DAIRY
INNOVATION
WEST

Building Canada's first milk concentration facility

2024 ANNUAL REPORT

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A letter from the Chair

Issuing this first Dairy Innovation West annual report is another milestone in a groundbreaking project – a milestone that emphasizes our commitment to transparency and communication with our shareholders, farmers, and processors.

Once operational in 2025 Dairy Innovation West, or DIW, will be a big deal for dairy in Western Canada. It will benefit all farmers across British Columbia, Alberta, Saskatchewan, and Manitoba by reducing our transportation costs. It will be part of mitigating our environmental footprint, and will support our sector's growth.

What's really exciting for me is that four provincial dairy organizations working within four sets of provincial regulations have been able to come together and build something significant, which could only happen with the scale this collaboration created. It is a testament to our ability to overcome barriers to move our industry forward. It has not been easy, but we have got it done.

I hope it clears the path to more big collaborations in the future.

When it begins operations in the spring, Dairy Innovation West will start ramping up over the next three years to handling 300 million litres of raw milk annually, with the capacity to expand another 50 per cent in the future if demand supports it. The milk concentration facility, the first one in Canada, is in the middle of a rich dairy farming region where more raw milk is produced than local processing capacity can handle. With demand growing across the west, without DIW, we would be looking at significantly increased costs for the interprovincial transportation of milk.

DIW will result in emissions savings through the reduction in total truck trips to transport milk. The facility is equipped with leading edge water recycling technology that enables re-using the water in cows' milk to save on municipal water. It's a real melding of finance and environmental sustainability, and proof those two things can happen together.

We are part of the solution.

And, we're doing it on budget and on schedule, despite challenges with rising labour, material, and transport costs facing all big construction projects. Despite adding some new equipment that will allow DIW to produce a better product, we're within the $75 million construction budget. We appreciate the hard work of our contractor in keeping everything on track and maintaining cost discipline. Honestly, it's been a lot of fun watching the walls going up this year.

A year from now, I'm looking forward to updating you on how final construction, commissioning, and initial operations went. I'm sure we're all looking forward to the tangible benefits Dairy Innovation West will bring dairy farmers in Western Canada.

Henry Holtmann
Chair, Dairy Innovation West and dairy farmer in Rosser, Manitoba

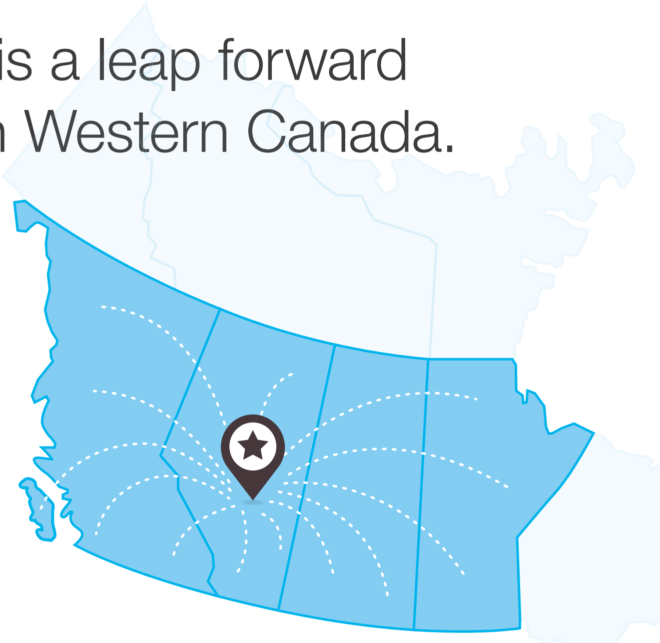

DIW
Dairy Innovation West
DIW
Dairy Innovation West

Facility facts

Dairy Innovation West is a leap forward for the dairy industry in Western Canada.

The first milk concentration plant built in Canada, Dairy Innovation West (DIW) will be set in the middle of Central Alberta, a region rich in dairy production but without sufficient processing capacity to handle all that raw milk. Raw milk from the region is trucked to processing facilities across the west, as far away as Abbotsford, BC and Winnipeg, MB.

DIW will take in raw milk and concentrate it, removing excess water, so that for every three or four trucks coming in only one truck of concentrate will leave for the drive to processing. This process will reduce both the cost and environmental impact of transport – saving farmers real money while helping the industry achieve its goal of net neutrality by 2050.



Keeping up with increasing demand

Western Canada's demand for raw milk is increasing every year. While this is creating new revenue and quota for farmers, it also creates new transportation costs. Dairy Innovation West will moderate those impacts, reducing costs while supporting local growth for farmers.

Under construction

Construction of Dairy Innovation West got underway in July of 2023, and is currently on schedule and within budget ($75 million).

