DAY IN.
YEAR OUT.

GET IT.

UFA

DONE.

2019 MEMBER REPORT

MESSAGE TO MEMBERS

"2019 WAS A YEAR OF PROACTIVE INVESTMENT IN OUR CO-OPERATIVE, OUR MEMBERS AND OUR TEAM.

THE GOAL? TO BUILD A STRONGER UFA THAT MEETS THE NEEDS OF OUR MEMBERS TODAY AND IN THE FUTURE. WE ARE PLEASED TO SHARE WITH YOU UFA'S FINANCIAL RESULTS FROM 2019, ALONG WITH MANY EXCITING INITIATIVES FROM THE PAST YEAR."

KEVIN HOPPINS, BOARD CHAIR

SCOTT BOLTON, PRESIDENT & CEO

VISION

TO BE RECOGNIZED AS THE MOST TRUSTED AND RELIABLE SUPPLIER OF PETROLEUM, CROP, LIVESTOCK, BUILDING PRODUCTS AND SERVICES IN THE MARKETS WE SERVE.

VALUES

PERFORMANCE

INTEGRITY

COLLABORATION

PROGRESSIVE THINKING

ACCOUNTABILITY

AGILITY

RESPECT


"IT'S IMPORTANT TO STAY TRUE TO OUR MISSION
AND REMAIN CONNECTED TO OUR ROOTS
AND GROUNDED IN OUR COMMUNITIES.
WE HONOUR THE HERITAGE OF CO-OPERATION:
NEIGHBOUR TO NEIGHBOUR, TOWN TO TOWN
AND MEMBER TO MEMBER."
KEVIN HOPPINS, BOARD CHAIR

MEMBERS. REPRESENTED.

OUR 11 BOARD DIRECTORS HAVE COLLECTIVELY SERVED 58 YEARS ON THE UFA BOARD.

COMMUNITIES. SERVED.

OUR 42 DELEGATES ARE ELECTED BY AND REPRESENT APPROXIMATELY 40,000 ELIGIBLE MEMBERS IN ALBERTA, BRITISH COLUMBIA AND SASKATCHEWAN.

MEMBER INTERESTS. ADVOCATED.

UFA CARRIED THE VOICE OF OUR MEMBERS ON IMPACTFUL ISSUES INCLUDING FARM SAFETY, EXCISE TAX, FOOD POLICY AND MORE.

CEO. ANNOUNCED.

AFTER FIVE YEARS SERVING AS EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, SCOTT BOLTON ASSUMED THE ROLE OF PRESIDENT AND CHIEF EXECUTIVE OFFICER IN OCTOBER.

AG WOMEN. HONOURED.

IN PARTNERSHIP WITH THE CLARESHOLM AND DISTRICT MUSEUM, THE UNITED FARMER'S HISTORICAL SOCIETY UNVEILED THE LOUISE MCKINNEY EXHIBIT.

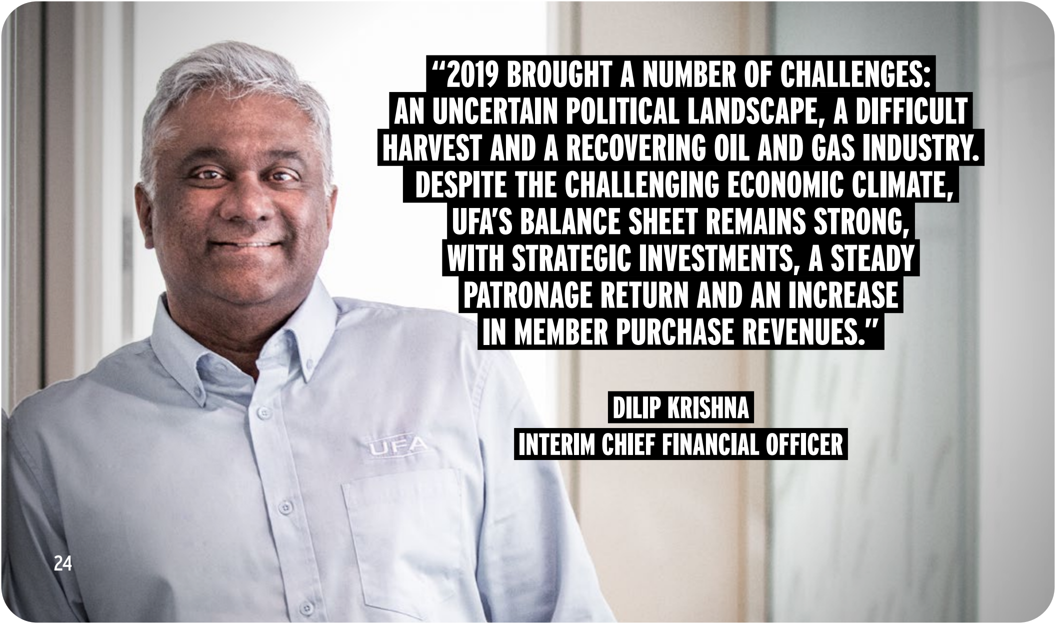
Rural Communities Foundation UFA

Enriching education, recreation & culture

PROVIDED $100,000 IN COMBINED FUNDING TO A COMMUNITY GARDEN IN DELIA, THE HERITAGE VILLAGE IN ONOWAY, AND THE CLIMB THRU TIME MUSEUM IN PARADISE VALLEY.

LEADERSHIP. INSPIRED.

DELEGATES SPONSORED OVER 40 YOUTH TO PARTICIPATE IN THE CO-OPERATIVE YOUTH LEADERSHIP PROGRAM.



"2019 BROUGHT A NUMBER OF CHALLENGES: AN UNCERTAIN POLITICAL LANDSCAPE, A DIFFICULT HARVEST AND A RECOVERING OIL AND GAS INDUSTRY. DESPITE THE CHALLENGING ECONOMIC CLIMATE, UFA'S BALANCE SHEET REMAINS STRONG, WITH STRATEGIC INVESTMENTS, A STEADY PATRONAGE RETURN AND AN INCREASE IN MEMBER PURCHASE REVENUES."

DILIP KRISHNA
INTERIM CHIEF FINANCIAL OFFICER

$14.1 M

2019 PATRONAGE DECLARED.

THREE STEADY YEARS OF GROWTH.
PATRONAGE INCREASED FROM $12.5 MILLION IN 2017 AND FROM $14 MILLION IN 2018.

2019 FINANCIALS

$1.6 B REVENUE.

COMPARED TO $1.8 BILLION IN 2018.

2019 FINANCIALS

$70 M

EBITDA*

COMPARED TO $77 MILLION IN 2018.

*Earnings Before Interest, Tax, Depreciation, and Amortization.

$189 M

GROSS MARGIN.

COMPARED TO $206 MILLION IN 2018.

