees who were hired into a pension-eligible position prior to October 1, 2012 are participants of the defined benefit pension plan. Employees newly hired or transferred into a pension eligible position on or after October 1, 2012 are participants of the defined contribution pension plan. The employer contribution towards the defined contribution plan, recognized as an expense, was $0.7 million (2014 – $0.5 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, 2013.

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

	December 27, 2015	December 28, 2014
Accrued benefit obligation, end of year	$ 123,716	$ 118,086
Market value of plan assets, end of year	134,335	124,632
Surplus of plan at end of year	10,619	6,546
Employer contribution made after measurement date	(331)	(350)
Accrued asset	$ 10,288	$ 6,196

Included in the accrued benefit obligation is $4.1 million related to the SERP (2014 – $3.9 million).

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

	2015	2014
Discount rate for funded status	5.35%	5.35%
Rate of compensation increase	3.00%	3.00%

17. GOVERNMENT REMITTANCES

Accounts payable and accrued liabilities as at December 27, 2015 include $9.7 million (2014 – $16.2 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.

18. REVENUE SEGMENTATION

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

Category	December 27, 2015	%	December 28, 2014	%
Petroleum	$ 1 ,121,200	70.5	$ 1,766,011	77.5
AgriBusiness	357,051	22.4	402,986	17.7
Outdoor recreation	112,988	7.1	110,169	4.8
	$ 1,591,239		$ 2,279,166	

19. CHANGES IN NON-CASH WORKING CAPITAL RELATED TO CONTINUING OPERATIONS

Non-cash working capital relating to continuing operations generated cash flows of $64.5 million in fiscal year 2015 (2014 – used $9.6 million).

	December 27, 2015	December 28, 2014
Accounts receivable and current income tax receivable	$ 70,975	$ 16,040
Inventory	35,467	(44,135)
Prepaid expenses	3,788	(696)
Accounts payable and accrued liabilities	(41,222)	18,415
Deferred revenue and other	(4,547)	788
	$ 64,461	$ (9,588)

20. INTEREST AND INCOME TAXES PAID

Interest paid in fiscal year 2015 is $7.3 million (2014 – $8.7 million). Income taxes paid in fiscal year 2015 was $2.2 million (2014 – $6.6 million paid).

21. OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses in 2015 were $182.0 million (2014 – 182.0 million). In 2015, UFA recognized $15.5 million in these operating and administrative expenses related to a legal liability for events relating to the 2013 disposition of Wholesale Sports USA, Inc. UFA has posted two surety bonds totaling $12.0 million US dollars that will remain in effect until litigation is concluded. UFA was not required to provide collateral to support the bonds.

22. SUBSEQUENT EVENTS

On January 4, 2016, UFA entered into a limited partnership (Bridgeland Agribusiness Solutions Limited Partnership) with CHS Country Operations Canada, Inc. to sell fertilizer, seed and crop chemical in the Peace Country region of Alberta and British Columbia. The partnership started its operations on Jan 4, 2016. UFA made a nominal initial investment for 49.99 per cent of Class A shares of the Partnership. The partnership will be accounted for using the cost method.