2018.
DONE.
2019.
TO-DO:

GET IT.
MEMBER UFA REPORT
DONE.

GET IT.
UFA
DONE.


MESSAGE TO MEMBERS
"OUR ANNUAL MEMBER REPORT IS A GREAT OPPORTUNITY TO SHARE WITH YOU OUR STORY AND WHERE WE MADE IMPROVEMENTS AND INVESTMENTS TO OUR 110-YEAR-OLD CO-OPERATIVE.
WHAT IS THE BEST WAY UFA CAN THANK YOU FOR YOUR BUSINESS IN 2018?
IT'S BY PAYING PATRONAGE.
HOW MUCH? READ ON."
KEVIN HOPPINS, BOARD CHAIR
CAROL KITCHEN, PRESIDENT & CEO
2

CONTENTS

UFA VISION

"OUR VISION IS MEMBER-FOCUSED AND SIMPLE:
TO BE RECOGNIZED AS THE MOST TRUSTED AND RELIABLE SUPPLIER OF PETROLEUM, CROP, LIVESTOCK, BUILDING PRODUCTS AND SERVICES IN THE MARKETS WE SERVE."

KEVIN HOPPINS
BOARD CHAIR

CAROL KITCHEN
PRESIDENT & CEO

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2018 FINANCIALS
$77M
EBITDA.*
UP 62% FROM $47 MILLION IN 2017.
*Earnings Before Interest, Tax, Depreciation, and Amortization.
A key indicator of a company's financial performance.
10


2018 FINANCIALS
$206M
GROSS MARGIN.
UP FROM $170 MILLION IN 2017.
12

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2018 FINANCIALS
$357M
AGRIBUSINESS REVENUE.
UP FROM $324 MILLION IN 2017.
22


2018 FINANCIALS
UFA
1.2B
LITRES SOLD.
2018 PETROLEUM SALES VOLUME.
CARDLOCK
DEF
24


2018 FINANCIALS
"UFA LOOKS AFTER ME AND MY BUSINESS.
YOU CAN'T PUT A PRICE ON
RELATIONSHIPS THAT ARE BUILT
ON MUTUAL RESPECT AND TRUST."
RANDY CANNAN, UFA MEMBER
INNISFREE, ALBERTA
26

2018 RETAIL AGRIBUSINESS

"2018 WAS THE SECOND CONSECUTIVE YEAR OF POSITIVE YEAR OVER YEAR SALES GROWTH FOR OUR UFA FARM AND RANCH SUPPLY STORES. UFA IS CREATING A BETTER OVERALL SHOPPING EXPERIENCE FOR OUR MEMBERS AND CUSTOMERS THANKS TO IMPROVEMENTS IN SERVICE AND SUPPLY LEVELS, KEEPING THE RIGHT PRODUCTS ON THE SHELVES AT THE RIGHT TIME AS WELL AS ENHANCING OUR MARKETING AND PROMOTIONAL ACTIVITY."

KEVIN HOPPINS
BOARD CHAIR

CAROL KITCHEN
PRESIDENT & CEO

2018 RETAIL AGRIBUSINESS

2018 RETAIL AGRIBUSINESS

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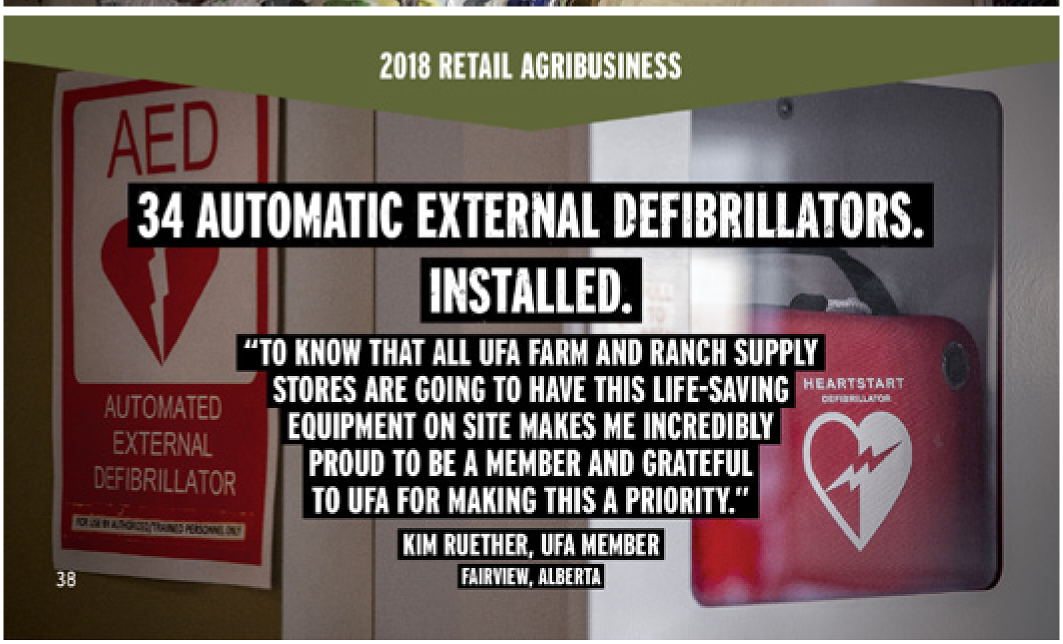

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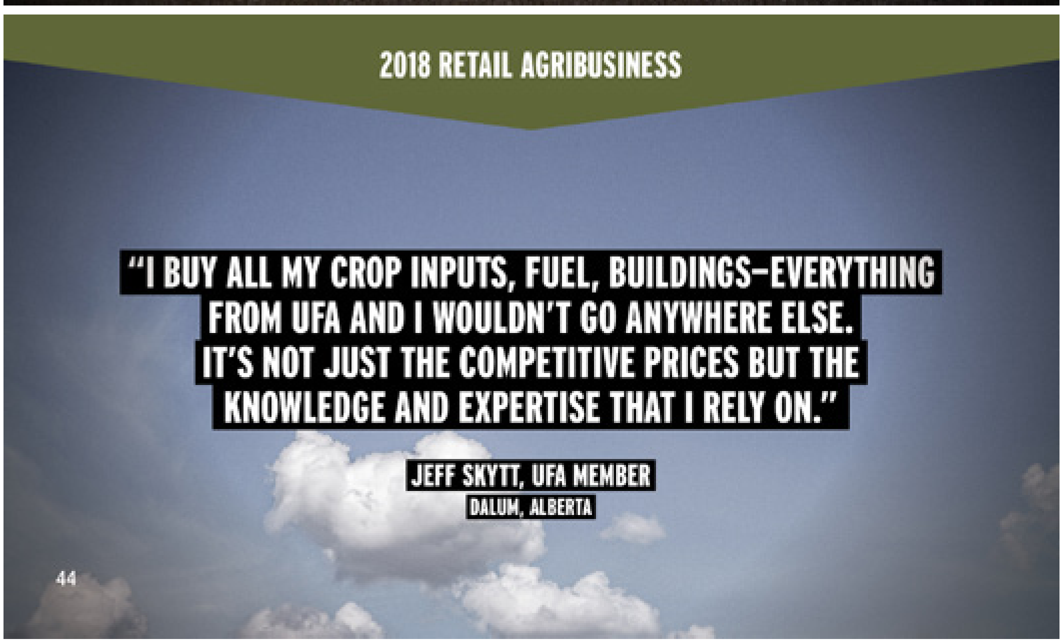

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2018 COMMERCIAL AGRIBUSINESS

"WE WORKED HARD, LISTENED TO OUR MEMBERS AND CONTINUED TO IMPROVE OUR PRODUCT AND SERVICE OFFERING IN 2018. WE RECOGNIZE THE IMPORTANT RELATIONSHIP WE HAVE WITH OUR FARM AND RANCH CUSTOMERS, AND THEIR LOYALTY AND PATRONAGE HAS SEEN US THROUGH MANY MARKET CYCLES, INDUSTRY CHALLENGES AND UNFORGIVING WEATHER PATTERNS."

KEVIN HOPPINS
BOARD CHAIR

CAROL KITCHEN
PRESIDENT & CEO

46

2018 COMMERCIAL AGRIBUSINESS

2018 COMMERCIAL AGRIBUSINESS

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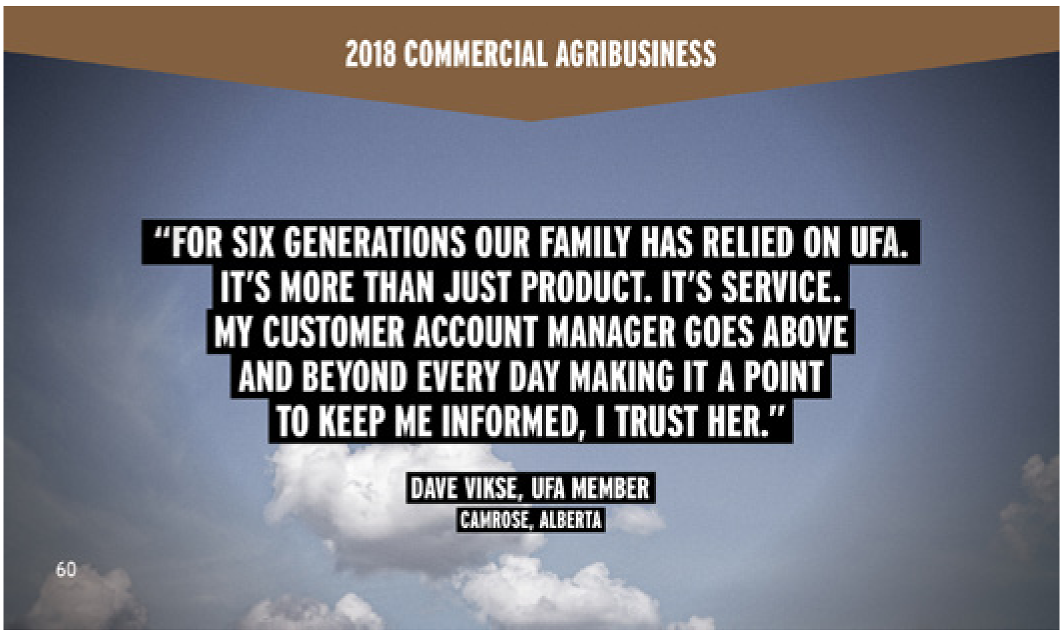
2018 COMMERCIAL AGRIBUSINESS
PATRONAGE ON SEED. PAID.
IN 2018 UFA EXPANDED ITS PATRONAGE CATEGORIES TO INCLUDE MEMBERS' SEED PURCHASES.
52


2018 COMMERCIAL AGRIBUSINESS
ON-FARM RELATIONSHIPS. FOSTERED.
UFA'S NETWORK OF OVER 70 CUSTOMER ACCOUNT MANAGERS PROVIDE TRUSTED ADVICE ON CROP INPUTS, LIVESTOCK, GRAIN STORAGE AND HANDLING AND BUILDING CONSTRUCTION.
54


2018 COMMERCIAL AGRIBUSINESS
FEEDLOT SERVICE. PROVIDED.
WITH THE NEW ANTIMICROBIAL RESISTANCE LEGISLATION IN 2018, UFA PROVIDED UNINTERRUPTED FEED SUPPLEMENTATION TO ITS FEEDLOT CUSTOMERS THROUGH A NEW COMPANY, MICROBEEF DISPENSING SERVICE INC.
56



2018 PETROLEUM

"UFA'S PETROLEUM BUSINESS DELIVERED A STRONG YEAR IN 2018 THANKS TO STRATEGIC PARTNERSHIPS WITH NORTH WEST REFINING AND GROWMARK, WHICH ENABLED OUR CO-OPERATIVE TO STRENGTHEN OUR POSITION AND DELIVER QUALITY PRODUCTS AND SERVICES BACK TO OUR MEMBERS."