2019 FINANCIALS

$34 M NET INCOME.

COMPARED TO $12 MILLION IN 2018.

2019 FINANCIALS

10.7%

RETURN ON INVESTED CAPITAL (ROIC).*

COMPARED TO 13.1% IN 2018.

*ROIC is an important financial measure that shows the percentage return UFA earns from capital invested in the business

$346 M

AGRIBUSINESS REVENUE.

COMPARED TO $357 MILLION IN 2018.

1.2 B

LITRES SOLD.

COMPARED TO 1.2 BILLION IN 2018.

"AS ONE OF CANADA'S LARGEST AND MOST DYNAMIC CO-OPERATIVES, UFA IS COMMITTED TO OUR MEMBERS, OUR CUSTOMERS AND THE COMMUNITIES WE SERVE. WE SHARE THE SAME VALUES, FACE THE SAME CHALLENGES AND ARE PROUD TO PROVIDE THE PRODUCTS, SERVICES AND EXPERTISE TO HELP GET THE JOB DONE."

BOB FINK
CHIEF CORPORATE AFFAIRS OFFICER

47 AGENTS

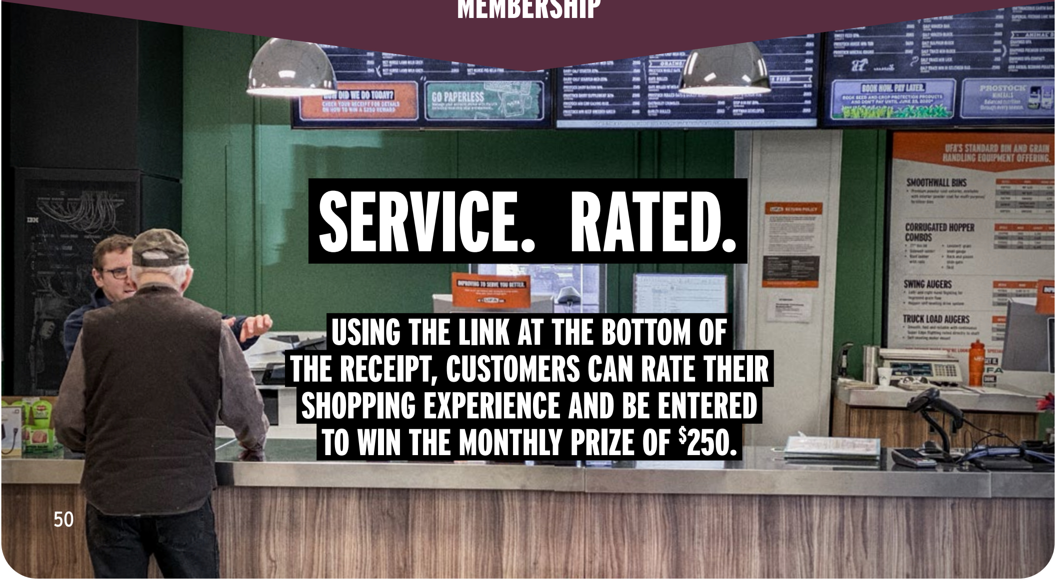
950 EMPLOYEES

OVER 120,000 MEMBERS

34 FARM & RANCH SUPPLY STORES.
111 PETROLEUM AGENCIES.
6 FERTILIZER PLANTS.

FARMERS. CELEBRATED.

HUNDREDS OF MEMBERS JOINED US TO RECOGNIZE THE POWER AND POTENTIAL OF AGRICULTURE BY CELEBRATING FARMER'S DAY AT UFA LOCATIONS ACROSS THE NETWORK.



SERVICE. RATED.

USING THE LINK AT THE BOTTOM OF THE RECEIPT, CUSTOMERS CAN RATE THEIR SHOPPING EXPERIENCE AND BE ENTERED TO WIN THE MONTHLY PRIZE OF $250.

“THE TECHNICAL TOOLS AND HOW WE CHOOSE TO USE THEM ARE A KEY COMPONENT OF OUR BUSINESS. BY PROVIDING OUR TEAM WITH THE TOOLS THEY NEED, UFA CAN BETTER SERVE OUR MEMBERS, ULTIMATELY DELIVERING A BETTER OVERALL EXPERIENCE FOR EVERYONE WHO CHOOSES TO SHOP AT UFA.”

LISA KISSICK
VICE PRESIDENT, INFORMATION TECHNOLOGY

TECHNOLOGY. INVESTED.

PLANNING AND LAUNCH OF NEW POINT OF SALE SYSTEM TO STREAMLINE THE SHOPPING EXPERIENCE.

STORES. CONNECTED.

IMPROVED WI-FI COVERAGE AT ALL LOCATIONS.

MYUFA.
REDESIGNED.

RELIABLE 24-HOUR ACCESS TO UFA ACCOUNT INFORMATION, DIRECT FROM A COMPUTER OR MOBILE DEVICE, WITH EASIER NAVIGATION, GREATER SECURITY AND REFINED SEARCH.

"UFA IS DEDICATED TO GROWING OUR BUSINESS WHILE CONTINUING TO SERVE THE CUSTOMERS AND MEMBERS WHO KEEP OUR CO-OPERATIVE STRONG. WE COMMIT TO PROVIDING THE RIGHT PRODUCTS AND SERVICES AT THE RIGHT TIME, WHEN AND WHERE YOU NEED THEM."

GLENN BINGLEY
CHIEF OPERATING OFFICER OF RETAIL RELATIONS

2019 RETAIL AGRIBUSINESS

$127 M

RETAIL SALES.

COMPARED TO $134 MILLION IN 2018.

2019 RETAIL AGRIBUSINESS

$38 M

RETAIL GROSS MARGIN.

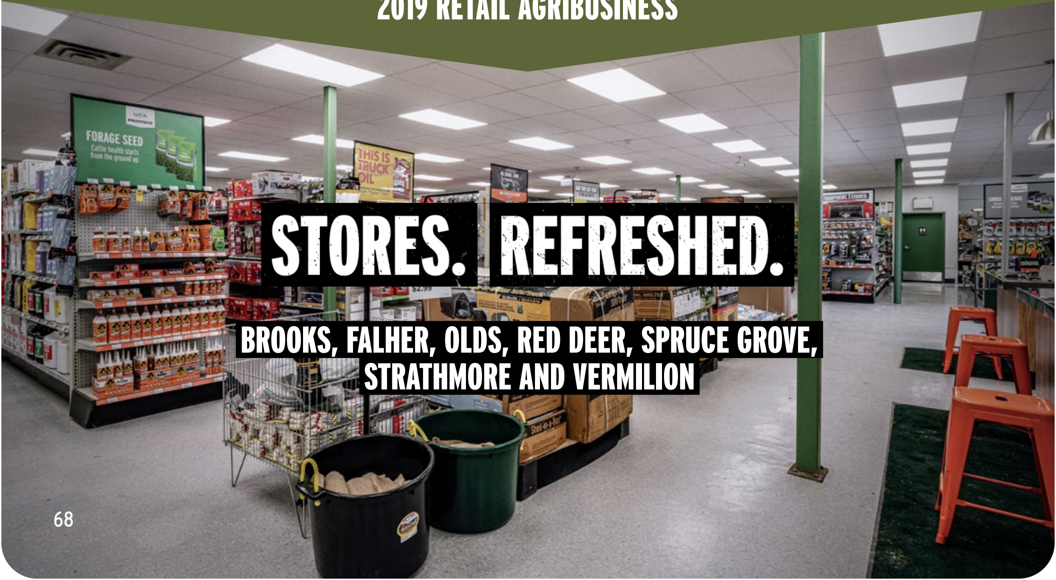
COMPARED TO $40 MILLION IN 2018.

