HELPINGHANDS

2021

UFA Member Report

GET IT. UFA DONE.

SCOTT BOLTON President and CEO KEVIN HOPPINS Board Chair

UFA was founded on the principle of co-operation and working together to achieve something greater.

At our essence, in the co-operative model, we are guided by the ideal that supporting our members, customers, and communities, through all our efforts makes for a stronger co-operative and accomplishes so much more for everyone that we interact with.

Being a helping hand is at the core of who we are.

OUR MEMBERS STAND **STRONG** IN THE FACE OF ADVERSITY AND **WORK HARD** TO GET THE JOB DONE, **EVERY DAY.**

In a year of supply chain challenges, and extreme weather, the resiliency of the agriculture industry was never more evident. Our members stand strong in the face of adversity and work hard to get the job done, every day. As a co-operative, UFA stands shoulder-to-shoulder with members, providing the products and services you need, when you need them. Our dedicated team of employees and agents worked hard to deliver tremendous results in 2021 and we are proud to share the benefits.

For 2021 purchases, we are extremely proud to announce a patronage return of $18 million. This marks the fifth consecutive year of increased patronage and a 27 per cent increase over last year. We have also expanded the payout to additional categories resulting in a more robust return for members. Thank you for your support in 2021 and we look forward to serving you in 2022. ■

SAFETY

We are committed to keeping our people safe by minimizing hazards and risks through training, by maintaining a government-certified health and safety management system and by setting targets to constantly improve performance. Through this commitment, we are seeing dramatic improvements in our safety performance, with a 20 per cent decrease in injury rates per 100 workers over the last two years.

SUSTAINABILITY

In 2021, we announced a renewed commitment to sustainability. As part of this commitment, we partnered with Cleanfarms for a Jug Recycling Initiative to distribute recycle bags for pesticide and fertilizer jugs, providing a convenient disposal solution to divert these jugs from local waste collection sites.

BELONGING

We care about the lives of our members, customers, and team, and have committed to creating lasting change - growing a culture of inclusivity that empowers all of us to connect, belong, and grow. In 2021, we strengthened our commitment by partnering with Inclusion Alberta and Community Futures Treaty 7 to hire new employees. Throughout the year, we also donated over $15,000 to programs in support of diversity, inclusion and belonging including Calgary Quest School, Spirit North and the Prosperity Project.

PATRONAGE 2022 AND 2023

PLUS

$18M 2022 PAYOUT

4.5 CENTS PER LITRE ON AG DIESEL | 1.0 CENT PER LITRE ON AG GASOLINE

2.5% BACK ON 2021 PURCHASES* with minimum purchase of $5000

PATRONAGE, IT'S A PLUS.

There are many pluses to being a UFA member. Our patronage payout is one of them. In 2022 we're paying out an impressive amount. That's a plus. In 2023, we're also paying out on more purchases and that's a plus. With more eligible purchases, more members will qualify for patronage. That's also a plus. It all adds up to the many benefits of being a UFA member.

- PLUS 4.5 CENTS PER LITRE ON AG DIESEL
- PLUS 1.0 CENT PER LITRE ON AG GASOLINE
- PLUS PERCENTAGE PAYOUT ON OTHER 2022 UFA PURCHASES* +
  With minimum purchase of $5000

* Exclusions: Micro Beef, crop nutrition and non ag fuel. + Pending Board and Delegate approval.

FINANCIAL PERFORMANCE

$74 M

EBITDA*

compared to $64 M in 2020

$1.6 B

REVENUE

compared to $1.2 B in 2020

$222 M

GROSS MARGIN

compared to $181 M in 2020

$25 M

NET INCOME

compared to $7 M in 2020

10.5%

ROIC**

compared to 8.1% in 2020

For more information and to view the 2021 Financial Statements, visit **coop.UFA.com/MemberReport**

* Earnings Before Interest, Tax, Depreciation and Amortization ** Return on Invested Capital. An important financial measure that calculates the percentage return UFA earns from capital invested in the business.

AGRIBUSINESS

WORK ON THE FARM NEVER STOPS, AND UFA'S AGRIBUSINESS TEAM WAS HARD AT WORK ALONGSIDE OUR MEMBERS IN 2021, DELIVERING TREMENDOUS RESULTS.

We announced an exclusive Canadian partnership with HerdWhistle™, a livestock monitoring system for detection of early health issues. This RFID monitoring system for livestock alerts feedlots to early indicators of behaviour change in individual animals through 24/7 tracking and reporting which helps provide more effective treatments to significantly reduce mortality and morbidity.

$414 M

SALES

compared to $367 M in 2020

$85 M

GROSS MARGIN

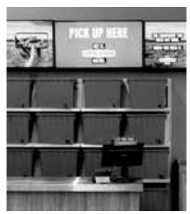
compared to $70 M in 2020

In the fall of 2021, UFA completed the remodel of our Lethbridge Farm & Ranch Supply store significantly improving the overall retail experience. Major enhancements include a new drive-through office, wider shopping aisles, a convenient eCommerce pick-up desk and a new building supplies area which provides an opportunity to visually see products, like doors and windows, right inside the store. These improvements significantly improve the shopping experience for members.

