

MOMENTUM

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2022 FINANCIAL STATEMENT





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, 2022 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, 2022;
- 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

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necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 27, 2023

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 27, 2023

Fred Thun
Executive Vice President & Chief Financial Officer
February 27, 2023

CONSOLIDATED BALANCE SHEET

As at (Stated in thousands of Canadian dollars)	December 31, 2022		December 31, 2021	
Assets				
Current Assets				
Cash and cash equivalents	\$	41,116	\$	7,951
Accounts receivable (note 3)		131,033		98,382
Inventories		178,857		159,479
Prepaid expenses and deposits		54,642		63,717
		405,648		329,529
Investments (note 4)		560		573
Other long-term assets (note 5)		10,570		60,578
Goodwill and intangible assets (note 6)		45,104		40,727
Future income tax asset (note 9)		9,979		3,743
Property and equipment (note 7)		202,416		188,199
	\$	674,277	\$	623,349
Liabilities and Members' Equity				
Current Liabilities				
Accounts payable and accrued liabilities (note 17)	\$	130,982	\$	98,184
Deferred revenue		19,362		15,052
Current portion of member loans (note 8)		17,034		5,602
Current portion of long-term debt (note 10)		7,440		3,749
Current portion of long-term liabilities (note 12)		7,673		2,889
		182,491		125,476
Member loans (note 8)		45,188		61,252
Long-term debt (note 10)		4,220		44,404
Asset retirement obligations (note 11)		27,317		25,885
Long-term liabilities (note 12)		10,788		8,155
		270,004		265,172
Members' Equity				
Member entitlements (note 14)		245,242		229,717
Retained earnings		159,031		128,460
		404,273		358,177
	\$	674,277	\$	623,349

See accompanying notes to consolidated financial statements

On behalf of the Board

Chairman

Director

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended	December 31, 2022		December 31, 2021	
(Stated in thousands of Canadian dollars)				
Revenue (note 18)	\$	2,357,323	\$	1,579,496
Cost of sales		(2,032,944)		(1,357,190)
Gross margin		324,379		222,306
Operating and administrative expenses		(175,198)		(158,175)
Other income (note 17)		7,378		9,438
Earnings before the under noted		156,559		73,569
Depreciation and amortization		(31,812)		(30,570)
Interest (notes 8,10)		(1,925)		(3,778)
Foreign currency exchange gain (loss) (note 15)		69		(89)
Income before Patronage Dividend, pension remeasurement and income taxes		122,891		39,132
(Loss) gain from pension remeasurement (note 16)		(50,217)		11,705
Patronage Dividend (note 14)		(28,000)		(18,000)
Income tax expense (note 9)		(10,456)		(7,793)
Net income	\$	34,218	\$	25,044

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

As at (Stated in thousands of Canadian dollars)	December 31, 2022	December 31, 2021
Member Entitlements (note 14)		
Beginning of period	\$ 229,717	\$ 221,644
Patronage Dividend	28,000	18,000
Dividends paid in cash	(8,826)	(6,943)
Redemptions / repayments	(3,390)	(2,950)
Less than minimum, unclaimed and other adjustments	(259)	(34)
	245,242	229,717
Retained Earnings		
Beginning of period	128,460	106,281
Net income	34,218	25,044
Retained Earnings Adjustments (note 16)	234	(798)
Dividends on investment shares	(3,881)	(2,067)
	159,031	128,460
Total Members' Equity	\$ 404,273	\$ 358,177