PONOKA. RE-OPENED.

OUR NEW LOCATION IN PONOKA OFFERS A DRIVE THROUGH WAREHOUSE, SIX-ACRE YARD AND 3,500 SQUARE FOOT CROP PROTECTION PRODUCTS BUILDING.

STORES. REFRESHED.

BROOKS, FALHER, OLDS, RED DEER, SPRUCE GROVE, STRATHMORE AND VERMILION



"OUR JOB IS TO HELP MEMBERS AND CUSTOMERS PLAN FOR THE YEAR, AND BE READY WITH THE PRODUCTS, SOLUTIONS AND ADVICE THEY NEED. WE UNDERSTAND OUR MEMBERS' BUSINESS AND ARE INVESTED IN THEIR SUCCESS."

ROB GIGUERE

VICE PRESIDENT, COMMERCIAL AGRIBUSINESS

2019 COMMERCIAL AGRIBUSINESS

$219 M

COMMERCIAL SALES.

COMPARED TO $223 MILLION IN 2018.

2019 COMMERCIAL AGRIBUSINESS

$26 M

GROSS MARGIN.

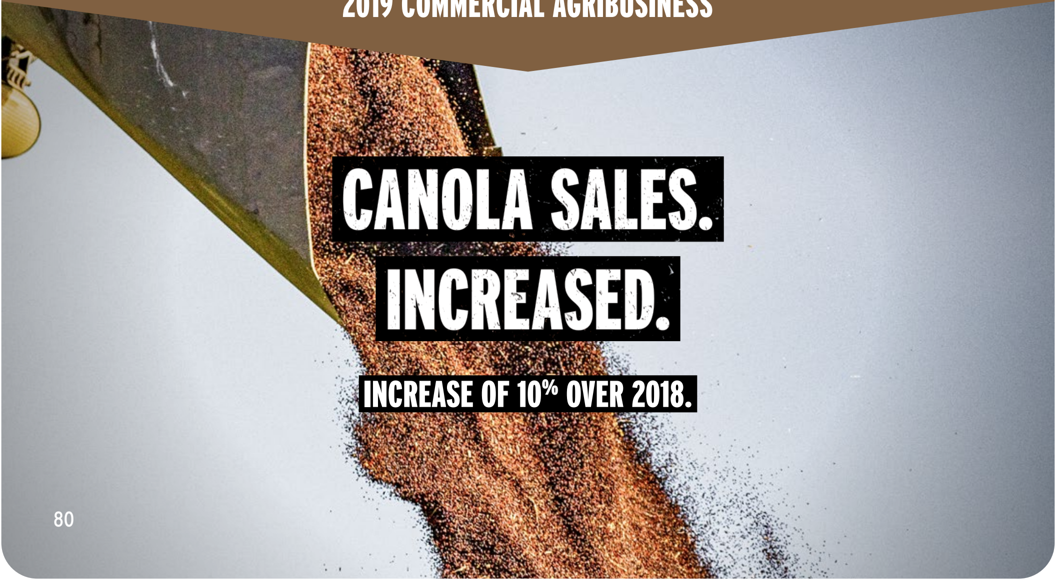
COMPARED TO $27 MILLION IN 2018.

MARKET SHARE. GAINED.

IN KEY CATEGORIES INCLUDING INOCULANTS, SEED, SEED TREATMENTS AND SPRING HERBICIDE.

MICRO TECHNOLOGIES. EXPANDED.

OPTIMIZED FEEDLOT TECHNOLOGY NOW AVAILABLE FOR SMALLER OPERATIONS.



CANOLA SALES. INCREASED.

INCREASE OF 10% OVER 2018.

BOOK NOW. PAY LATER.

**MEMBERS RECEIVED AN EXTENDED PAYMENT FOR:
CANOLA, CORN OR FORAGE SEED;
CROP PROTECTION PRODUCTS INCLUDING
SEED TREATMENT; AND INOCULANT.**

THE PITCH. LAUNCHED.

OUR UNIQUE PARTNERSHIP WITH OLDS COLLEGE COMMITS $500,000 OVER FIVE YEARS TO SUPPORT NEW IDEAS, PRODUCTS OR SERVICES DESIGNED BY STUDENTS.

"OUR CARDLOCK NETWORK OF 111 LOCATIONS IS UNMATCHED, OFFERING MEMBERS AND COMMERCIAL CUSTOMERS CONVENIENT ACCESS TO A BROAD RANGE OF PRODUCTS AND SERVICES."

DON SMITH
VICE PRESIDENT, PETROLEUM

2019 PETROLEUM

$125 M GROSS MARGIN.

COMPARED TO $138 MILLION IN 2018.

NETWORK. REINVESTED.

UPGRADES TO OUR LOCATIONS IN CALGARY, DEWBERRY, PONOKA, STRATHMORE AND SYLVAN LAKE.

DIESELEX GOLD® EXPANDED.

PRECISION-BLENDED DIESEL FUEL NOW AVAILABLE VIA CARDLOCK OR BULK DELIVERY AT 57 SITES ACROSS THE NETWORK.

EMISSIONS. REDUCED.

LIGHTING UPGRADES AT OUR CAMROSE PETROLEUM AGENCY AND EDMONTON WAREHOUSE RESULTED IN LOWER CARBON DIOXIDE MISSIONS EQUIVALENT TO REMOVING 112 VEHICLES FROM THE ROAD.

2019 COMMUNITY INVESTMENT

OVER
$800 K
INVESTED.

IN COMMUNITY INITIATIVES
ACROSS THE NETWORK.

GRASSROOTS GIVING. FOSTERED.

PROUD TO SUPPORT OVER 300 LOCAL EVENTS AND INITIATIVES IN RURAL COMMUNITIES IN 2019.

4-H. FUNDED.