Our Supply Chain and Merchandising teams have worked hard to navigate the global supply chain crisis with our vendor partners to secure essential products and services. While there were some product shortages due to supply constraints, our team was successful in sourcing many limited products, which helped drive an overall increase in sales of 13 per cent.

eCOMMERCE

Our eCommerce Buy Online Pick-up In Store offering provided a convenient, time-saving option for members looking to order online, exceeding $1 million in sales.



In 2021, we completed additional work to prepare for the release of enhancements to our eCommerce offering, including new discounts, the ability to access products from our distribution centre and the option for split pick-ups, letting members choose how to pick up their orders.

PETROLEUM

TO MAKE IT EASIER FOR OUR MEMBERS
TO DO BUSINESS WITH UFA

our Cardlink online platform has been transformed to provide more flexibility, more control and better reporting. With a single login, you can view all fuel cards and reports, credit and statements, and even contact support through an easy-to-navigate profile page.

As the exclusive distributor of Dieselex® Gold fuel in Western Canada, UFA is proud to continue to offer our members a premium diesel fuel option that cleans injectors for better fuel efficiency, assists with faster engine starts, prevents internal injector deposits all while extending fuel storage life and protecting the fuel system components. In 2021, we sold 177 million litres of Dieselex® Gold, which was an increase of four per cent over last year.

$137 M

GROSS MARGIN

compared to $111 M in 2020

1.1 B

LITRES SOLD

32 million litres higher than 2020

In July, Bar W announced the acquisition of Williams Petroleum, a downstream maintenance and construction provider based out of Prince George, B.C., with one of the largest teams of trained petroleum technicians in northern B.C. This acquisition helps diversify UFA's Petroleum offering to protect against energy sector decline by extending our service offering to new industries including logging and mining, expanding the geographic region we serve, and enhancing our overall scale and relevance to customers.

UFA was also proud to become a founding member of the Canadian Transport Alliance - a low-carbon research driven alliance to drive objective research on a variety of issues affecting the Canadian transportation market that will inform policy and educate consumers.

INNOVATION

UFA began the year with an exciting new collaboration with Silicon Valley-based SVG Ventures | THRIVE, a leading global investment and innovation platform, recognized as the most active agtech investor in the world with a portfolio of more than 50 investments in the ag sector, including seven in Canada. As part of this collaboration, UFA members gained free access to the FORBES I Thrive Future of Food Summit and had the opportunity to participate in an Ag Technology & Innovation Survey with key findings and technology solutions to be showcased at the UFA Innovation Summit.

UFA's 2021 Student Pitch Competition featured five semi-finalists pitching their ideas to a panel of judges following six months of work with industry mentors. This year's winner was Daniel Stefner, a second time participant, who presented a pitch for a Hopper Bottom Grain Flow Gauge.

In 2021, UFA's inaugural employee working group explored different ideas, opportunities and solutions to address challenges faced by our co-operative. As a result of their work, a pilot bird control program was implemented at our Grande Prairie and Provost Farm & Ranch Supply stores that uses a sound deterrent to keep birds out of the warehouses, which is already showing some success.

COMMUNITY INVESTMENT

UFA was created by farmers, for farmers and built on the principle that we accomplish more when we work together. The same holds true today. Our decisions reflect the goals and values of our membership. Guided by our three focus areas - Educate, Engage and Enrich – this is exemplified in all of the community initiatives and partnerships that we are a part of.

IN 2021, UFA WAS PROUD TO INVEST OVER

$800,000 IN 400

COMMUNITY INITIATIVES

ACROSS OUR NETWORK.

UFA continued support for 4-H Alberta with approximately $60,000 shared with over 185 local 4-H Alberta clubs and districts to enhance their youth initiatives. An additional $20,000 was dedicated to the Educational Outdoor Kitchen at the Alberta 4-H Centre in Westerose, with another $20,000 invested in 4-H Alberta's youth program development, to ensure the continued delivery of first-class, hands-on youth programming.

Through our grassroots giving program, UFA supported initiatives creating lasting impacts on our local communities. This included rural rodeos, curling events, agricultural awareness and community outreach programs such as food banks and other vital services that help communities thrive.

UFA OVERVIEW

120,000 Members UFA proudly serves

108 Communities served by UFA

3 Provinces: Alberta, Saskatchewan and British Columbia

Offering western Canada's largest cardlock network featuring 111 Petroleum Agency and Cardlock locations

34 Farm & Ranch Supply stores

6 Fertilizer Plants and 1 Ag Depot

UFA GOVERNANCE

42 Geographical regions. As a co-operative, UFA members are represented by Delegates in these regions

40K Approximate number of eligible voting members who elect Delegates

11 Number of Directors who serve on UFA's Board and are elected by Delegates

For more information and to view the 2021 Financial Statements, visit **coop.UFA.com/MemberReport**

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Independent auditor's report

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

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of United Farmers of Alberta Co-operative Limited and its subsidiary (together, the Entity) as at December 31, 2021 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Private Enterprises (ASPE).

What we have audited
The Entity's consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2021;
- the consolidated statement of operations for the year then ended;
- the consolidated statement of changes in members' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with ASPE, 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.