KEVIN HOPPINS
BOARD CHAIR

CAROL KITCHEN
PRESIDENT & CEO

62

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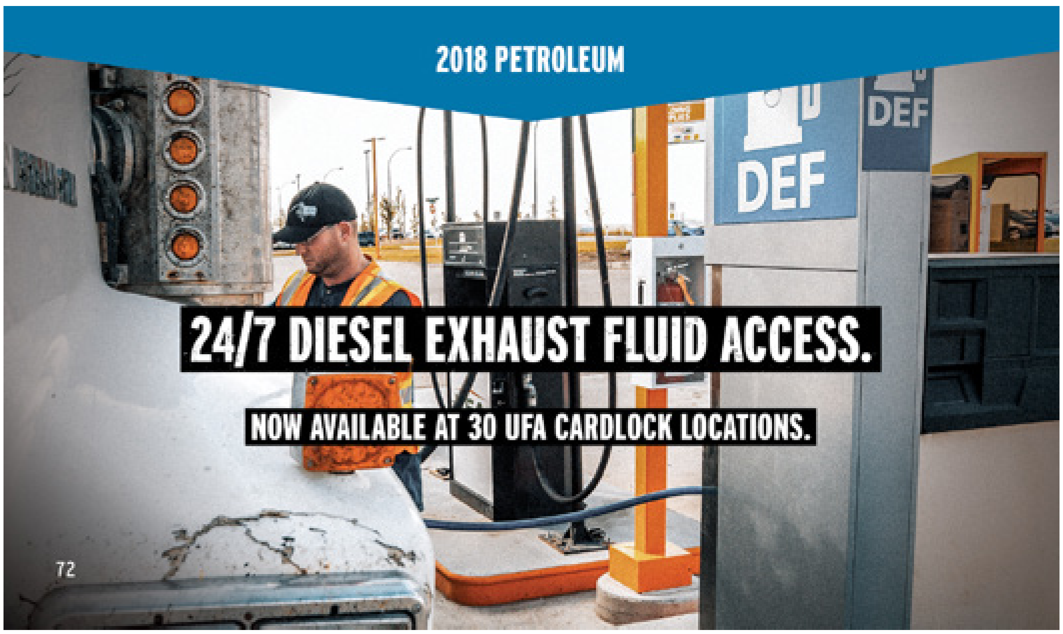
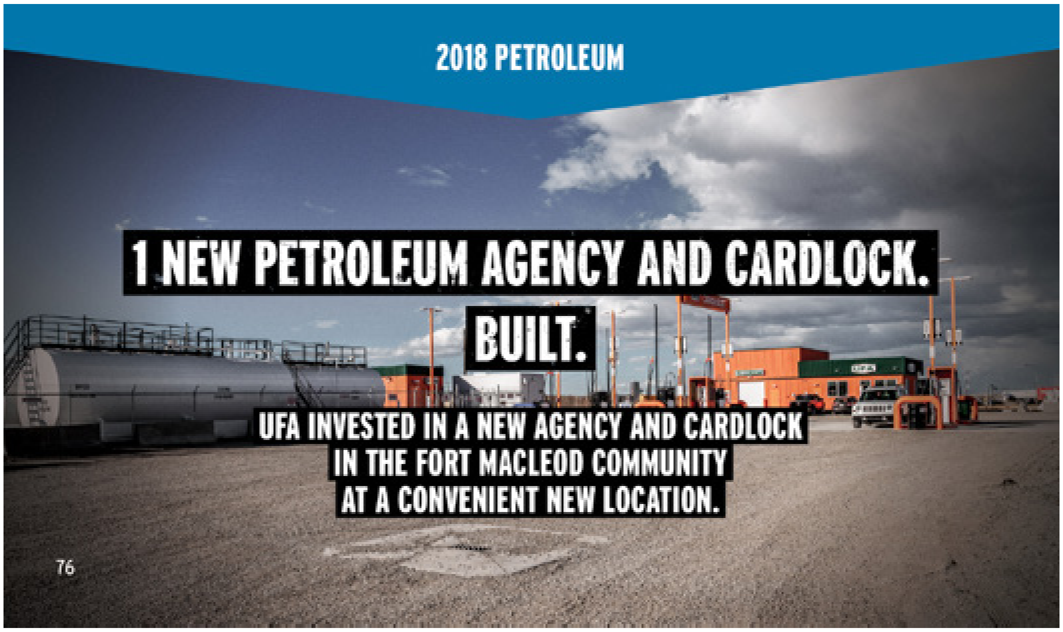
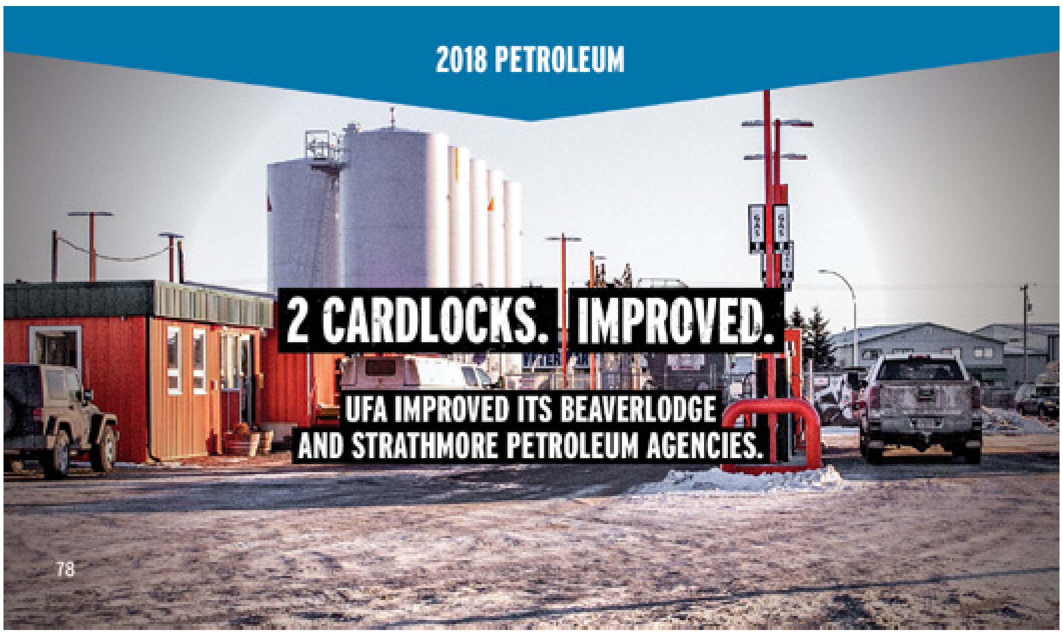
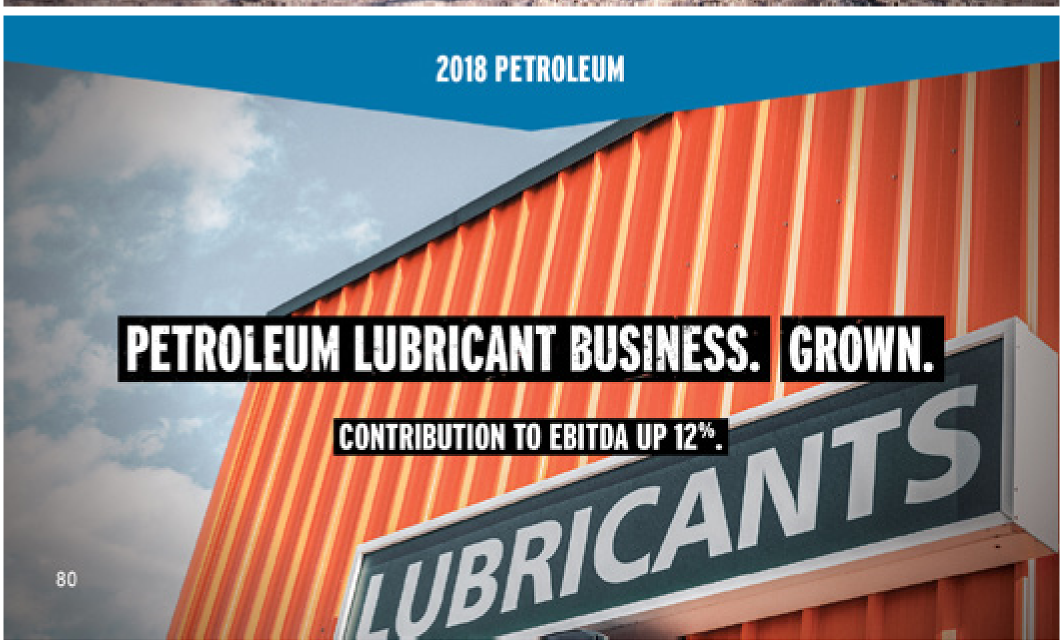
2018 PETROLEUM
UFA
ALL PEACE PETROLEUM. ACQUIRED.
IMPROVING TANK RENTAL AND SALES CAPABILITIES FOR OUR MEMBERS AND CUSTOMERS AND ADDING EFFICIENCY IN DOWNSTREAM PETROLEUM SERVICES IN THE PEACE REGION.
70