$100,000 IN FUNDING TO SUPPORT 4-H ALBERTA, INCLUDING OVER $60,000 SHARED LOCALLY THROUGH THE UFA FUNDS 4-H CLUBS INITIATIVE.

CALGARY STAMPEDE. SPONSORED.

OFFICIAL FUEL SUPPLIER AND PROUD SPONSOR OF UFA CATTLE TRAIL SHARING THE STORY OF THE BEEF INDUSTRY, FROM PASTURE TO PLATE.

YOUTH. EDUCATED.

PROUD TO SUPPORT AG FOR LIFE WITH $100,000 TOWARDS AGRICULTURAL AWARENESS AND RURAL SAFETY PROGRAMMING THAT IS FUN, INTERACTIVE AND EDUCATIONAL.

RURAL RODEOS. CELEBRATED.

FROM DAWSON CREEK TO PINCHER CREEK, UFA SPONSORS LOCAL RODEOS ACROSS THE NETWORK.

TEAM KOE. ENGAGED.

OUR PARTNERSHIP WITH THE WORLD-CLASS CURLERS INCLUDES THE RURAL ROCKS YOUTH CLINICS.

MESSAGE TO MEMBERS

"ON BEHALF OF THE BOARD OF DIRECTORS, DELEGATES, EMPLOYEES AND AGENTS, THANK YOU FOR CHOOSING TO SUPPORT UFA. WE LOOK FORWARD TO SERVING YOU THROUGH 2020 AND BEYOND."

KEVIN HOPPINS, BOARD CHAIR
SCOTT BOLTON, PRESIDENT & CEO

2019. DONE.

MANAGEMENT DISCUSSION AND ANALYSIS.

MEMBER GET IT. UFA DONE. REPORT

CORPORATE PROFILE

UFA Co-operative Limited is an Alberta-based agricultural co-operative with more than 120,000 member-owners.

Founded in 1909, UFA's network comprises 111 bulk fuel and Petroleum Cardlock locations, 34 Farm & Ranch Supply stores, six fertilizer plants and a support office located in Calgary, Alberta. Independent Petroleum agents and more than 950 employees provide products, services and agricultural solutions to farmers, ranchers, members, consumers and commercial customers in Alberta, British Columbia and Saskatchewan.

For more information, please visit UFA.com

CORE PURPOSE

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

CORE VALUES

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

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

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

VISION

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

MISSION STATEMENT

To accomplish this, we will:

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

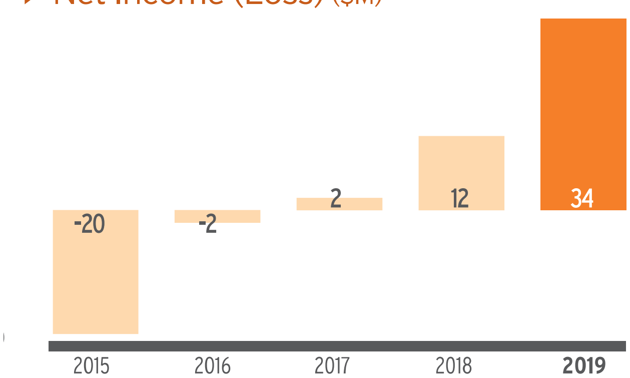
FINANCIAL HIGHLIGHTS & FIVE-YEAR SUMMARY

(All figures stated in thousands of Canadian dollars)	**2019**	2018	2017	2016	2015
Continuing Operations					
Revenue	**$ 1,578,901**	$ 1,817,492	$ 1,536,163	$ 1,227,942	$ 1,478,250
Gross margin	**188,580**	206,195	169,866	151,199	155,028
Operating and administrative expenses	**(128,815)**	(139,104)	(128,193)	(119,338)	(148,214)
EBITDA	**69,702**	76,627	47,263	38,282	16,948
Net income (loss) from Continuing Operations before Patronage Dividend, pension remeasurement and income tax	**34,950**	45,048	17,101	4,913	(18,604)
Patronage Dividend	**$ (14,100)**	$ (14,000)	$ (12,500)	-	-

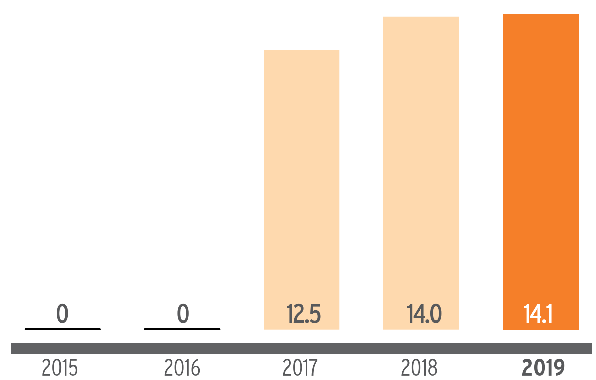
2019 was a year of challenges for the Alberta economy. Low energy sector activity, the most challenging harvest in a generation and international trade issues affected conditions and sentiment. Despite headwinds, UFA was able to reduce operating costs, improve efficiency and deliver EBITDA of $69.7 million, the second best results this decade. A patronage dividend of $14.1 million is recommended to the Assembly, the highest allocation since 2008.

2019 was also a year of investment with $49 million spent on projects including a new point of sale system at all locations, completion of a 57 location roll out of Dieselex® Gold, a new farm store in Ponoka and upgrades to numerous petroleum and agriculture sites. UFA continues to maintain a strong balance sheet with a 1.7 to 1.0 working capital ratio and bank line availability in excess of $90 million.

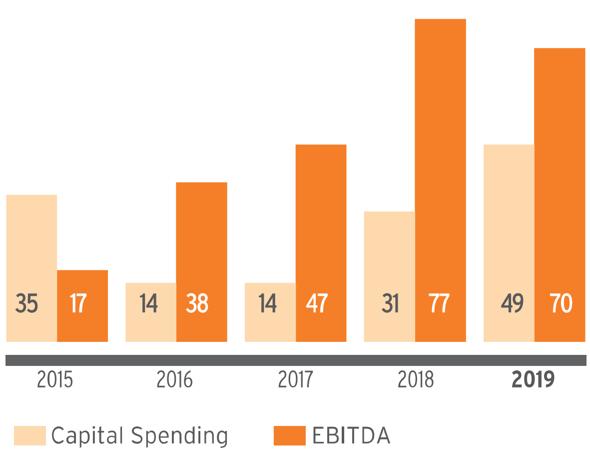
Net Income (Loss) ($M)