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 23, 2022

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

Scott Bolton
President and Chief Executive Officer
February 23, 2022

Fred Thun
Executive Vice President & Chief Financial Officer
February 23, 2022

CONSOLIDATED BALANCE SHEET

As at *(Stated in thousands of Canadian dollars)*	**December 31, 2021**	December 31, 2020
Assets		
Current Assets		
Cash	$ 7,951	$ 6,835
Accounts receivable *(note 3)*	98,382	72,372
Inventories	159,479	154,623
Prepaid expenses and deposits	63,717	51,692
	329,529	285,522
Investments *(note 4)*	573	560
Other long-term assets *(note 5)*	60,578	49,658
Goodwill and intangible assets *(note 6)*	40,727	40,011
Future income tax asset *(note 9)*	3,743	10,848
Property and equipment *(note 7)*	188,199	190,725
	$ 623,349	$ 577,324
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable and accrued liabilities *(note 17)*	$ 98,184	$ 68,379
Deferred revenue	15,052	13,195
Current portion of member loans *(note 8)*	5,602	20,147
Current portion of long-term debt *(note 10)*	3,749	3,475
Current portion of long-term liabilities *(note 12)*	2,889	3,754
	125,476	108,950
Member loans *(note 8)*	61,252	46,326
Long-term debt *(note 10)*	44,404	64,804
Asset retirement obligations *(note 11)*	25,885	24,978
Long-term liabilities *(note 12)*	8,155	4,341
	265,172	249,399
Members' Equity		
Member entitlements *(note 14)*	229,717	221,644
Retained earnings	128,460	106,281
	358,177	327,925
	$ 623,349	$ 577,324

See accompanying notes to consolidated financial statements

On behalf of the Board

Kevin Hoppins
Chair

Don Cormack
Director

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended *(Stated in thousands of Canadian dollars)*	**December 31, 2021**	December 31, 2020
Revenue *(note 18)*	**$ 1,579,496**	$ 1,233,976
Cost of sales	**(1,357,190)**	(1,053,402)
Gross margin	**222,306**	180,574
Operating and administrative expenses	**(158,175)**	(139,607)
Other income *(note 17)*	**9,438**	22,692
Earnings before the under noted	**73,569**	63,659
Depreciation and amortization	**(30,570)**	(30,120)
Interest *(notes 8,10)*	**(3,778)**	(11,499)
Foreign currency exchange loss *(note 15)*	**(89)**	(121)
Income before Patronage Dividend, pension remeasurement and income taxes	**39,132**	21,919
Gain from pension remeasurement *(note 16)*	**11,705**	3,539
Patronage Dividend *(note 14)*	**(18,000)**	(14,200)
Income tax expense *(note 9)*	**(7,793)**	(4,251)
Net income	**$ 25,044**	$ 7,007

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

As at *(Stated in thousands of Canadian dollars)*		**December 31, 2021**		December 31, 2020
Member Entitlements *(note 14)*				
Beginning of period	$	221,644	$	218,054
Patronage Dividend		18,000		14,200
Dividends paid in cash		(6,943)		(6,557)
Redemptions / repayments		(2,950)		(3,916)
Less than minimum, unclaimed and other adjustments		(34)		363
Contribution to UFA Rural Communities Foundation		-		(500)
		229,717		221,644
Retained Earnings				
Beginning of period		106,281		101,830
Net income		25,044		7,007
Retained Earnings Adjustments *(note 16)*		(798)		-
Dividends on investment shares		(2,067)		(2,556)
		128,460		106,281
Total Members' Equity	$	358,177	$	327,925

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended *(Stated in thousands of Canadian dollars)*	**December 31, 2021**	December 31, 2020
Operating activities		
Net income for the year	$ 25,044	$ 7,007
Items not requiring an outlay of cash		
Patronage Dividend	18,000	14,200
Loss (gain) on disposal of property and equipment	(1,064)	154
Asset retirement obligations accretion (*note 11*)	1,198	1,174
Future income tax expense (*note 9*)	7,102	3,136
Increase in other long-term liabilities	3,552	250
Other amortization and recovery (expenses)	37	(774)
Pension remeasurement gain (*note 16*)	(11,705)	(3,539)
Depreciation and amortization (*notes 6,7*)	30,570	30,120
Funds flow	72,734	51,728
Asset retirement obligations settled (*note 11*)	(894)	(544)
Changes in non-cash working capital (*note 19*)	(11,229)	20,397
Cash from operating activities	60,611	71,581
Investing activities		
Additions to property and equipment	(21,735)	(17,335)
Acquisition of Williams Petroleum (*note 6,7*)	(3,758)	-
Additions to intangible assets	(4,129)	(5,701)
Proceeds from disposal of property and equipment	1,925	1,453
Decrease in other long-term assets	-	426
Cash used in investing activities	(27,697)	(21,157)
Financing activities		
Long-term debt repaid (*note 10*)	(20,231)	(37,503)
Member loans issued (*note 8*)	14,926	1,707
Member loans redeemed (*note 8*)	(14,545)	(2,479)
Dividends paid on investment shares	(2,040)	(2,406)
Redemption / repayment of shares	(2,965)	(3,553)
Contribution to UFA Rural Communities Foundation	-	(500)
Patronage Dividends paid in cash	(6,943)	(6,557)
Cash used in financing activities	(31,798)	(51,291)
Increase (decrease) in cash	1,116	(867)
Cash, beginning of period	6,835	7,702
Cash, end of period	$ 7,951	$ 6,835

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts are stated in thousands of Canadian dollars)

1. NATURE OF OPERATIONS

United Farmers of Alberta Co-operative Limited (UFA) was incorporated by special act under the laws of Alberta and operates as two business segments distributing fuel products and farm supplies to its customers. As a co-operative, a significant portion of its business is with its member-owners.