2018 PETROLEUM
DEF
DEF
24/7 DIESEL EXHAUST FLUID ACCESS.
NOW AVAILABLE AT 30 UFA CARDLOCK LOCATIONS.
72







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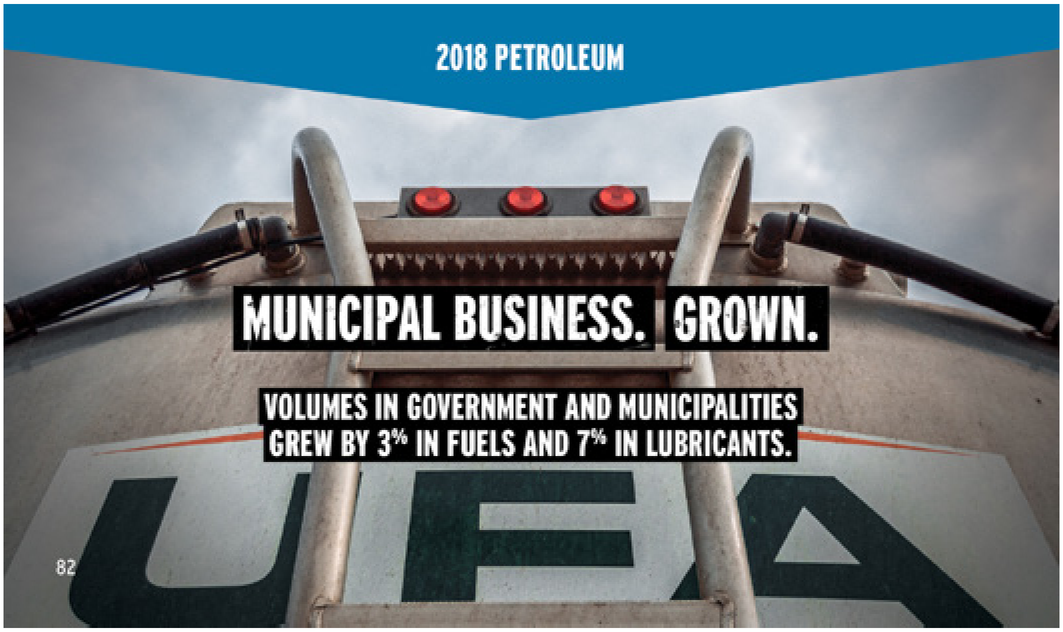

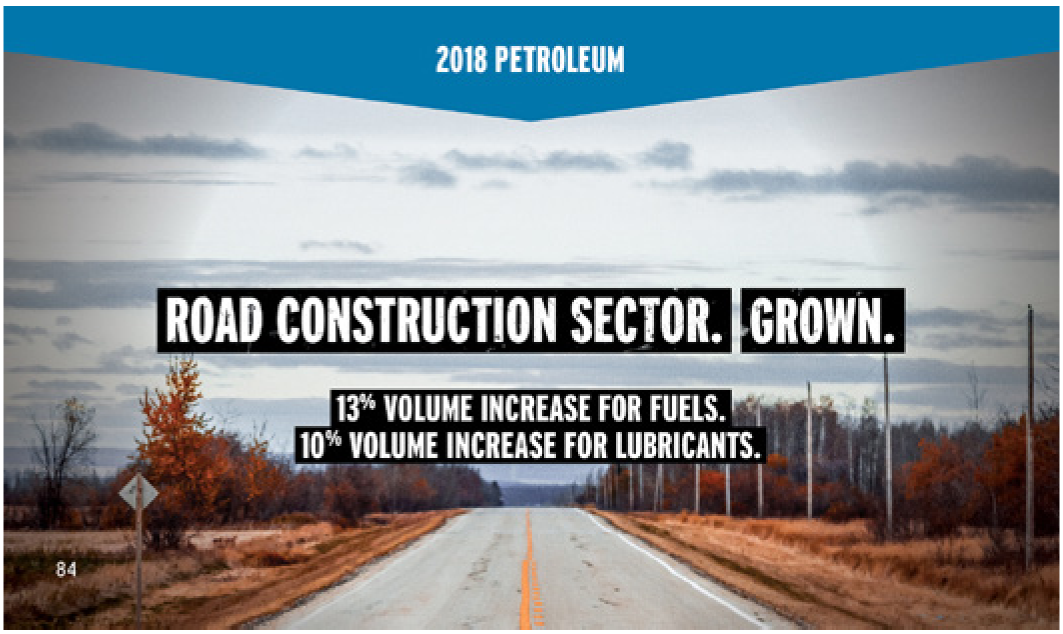

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MANAGEMENT DISCUSSION AND ANALYSIS.

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 over 110 bulk fuel and Petroleum Cardlock locations, 34 Farm & Ranch Supply stores and a support office located in Calgary, Alberta. Independent Petroleum agents and more than 970 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

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

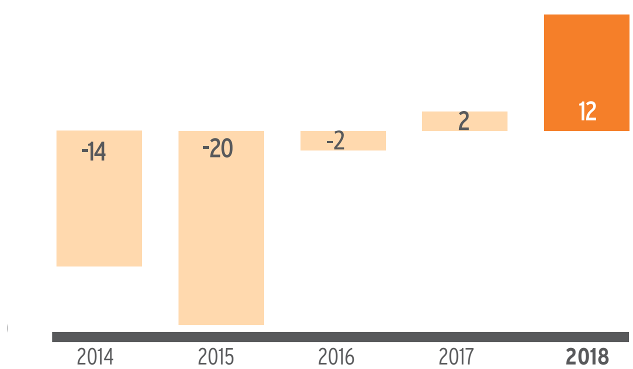
To accomplish this, we will:

- 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.

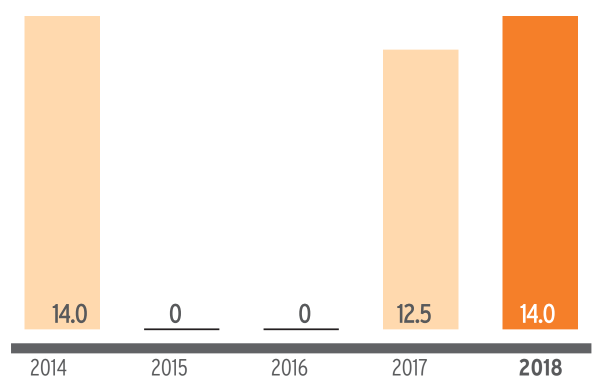
FINANCIAL HIGHLIGHTS & FIVE-YEAR SUMMARY

(All figures stated in thousands of Canadian dollars)	**2018**	2017	2016	2015	2014
Continuing Operations					
Revenue	**$ 1,817,492**	$ 1,536,163	$ 1,227,942	$ 1,478,250	$ 2,168,998
Gross margin	**206,195**	169,866	151,199	155,028	206,424
Operating and administrative expenses	**(139,104)**	(128,193)	(119,338)	(148,214)	(147,146)
EBITDA (after other income)	**76,627**	47,263	38,282	16,948	66,100
Net income (loss) from Continuing Operations before Patronage Dividend, pension remeasurement and income tax	**45,048**	17,101	4,913	(18,604)	31,942
Patronage Dividend	$ **(14,000)**	$ (12,500)	-	-	$ (14,000)

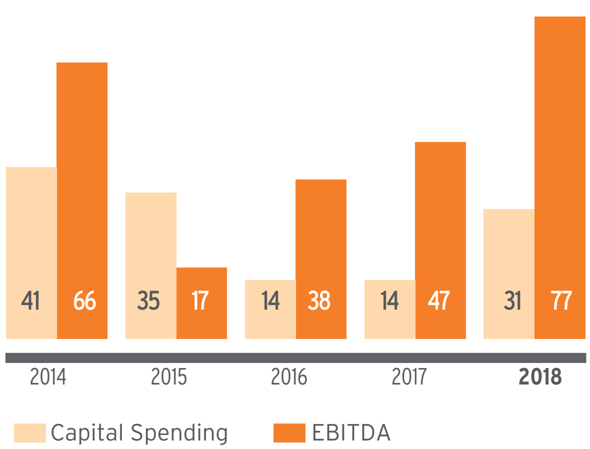
Net Income (Loss) ($M)



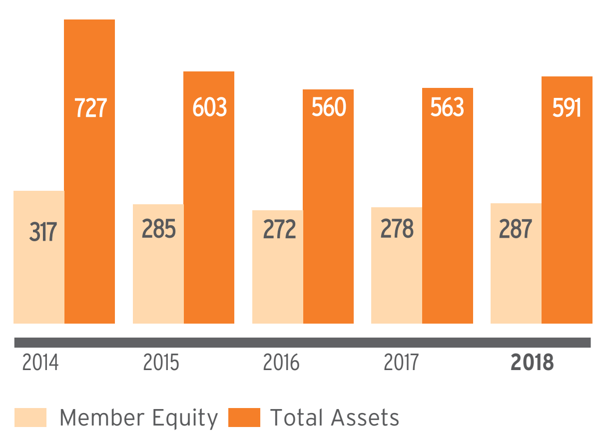
Patronage Dividend ($M)



Capital Spending and EBITDA ($M)



Members' Equity and Total Assets ($M)



MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

The following MD&A provides management's perspective on UFA, our performance and our strategy for the future. This MD&A includes UFA's operating and financial results for 2018 and 2017, should be read in conjunction with our financial statements.

FORWARD-LOOKING STATEMENTS

This disclosure contains forward-looking statements and includes phrases such as "believe", "expect", "anticipate", "intend", "estimate", "outlook", "should", "would", "could" and other similar expressions. These forward-looking statements are based on certain assumptions and current expectations about future events. Inherent in these forward-looking statements are known and unknown risks, uncertainties and other factors beyond UFA's ability to control or predict. Readers are cautioned that actual results or events may differ materially from those forecasted in this disclosure because of risks and uncertainties associated with UFA's business and the general economic environment. Management does not intend to publicly update or revise this discussion and analysis as a result of new information, future events or otherwise.