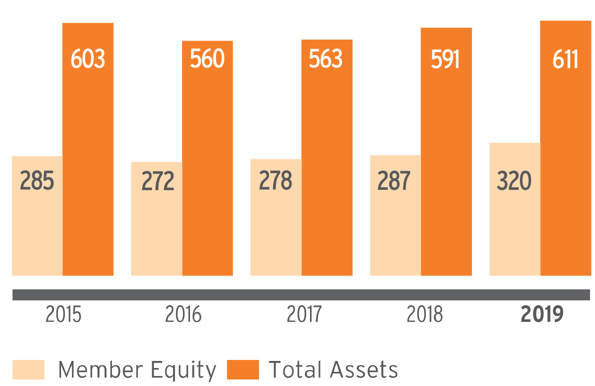
Patronage Dividend ($M)



Capital Spending and EBITDA ($M)



Members' Equity and Total Assets ($M)



2019 SUMMARY OF OPERATIONS

CONSOLIDATED STATEMENT OF OPERATIONS

(All figures stated in thousands of Canadian dollars)

For the year ended	December 31, 2019	December 31, 2018
Revenue	**$ 1,578,901**	$ 1,817,492
Cost of sales	**(1,390,321)**	(1,611,297)
Gross margin	**188,580**	206,195
Operating and administrative expenses	**(128,815)**	(139,104)
Other income	**9,937**	9,536
Earnings before the under noted (EBITDA)	**69,702**	76,627
Depreciation and amortization	**(25,349)**	(23,387)
Interest	**(9,227)**	(8,207)
Foreign currency exchange (loss) gain	**(176)**	15
Income before the undernoted	**34,950**	45,048
Gain (loss) from pension remeasurement	**28,380**	(15,875)
Patronage Dividend	**(14,100)**	(14,000)
Income tax expense	**(14,870)**	(3,652)
Net income	**$ 34,360**	$ 11,521

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.

SIGNATURE

Scott Bolton
President and Chief Executive Officer
February 25, 2020

SIGNATURE

Dilip Krishna
Interim Chief Financial Officer
February 25, 2020

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, 2019 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, 2019;
- 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 a summary of significant accounting policies.

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.

Other information

Management is responsible for the other information. The other information obtained prior to the date of this auditor's report comprises the Management Discussion & Analysis.

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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 25, 2020

CONSOLIDATED BALANCE SHEET

As at *(Stated in thousands of Canadian dollars)*	**December 31, 2019**	December 31, 2018
Assets		
Current Assets		
Cash	**$ 7,702**	$ 10,766
Accounts receivable (*note 3*)	**102,790**	109,092
Inventories	**161,139**	171,630
Prepaid expenses and deposits	**39,911**	31,768
Property held for sale (*note 4*)	**-**	6,754
Future income tax asset (*note 10*)	**3,248**	3,745
	314,790	333,755
Investments (*note 5*)	**560**	642
Other long-term assets (*note 6*)	**45,818**	16,172
Goodwill and intangible assets (*note 7*)	**45,189**	25,101
Future income tax asset (*note 10*)	**10,735**	22,848
Property and equipment (*note 8*)	**194,236**	192,618
	$ 611,328	$ 591,136
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable and accrued liabilities (*note 18*)	**$ 73,850**	$ 93,885
Deferred revenue	**12,481**	15,032
Current portion of member loans (*note 9*)	**15,479**	15,000
Current portion of long-term debt (*note 11*)	**3,650**	2,821
Current portion of long-term liabilities (*note 13*)	**2,062**	2,852
	107,522	129,590
Long-term debt (*note 11*)	**102,025**	91,864
Member loans (*note 9*)	**51,766**	52,067
Asset retirement obligations (*note 12*)	**24,486**	24,437
Long-term liabilities (*note 13*)	**5,645**	6,078
	291,444	304,036
Members' Equity		
Member entitlements (*note 15*)	**218,054**	215,614
Retained earnings	**101,830**	71,486
	319,884	287,100
	$ 611,328	$ 591,136

See accompanying notes to consolidated financial statements

KEVIN HOPPINS SIGNATURE

DON CORMACK SIGNATURE

On behalf of the Board

Kevin Hoppins
Chairman

Don Cormack
Director

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended *(Stated in thousands of Canadian dollars)*	**December 31, 2019**	December 31, 2018
Revenue (*note 19*)	**$ 1,578,901**	$ 1,817,492
Cost of sales	**(1,390,321)**	(1,611,297)
Gross margin	**188,580**	206,195
Operating and administrative expenses	**(128,815)**	(139,104)
Other income	**9,937**	9,536
Earnings before the under noted	**69,702**	76,627
Depreciation and amortization	**(25,349)**	(23,387)
Interest (*notes 9, 11*)	**(9,227)**	(8,207)
Foreign currency exchange (loss) gain (*note 16*)	**(176)**	15
Income before Patronage Dividend, pension remeasurement and income taxes	**34,950**	45,048
Gain (loss) from pension remeasurement (*note 17*)	**28,380**	(15,875)
Patronage Dividend (*note 15*)	**(14,100)**	(14,000)
Income tax expense (*note 10*)	**(14,870)**	(3,652)
Net income	**$ 34,360**	$ 11,521

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

As at *(Stated in thousands of Canadian dollars)*	**December 31, 2019**	December 31, 2018
Member Entitlements (*note 15*)		
Beginning of period	**$ 215,614**	$ 214,144
Patronage Dividend	**14,100**	14,000
Dividends paid in cash	**(6,235)**	(5,416)
Redemptions / repayments	**(3,627)**	(6,224)
Less than minimum, unclaimed and other adjustments	**202**	110
Contribution to UFA Rural Communities Foundation	**(2,000)**	(1,000)
	218,054	215,614
Retained Earnings		
Beginning of period	**71,486**	63,629
Net income	**34,360**	11,521
Dividends on investment shares	**(4,016)**	(3,664)
	101,830	71,486
Total Members' Equity	**$ 319,884**	$ 287,100