Bar W Petroleum & Electric Inc. (Bar W), a part of the business segment distributing fuel products since 2005, was established as a separate legal entity in 2016. Bar W is a wholly-owned subsidiary of UFA.

2. SIGNIFICANT ACCOUNTING POLICIES

UFA prepares its consolidated financial statements on a calendar basis.

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

Comparative Figures
Certain comparative financial information has been reclassified to be consistent with the presentation adopted for 2021.

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

Business combinations
Business combinations are accounted for using the acquisition method. The application of this method requires certain estimates and assumptions especially concerning the determination of the fair value of the acquired asset, as well as the liabilities assumed at the date of the acquisition, based on information available at that date. At the acquisition date, UFA recognizes, separately from goodwill, the identifiable assets acquired and the liabilities assumed. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. The consideration transferred for each acquisition is measured as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred, and equity instruments issued by UFA to obtain control of the subsidiary.

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 years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that the change is substantively enacted. Temporary differences relating to subsidiaries are accounted for using inside basis differences, unless it is apparent that the temporary differences will reverse in the foreseeable future, in which case the outside basis differences are recorded. Future income tax assets are evaluated and recorded as required in the consolidated financial statements if realization is considered more likely than not. Valuation allowances are established for amounts not likely to be realizable.

Revenue Recognition

UFA recognizes revenue when products, goods and services are delivered to the customer or when the risks and rewards associated with ownership are transferred to the customer. Revenue invoiced but not yet earned is recorded as deferred revenue.

Cash

Cash consists of cash on account and bank balances.

Inventories

Inventories are comprised of finished goods and are valued at the lower of cost and net realizable value, with cost being determined using the weighted average cost method. The cost of inventories includes the cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs, administrative overheads that do not contribute to bringing the inventories to their present location and condition, and selling costs are specifically excluded from the cost of inventories and are expensed in the period incurred. The amount of inventory recognized as a cost of sales in the current period was $1,326.0 million (2020 – $1,027.0 million). Inventory for AgriBusiness for 2021 was $118.6 million (2020 - $118.7 million) and for the Petroleum division was $40.9 million (2020 - $35.9 million).

Investments

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

Investments over which UFA exercises significant influence are accounted for using equity method. The equity method involves the recording of the initial investment at cost and subsequently adjusted for UFA's share of the investee's income or losses less UFA's portion of distributions from the investee. 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	2 to 8 years
Computer equipment	3 to 5 years
Automotive equipment	4 to 5 years
Leased assets	3 to 15 years

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

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 10 years
Trademarks/Trade names	10 years
Lease/Licenses	10 years

Intangible assets classified as "intangibles under construction" represents work commenced but not completed on major projects. Amortization will commence once these assets are put into service.

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

Financial instruments include cash, accounts receivable, accounts payable, various debt-based instruments and certain derivatives products. All financial instruments are measured at fair value upon initial recognition. Subsequent measurement is at amortized cost or at fair value depending on the type of the financial instrument.

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

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

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

Related party transactions
Board members may make purchases during the year and the transactions were completed at arm's length and at the exchange amount of $2.6 million (2020 - $2.2 million).

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of customer and member receivables of $92.4 million (2020 – $63.2 million) extended under commercial terms and other miscellaneous receivables of $6.0 million (2020 – $9.2 million). The customer and member receivables are net of an allowance of $0.7 million (2020 – $0.8 million). In 2021, UFA recorded bad debt expenses of $0.2 million (2020 – $0.1 million).

In 2021, UFA earned interest on overdue accounts receivable of $2.8 million (2020 – $3.1 million).

4. INVESTMENTS

	2021	2020
MDSI	**$ 37**	$ 18
Other investments	**536**	542
	$ 573	$ 560

In October 2018, UFA entered into an agreement with Associated Veterinary Specialists Inc. incorporating Micro Dispensing Services Inc. (MDSI) to conduct a new business venture. UFA has 35% legal ownership position in MDSI.

Other investments consist primarily of shares of other co-operatives.

5. OTHER LONG-TERM ASSETS

	2021	2020
Accrued pension benefit asset (*note 16*)	**$ 58,955**	$ 48,035
Deferred charges	**1,623**	1,623
	$ 60,578	$ 49,658

Deferred charges consist primarily of properties under remediation.

6. GOODWILL AND INTANGIBLE ASSETS

	2021					
		Cost		Accumulated Amortization		Net Book Value
Application software	$	79,006	$	56,715	$	22,291
Intangibles under construction		4,339		-		4,339
Goodwill		14,097		-		14,097
	$	97,442	$	56,715	$	40,727

	2020					
		Cost		Accumulated Amortization		Net Book Value
Application software	$	75,835	$	50,512	$	25,323
Intangibles under Construction		3,224		-		3,224
Goodwill		11,464		-		11,464
	$	90,523	$	50,512	$	40,011

Intangibles under construction consist primarily of expenditures associated with information technology projects in process. During the current year, UFA recognized amortization expense in the amount of $7.1 million (2020 - $6.6 million).

Bar W acquired Williams Petroleum, a downstream maintenance and construction provider based out of Prince George, B.C. during 2021. The transaction was completed on July 29, 2021 for $3.8 million cash, of which $2.8 million was attributed to goodwill and the remaining $1.0 million attributed to property and equipment.