NON-GAAP FINANCIAL MEASURES

UFA uses certain financial indicators within the MD&A that are not specifically defined by Generally Accepted Accounting Principles (GAAP). These non-GAAP indicators may or may not be comparable to similar measures presented by other enterprises and are presented on a consistent basis within this annual report to members. UFA believes EBITDA (earnings before interest, tax, depreciation and amortization) is a critical measure of its operating performance. EBITDA allows UFA to compare its operating performance on a consistent basis year over year. EBITDA excludes certain items that depend on accounting methods or reflect financing choices.

Interest-bearing debt is another non-GAAP disclosure, which provides a measure of all interest-bearing borrowings both short-term and long-term, less unencumbered cash balances available for funding those payments. This indicator is important to UFA as it identifies future obligations that it must meet in order to comply with borrowing agreements, as well as the liquid funds available to meet those obligations. UFA also believes that the ratio of interest-bearing debt to Members' Equity is an important non-GAAP measure that identifies how UFA finances its assets and operations, and the amount of risk UFA is willing to accept.

GOVERNANCE STRUCTURE

The UFA Board of Directors (the Board) and UFA management are unified in their belief that sound corporate practices are necessary for the achievement of strategic and operational goals, and for the effective management and sustainability of UFA. In addition to the annual general meeting, the Board meets with management at least five times per year to deal with general business and strategic matters and holds special meetings from time to time as and when necessary. The Board and its committees, as listed below, operate independently from management to protect owner interests. In addition, UFA also has other sub-committees made up of a varying combination of management, members, UFA delegates and Board members to provide additional governance and leadership to UFA. The current members of the Board have served between one and eleven years. Board members have the right to seek independent advice should they so desire or deem necessary.

The Board has established four standing committees: audit; governance; government relations; and human resources compensation. Sub-committees include the nominating committee, elected official compensation committee (both made up of delegates and Board members) and the delegate representative committee (made up of delegates). Each committee meets regularly throughout the year and provides regular updates to the Board.

CODE OF BUSINESS ETHICS

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

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

ENVIRONMENT, HEALTH & SAFETY (EH&S)

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

Partnering with UFA business divisions and actively involving our workers, the EH&S Team's work centers around minimizing the co-operative's risks typically found in our industries. Through enhanced monitoring and controls, and investment in environmental protection infrastructure we continue to reduce releases to the environment. From 2017 to 2018 we have experienced a 40 per cent decrease in our Lost Time Injury Frequency Rate through focused training and programs.

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

2018 SUMMARY OF OPERATIONS

CONSOLIDATED STATEMENT OF OPERATIONS

For the period ended *(All figures stated in thousands of Canadian dollars)*	**December 31, 2018**	December 31, 2017
Revenue	**$ 1,817,492**	$ 1,536,163
Cost of sales	**(1,611,297)**	(1,366,297)
Gross margin	**206,195**	169,866
Operating and administrative expenses	**(139,104)**	(128,193)
Other income	**9,536**	5,590
Earnings before the under noted (EBITDA)	**76,627**	47,263
Depreciation and amortization	**(23,387)**	(23,725)
Interest	**(8,207)**	(6,305)
Foreign currency exchange gain (loss)	**15**	(132)
Income before Patronage Dividend, pension remeasurement and income taxes	**45,048**	17,101
(Loss) gain from pension remeasurement	**(15,875)**	13,875
Patronage Dividend	**(14,000)**	(12,500)
Income tax expense	**(3,652)**	(6,241)
Net income from continuing operations	**11,521**	12,235
Net loss from discontinued operations	**-**	(10,062)
Net income	**$ 11,521**	$ 2,173

The MD&A addresses the 2018 business performance of UFA's continuing operations: The Petroleum division, the AgriBusiness Retail and Commercial divisions and Centralized Services.

Continuing operations exclude the business performance of Wholesale Sports Canada Ltd. (Wholesale Sports Canada) which ceased operations on December 28, 2017. The results of Wholesale Sports Canada are referred to as a discontinued operation in the financial statements.

SUMMARY OF CONTINUING OPERATIONS

Consolidated revenue from operations was $1,817.5 million in 2018, up eighteen percent or $281.3 million from the previous year.

The Petroleum division ended the year with sales of $1,451.7 million, an increase of 21 per cent from 2017 sales of $1,195.4 million. Volumes grew marginally (less than 1 per cent) over the prior year. The main reason for the dollar value increase in sales is diesel and gasoline prices, which were higher, on average in 2018.

Combined 2018 Commercial and Retail AgriBusiness sales (excluding Spruceland Lumber) increased by ten per cent to $357.0 million up from $323.8 million in 2017. This growth was primarily due to inclusion of a full year of commercial sales in 2018 from the Peace region, which until October 2017 was treated as part of the Bridgeland Partnership. In October 2017, UFA acquired CHS Inc's 50 per cent interest in the partnership.

In July 2018, UFA announced the closure of the Spruceland Lumber business (Spruceland) operations in Fort McMurray. The closure was completed on August 31, 2018. Including closing costs, UFA recorded a $2.1 million loss in 2018. In January 2019, the land and building were sold to a third party resulting in a gain of $3.2 million, which will be recorded in 2019.

On August 21, 2018, UFA (through its subsidiary Bar W) acquired the assets of All Peace Petroleum Ltd. (All Peace) located in Grande Prairie for a purchase price of $18.2 million. All Peace operations are focused on downstream maintenance, calibration and construction as well as tank sales, tank rentals and mobile cardlock solutions. The acquisition has enabled Bar W to expand its area of operations in the province and integrate its service offering.

In October 2018, UFA entered into an agreement with Associated Veterinary Specialists Inc. (AVSI) to incorporate Micro Dispensing Services Inc (MDSI) to dispense antimicrobials and additives in compliance with new legislation.

Consolidated gross margin increased by 21 per cent ($36.3 million) to $206.2 million up from $169.9 million in 2017. Petroleum division margins were $34.9 million higher than 2017. Combined Commercial and Retail margins (excluding Spruceland) were $4.7 million ahead of the previous year. The wind-up of Spruceland operations resulted in a loss of margin of $3.3 million compared to prior year.

Operating and administrative expenses were $139.1 million in 2018, a nine per cent increase from $128.2 million in 2017. The increase, which was planned for is mainly attributable to salaries and other costs associated with the Bridgeland and All Peace acquisitions, an accrual for outstanding vacation pay, staff pay raises, higher planned Petroleum and farm store maintenance and higher consulting costs and services spending on infrastructure technology solutions.

Other income in 2018 was $9.5 million compared to $5.6 million in 2017. The main components of other income are interest on overdue accounts and gains from asset sales. The increase primarily relates to gains on sale realized on a change out of our light haul fleet and land sales.

Consolidated 2018 EBITDA was $76.6 million which is an increase of $29.4 million compared to 2017. This was due to higher gross margin of $36.3 million, a $3.9 million increase in other income offset by a $10.9 million increase in operating and administrative expenses.

A valuation of the defined benefit pension plan was completed as at the balance sheet date. Remeasurement of plan assets compared to obligations resulted in a pension revaluation loss of $15.9 million. The loss was a result of lower than anticipated return on plan assets and an increase in obligations due to demographic changes. In the fiscal year 2017, UFA recorded a revaluation gain of $13.9 million, which was primarily related to a higher than anticipated return on plan assets.

For 2018, UFA has allocated a Patronage Dividend of $14.0 million for declaration at the annual meeting of the Co-operative in March 2019.

Net income for 2018 is $11.5 million compared to net income of $2.2 million in 2017.

THE PETROLEUM DIVISION

Petroleum volumes in 2018 were 0.6 per cent or 7.5 million litres higher than 2017. Commercial volumes were even to prior year and member volumes grew by one per cent from prior year. Volumes were impacted in the last quarter of the year by a decrease in energy sector activity.

Gross margin in 2018 increased by $34.9 million compared to previous year due to improved contract terms with our key petroleum product suppliers. In November 2017, the first shipments of fuel from the newly commissioned North West Redwater refinery commenced.

Operating costs increased by $3.6 million or 13 per cent over prior year. The increase is mainly attributable to higher planned site maintenance, higher salary costs due to pay raises and new hires and higher fleet maintenance costs.

Divisional EBITDA increased by $31.2 million to $106.5 million from $75.3 million in 2017.

THE AGRIBUSINESS DIVISION

AgriBusiness Retail (excluding Spruceland)

Retail sales were $133.5 million, an increase of four per cent or $4.7 million over 2017. Product line reviews, introduction of seasonally relevant products, better on shelf availability and better shopping experiences were the main contributors to this growth.

Retail gross margin was $39.7 million, an increase of seven per cent or $2.7 million over 2017. Margin rates increased by one per cent to 29.7 per cent from 28.7 per cent as compared with the prior year. This increase reflects continued improvement in supply chain, logistics, marketing and merchandising. Both sales and margin percentage growth contributed to the increase in margins.

AgriBusiness Commercial

Commercial sales were $223.5 million, an increase of fifteen per cent or $28.5 million over 2017. The increase is largely attributed to inclusion of a full year of crop input sales from the Bridgeland partnership acquired in late 2017. Feedlot technologies and the structures segments also increased sales over prior year. Offsetting these increases, chemical and crop storage sales were negatively affected by challenging weather conditions and competitive factors in many parts of the province.

Mainly as a result of the Bridgeland acquisition, commercial gross margin increased by eight percent to $27.1 million. However, in percentage terms, overall gross margin decreased to 12.1 per cent from 12.9 per cent in 2017 mainly due to lower seed and chemical margins.

Retail and Commercial operating expenses increased by four per cent or $2.3 million over 2017 levels. The increase was mainly driven by higher salary and other costs from the consolidation of former Bridgeland operations as well as higher maintenance and fleet costs.

AgriBusiness working capital was negatively impacted by unfavorable weather conditions resulting in increase in chemistry and crop storage inventory. Year end inventory increased from $105.2 million in 2017 to $125.1 million in 2018.

Divisional AgriBusiness EBITDA was $10.0 million in 2018 up from $7.6 million earned in 2017. The increase is mainly due to higher sales and margins in the retail division.