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended *(Stated in thousands of Canadian dollars)*	**December 31, 2019**	December 31, 2018
Operating activities		
Net income for the year - continuing operations	**$ 34,360**	$ 11,521
Items not requiring an outlay of cash		
Patronage Dividend	**14,100**	14,000
Gain on disposal of property and equipment	**(3,334)**	(2,817)
Asset retirement obligation accretion (*note 12*)	**1,191**	1,187
Future income tax expense (recovery) (*note 10*)	**12,610**	(4,792)
(Decrease) increase in other long-term liabilities	**(88)**	2,378
Other amortization and expenses	**105**	(411)
Pension remeasurement (gain) loss	**(28,380)**	15,875
Depreciation and amortization (*notes 7, 8*)	**25,349**	23,387
Funds flow	**55,913**	60,328
Asset retirement obligations settled (*note 12*)	**(1,324)**	(1,351)
Wholesale Sports US legal obligations settled (*note 13*)	**-**	(14,865)
Changes in non-cash working capital (*note 20*)	**(14,888)**	(21,193)
Cash from operating activities - continuing operations	**39,701**	22,919
Cash used in operating activities - discontinued operations	**-**	(14,540)
Cash from operating activities	**39,701**	8,379
Investing activities		
Additions to property and equipment	**(27,634)**	(19,668)
Acquisition of All Peace Petroleum	**-**	(16,154)
Additions to intangible assets	**(21,227)**	(11,728)
Proceeds from disposal of property and equipment	**12,846**	10,668
Increase in other long-term assets	**(1,184)**	(2,962)
Cash used in investing activities - continuing operations	**(37,199)**	(39,844)
Financing activities		
Long-term debt issued (*note 11*)	**10,885**	47,398
Member loans issued (*note 9*)	**3,046**	6,678
Member loans redeemed (*note 9*)	**(2,868)**	(10,416)
Repayment of revolving equity	**-**	(601)
Dividends paid on investment shares	**(4,969)**	(2,659)
Redemption / repayment of shares	**(3,425)**	(5,513)
Contribution to UFA Rural Communities Foundation	**(2,000)**	(1,000)
Patronage dividends paid in cash	**(6,235)**	(5,416)
Cash (used in) from financing activities - continuing operations	**(5,566)**	28,471
Decrease in cash	**(3,064)**	(2,994)
Cash, beginning of period	**10,766**	13,760
Cash, end of period	**$ 7,702**	$ 10,766

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. The outdoor recreation products segment operating through a wholly-owned subsidiary, Wholesale Sports Canada Ltd. (Wholesale Sports) concluded operations on December 28, 2017. The legal entity was wound up during 2018.

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.

Financial figures and tables do not include Wholesale Sports as it was not part of continuing operations at the reporting date.

Basis of Presentation

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

Comparative Figures

Certain comparative financial information has been reclassified to be consistent with the presentation adopted for 2019.

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 $1,367.9 million (2018 – $1,568.0 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.

Property Held for Sale

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

Goodwill and Intangible Assets

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

Application software	3 to 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 17). 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

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

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

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

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

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

Use of Estimates

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

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of customer and member receivables of $92.4 million (2018 – $94.8 million) extended under commercial terms, financial instruments of $0.0 million (2018 – $2.5 million) and other miscellaneous receivables of $10.4 million (2018 – $11.8 million). The customer and member receivables are net of an allowance of $1.9 million (2018 – $1.6 million). In 2019, UFA recorded $0.8 million in bad debts (2018 – $0.6 million).

In 2019, UFA earned interest on overdue accounts receivable of $3.5 million (2018 – $3.5 million).

4. PROPERTY HELD FOR SALE

	2019	2018
Land, building and equipment	$ -	$ 6,754

Property held for sale represents assets which management has evaluated as not integral to business operations and meet the criteria for this accounting treatment. The 2018 assets are principally related to the wind up of a retail lumber operation (Spruceland Lumber) in Fort McMurray. The sale and transfer of this property closed in January 2019.

5. INVESTMENTS

	2019	2018
MDSI	$ 18	$ 100
Other investments	542	542
	$ 560	$ 642

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.

6. OTHER LONG-TERM ASSETS

	2019	2018
Accrued pension benefit asset (note 17)	$ 43,742	$ 13,943
Deferred charges	2,076	2,229
	$ 45,818	$ 16,172

Deferred charges consist primarily of properties under remediation.

7. GOODWILL AND INTANGIBLE ASSETS

	2019		
	Cost	**Accumulated Amortization**	**Net Book Value**
Application software	**$ 64,559**	**$ 61,461**	**$ 3,098**
Intangibles under construction	**30,627**	**-**	**30,627**
Goodwill	**11,464**	**-**	**11,464**
	$ 106,650	**$ 61,461**	**$ 45,189**

	2018		
	Cost	Accumulated Amortization	Net Book Value
Application software	$ 64,521	$ 59,227	$ 5,294
Intangibles under construction	8,343	-	8,343
Goodwill	11,464	-	11,464
	$ 84,328	$ 59,227	$ 25,101

Intangibles under construction consist primarily of expenditures associated with the implementation of an enterprise resource planning (ERP) system. Amortization will commence once these assets are put into service.

8. PROPERTY AND EQUIPMENT

	2019		
	Cost	**Accumulated Depreciation**	**Net Book Value**
Land	**$ 48,783**	**$ -**	**$ 48,783**
Buildings, fences and yards	**182,859**	**114,749**	**68,110**
Equipment	**162,828**	**119,608**	**43,220**
Computer equipment	**18,235**	**16,770**	**1,465**
Automotive equipment	**5,829**	**4,576**	**1,253**
Leased assets	**36,895**	**18,429**	**18,466**
Assets under construction	**12,939**	**-**	**12,939**
	$ 468,368	**$ 274,132**	**$ 194,236**

	2018		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 49,687	$ -	$ 49,687
Buildings, fences and yards	193,154	110,087	83,067
Equipment	157,776	117,637	40,139
Computer equipment	19,096	17,772	1,324
Automotive equipment	6,914	5,388	1,526
Leased assets	29,457	15,238	14,219
Assets under construction	2,656	-	2,656
	$ 458,740	$ 266,122	$ 192,618

Assets under construction as at December 31, 2019 are expected to be placed into productive use during fiscal 2020 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 $7.9 million (2018 – $7.2 million) of capital leases entered in 2019.

On August 21, 2018, Bar W acquired the assets of All Peace Petroleum Ltd. (All Peace) for cash consideration of $16.2 million and $2.0 million of working capital considerations. All Peace is head-quartered in Grande Prairie, Alberta with operations focused in the downstream maintenance, calibration and construction business as well as a tank rental and mobile cardlock solutions business. Since the acquisition, the results of operations of All Peace have been reflected in UFA's results.

Fair value of acquired net assets were as follows:

Accounts receivable	$	1,449
Inventory and prepaid		1,075
Capital assets		8,177
Goodwill		9,496
Future income tax		(1,512)
Accounts payable		(535)
	$	18,150

9. MEMBER LOANS

		December 31, 2019		December 31, 2018
5.5 til 2019 MIP (matured 2019)	$	-	$	15,000
5.0 til 2020 MIP (maturing 2020)		15,479		15,489
3-5-7 MIP issued 2018				
5.5 til 2021 MIP (maturing 2021)		20,197		20,197
6.0 til 2023 MIP (maturing 2023)		8,160		8,160
6.5 til 2025 MIP (maturing 2025)		7,953		8,221
3-5-7 MIP issued 2019				
5.5 til 2022 MIP (maturing 2022)		5,907		-
6.0 til 2024 MIP (maturing 2024)		5,295		-
6.5 til 2026 MIP (maturing 2026)		4,254		-
		67,245		67,067
Less: current portion		(15,479)		(15,000)
	$	51,766	$	52,067

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 2019 MIP was introduced on June 16, 2016. The program paid interest of 5.5% semi-annually and matured on June 15, 2019. Loans were redeemed and investors had the option of principal repayment or investing in the new 3-5-7 MIP. $12.4 million of this program was re-invested into the new 3-5-7 MIP with the balance repaid in cash. Interest of $0.4 million (2018 - $0.8 million) is included in interest expense.