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended (Stated in thousands of Canadian dollars)	December 31, 2022	December 31, 2021
Operating activities		
Net income for the year	\$ 34,218	\$ 25,044
Items not requiring an outlay of cash		
Patronage Dividend	28,000	18,000
Loss (gain) on disposal of property and equipment	(946)	(1,064)
Asset retirement obligations accretion (note 11)	1,400	1,198
Income tax expense (note 9, 19)	(1,309)	7,102
Increase in other long-term liabilities	7,418	3,552
Other amortization and recovery	973	37
Pension remeasurement loss (gain) (note 16)	50,217	(11,705)
Depreciation and amortization (notes 6, 7)	31,812	30,570
Funds flow	151,783	72,734
Asset retirement obligations settled (note 11)	(704)	(894)
Changes in non-cash working capital (note 19)	(11,318)	(11,229)
Cash from operating activities	139,761	60,611
Investing activities		
Additions to property and equipment	(40,636)	(21,735)
Acquisition of Williams Petroleum (note 6, 7)	-	(3,758)
Additions to intangible assets	(9,797)	(4,129)
Proceeds from disposal of property and equipment	1,308	1,925
Cash used in investing activities	(49,125)	(27,697)
Financing activities		
Long-term debt repaid (note 10)	(36,598)	(20,231)
Member loans issued (note 8)	1,798	14,926
Member loans redeemed (note 8)	(6,432)	(14,545)
Dividends paid on investment shares	(3,881)	(2,040)
Redemption / repayment of shares	(3,532)	(2,965)
Patronage Dividends paid in cash	(8,826)	(6,943)
Cash used in financing activities	(57,471)	(31,798)
Increase in cash	33,165	1,116
Cash, beginning of period	7,951	6,835
Cash, end of period	\$ 41,116	\$ 7,951

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 2022.

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 \$1,994.1 million (2021 – \$1,326.0 million). Inventory for AgriBusiness for 2022 was \$128.2 million (2021 - \$118.6 million) and for the Petroleum division was \$50.6 million (2021 - \$40.9 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 \$2.8 million (2021 – \$2.6 million).

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of customer and member receivables of \$117.5 million (2021 – \$92.4 million) extended under commercial terms and other miscellaneous receivables of \$13.5 million (2021 – \$6.0 million). The customer and member receivables are net of an allowance of \$1.5 million (2021 – \$0.7 million). In 2022, UFA recorded bad debt expenses of \$1.0 million (2021 – \$0.2 million).

In 2022, UFA earned interest on overdue accounts receivable of \$3.6 million (2021 – \$2.8 million).

4. INVESTMENTS

	2022	2021
MDSI	\$ 23	\$ 37
Other investments	537	536
	\$ 560	\$ 573

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

	2022	2021
Accrued pension benefit asset (<i>note 16</i>)	\$ 9,283	\$ 58,955
Deferred charges	1,287	1,623
	\$ 10,570	\$ 60,578

Deferred charges consist primarily of properties under remediation.

6. GOODWILL AND INTANGIBLE ASSETS

	2022		
	Cost	Accumulated Amortization	Net Book Value
Application software	\$ 83,546	\$ 62,135	\$ 21,411
Intangibles under construction	9,596	-	9,596
Goodwill	14,097	-	14,097
	\$ 107,239	\$ 62,135	\$ 45,104
	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

During the current year, UFA recognized amortization expense in the amount of \$8.9 million (2021 - \$7.1 million).

7. PROPERTY AND EQUIPMENT

2022			
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 48,545	\$ -	\$ 48,545
Buildings, fences and yards	196,502	134,803	61,699
Equipment	174,276	138,875	35,401
Computer equipment	18,962	15,083	3,879
Automotive equipment	6,988	4,767	2,221
Leased assets	39,514	29,190	10,324
Assets under construction	40,347	-	40,347
	\$ 525,134	\$ 322,718	\$ 202,416

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

Assets under construction as at December 31, 2022 are expected to be placed into productive use during fiscal 2023 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 \$0.4 million (2021 - \$3.5 million) of capital leases entered in 2022. During the current year, UFA recognized depreciation expense in the amount of \$22.9 million (2021 - \$23.5 million).

8. MEMBER LOANS

	December 31, 2022	December 31, 2021
<u>3-5-7 MIP issued 2018</u>		
6.0 til 2023 MIP (maturing 2023)	8,110	8,160
6.5 til 2025 MIP (maturing 2025)	5,558	6,058
<u>3-5-7 MIP issued 2019</u>		
5.5 til 2022 MIP (maturing 2022)	-	5,602
6.0 til 2024 MIP (maturing 2024)	5,245	5,245
6.5 til 2026 MIP (maturing 2026)	4,194	4,233
<u>3-5-7 MIP issued 2020</u>		
5.0 til 2023 MIP (maturing 2023)	8,924	8,934
5.5 til 2025 MIP (maturing 2025)	1,757	1,757
6.0 til 2027 MIP (maturing 2027)	4,120	4,120
<u>3-5-7 MIP issued 2021</u>		
3.0 til 2024 MIP (maturing 2024)	6,122	6,122
4.0 til 2026 MIP (maturing 2026)	3,291	3,306
5.5 til 2028 MIP (maturing 2028)	13,277	13,317
<u>5 year MIP issued 2022</u>		
4.25 til 2027 MIP (maturing 2027)	1,624	-
	62,222	66,854
Less: current portion	(17,034)	(5,602)
	\$ 45,188	\$ 61,252