7. PROPERTY AND EQUIPMENT

	2021		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 48,721	$ -	$ 48,721
Buildings, fences and yards	195,075	127,673	67,402
Equipment	172,628	132,172	40,456
Computer equipment	18,461	13,614	4,847
Automotive equipment	5,507	4,616	891
Leased assets	39,376	25,262	14,114
Assets under construction	11,768	-	11,768
	$ 491,536	$ 303,337	$ 188,199

	2020		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 48,783	$ -	$ 48,783
Buildings, fences and yards	191,085	120,409	70,676
Equipment	167,677	125,726	41,951
Computer equipment	17,488	10,672	6,816
Automotive equipment	5,232	4,251	981
Leased assets	36,616	22,447	14,169
Assets under construction	7,349	-	7,349
	$ 474,230	$ 283,505	$ 190,725

Assets under construction as at December 31, 2021 are expected to be placed into productive use during fiscal 2022 and represent work commenced but not completed on buildings and equipment. Depreciation and amortization will commence once these assets are put into service. Leased assets include $3.5 million (2020 – $0.5 million) of capital leases entered in 2021. During the current year, UFA recognized depreciation expense in the amount of $23.5 million (2020 – $23.5 million).

8. MEMBER LOANS

		December 31, 2021	December 31, 2020
3-5-7 MIP issued 2018			
5.5 til 2021 MIP (maturing 2021)		-	20,147
6.0 til 2023 MIP (maturing 2023)		8,160	8,160
6.5 til 2025 MIP (maturing 2025)		6,058	7,934
3-5-7 MIP issued 2019			
5.5 til 2022 MIP (maturing 2022)		5,602	5,922
6.0 til 2024 MIP (maturing 2024)		5,245	5,245
6.5 til 2026 MIP (maturing 2026)		4,233	4,234
3-5-7 MIP issued 2020			
5.0 til 2023 MIP (maturing 2023)		8,934	8,954
5.5 til 2025 MIP (maturing 2025)		1,757	1,757
6.0 til 2027 MIP (maturing 2027)		4,120	4,120
3-5-7 MIP issued 2021			
3.0 til 2023 MIP (maturing 2024)		6,122	-
4.0 til 2025 MIP (maturing 2026)		3,306	-
5.5 til 2027 MIP (maturing 2028)		13,317	-
		66,854	66,473
Less: current portion		(5,602)	(20,147)
		$ 61,252	$ 46,326

UFA offers voluntary member loan programs, known as Member Investment Programs (MIP), which provides members, employees, and agents the opportunity to invest in UFA and earn a return on their investment. All member loans are unsecured.

The 5.5 til 2021 MIP was introduced on September 16, 2018. The program paid interest of 5.5% semi-annually and matured on September 15, 2021. Loans were redeemed and investors had the option of principal repayment or investing in the new 3-5-7 MIP. $11.9 million of this program was re-invested into the new 3-5-7 MIP with the balance repaid in cash. Interest of $1.1 million (2020 - $1.1 million) is included in interest expense.

3-5-7 MIP issued 2018

The program was introduced September 16, 2018 in three tranches with different maturity dates.

The 5.5 til 2021 MIP program pays interest of 5.5% semi-annually and matured on September 15, 2021.

The 6.0 til 2023 MIP program pays interest of 6.0% semi-annually and matures on September 15, 2023. $8.2 million (2020 - $8.2 million) is currently invested in the program. Interest on this program of $0.5 million (2020 - $0.5 million) is included in interest expense.

The 6.5 til 2025 MIP program pays interest of 6.5% semi-annually and matures on September 15,

2025. $6.1 million (2020 - $7.9 million) is currently invested in the program. Interest on this program of $0.4 million (2020 - $0.5 million) is included in interest expense.

3-5-7 MIP issued 2019

The program was introduced June 16, 2019 in three tranches with different maturity dates.

The 5.5 til 2022 MIP program pays interest of 5.5% semi-annually and matures on June 15, 2022. $5.6 million (2020 - $5.9 million) is currently invested in the program. Interest on this program of $0.3 million (2020 - $0.3 million) is included in interest expense.

The 6.0 til 2024 MIP program pays interest of 6.0% semi-annually and matures on June 15, 2024. $5.2 million (2020 - $5.2 million) is currently invested in the program. Interest on this program of $0.3 million (2020 - $0.3 million) is included in interest expense.

The 6.5 til 2026 MIP program pays interest of 6.5% semi-annually and matures on June 15, 2026. $4.2 million (2020 - $4.2 million) is currently invested in the program. Interest on this program of $0.3 million (2020 - $0.3 million) is included in interest expense.

3-5-7 MIP issued 2020

The program was introduced June 16, 2020 in three tranches with different maturity dates.

The 5.0 til 2023 MIP program pays interest of 5.0% semi-annually and matures on June 15, 2023. $8.9 million (2020 - $9.0 million) is currently invested in the program. Interest on this program of $0.5 million (2020 - $0.2 million) is included in interest expense.

The 5.5 til 2025 MIP program pays interest of 5.5% semi-annually and matures on June 15, 2025. $1.8 million (2020 - $1.8 million) is currently invested in the program. Interest on this program of $0.1 million (2020 - $0.1 million) is included in interest expense.