The 5.0 til 2020 MIP was introduced on June 16, 2017. $15.5 million (2018 - $15.5 million) is currently invested in the program. The program pays interest of 5.0% semi-annually and matures on June 15, 2020. Interest on this program of $0.8 million (2018 - $0.8 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% annually and matures on September 15, 2021. $20.2 million (2018 - $20.2 million) is currently invested in the program. Interest on this program of $1.1 million (2018 - $0.3 million) is included in interest expense.

The 6.0 til 2023 MIP program pays interest of 6.0% semi-annually and matures on September 15, 2023. $8.2 million (2018 - $8.2 million) is currently invested in the program. Interest on this program of $0.5 million (2018 - $0.1 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. $8.0 million (2018 - $8.2 million) is currently invested in the program. Interest on this program of $0.5 million (2018 - $0.2 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% annually and matures on June 15, 2022. $5.9 million is currently invested in the program. Interest on this program of $0.2 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. $5.3 million is currently invested in the program. Interest on this program of $0.2 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. $4.3 million is currently invested in the program. Interest on this program of $0.2 million is included in interest expense.

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

10. INCOME TAXES

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

	December 31, 2019	December 31, 2018
Income before patronage dividend and income taxes	$ 63,330	$ 29,173
Patronage Dividend	(14,100)	(14,000)
Net income before income taxes	$ 49,230	$ 15,173
Statutory income tax rate	26.51%	27.00%
Expected income tax expense	13,052	4,097
Non-deductible items and other	278	52
Rate adjustment	2,695	(322)
True ups and other	404	(31)
Future income tax valuation allowance	(1,559)	(144)
Income tax expense	14,870	3,652
Income taxes consist of:		
Current income tax expense	2,260	8,444
Future income tax expense(recovery)	12,610	(4,792)
	$ 14,870	$ 3,652

Effective tax rate for 2019 was 30.2% (2018 - 24.1%). The net future income tax asset at the fiscal period end is comprised of the tax effect of the following temporary differences:

	December 31, 2019	December 31, 2018
Current future income tax asset:		
Inventories	$ 1,870	$ 1,806
Payables, warranty and other	1,378	1,939
	3,248	3,745
Long-term future income tax asset:		
Long-term debt and other long-term liabilities	4,491	4,629
Asset retirement obligation	5,654	6,598
Tax loss	18,116	22,422
Goodwill and intangibles	(403)	31
Property and equipment	(462)	1,051
Pension	(10,101)	(3,765)
Valuation allowance	(6,560)	(8,118)
	$ 10,735	$ 22,848

Included in tax loss and property and equipment is $11,555 (2018 - $15,105) of future income tax asset relating to the wind up of Wholesale Sports Canada Ltd. UFA has non-capital losses carried forward of $47,545 (2018 - $55,936). These non-capital losses will begin to expire in 2034 – 2037. UFA also has capital losses carryforward of $56,818 (2018- $60,140) for which there has been no net deferred tax asset recognized. Additionally, these capital losses have no expiration date.

11. LONG-TERM DEBT

	December 31, 2019	December 31, 2018
Asset-Based Credit Agreement - Revolving loans	$ 90,693	$ 83,191
Capital leases obligations	15,393	12,010
Deferred financing charges	(411)	(516)
	105,675	94,685
Less: current portion	(3,650)	(2,821)
	$ 102,025	$ 91,864

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, 2019, under the Credit Agreement, the borrowing bases for accounts receivable, inventory and prepayments were margined at $71.1 million (2018 – $70.9 million) and $125.9 million (2018 – $125.7 million) respectively. In 2019, the total amount of reserve deducted from the borrowing bases was $15.7 million (2018 – $19.9 million). As at December 31, 2019, $90.6 million (2018 – $93.5 million) of credit was available to fund operations and working capital requirements.

At December 31, 2019, UFA's revolving loan balance was $90.7 million (2018-$83.2 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 effective interest rate was 4.20% (2018 - 3.57%).

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 2019, UFA was in compliance with all covenants.

Capital Lease Obligations

Capital leases under leased assets *(note 8)* are the security for the respective obligations. Scheduled minimum lease payments for the next five years total $14.7 million, including $2.2 million in financing expenses. The lease terms range from two to five years at interest rates between 3.3% and 6.5% for 2019 (2018 – 3.2% and 6.4%).

	Principal	Interest	Total
2020	$ 3,367	$ 722	$ 4,089
2021	3,225	597	3,822
2022	2,949	435	3,384
2023	1,761	243	2,004
2024	1,186	165	1,351
	$ 12,488	$ 2,162	$ 14,650

12. ASSET RETIREMENT OBLIGATIONS

	2019	2018
Balance, beginning of year	**$ 24,437**	$ 24,720
Accretion expense	**1,191**	1,187
Revisions in estimated cash flows	**182**	(119)
Liabilities settled	**(1,324)**	(1,351)
Balance, end of year	**$ 24,486**	$ 24,437

Estimated undiscounted future cash flows, adjusted for inflation, are $57.6 million (2018 – $59.7 million) and are expected to be incurred up to and including fiscal 2069. The present value or discounted fair value of the obligations was determined using a 6.8% discount rate and a 2.2% inflation rate (2018 – 7.7% and 2.2% respectively). The estimates used in determining UFA's asset retirement obligations could change due to changes in regulations and the timing, nature and extent of environmental remediation required. Changes in estimates are accounted for prospectively in the period that the estimate is revised.

13. LONG-TERM LIABILITIES

	December 31, 2019	December 31, 2018
Other long-term liabilities	**$ 7,707**	$ 8,930
Less: current portion	**(2,062)**	(2,852)
	$ 5,645	$ 6,078

Other long-term liabilities include $5.4 million (2018 - $6.9 million) relating to long-term incentive programs and $2.3 million (2018 - $2.0 million) relating to deferred lease inducements.

14. COMMITMENTS, CONTINGENCIES AND GUARANTEES

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

2020	$	4,186
2021		4,379
2022		4,385
2023		4,419
2024		3,840
After 2024		17,018
	$	38,227

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

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

15. MEMBER ENTITLEMENTS

Member Entitlements consists of Member Shares, the current period's Patronage Dividend, Class A Investment Shares (Investment Shares) and Contributed Surplus. In accordance with the revised by-laws, effective January 1, 2018, Revolving Equity was repaid by the issuance of Member Shares. The only exception was in cases where a member's combined Member Shares and Revolving Equity exceeded $30,000. In these cases, the excess was repaid in cash. In 2018, a total of $36.6 million of Revolving Equity was repaid in Member Shares and $0.6 million was repaid in cash.