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 2022 MIP was introduced on June 15, 2019. The program paid interest of 5.5% semi-annually and matured on June 15, 2022. Loans were redeemed and investors had the option of principal repayment or investing in the new 5 year MIP. \$1.6 million of this program was re-invested into the new 5 year MIP with the balance repaid in cash. Interest of \$0.2 million (2021 - \$0.3 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 paid 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. \$8.1 million (2021 - \$8.2 million) is currently invested in the program. Interest on this program of \$0.5 million (2021 - \$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. \$5.6 million (2021 - \$6.1 million) is currently invested in the program. Interest on this program of \$0.4 million (2021 - \$0.4 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 matured on June 15, 2022.

The 6.0 til 2024 MIP program pays interest of 6.0% semi-annually and matures on June 15, 2024. \$5.2 million (2021 - \$5.2 million) is currently invested in the program. Interest on this program of \$0.3 million (2021 - \$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 (2021 - \$4.2 million) is currently invested in the program. Interest on this program of \$0.3 million (2021 - \$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 (2021 - \$8.9 million) is currently invested in the program. Interest on this program of \$0.5 million (2021 - \$0.5 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 (2021 - \$1.8 million) is currently invested in the program. Interest on this program of \$0.1 million (2021 - \$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 (2021 - \$4.1million) is currently invested in the program. Interest on this program of \$0.2 million (2021 - \$0.2 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 (2021 - \$6.1 million) is currently invested in the program. Interest on this program of \$0.2 million (2021 - \$0.1 million) is included in interest expense.

The 4.0 til 2026 MIP program pays interest of 4.0% semi-annually and matures September 15, 2026. \$3.3 million (2021 - \$3.3 million) is currently invested in the program. Interest on this program of \$0.1 million (2021 - \$0.0 million) is included in interest expense.

The 5.5. til 2028 MIP program pays interest of 5.5% semi-annually and matures September 15, 2028. \$13.3 million (2021 - \$13.3 million) is currently invested in the program. Interest on this program of \$0.7 million (2021 - \$0.2 million) is included in interest expense.

5 Year MIP issued 2022

The program was introduced June 16, 2022 in one tranche.

The 4.25% til 2027 loan program pays interest of 4.25% semi-annually and matures June 15, 2027. \$1.6 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, 2022	December 31, 2021
Income before patronage dividend and income taxes	\$ 72,675	\$ 50,837
Patronage Dividend	(28,000)	(18,000)
Net income before income taxes	\$ 44,675	\$ 32,837
Statutory income tax rate	23.07%	23.07%
Expected income tax expense	10,311	7,575
Non-deductible items and other	44	26
Rate adjustment	52	51
True ups and other	125	144
Future income tax valuation allowance	(77)	(3)
Income tax expense	10,456	7,793
Income taxes consist of:		
Current income tax expense	16,692	691
Future income tax expense	(6,236)	7,102
	\$ 10,456	\$ 7,793

Effective tax rate for 2022 was 23.07% (2021 – 23.07%). The net future income tax asset at the fiscal period end is comprised of the tax effect of the following temporary differences:

	December 31, 2022	December 31, 2021
Current future income tax asset:		
Inventories	\$ 2,275	\$ 2,015
Payables, warranty and other	1,388	1,250
	3,663	3,264
Long-term future income tax asset:		
Long-term debt and other long-term liabilities	3,458	4,072
Asset retirement obligation	6,305	5,973
Tax loss	6,640	12,782
Goodwill and intangibles	(800)	(708)
Property and equipment	(504)	(1,320)
Pension	(2,143)	(13,604)
Valuation allowance	(6,640)	(6,717)
	\$ 9,979	\$ 3,743