The 6.0 til 2027 MIP program pays interest of 6.0% semi-annually and matures on June 15, 2027. $4.1 million (2020 - $4.1million) is currently invested in the program. Interest on this program of $0.2 million (2020 - $0.1 million) is included in interest expense.

3-5-7 MIP issued 2021

The program was introduced September 16, 2021 in three tranches with different maturity dates.

The 3.0 til 2024 MIP program pays interest of 3.0% semi-annually and matures September 15, 2024. $6.1 million is currently invested in the program.

The 4.0 til 2026 MIP program pays interest of 4.0% semi-annually and matures September 15, 2026. $3.3 million is currently invested in the program.

The 5.5. til 2028 MIP program pays interest of 5.5% semi-annually and matures September 15, 2028. $13.3 million is currently invested in the program.

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 (*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 31, 2021	December 31, 2020
Income before patronage dividend and income taxes	$ 50,837	$ 25,458
Patronage Dividend	(18,000)	(14,200)
Net income before income taxes	$ 32,837	$ 11,258
Statutory income tax rate	23.07%	24.05%
Expected income tax expense	7,575	2,708
Non-deductible items and other	26	23
Rate adjustment	51	1,140
True ups and other	144	221
Future income tax valuation allowance	(3)	159
Income tax expense	7,793	4,251
Income taxes consist of:		
Current income tax expense	691	1,115
Future income tax expense	7,102	3,136
	$ 7,793	$ 4,251

Effective tax rate for 2021 was 23.7% (2020 – 37.8%). The net future income tax asset at the fiscal period end is comprised of the tax effect of the following temporary differences:

	December 31, 2021	December 31, 2020
Inventories	$ 2,015	$ 1,935
Payables, warranty and other	1,250	488
Long-term debt and other long-term liabilities	4,072	3,543
Asset retirement obligation	5,973	5,766
Tax loss	12,782	18,178
Goodwill and intangibles	(708)	(564)
Property and equipment	(1,320)	(691)
Pension	(13,604)	(11,088)
Valuation allowance	(6,717)	(6,719)
	$ 3,743	$ 10,848

Included in tax loss and property and equipment is $6,063 (2020 - $10,072) of future income tax asset relating to the wind up of Wholesale Sports Canada Ltd. UFA has non-capital losses carried forward of $26,278 (2020 - $43,635). These non-capital losses will begin to expire in 2038. UFA also has capital losses carryforward of $58,216 (2020- $56,216) for which there has been no net deferred tax asset recognized. Additionally, these capital losses have no expiration date.

10. LONG-TERM DEBT

	December 31, 2021	December 31, 2020
Asset-Based Credit Agreement - Revolving loans	$ 37,281	$ 57,182
Capital leases obligations	11,073	11,403
Deferred financing charges	(201)	(306)
	48,153	68,279
Less: current portion	(3,749)	(3,475)
	$ 44,404	$ 64,804

Asset-Based Credit Agreement

On November 26, 2018, UFA entered into a second amended and restated Asset-Based Credit Agreement (Credit Agreement). The Credit Agreement has a five-year term, maturing on November 26, 2023 and provides for an asset-based revolving credit facility in the maximum aggregate amount of $250.0 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 the 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 $250.0 million. In addition, reserves are calculated under the Credit Agreement to take into account factors such as priority payables and additional collateral requirements.

At December 31, 2021, under the Credit Agreement, the borrowing bases for accounts receivable, inventory and prepayments were margined at $75.7 million (2020 – $46.1 million) and $145.9 million (2020 – $130.7 million) respectively. In 2021, the total amount of reserve deducted from the borrowing bases was $22.1 million (2020 – $18.3 million). As at December 31, 2021, $162.2 million (2020 – $101.3 million) of credit was available to fund operations and working capital requirements.

At December 31, 2021, UFA's revolving loan balance was $37.3 million (2020-$57.2 million).

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 1.20%. The implied interest rate was 6.62% (2020 – 4.95%) due to higher swap interest rate payments in 2021.

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 2021, UFA was in compliance with all covenants.

Capital Lease Obligations

Capital leases under leased assets *(note 7)* are the security for the respective obligations. Scheduled minimum lease payments for the next five years total $13.1 million, including $2.1 million in financing expenses. The lease terms range from two to five years at interest rates between 2.5% and 6.5% for 2021 (2020 – 2.5% and 6.5%).

	Principal	Interest	Total
2022	$ 3,260	$ 486	$ 3,746
2023	2,601	476	3,077
2024	2,124	426	2,550
2025	1,883	385	2,268
2026	1,090	335	1,425
	$ 10,958	$ 2,108	$ 13,066

11. ASSET RETIREMENT OBLIGATIONS

	2021	2020
Balance, beginning of year	**$ 24,978**	$ 24,486
Accretion expense	**1,198**	1,174
Revisions in estimated cash flows	**603**	(138)
Liabilities settled	**(894)**	(544)
Balance, end of year	**$ 25,885**	$ 24,978

Estimated undiscounted future cash flows, adjusted for inflation, are $59.5 million (2020 – $58.1 million) and are expected to be incurred up to and including fiscal 2070. The present value or discounted fair value of the obligations was determined using a 6.25% discount rate and a 2.25% inflation rate (2020 – 6.0% and 2.0% 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 31, 2021	December 31, 2020
Other long-term liabilities	$ 11,044	$ 8,095
Less: current portion	(2,889)	(3,754)
	$ 8,155	$ 4,341

Other long-term liabilities include $8.5 million (2020 - $5.7 million) relating to long-term incentive programs and $2.5 million (2020 - $2.4 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:

2022	$ 4,586
2023	4,619
2024	4,033
2025	3,583
2026	3,613
After 2026	10,383
	$ 30,817

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

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

14. MEMBER ENTITLEMENTS

Member Entitlements consists of Member Shares, the current period's Patronage Dividend, Class A Investment Shares (Investment Shares) and Contributed Surplus.