CENTRALIZED SERVICES

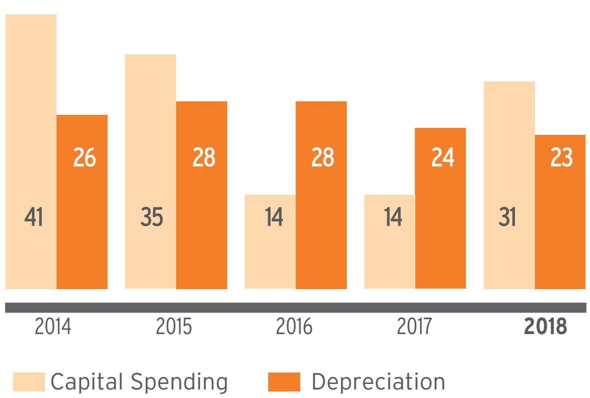
In 2018, Centralized Service costs were $47.4 million, an increase of $5.2 million over 2017. The increase was driven by higher legal and professional service costs associated with increased acquisition and divestiture activity, staff pay raises, costs relating to the enterprise resource planning system (ERP), an accrual for accumulated, outstanding employee vacation pay and higher variable pay costs that are linked to improved business performance.

CAPITAL SPENDING AND DEPRECIATION

During 2018, UFA invested $31.4 million in capital additions compared to $14.4 million in 2017. The additions included $10.9 million in investments in petroleum assets including the new Fort Macleod site as well as $6.3 million of investments in AgriBusiness, replacement of the light haul fleet and investments in information technology assets. In 2018, UFA concluded the design phase and commenced the construction phase of a significant multi-year investment in a new ERP system for AgriBusiness.

Depreciation and amortization charges from continuing operations was $23.4 million, a $0.3 million reduction from the prior year charge of $23.7 million. As at December 31, 2018, UFA had capital assets of $217.7 million.

Capital Spending and Depreciation ($M)



LONG-TERM DEBT

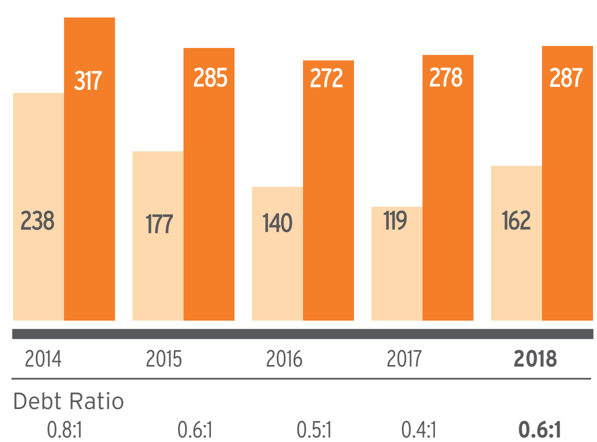
As at December 31, 2018, UFA had long-term debt of $94.7 million, including a current portion of $2.8 million. Long-term debt is primarily comprised of an asset-based lending agreement with a banking syndicate (Credit Agreement). The Credit Agreement was renewed on November 26, 2018 for five years. The remainder of long term debt is comprised of capital leases for light haul fleet and information technology assets.

MEMBER LOANS

UFA has five voluntary member loan programs in place which pay interest at rates ranging from between 5.0 and 6.5 per cent. As at December 31, 2018, the total outstanding under these programs is $67.1 million compared to $70.8 million in 2017. The fixed program maturing in June 2019 ($15.0 million) is classified as a current liability. The remaining four fixed programs mature between June 2020 and September 2025 and are classified as long-term liabilities.

Total interest costs for 2018 were $8.2 million compared with $6.3 million in 2017. The increase partially relates to higher interest rates in 2018. UFA's asset-based lending agreement is a floating rate facility.

Interest Bearing Debt to Equity Ratio ($M)



LIQUIDITY

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

Working capital requirements increase significantly over the spring and early summer months when UFA is building its inventory in Commercial AgriBusiness and agricultural customers are financing their supplies. UFA's liquidity needs have been reduced by credit finance plans provided by Farm Credit Corporation and the Bank of Nova Scotia which allow accounts to remain outstanding until crops are harvested.

INTERNAL CAPITAL

Internal sources of capital are reflected in the members' equity section of the balance sheet as member entitlements and retained earnings. As at December 31, 2018, internal sources of capital amounted to $287.1 million compared to $277.8 million in 2017.

EXTERNAL CAPITAL

UFA's Credit Agreement is an asset-based revolving credit facility in the maximum aggregate amount of $250.0 million. The amount available to be drawn under the Credit Agreement will vary from time to time based on UFA's inventory and accounts receivable balances among other factors. Available funds on the Credit Agreement were $93.5 million at December 31, 2018 compared to $132.1 million at December 31, 2017.

The decrease in availability relates to various factors including the January 2018 payment of the Wholesale Sports USA Inc. legal liability, the settlement of various lease obligations associated with the wind-up of Wholesale Sports Canada, the acquisition of All Peace and higher crop chemical and crop storage inventory.

The Credit Agreement was renewed in November 2018. The effective borrowing rate in 2018 was 3.57 per cent. Rates are based on LIBOR, BA or prime rates.

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

- 5.5-for3 til 2019 Member Investment Plan (5.5til2019MIP) which pays interest at 5.5 per cent annually over the three year term;
- 5.0 til 2020 Member Investment Plan (5.0til2020MIP) which pays interest at 5.0 per cent annually over the three year term;
- 5.5 til 2021 Member Investment Plan (5.5til2021MIP) which pays interest at 5.5 per cent annually over the three year term;
- 6.0 til 2023 Member Investment Plan (6.0til2023MIP) which pays interest at 6.0 per cent annually over the five year term; and
- 6.5 til 2025 Member Investment Plan (6.5til2025MIP) which pays interest at 6.5 per cent annually over the seven year term.

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

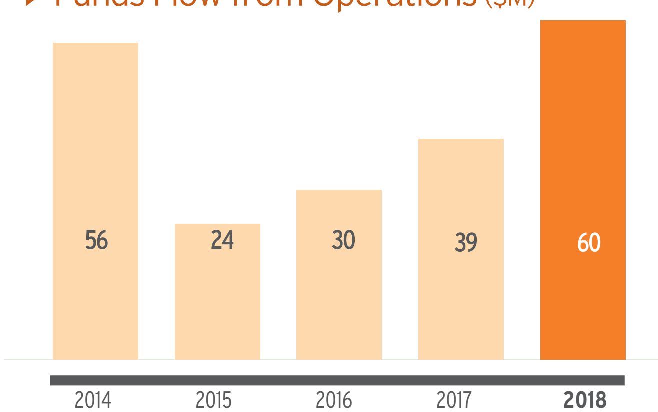
FINANCIAL COVENANTS

UFA is subject to certain financial and collateral covenants related to the Credit Agreement. In 2018 UFA was in compliance with all lender covenants.

FUNDS FLOW FROM OPERATIONS

Funds flow from continuing operations was $60.3 million, an increase of $20.9 million over 2017.

Funds Flow from Operations ($M)



In January 2018, UFA settled the Wholesale Sports USA, Inc. legal obligation for the full amount of $14.9 million.

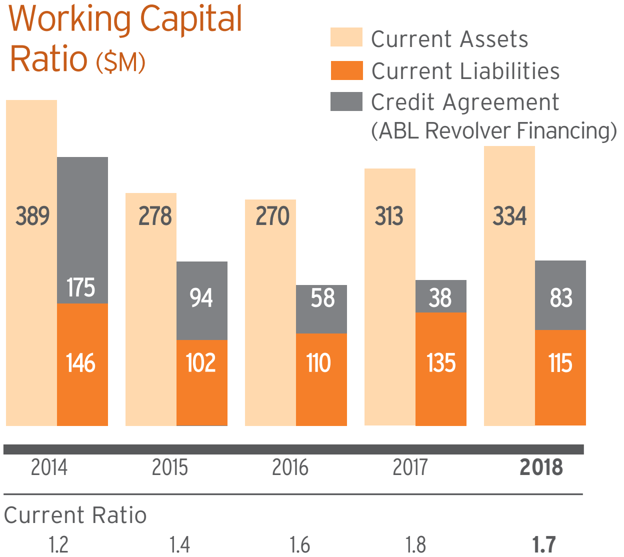
Net cash generated by operating activities of continuing operations after settlement of the lawsuit and after working capital changes, was $22.9 million in 2018 compared to $9.0 million in 2017. The increase in cash generation was driven by improved operating results offset by an increase in inventory.

In 2018, UFA settled lease obligations on behalf of the discontinued operations of Wholesale Sports Canada amounting to $14.5 million. In 2017, UFA realized proceeds from discontinued operations of $38.2 million primarily from the liquidation of inventory during the wind-up period. Net cash from continuing and discontinued operating activities in 2018 was $8.4 million compared with $47.3 million in 2017.

WORKING CAPITAL RATIO

Working capital ratio from continuing operations of 1.7:1 in 2018 compared to the 2017 ratio of 1.8:1. The working capital ratio, which is defined as current assets divided by the total of current liabilities and the Credit Agreement financing, represents the ability to manage the short-term financing requirements of the business.

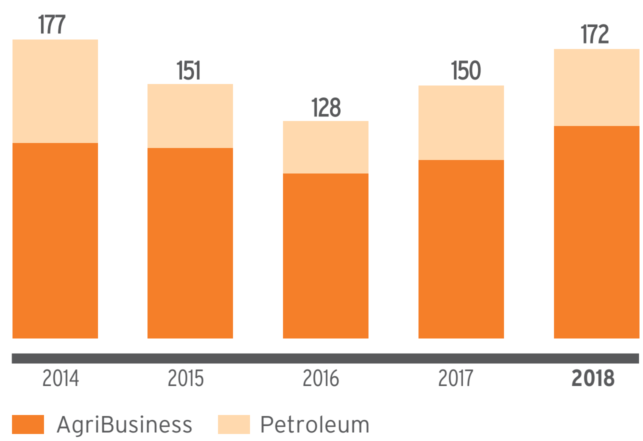
Working Capital Ratio ($M)



INVENTORIES

At year-end 2018, inventory from continuing operations was $21.5 million higher than 2017. AgriBusiness inventories increased by $19.9 million mainly due to buildup of chemical inventories resulting from unfavorable weather conditions in much of Alberta. Petroleum inventory increased by $1.6 million due to a planned increase in volumes and higher prices.