UFA has non-capital losses carried forward of nil (2021 - \$26.3 million). UFA also has capital losses carryforward of \$57.5 million (2021- \$58.2 million) 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, 2022	December 31, 2021
Asset-Based Credit Agreement - Revolving loans	\$ 3,683	\$ 37,281
Capital leases obligations	8,073	11,073
Deferred financing charges	(96)	(201)
	11,660	48,153
Less: current portion	(7,440)	(3,749)
	\$ 4,220	\$ 44,404

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, 2022, under the Credit Agreement, the borrowing bases for accounts receivable, inventory and prepayments were margined at \$88.9 million (2021 - \$75.7 million) and \$161.6 million (2021 - \$145.9 million) respectively. In 2022, the total amount of reserve deducted from the borrowing bases was \$20.4 million (2021 - \$22.1 million). As at December 31, 2022, \$226.4 million (2021 - \$162.2 million) of credit was available to fund operations and working capital requirements.

At December 31, 2022, UFA's revolving loan balance was \$3.7 million (2021 - \$37.3 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 5.12% (2021 - 6.62%) due to the average loan balance being largely reduced by year end.

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 2022, 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 \$9.6 million, including \$1.4 million in financing expenses. The lease terms range from two to five years at interest rates between 2.5% and 6.9% for 2022 (2021 – 2.5% and 6.5%).

	Principal	Interest	Total
2023	\$ 2,654	\$ 654	\$ 3,308
2024	2,269	402	2,671
2025	2,048	194	2,242
2026	1,151	111	1,262
2027	86	23	109
	\$ 8,208	\$ 1,384	\$ 9,592

11. ASSET RETIREMENT OBLIGATIONS

	2022	2021
Balance, beginning of year	\$ 25,885	\$ 24,978
Accretion expense	1,400	1,198
Revisions in estimated cash flows	736	603
Liabilities settled	(704)	(894)
Balance, end of year	\$ 27,317	\$ 25,885

Estimated undiscounted future cash flows, adjusted for inflation, are \$60.3 million (2021 – \$59.5 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 6.50% discount rate and a 2.50% inflation rate (2021 – 6.25% and 2.25% 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, 2022	December 31, 2021
Other long-term liabilities	\$ 18,461	\$ 11,044
Less: current portion	(7,673)	(2,889)
	\$ 10,788	\$ 8,155

Other long-term liabilities include \$15.8 million (2021 - \$8.5 million) relating to long-term incentive programs and \$2.7 million (2021 - \$2.5 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:

2023	\$ 4,576
2024	4,027
2025	3,583
2026	3,613
2027	3,399
After 2027	6,984
	\$ 26,182

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.

UFA has committed \$16 million towards an announced Agricultural society focused on supporting rural communities. This society will be created and funded in 2023. Contributions will be funded from archived equity for \$10 million and the remaining \$6 million from operating income.

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, 2022	December 31, 2021
Member Shares	\$ 100,895	\$ 92,598
Patronage Dividend	28,000	18,000
Investment Shares	104,408	107,132
Contributed Surplus	11,939	11,987
	\$ 245,242	\$ 229,717

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.

Member shares issued:	2022		2021	
	Number (in thousands)	Amount	Number (in thousands)	Amount
Balance, beginning of period	18,520	\$ 92,598	17,432	\$ 87,161
Redemptions/ adjustments	(155)	(773)	(128)	(639)
Patronage	1,811	9,056	1,448	7,237
Contributed Surplus	3	14	(232)	(1,161)
Balance, end of period	20,179	\$ 100,895	18,520	\$ 92,598

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 2021 a Patronage Dividend of \$18.0 million was approved. \$9.1 million of the dividend was issued as Member shares and \$8.8 million was paid in cash. For 2022, the Board of Directors has recommended a \$28.0 million Patronage Dividend.

	2022	2021
Balance, beginning of period	\$ 18,000	\$ 14,200
Current period distribution:		
Member Shares	(9,056)	(7,237)
Cash	(8,826)	(6,943)
Distribution adjustments	(118)	(20)
Current period allocation	28,000	18,000
Balance, end of period	\$ 28,000	\$ 18,000

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 2022, dividends of \$3.8 million (2021 - \$2.1 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.