Details of Member Entitlements are as follows:

	December 31, 2021	December 31, 2020
Member Shares	$ 92,598	$ 87,161
Patronage Dividend	18,000	14,200
Investment Shares	107,132	112,601
Contributed Surplus	11,987	7,682
	$ 229,717	$ 221,644

The repayment and redemption of Member Entitlements and the payment of the Patronage Dividend is subject to the right of offset of any amounts owing to UFA and are subject to UFA meeting the covenants contained under the Credit Agreement (*note 10*). As provided in the By-Laws, the Board of Directors has the authority to limit or suspend payments, dividends or redemptions of Patronage Dividends, and Member and Investment Shares in cases where the business needs of UFA are impacted, liquidity or solvency is jeopardized, a default or breach of any financing facility may occur or in circumstances of significant market uncertainty.

Member Shares

UFA is authorized to issue an unlimited number of Member Shares with a par value of $5.00.

Member Shares are redeemable (subject to any limitations as set out in the by-laws) at the option of the holder at par value when the member reaches age 70, moves out of the trading area or at the request of the member's estate. The maximum dollar amount of Member Shares held by a member is $30,000. Member Shares are not eligible for Member Share dividends.

	2021		2020	
Member shares issued:	**Number** (in thousands)	**Amount**	Number (in thousands)	Amount
Balance, beginning of period	17,432	$ 87,161	16,019	$ 80,097
Redemptions/ adjustments	(592)	(2,961)	(141)	(704)
Patronage	1,448	7,237	1,551	7,757
Contributed Surplus	232	1,161	3	11
Balance, end of period	18,520	$ 92,598	17,432	$ 87,161

Patronage Dividend

UFA may distribute a portion of its current fiscal period taxable earnings to its members in the form of a Patronage Dividend.

The Patronage Dividend approved at the Annual Meeting of the co-operative is applied in the following manner:

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

For 2020 a Patronage Dividend of $14.2 million was approved. $7.2 million of the dividend was issued as Member shares and $6.9 million was paid in cash. For 2021, the Board of Directors has recommended a $18.0 million Patronage Dividend.

	2021	2020
Balance, beginning of period	**$ 14,200**	$ 14,100
Current period distribution:		
Member Shares	**(7,237)**	(7,757)
Cash	**(6,943)**	(6,557)
Distribution adjustments	**(20)**	214
Current period allocation	**18,000**	14,200
Balance, end of period	**$ 18,000**	$ 14,200

Investment Shares

Investment Shares have a par value of $100 and are redeemable at par value at the option of the holder.

Investment Shares are retractable at par value at the option of UFA and provide a dividend at the bank prime rate less 0.5%. In 2021, dividends of $2.1 million (2020 - $2.6 million) were declared and charged against retained earnings. The minimum check issued is $50 per member. Amounts less than $50 are held in Investment Shares until the minimum is met.

	2021		2020	
	Number	**Amount**	Number	Amount
Balance, beginning of period	**1,126**	**$ 112,601**	1,156	$ 115,639
Redemption	**(23)**	**(2,311)**	(32)	(3,212)
Contributed Surplus	**(31)**	**(3,144)**	-	25
Less than minimum and unclaimed	**(1)**	**(14)**	2	149
Balance, end of period	**1,071**	**$ 107,132**	1,126	$ 112,601

Contributed Surplus

The By-laws of the Co-operative provide for termination of a membership due to inactivity. When a member's membership is terminated for inactivity, the member has no further entitlement to be paid any amount in respect of the member's Investment Shares, Member Shares or Unclaimed Funds (together, the Member's Equity), and the membership number and Member's Equity shall be cancelled without any payment or notice to the member. In 2021, Members' Equity of $4.3 million (2020 - $0.0 million) was cancelled and classified as Contributed Surplus, as outlined below. As provided in the By-Laws, the Board of Directors established the UFA Rural Communities Foundation (the Foundation) in 2014 with objects consistent to the United Farmers of Alberta Co-operative Limited Act. The Foundation is funded by UFA's Contributed Surplus in annual contributions subject to management approval. In 2019, the Board of Directors passed a resolution to increase the maximum annual contribution limit to the Foundation from $1.0 million to $2.0 million. In 2021, $nil (2020- $0.5 million) was allocated from Contributed Surplus to the Foundation.

	2021	2020
Balance, beginning of period	**$ 7,682**	$ 8,218
Current period additions:		
Member Shares	**1,161**	(11)
Investment Shares	**3,144**	(25)
Contribution to UFA Rural Communities Foundation	**-**	(500)
Balance, end of period	**$ 11,987**	$ 7,682

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 31, 2021, UFA had current assets of $329.5 million (2020 – $285.5 million) to settle current liabilities of $125.5 million (2020 – $109.0 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).