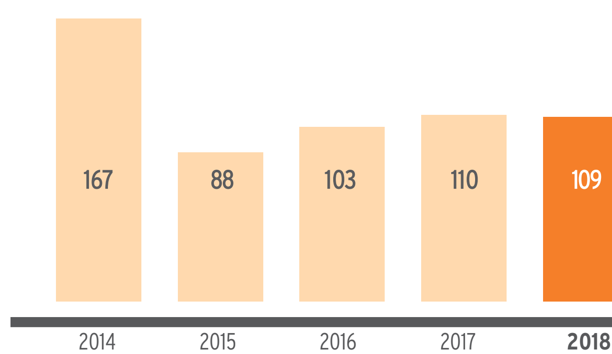
Inventories ($M)



ACCOUNTS RECEIVABLE

In 2018, accounts receivable from continuing operations decreased to $109.1 million from $110.1 million in prior year. The customer and member receivables are net of an allowance of $1.6 million (2017 – $2.1 million). In 2018, UFA recorded $0.6 million in bad debts (2017 – $1.4 million). Days sales outstanding (DSO) was at 26 days in 2018 a favorable decrease from 28 DSO in 2017.

Accounts Receivable ($M)



MEMBERS' EQUITY

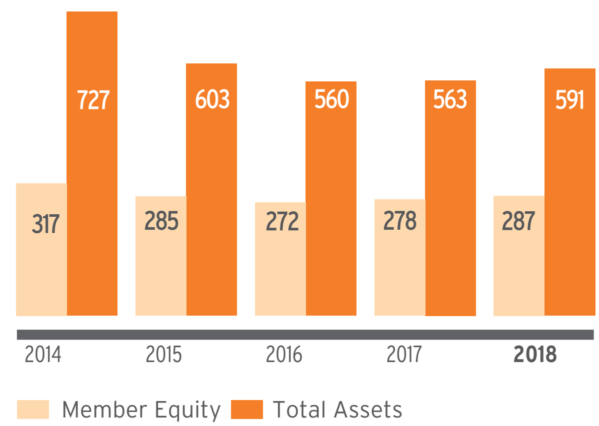
UFA's equity structure is a source of capital and considerable financial strength. As a co-operative, UFA provides members' benefits by allocating a portion of its taxable earnings to members in the form of a Patronage Dividend. Under UFA's by-laws, a Patronage Dividend for the year is declared at the next annual meeting of the co-operative. Effective January 1, 2018, Member Entitlements consists of Member Shares, the current period's Patronage Dividend, Class A Investment Shares (Investment Shares) and Contributed Surplus. Prior to January 1, 2018, Member Entitlements consisted of Member Shares, the current period's Patronage Dividend, Revolving Equity, Investment Shares and Contributed Surplus.

In accordance with the revised by-laws governing Member Entitlements approved at the annual meeting of the co-operative in March 2017, effective January 1, 2018, $36.6 million, representing the total of individual members' Revolving Equity and Member Shares less than or equal to $30,000 was repaid by the issuance of Member Shares and $0.6 million, representing the total of individual members' Revolving Equity and Member Shares greater than $30,000 was repaid in cash.

For 2018, UFA has allocated a Patronage Dividend of $14 million for declaration at the annual meeting of the Co-operative in March 2019. Effective January 1, 2018, Patronage Dividends declared are applied 60 per cent in Member Shares and 40 per cent in cash less withholding taxes for individual members' balances less than $30,000. For members who are at the $30,000 cap, the Dividend is paid in cash less withholding taxes.

In 2018, Dividends paid on investment shares totalled $2.7 million compared to $2.9 million in 2017.

Members' Equity and Total Assets ($M)



EMPLOYEE PENSION PLAN

UFA administers a defined-benefit (DB) pension plan and a defined-contribution (DC) pension plan for employees of UFA. In accordance with the *Alberta Employment Pension Plans Act*, a registered pension plan (RPP), provides benefits to all participating salaried employees. UFA's RPP includes both a DB component and DC component. The RPP is funded by contributions from plan members and UFA.

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

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

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

UFA's management pension committee manages both plans and is comprised of representation from management and an employee representative for the DB plan and a separate employee representative for the DC plan. The pension committee acts in accordance with a governance plan which sets out roles and responsibilities regarding the administration of the plan, and a statement of investment policies and procedures, which sets out limits and guidelines for investment of the pension fund assets. The pension committee manages both plans on behalf of the Board, with ultimate responsibility remaining with the Board. UFA's current DB plan investment policy identifies the benchmark asset mix as 10 per cent Canadian equities, 30 per cent Global equities, 20 per cent in alternative investments and 40 per cent Canadian fixed income. The DC plan members choose from a variety of investment choices. All assets continue to be actively managed against specific bench marks.

The assets of the DB RPP totaled $164.2 million at December 31, 2018 compared to $164.4 million in 2017, while the accrued benefit obligation, excluding the unfunded SERP obligation, was $146.7 million in 2018 compared to $134.2 million in 2017. The unfunded SERP obligation at year-end 2018 was $3.6 million, compared to $3.1 million at year-end 2017.

In 2018, UFA incurred a net pension expense of $2.3 million compared to $3.4 million in 2017.

The last actuarial valuation of the defined benefit pension plan was completed in 2017. In 2018, equity returns and plan assets were lower than anticipated and DB obligations increased due to demographic changes. This resulted in an overall pension revaluation loss of $15.9 million compared to revaluation gain of $13.9 million in the fiscal year 2017.

RISK MANAGEMENT

ENTERPRISE RISK MANAGEMENT

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

FINANCIAL RISK

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

BUSINESS CYCLES AND COMMODITY RISK

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

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

CREDIT RISK

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

UFA partly mitigates exposure to credit risk through the diversity of its member and customer base and the large geographic area in which it operates. In addition, UFA has an experienced, in-house credit department that monitors adherence to terms and conditions, studies trends and identifies changes in payment behaviors and performs regular credit reviews to mitigate potential bad debt. UFA follows established policies regarding credit limits, payment terms and account reviews. In addition, delinquent accounts are followed up regularly, including engaging external collection agencies and legal assistance when required.

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

UFA continues to utilize current technology and tools to proactively monitor and review customer credit accounts. Companies such as Equifax Canada, Dun &

Bradstreet, Corporate Registry and CreditRisk Monitor provide additional support to UFA's proprietary credit risk database, ensuring the highest level of proactive credit risk mitigation.

LIQUIDITY RISK

UFA manages liquidity risk to ensure it has sufficient liquidity to meet liabilities when they come due. At December 31, 2018, UFA had current assets of $333.8 million (2017 - $313.0 million) to settle current liabilities of $129.6 million (2017 - $202.6 million). All accounts payable, accrued liabilities and deferred revenue are subject to normal trade terms.

INTEREST RATE RISK

To manage interest rate risk, UFA utilizes short-term floating interest rate borrowings issued under the Credit Agreement. Under its hedging program, UFA utilizes swap agreements to manage interest rate risk on its asset-based revolving credit facility. The swap interest contracts apply a rate of interest at 2.45 per cent plus a spread of 1.2 per cent on a notional loan amount of $75.0 million. The contracts are established through to 2025. UFA has not hedged any of the interest rate risk associated with other short-term borrowings as it considers the risk to be acceptable.

FOREIGN CURRENCY RISK

UFA is exposed to foreign currency risks in relation to US dollar cash balances and short-term loans required for its ongoing operations. Under its hedging program, UFA entered a forward agreement to purchase US currency for the replenishment of inventory from US based suppliers during 2018.

COMMODITY RISK

UFA entered into a commodity hedge contract in 2018 to manage inventory holding risk on its diesel inventory. The contract is valid until January 2020.

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

Carol Kitchen
President and Chief Executive Officer
February 26, 2019

Scott Bolton
Chief Financial Officer
February 26, 2019

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 subsidiaries (together, the Entity) as at December 31, 2018 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, 2018;
- 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 5 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 26, 2019

CONSOLIDATED BALANCE SHEET

As at *(Stated in thousands of Canadian dollars)*	December 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash	$ 10,766	$ 13,760
Accounts receivable (*note 3*)	109,092	110,131
Inventories	171,630	150,177
Prepaid expenses and deposits	31,768	28,972
Property held for sale (*note 4*)	6,754	6,029
Future income tax asset (*note 10*)	3,745	3,930
	333,755	312,999
Investments (*note 5*)	642	542
Other long-term assets (*note 6*)	16,172	29,271
Goodwill and intangible assets (*note 7*)	25,101	6,473
Property and equipment (*note 8*)	192,618	194,147
Future income tax asset (*note 10*)	22,848	19,297
Current assets of discontinued operations (*note 22*)	-	700
	$ 591,136	$ 563,429
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable and accrued liabilities (*note 18*)	$ 93,885	$ 93,812
Deferred revenue	15,032	13,088
Current portion of member loans (*note 9*)	15,000	29,384
Demand member loans (*note 9*)	-	10,877
Current portion of long-term debt (*note 11*)	2,821	40,257
Current portion of long-term liabilities (*note 13*)	2,852	15,141
	129,590	202,559
Long-term debt (*note 11*)	91,864	7,441
Member loans (*note 9*)	52,067	30,544
Long-term liabilities (*note 13*)	6,078	5,152
Asset retirement obligations (*note 12*)	24,437	24,720
Current liabilities of discontinued operations (*note 22*)	-	15,240
	304,036	285,656
Members' Equity		
Member entitlements (*note 15*)	215,614	214,144
Retained earnings	71,486	63,629
	287,100	277,773
	$ 591,136	$ 563,429

See accompanying notes to consolidated financial statements

On behalf of the Board

Kevin Hoppins
Chairman

Don Cormack
Director

CONSOLIDATED STATEMENT OF OPERATIONS

For the period ended *(Stated in thousands of Canadian dollars)*	**December 31, 2018**	December 31, 2017
Revenue (*note 19*)	**$ 1,817,492**	$ 1,536,163
Cost of sales	**(1,611,297)**	(1,366,297)
Gross margin	**206,195**	169,866
Operating and administrative expenses	**(139,104)**	(128,193)
Other income	**9,536**	5,590
Earnings before the under noted	**76,627**	47,263
Depreciation and amortization	**(23,387)**	(23,725)
Interest (*notes 9, 11*)	**(8,207)**	(6,305)
Foreign currency exchange gain (loss) (*note 16*)	**15**	(132)
Income before Patronage Dividend, pension remeasurement and income taxes	**45,048**	17,101
(Loss) gain from pension remeasurement (*note 17*)	**(15,875)**	13,875
Patronage Dividend (*note 15*)	**(14,000)**	(12,500)
Income tax expense (*note 10*)	**(3,652)**	(6,241)
Net income from continuing operations	**11,521**	12,235
Net loss from discontinued operations (*note 22*)	**-**	(10,062)
Net income	**$ 11,521**	$ 2,173