Details of Member Entitlements are as follows:

	December 31, 2019		December 31, 2018	
Member Shares	**$**	**80,097**	$	73,058
Patronage Dividend		**14,100**		14,000
Investment Shares		**115,639**		118,575
Contributed Surplus		**8,218**		9,981
	$	**218,054**	$	215,614

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 11). 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:	2019			2018		
	Number (in thousands)	Amount		Number (in thousands)	Amount	
Balance, beginning of period	14,612	$	73,058	6,149	$	30,744
Transfer from Revolving Equity	-		-	7,321		36,607
Redemptions/ adjustments	(142)		(707)	(194)		(973)
Patronage	1,571		7,855	1,416		7,080
Contributed Surplus	(22)		(109)	(80)		(400)
Balance, end of period	16,019	$	80,097	14,612	$	73,058

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 2018 a Patronage Dividend of $14.0 million was approved. $7.9 million of the dividend was issued as Member shares and $6.2 million was paid in cash. For 2019, the Board of Directors has recommended a $14.1 million Patronage Dividend.

	2019		2018	
Balance, beginning of period	$	14,000	$	12,500
Current period distribution:				
Member Shares		(7,855)		(7,080)
Cash		(6,235)		(5,416)
Distribution adjustments		90		(4)
Current period allocation		14,100		14,000
Balance, end of period	$	14,100	$	14,000

Revolving Equity

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

	2019	2018
Balance, beginning of period	**$ -**	$ 37,208
Transfer to Member Shares	**-**	(36,607)
Repayment	**-**	(601)
Balance, end of period	**$ -**	$ -

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 2019, dividends of $4.0 million (2018 - $3.7 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.

	2019		2018	
	Number	**Amount**	Number	Amount
Balance, beginning of period	**1,186**	**$ 118,575**	1,237	$ 123,658
Redemption	**(30)**	**(2,920)**	(47)	(4,650)
Contributed Surplus	**(1)**	**(128)**	(5)	(547)
Less than minimum and unclaimed	**1**	**112**	1	114
Balance, end of period	**1,156**	**$ 115,639**	1,186	$ 118,575

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 2019, Members' Equity of $0.2 million (2018 - $0.9 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 million to $2 million. In 2019, $2.0 million was allocated from Contributed Surplus to the Foundation.

	2019	2018
Balance, beginning of period	**$ 9,981**	$ 10,034
Current period additions:		
Member Shares	**109**	400
Investment Shares	**128**	547
Contribution to UFA Rural Communities Foundation	**(2,000)**	(1,000)
Balance, end of period	**$ 8,218**	$ 9,981

16. FINANCIAL INSTRUMENTS

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

Credit Risk

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

Liquidity Risk

UFA's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. At December 31, 2019, UFA had current assets of $314.8 million (2018 – $333.8 million) to settle current liabilities of $107.5 million (2018 – $129.6 million). All of UFA's accounts payable, accrued liabilities and deferred revenue are subject to normal trade terms (see notes 9 and 11 for information on payment terms of member loans and current and long-term debt).

Interest Rate Risk

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 0.35% (2018 – 0. 41%) making the effective interest rate 4.20% (2018 – 3.57%). A 1.0% change in the prime rate is anticipated to have an annual change in interest cost of approximately $0.8 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 30, 2019, UFA entered into a Petroleum put option based on heating oil providing UFA an option to purchase 6.7 million US gallons at $1.97 USD per US gallon of heating oil. The option expires on December 31, 2020. The purchase price of the option was $1.2 million USD.

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 11) and short-term foreign payables. UFA has entered into foreign currency forward contracts to manage its exposure to foreign exchange rate risk arising from certain payables of foreign suppliers.

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

In fiscal 2019, UFA entered into foreign currency exchange agreements that became effective in fiscal 2020. These agreements were designated as hedge instruments for UFA's USD inventory purchases. Hedge accounting was also applied to these transactions with the appropriate adjustments recognized in these financial statements. The carrying value of the foreign currency exchange agreements as at December 31, 2019 was nil (2018 – nil).

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.

17. EMPLOYEE FUTURE BENEFITS

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

Employees newly hired or transferred into a pension eligible position on or after October 1, 2012 are participants of the defined contribution pension plan. The employer contribution towards the defined contribution plan, recognized as an expense, was $1.1 million (2018 - $0.9 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, 2017.

Changes to the accrued asset balances is as follows:

	2019		2018	
Plan asset at start of year	$	13,943	$	27,066
Remeasurement and other costs		28,380		(15,875)
Solvency and expense contributions		1,419		2,752
Surplus at end of year	$	43,742	$	13,943

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

	December 31, 2019		December 31, 2018	
Accrued benefit obligation, end of year	$	153,710	$	150,282
Market value of plan assets, end of year		197,452		164,225
Surplus of plan at end of year		43,742		13,943
Accrued asset	$	43,742	$	13,943

Included in the accrued benefit obligation is $3.5 million related to the SERP (2018 – $3.6 million).

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

	2019	2018
Discount rate for funded status	4.90%	4.90%
Rate of compensation increase	1.0% to 2.5%	1.0% to 2.5%

In 2019, UFA recognized termination costs of $0.4 million (2018 - $1.1 million) which was included under operating and administrative expenses.

18. GOVERNMENT REMITTANCES

Accounts payable and accrued liabilities as at December 31, 2019 include $7.8 million (2018 – $14.8 million) in respect of government remittances other than income taxes. Included in this total are federal and provincial sales and excise taxes, payroll related taxes, and environmental levies.

19. REVENUE SEGMENTATION

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

Category	December 31, 2019	%	December 31, 2018	%
Petroleum	$ 1,232,961	78.1	$ 1,451,747	79.9
AgriBusiness	345,940	21.9	365,745	20.1
	$ 1,578,901		$ 1,817,492	

20. CHANGES IN NON-CASH WORKING CAPITAL

Non-cash working capital used cash flows of $14.9 million in fiscal year 2019 (2018 - used $21.2 million). Of this, $0.9 million of Accounts payable and accrued liabilities relates to capitalized amounts of intangibles.

	December 31, 2019	December 31, 2018
Accounts receivable and current income tax receivable	$ 6,302	$ 1,039
Inventory	10,491	(21,453)
Prepaid expenses	(8,143)	(2,796)
Accounts payable and accrued liabilities	(20,987)	73
Deferred revenue and other	(2,551)	1,944
	$ (14,888)	$ (21,193)

21. INTEREST AND INCOME TAXES PAID

Interest paid in fiscal year 2019 was $9.2 million (2018 – $8.2 million). Income taxes paid in fiscal year 2019 was $6.5 million (2018 – $3.8 million paid).