Interest Rate Risk

To manage interest rate risk, UFA utilizes short-term floating interest rate borrowings issued under the Credit Agreement and through the Member loans program. Under its hedging program, UFA utilizes swap agreements to manage interest rate risk on its asset-based revolving credit facility. In June 2018 UFA entered into an interest swap agreement for a period of 7 years which expires on June 27, 2025. The swap agreement applies an effective rate of interest at 2.45% plus a spread of 1.20% on a notional amount of $75.0 million.

The amortized transaction costs increased the interest rate by 0.26% (2020 – 0.17%) making the effective interest rate 6.88% (2020 – 5.12%). A 1.0% change in the prime rate is anticipated to have an annual change in interest cost of approximately $0.4 million. UFA has not hedged any of the interest rate risk associated with other short-term borrowings as it considers the risk to be acceptable.

Market Risk

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

On December 28, 2021, UFA entered into a Petroleum put option based on heating oil providing UFA an option to purchase 6.7 million US gallons at $2.03 USD per US gallon of heating oil. The option expires on December 31, 2022. The purchase price of the option was $1.5 million USD, a loss of $0.2 M was recognized as at December 31, 2021 for this instrument.

Foreign Currency Risk
UFA is exposed to foreign currency risk on exchange fluctuations related to its US dollar borrowings through UFA's Credit Agreement (*note 10*) and short-term foreign payables. UFA has entered into foreign currency forward contracts to manage its exposure to foreign exchange rate risk arising from certain payables of foreign suppliers.

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

At the consolidated balance sheet date, the fair values of the foreign currency exchange agreements were determined using Bank of Canada published foreign exchange rates.

16. EMPLOYEE FUTURE BENEFITS

UFA employees who were hired into a pension-eligible position prior to October 1, 2012 are participants of the defined benefit pension plan. UFA administers two defined benefit pension plans: a funded registered plan (RPP) for all employees and an unfunded supplemental employee retirement plan (SERP) for those employees whose earnings exceed the maximum allowable under government guidelines for the RPP. UFA funds the RPP in accordance with current pension legislation. UFA does not fund the SERP but has the obligation to pay SERP benefits out of general revenue in the period payments are made. Pension benefits are provided to qualified employees and are based, in general, on years of service and compensation near retirement.

Employees newly hired or transferred into a pension eligible position on or after October 1, 2012 are participants of the defined contribution pension plan. The employer contribution towards the defined contribution plan, recognized as an expense, was $1.6 million (2020 - $1.4 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 completed as at December 31, 2019. UFA early adopted *Amendments to ASPE 3462 Employee Future Benefits*, which resulted in a revision to the supplemental pension plan obligation by $0.8 million. The impact of the early adoption has been recognized in opening retained earnings as of January 1, 2021.

Changes to the accrued asset balances is as follows:

	2021		2020	
Plan asset at start of year	$	48,035	$	43,742
Remeasurement and other costs		11,705		3,539
Supplemental Plan early adoption adjustment		(714)		-
Solvency and expense contributions		(71)		754
Surplus at end of year	$	58,955	$	48,035

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

	December 31, 2021		December 31, 2020	
Accrued benefit obligation, end of year	$	183,398	$	177,844
Market value of plan assets, end of year		242,353		225,879
Surplus of plan at end of year		58,955		48,035
Accrued asset	$	58,955	$	48,035

Included in the accrued benefit obligation is $4.3 million related to the SERP (2020 – $3.9 million).

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

	2021	2020
Discount rate for funded status	4.05%	4.05%
Rate of compensation increase	1.0% to 2.0%	1.0% to 2.0%

In 2021, UFA recognized termination costs of $1.5 million (2020 - $0.9 million) which was included under operating and administrative expenses.

17. GOVERNMENT REMITTANCES AND ASSISTANCE

Accounts payable and accrued liabilities as at December 31, 2021 include $16.3 million (2020 – $11.4 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.

Due to the decrease in revenue as a result of COVID-19, UFA has recognized $3.5 million (2020 - $16.7 million) of government assistance under the Canada Emergency Wage Subsidy (CEWS) program to cover a portion of its employees wages from March 25, 2020 to December 31, 2021 and has recorded the amount within Other income.

18. REVENUE SEGMENTATION

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

Category	December 31, 2021	%	December 31, 2020	%
Petroleum	$ 1,165,266	73.8	$ 867,387	70.3
AgriBusiness	414,230	26.2	366,589	29.7
	$ 1,579,496		$ 1,233,976	

19. CHANGES IN NON-CASH WORKING CAPITAL

Non-cash working capital used cash flows of $11.2 million in fiscal year 2021 (2020 - provided $20.4 million).

	December 31, 2021	December 31, 2020
Accounts receivable and current income tax receivable	$ (26,010)	$ 30,418
Inventory	(4,856)	6,516
Prepaid expenses	(12,025)	(11,781)
Accounts payable and accrued liabilities	29,805	(5,470)
Deferred revenue and other	1,857	714
	$ (11,229)	$ 20,397

20. INTEREST AND INCOME TAXES PAID

Interest paid in fiscal year 2021 was $3.8 million (2020 – $11.5 million). Income taxes paid in fiscal year 2021 was $0.8 million (2020 – $2.0 million paid).