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

As at *(Stated in thousands of Canadian dollars)*	**December 31, 2018**	December 31, 2017
Member Entitlements (*note 15*)		
Beginning of period	**$ 214,144**	$ 207,127
Patronage Dividend	**14,000**	12,500
Dividends paid in cash	**(5,416)**	(108)
Redemptions / repayments	**(6,224)**	(5,452)
Member share dividend	**-**	500
Less than minimum, unclaimed and other adjustments	**110**	77
Contribution to UFA Rural Communities Foundation	**(1,000)**	(500)
	215,614	214,144
Retained Earnings		
Beginning of period	**63,629**	64,885
Net income	**11,521**	2,173
Member share dividend	**-**	(500)
Patronage recovery net of closeouts	**-**	2
Dividends on investment shares	**(3,664)**	(2,931)
	71,486	63,629
Total Members' Equity	**$ 287,100**	$ 277,773

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended *(Stated in thousands of Canadian dollars)*	**December 31, 2018**	December 31, 2017
Operating activities		
Net income for the year - continuing operations	**$ 11,521**	$ 12,235
Items not requiring an outlay of cash		
Patronage Dividend	**14,000**	12,500
Gain on disposal of property and equipment	**(2,817)**	(78)
Asset retirement obligation accretion (*note 12*)	**1,187**	1,144
Future income tax (recovery) expense (*note 10*)	**(4,792)**	3,050
(Decrease) increase in other long-term liabilities	**2,378**	947
Other amortization and expenses	**(411)**	(188)
Pension remeasurement loss (gain)	**15,875**	(13,875)
Depreciation and amortization (*notes 7, 8*)	**23,387**	23,725
Funds flow	**60,328**	39,460
Asset retirement obligations settled (*note 12*)	**(1,351)**	(935)
Wholesale Sports US legal obligations settled (*note 13*)	**(14,865)**	-
Changes in non-cash working capital (*note 20*)	**(21,193)**	(29,512)
Cash from operating activities - continuing operations	**22,919**	9,013
Cash (used in) from operating activities - discontinued operations	**(14,540)**	38,248
Cash from operating activities	**8,379**	47,261
Investing activities		
Additions to property and equipment	**(19,668)**	(14,040)
Investment in Bridgeland	**-**	(1,533)
Acquisition of All Peace Petroleum	**(16,154)**	-
Additions to intangible assets	**(11,728)**	(406)
Proceeds from disposal of property and equipment	**10,668**	1,329
Increase in other long-term assets	**(2,962)**	(5,517)
Cash used in investing activities - continuing operations	**(39,844)**	(20,167)
Financing activities		
Long-term debt issued (repaid) (*note 11*)	**47,398**	(22,034)
Member loans issued (*note 9*)	**6,678**	4,190
Member loans redeemed (*note 9*)	**(10,416)**	(3,303)
Repayment of revolving equity	**(601)**	(358)
Dividends paid on investment shares	**(2,659)**	(2,931)
Redemption / repayment of shares	**(5,513)**	(5,017)
Contribution to UFA Rural Communities Foundation	**(1,000)**	(500)
Patronage and member share dividends paid in cash	**(5,416)**	(108)
Cash from (used in) financing activities - continuing operations	**28,471**	(30,061)
Decrease in cash	**(2,994)**	(2,967)
Cash, beginning of period	**13,760**	16,727
Cash, end of period	**$ 10,766**	$ 13,760

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 monthly calendar basis. Prior to 2018, UFA prepared its consolidated financial statements on a retail calendar basis. 2017 financial results include 53 weeks based on the retail calendar method.

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 2018.

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 combination

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

Revenue Recognition

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

Cash

Cash consists of cash on account and bank balances.

Inventories

Inventories are comprised of finished goods and are valued at the lower of cost and net realizable value, with cost being determined using the weighted average cost method. The cost of inventories includes the cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs, administrative overheads that do not contribute to bringing the inventories to their present location and condition, and selling costs are specifically excluded from the cost of inventories and are expensed in the period incurred. The amount of inventory recognized as a cost of sales in the current period was $1,568.0 million (2017 – $1,323.2 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 some of 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 $94.8 million (2017 – $101.1 million) extended under commercial terms, financial instruments of $2.5 million (2017 – $1.4 million) and other miscellaneous receivables of $11.8 million (2017 – $7.6 million). The customer and member receivables are net of an allowance of $1.6 million (2017 – $2.1 million). In 2018, UFA recorded $0.6 million in bad debts (2017 – $1.4 million).

In 2018, UFA earned interest on overdue accounts receivable of $3.5 million (2017 – $4.3 million).

4. PROPERTY HELD FOR SALE

	2018	2017
Land, building and equipment	**$ 6,754**	$ 6,029

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 assets are principally related to the 2018 wind up of a retail lumber operation (Spruceland Lumber) in Fort McMurray (*note 23*). 2017 balance consists of land that was sold in 2018.

5. INVESTMENTS

	2018	2017
MDSI	**$ 100**	$ -
Other investments	**542**	542
	$ 642	$ 542

In October 2018, UFA entered into an agreement with Associated Veterinary Specialists Inc. (AVSI) 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

	2018	2017
Accrued pension benefit asset (*note 17*)	**$ 13,943**	$ 27,066
Deferred charges	**2,229**	2,205
	$ 16,172	$ 29,271

Deferred charges consist primarily of properties under remediation.

7. GOODWILL AND INTANGIBLE ASSETS

	2018		
	Cost	Accumulated Amortization	Net Book Value
Application software	**$ 64,360**	**$ 59,227**	**$ 5,133**
Intangibles under construction	**8,343**	**-**	**8,343**
Goodwill	**11,625**	**-**	**11,625**
	$ 84,328	**$ 59,227**	**$ 25,101**

	2017		
	Cost	Accumulated Amortization	Net Book Value
Application software	$ 61,114	$ 56,846	$ 4,268
Goodwill	2,205	-	2,205
	$ 63,319	$ 56,846	$ 6,473

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

	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**

	2017		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 55,628	$ -	$ 55,628
Buildings, fences and yards	182,900	107,294	75,606
Equipment	155,954	112,894	43,060
Computer equipment	20,535	19,176	1,359
Automotive equipment	6,571	4,591	1,980
Leased assets	27,732	15,407	12,325
Assets under construction	4,189	-	4,189
	$ 453,509	$ 259,362	$ 194,147

Assets under construction as at December 31, 2018 are expected to be placed into productive use during fiscal 2019 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 $7.2 million (2017 – $1.5 million) of capital leases entered in 2018.

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 payables	**(535)**
	$ 18,150

9. MEMBER LOANS

	December 31, 2018	December 31, 2017
Demand member loans	**$ -**	$ 10,877
5.5 for 3 Member Investment Plan (matured 2018)	**-**	29,384
5.5 til 2019 Member Investment Plan (maturing 2019)	**15,000**	15,040
5.0 til 2020 Member Investment Plan (maturing 2020)	**15,489**	15,504
5.5 til 2021 Member Investment Plan (maturing 2021)	**20,197**	-
6.0 til 2023 Member Investment Plan (maturing 2023)	**8,160**	-
6.5 til 2025 Member Investment Plan (maturing 2025)	**8,221**	-
	67,067	70,805
Less: current portion	**(15,000)**	(40,261)
	$ 52,067	$ 30,544

UFA offers voluntary member loan programs which provide members, employees, and agents the opportunity to invest in UFA and earn a return on their investment. All member loans are unsecured.

The Demand Member Loans earned a rate of return equal to the bank prime rate, as stated by the Royal Bank of Canada, plus 1%. In 2018, the Demand Member Loans were redeemed. Investors had the option of principal repayment or investing in the new 3-5-7 Member Investment Plan (3-5-7 MIP). $6.2 million was invested in the 3-5-7 MIP with the balance repaid in cash. Interest of $0.3 million (2017 - $0.4 million) is included in interest expense.

The 5.5-for-3 Member Investment Plan (5.5 for 3 MIP) was introduced on September 16, 2015 and paid interest at 5.5% semi-annually. The plan matured on September 15, 2018. Investors had the option of principal repayment or investing in the new 3-5-7 MIP. $23.7 million was invested into the 3-5-7 MIP program with the balance repaid in cash. Interest of $1.1 million (2017 – $1.7 million) is included in interest expense.

The 5.5-til-2019 Member Investment Plan (5.5til2019MIP) was introduced on June 16, 2016. $15.0 million (2017 - $15.0 million) is currently invested in the program. The program pays interest of 5.5% semi-annually and matures on June 15, 2019. Interest on this program of $0.8 million (2017 - $0.8 million) is included in interest expense.

The 5.0-til-2020 Member Investment Plan (5.0til2020MIP) was introduced on June 16, 2017. $15.5 million (2017 - $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 (2017 - $0.4 million) is included in interest expense.

On September 16, 2018, UFA introduced the 3-5-7 MIP. Investors were offered three investment choices: a three-year term with a fixed interest rate of 5.5% maturing on September 15, 2021, a five-year term with a fixed interest rate of 6.0% maturing on September 15, 2023, and a seven-year term with a fixed interest rate of 6.5% maturing on September 15, 2025. The program has no early redemption option and pays interest semi-annually on March 15th and September 15th.

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, 2018	December 31, 2017
Income before patronage dividend and income taxes	$ 29,173	$ 30,976
Patronage Dividend	(14,000)	(12,500)
Net income before income taxes	$ 15,173	$ 18,476
Statutory income tax rate	27.00%	26.99%
Expected income tax expense	4,097	4,986
Non-deductible items and other	52	53
Rate adjustment	(322)	(11)
True ups and other	(31)	1,211
Future income tax valuation allowance	(144)	2
Income tax expense	3,652	6,241
Income taxes consists of:		
Current income tax expense	8,444	3,191
Future income tax (recovery) expense	(4,792)	3,050
	$ 3,652	$ 6,241

Effective tax rate for 2018 was 24.1% (2017 - 34.8%). Patronage dividend is a tax deductible item in calculating UFA's net income for tax purposes.