	2022		2021	
	Number	Amount	Number	Amount
Balance, beginning of period	1,071	\$ 107,132	1,126	\$ 112,601
Redemption	(26)	(2,617)	(23)	(2,311)
Contributed Surplus	-	34	(31)	(3,144)
Less than minimum and unclaimed	(1)	(141)	(1)	(14)
Balance, end of period	1,044	\$ 104,408	1,071	\$ 107,132

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 2022, Members' Equity of \$0.0 million (2021 - \$4.3 million) was cancelled and classified as Contributed Surplus, as outlined below.

	2022	2021
Balance, beginning of period	\$ 11,987	\$ 7,682
Current period additions:		
Member Shares	(14)	1,161
Investment Shares	(34)	3,144
Balance, end of period	\$ 11,939	\$ 11,987

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, 2022, UFA had current assets of \$405.6 million (2021 - \$329.5 million) to settle current liabilities of \$182.5 million (2021 - \$125.5 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 0.33% (2021 - 0.26%) making the effective interest rate 5.45% (2021 - 6.88%). A 1.0% change in the prime rate is anticipated to have an annual change

in interest cost of approximately \$0.2 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 22, 2022, UFA entered into a Petroleum put option based on heating oil providing UFA an option to purchase 6.7 million US gallons at \$2.44 USD per US gallon of heating oil. The option expires on December 31, 2023. The purchase price of the option was \$2.7 million USD, a loss of \$0.8 M was recognized as at December 31, 2022 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 \$1.9 million (2021 - \$1.6 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, 2021.

Changes to the accrued asset balances is as follows:

	2022	2021
Plan asset at start of year	\$ 58,955	\$ 48,035
Remeasurement and other costs	(50,217)	11,705
Supplemental Plan early adoption adjustment	-	(714)
Solvency and expense contributions	545	(71)
Surplus at end of year	\$ 9,283	\$ 58,955

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

	December 31, 2022	December 31, 2021
Accrued benefit obligation, end of year	\$ 202,701	\$ 183,398
Market value of plan assets, end of year	211,984	242,353
Surplus of plan at end of year	9,283	58,955
Accrued asset	\$ 9,283	\$ 58,955

Included in the accrued benefit obligation is \$3.3 million related to the SERP (2021 - \$4.3 million).

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

	2022	2021
Discount rate for funded status	3.55%	4.05%
Rate of compensation increase	1.0% to 2.0%	1.0% to 2.0%

In 2022, UFA recognized termination costs of \$0.5 million (2021 - \$1.5 million) which was included under operating and administrative expenses.

17. GOVERNMENT REMITTANCES AND ASSISTANCE

Accounts payable and accrued liabilities as at December 31, 2022 include \$15.8 million (2021 - \$16.3 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.

UFA has recognized nil (2021 - \$3.5 million) of government assistance under the Canadian Emergency Wage Subsidy (CEWS) program.

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, 2022	%	December 31, 2021	%
Petroleum	\$ 1,912,295	81.1	\$ 1,165,266	73.8
AgriBusiness	445,028	18.9	414,230	26.2
	\$ 2,357,323		\$ 1,579,496	

19. CHANGES IN NON-CASH WORKING CAPITAL

Non-cash working capital used cash flows of \$11.3 million in fiscal year 2022 (2021 - provided \$11.2 million). In 2022 \$0.9 million of Accounts payables and accrued liabilities relates to capitalized amounts of intangibles.

	December 31, 2022	December 31, 2021
Accounts receivable	\$ (32,817)	\$ (26,010)
Inventory	(19,378)	(4,856)
Prepaid expenses	9,075	(12,025)
Accounts payable and accrued liabilities (excluding income tax payable)	27,492	29,805
Deferred revenue and other	4,310	1,857
	\$ (11,318)	\$ (11,229)

20. INTEREST AND INCOME TAXES PAID

Interest paid in fiscal year 2022 was \$1.9 million (2021 - \$3.8 million). Income taxes paid in fiscal year 2022 was \$12.0 million (2021 - \$0.8 million paid).