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

	December 31, 2018	December 31, 2017
Current future income tax asset:		
Inventories	$ 1,806	$ 1,553
Payables, warranty and other	1,939	2,377
	3,745	3,930
Long-term future income tax asset:		
Long-term debt and other long-term liabilities	4,629	3,137
Asset retirement obligation	6,598	6,674
Tax loss	22,422	21,620
Goodwill and intangibles	31	65
Property and equipment	1,051	3,372
Pension	(3,765)	(7,308)
Valuation allowance	(8,118)	(8,263)
	$ 22,848	$ 19,297

UFA has non-capital losses carried forward of $55,936 (2017 - $49,459) which relate to the 2017 wind up of Wholesale Sports. The losses carried forward result in a future tax asset included in tax loss and property and equipment of $15,105 (2017 - $13,354). These non-capital losses expire in 2034 – 2037.

11. LONG-TERM DEBT

	December 31, 2018	December 31, 2017
Asset-Based Credit Agreement - Revolving loans	$ 83,191	$ 38,185
Capital leases obligations	12,010	9,618
Deferred financing charges	(516)	(105)
	94,685	47,698
Less: current portion	(2,821)	(40,257)
	$ 91,864	$ 7,441

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, 2018, under the Credit Agreement, the borrowing bases for accounts receivable, inventory and prepayments were margined at $70.9 million (2017 – $77.9 million) and $125.7 million (2017 – $112.0 million) respectively. In 2018, the total amount of reserve deducted from the borrowing bases was $19.9 million (2017 – $19.6 million). As at December 31, 2018, $93.5 million (2017 – $132.1 million) of credit was available to fund operations and working capital requirements.

At December 31, 2018, UFA's revolving loan balance was $83.2 million (2017- $38.2 million).

Terms

Under the new 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 3.57% (2017 - 3.32%).

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 2018, 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 periods total $11.3 million, including $1.6 million in financing expenses. The lease terms range from two to five years at interest rates between 3.2% and 6.4% for 2018 (2017 – 3.2% and 6.0%).

	Principal	Interest	Total
2019	$ 2,992	$ 497	$ 3,489
2020	2,355	374	2,729
2021	2,045	348	2,393
2022	1,774	220	1,994
2023	532	123	655
	$ 9,698	$ 1,562	$ 11,260

12. ASSET RETIREMENT OBLIGATIONS

	2018	2017
Balance, beginning of year	**$ 24,720**	$ 23,959
Accretion expense	**1,187**	1,144
Revisions in estimated cash flows	**(119)**	552
Liabilities settled	**(1,351)**	(935)
Balance, end of year	**$ 24,437**	$ 24,720

Estimated undiscounted future cash flows, adjusted for inflation, are $59.7 million (2017 – $58.4 million) and are expected to be incurred up to and including fiscal 2068. The present value or discounted fair value of the obligations was determined using a 7.7% discount rate and a 2.2% inflation rate (2017 – 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, 2018	December 31, 2017
Accrued liabilities	**$ -**	$ 14,865
Other long-term liabilities	**8,930**	5,428
	8,930	20,293
Less: current portion	**(2,852)**	(15,141)
	$ 6,078	$ 5,152

The 2017 accrued liability was a legal liability related to the 2013 disposition of Wholesale Sports USA, Inc. The liability was settled in full in January 2018. Other long-term liabilities include $6.9 million (2017 - $3.2 million) relating to long-term incentive programs and $2.0 million (2017 - $2.2 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:

2019	$	4, 537
2020		4,467
2021		3,608
2022		3,608
2023		3,608
After 2023		1,153
	$	20,981

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

Effective January 1, 2018, 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 total, $36.6 million of Revolving Equity was repaid in Member Shares and $0.6 million was repaid in cash. Prior to January 1, 2018, Member Entitlements consisted of Member Shares, the current period's Patronage Dividend, Revolving Equity, Investment Shares and Contributed Surplus.

Details of Member Entitlements are as follows:

	December 31, 2018		December 31, 2017	
Member Shares	**$**	**73,058**	$	30,744
Patronage Dividend		**14,000**		12,500
Revolving Equity		**-**		37,208
Investment Shares		**118,575**		123,658
Contributed Surplus		**9,981**		10,034
	$	**215,614**	$	214,144

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*). The Board of Directors has the authority to restrict redemptions in any given year, even in situations where such redemptions are not unfavourable to UFA.

Member Shares

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

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

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

	2018		2017	
Member shares issued:	Number *(in thousands)*	Amount	Number *(in thousands)*	Amount
Balance, beginning of period	**6,149**	**$ 30,744**	6,294	$ 31,472
Transfer from Revolving Equity	**7,321**	**36,607**	-	-
Redemptions/ adjustments	**(194)**	**(973)**	(101)	(506)
Patronage	**1,416**	**7,080**	-	-
Contributed Surplus	**(80)**	**(400)**	(44)	(222)
Balance, end of period	**14,612**	**$ 73,058**	6,149	$ 30,744

Patronage Dividend

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

Effective January 1, 2018, 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 2017 a Patronage Dividend of $12.5 million was approved. $7.1 million of the dividend was issued as Member shares and $5.4 million was paid in cash. For 2018, the Board of Directors has recommended a $14.0 million Patronage Dividend.

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. Revolving Equity was non-interest bearing, non-redeemable by the member except in specific circumstances and was converted into Investment Shares on a straight-line basis over a 12 year period unless conversion was waived by the Board of Directors. For 2017, the Board of Directors waived the conversion of Revolving Equity into Investment Shares.

	2018		2017	
Balance, beginning of period	$	37,208	$	38,529
Transfer to Member Shares		(36,607)		-
Senior Members conversion to Investment Shares		-		(859)
Repayment		(601)		(358)
Contributed Surplus		-		(102)
Adjustments		-		(2)
Balance, end of period	$	-	$	37,208

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 2018, dividends of $3.7 million (2017 - $2.9 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.

	2018			2017		
	Number *(in thousands)*	Amount		Number *(in thousands)*	Amount	
Balance, beginning of period	1,237	$	123,658	1,275	$	127,493
Senior Members conversion from Revolving Equity	-		-	9		859
Member Share dividends	-		-	4		392
Redemption	(47)		(4,650)	(46)		(4,588)
Contributed Surplus	(5)		(547)	(6)		(577)
Less than minimum and unclaimed	1		114	1		79
Balance, end of period	1,186	$	118,575	1,237	$	123,658

Contributed Surplus

The By-laws of the Co-operative provide for termination of a membership due to inactivity. When a member's membership is terminated for inactivity, the member has no further entitlement to be paid any amount in respect of the member's Investment Shares, Member Shares, Revolving Equity or Unclaimed Funds (together, the Member's Equity), and the membership number and member's Equity shall be cancelled without any payment or notice to the member. In 2018, Members' Equity of $0.9 million (2017 - $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 as a Community Investment Fund with objects consistent to the United Farmers of Alberta Co-operative Limited, Act. The Foundation is currently funded by UFA's Contributed Surplus in annual contributions of up to $1 million, subject to the availability of such Contributed Surplus and the needs of UFA. In 2018, $1 million was allocated from Contributed Surplus to the Foundation.

	2018		2017	
Balance, beginning of period	$	10,034	$	9,633
Current period additions:				
Member Shares		400		222
Revolving Equity		-		102
Investment Shares		547		577
Contribution to UFA Rural Communities Foundation		(1,000)		(500)
Balance, end of period	$	9,981	$	10,034

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, 2018, UFA had current assets of $333.8 million (2017 – $313.0 million) to settle current liabilities of $129.6 million (2017 – $202.6 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 0.41% (2017 – 0.31%) making the effective interest rate 3.57% (2017 – 3.32%). A 1.0% change in the prime rate is anticipated to have an annual change in interest cost of approximately $0.7 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 27, 2018, UFA entered into a Petroleum put option based on heating oil providing UFA an option to purchase 6.7 million US gallons at $1.75 USD per US gallon of heating oil. The option expires on December 31, 2019. The purchase price of the option was $1.5 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 2018, UFA entered into foreign currency exchange agreements that became effective in fiscal

2019. 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, 2018 was $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 $0.9 million (2017 - $0.8 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.

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

	December 31, 2018	December 31, 2017
Accrued benefit obligation, end of year	**$ 150,282**	$ 137,285
Market value of plan assets, end of year	**164,225**	164,351
Surplus of plan at end of year	**13,943**	27,066
Accrued asset	**$ 13,943**	$ 27,066

Included in the accrued benefit obligation is $3.6 million related to the SERP (2017 – $3.1 million).

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

	2018	2017
Discount rate for funded status	**4.90%**	4.90%
Rate of compensation increase	**1.0% to 2.5%**	1.0% to 2.5%

In 2018, UFA recognized termination costs of $1.1 million (2017 - $2.2 million) which was included under operating and administrative expenses.

18. GOVERNMENT REMITTANCES

Accounts payable and accrued liabilities as at December 31, 2018 include $14.8 million (2017 – $14.4 million) in respect of government remittances other than income taxes. Included in this total are federal and provincial sales and excise taxes, payroll related taxes, and environmental levies.

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, 2018	%	December 31, 2017	%
Petroleum	$ 1,451,747	79.9	$ 1,195,408	77.8
AgriBusiness	365,745	20.1	340,755	22.2
	$ 1,817,492		$ 1,536,163	

20. CHANGES IN NON-CASH WORKING CAPITAL

Non-cash working capital used cash flows of $21.2 million in fiscal year 2018 (2017 - used $29.5 million).

	December 31, 2018	December 31, 2017
Accounts receivable and current income tax receivable	$ 1,039	$ (7,513)
Inventory	(21,453)	(21,915)
Prepaid expenses	(2,796)	(9,920)
Accounts payable and accrued liabilities	73	10,030
Deferred revenue and other	1,944	(194)
	$ (21,193)	$ (29,512)

21. INTEREST AND INCOME TAXES PAID

Interest paid in fiscal year 2018 was $8.2 million (2017 – $6.3 million). Income taxes paid in fiscal year 2018 was $3.8 million (2017 – $1.3 million paid).

22. DISCONTINUED OPERATIONS

On December 28, 2017, UFA ceased operations of Wholesale Sports. 2017 results are provided below.

	December 31, 2018	December 31, 2017
Revenue from discontinued operations	$ -	$ 134,774
Loss from discontinued operations before taxes	$ -	$ (20,331)
Loss tax recovery	-	10,269
Loss from discontinued operations	$ -	$ (10,062)

23. SUBSEQUENT EVENTS

On January 31, 2019, the land and building formerly of Spruceland Lumber was sold for proceeds of $9.9 million. A gain of $3.2 million was recognized and recorded in 2019.