Significant upcoming milestones

Primary building completion	Silos installed	Plant commissioning	Operations begin
November 2024	December 2024	March – April 2025	May 2025

How DIW will work

When it arrives in a truck at one of DIW's 4 load-in bays, raw milk will be transferred to a storage silo – the facility will have 3 raw milk silos, with enough capacity to store 1 day's worth of raw milk.

From there, the raw milk will be passed through a Bacterial Removal System and heated to 50 degrees Celsius to kill any bacteria present. Milk is passed through a centrifuge to remove 50–90 per cent of the bacteria and spores present in the milk.

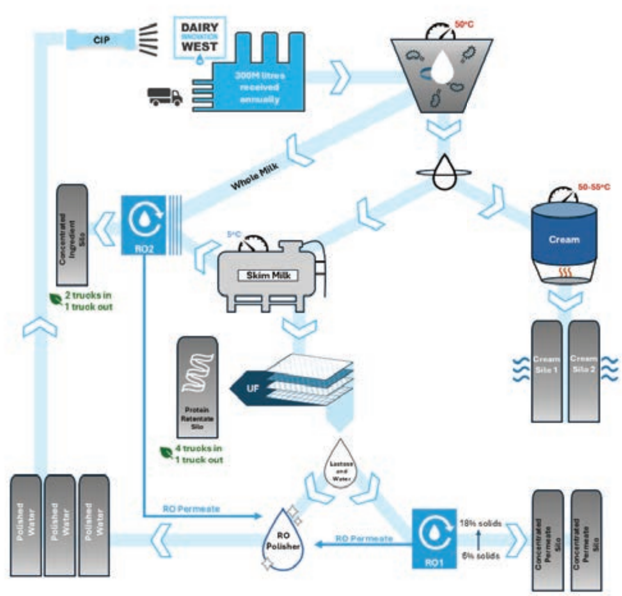
Once through bacterial removal, milk will be cooled to 5 degrees Celsius and sent either for concentration or separation.

Most milk will go directly to concentration. The plant will use reverse osmosis to remove water, and the resulting concentrate will be moved to silos for shipping to a processing partner. The removed water will be captured and used in the plant for cooling raw milk, cleaning, and other duties. Approximately 33 per cent of the water needed by DIW will come from municipal water while the remaining 66 per cent comes from water recycled through the plant. The plant can extract about 30,000 liters of water per hour and make it suitable for re-use in the plant.

Some milk will be diverted from immediate concentration and instead separated into cream and skim, using a centrifugal system. That separation system will have a capacity of 25,000 liters per hour. The plant has been built with capacity for a second separator, if future demand supports it.

Cream will be sent on to a thermalizer, heated to 50–55°C for 15 seconds, which limits microbial growth in transportation, then chilled. At this point it is ready to be shipped to a butter maker.

After separation, skim milk will either be directed to the reverse osmosis concentration plant or the ultra filtration concentration plant to produce milk protein concentrate MPC70.



Spring hard hat tour

One year out from completion

In May, Dairy Innovation West hosted a hard hat tour for project stakeholders from the dairy industry and local, provincial, and federal governments. At the time of the tour, piling, groundwork, and fabrication & placement of precast building panels was well underway, and the site was about a year from completion.

Our structure

Ownership

DIW is owned by four shareholders.
The BC Dairy Industry Development Council, Alberta Milk, Saskatchewan Milk Marketing Board, and Dairy Farmers of Manitoba. Farm Credit Canada is providing project financing.

As a collaboration between four provincial organizations, the facility needed to have one owner responsible for operating and paying associated taxes, mortgages, and costs. As such, the DIW Building & Land Company was created to own the land and buildings. It's shareholders are the dairy organizations in each province. This company in turn leases the facility to the DIW Operating Company, a not-for-profit corporation responsible for managing operations. They have contracted WD Processing to operate the plant – the company has begun to hire staff and prepare for commissioning in a few short months. The Operating Company won't purchase milk. Rather, DIW customers will direct milk to the facility and pay the Operating Company for the service.

Pacific Process Canada is managing facility construction, which got underway in summer of 2023.

Financials

DIW's operating structure involves two companies created to manage the facility – the DIW Building and Land Corporation and the DIW Operating Company.

The DIW Building & Land Corporation owns the land DIW sits on and its buildings, and as such is responsible for paying property taxes, mortgages, and related costs. Its shareholders are the dairy organizations in each province – the BC Dairy Industry Development Council in BC, Alberta Milk, Saskatchewan Milk Marketing Board, and Dairy Farmers of Manitoba.

The land corporation leases the facility to the DIW Operating Company, a not-for-profit corporation that manages operations, engaging a plant operator and providing concentration services to customers. The company does not buy milk. Rather, customers direct a portion of their milk allocation for processing at DIW on a cost-recovery basis.

Both company's financials for the 2023/24 year are detailed over the next few pages of this report.

Board of Directors

The DIW Building and Land Corporation and DIW Operating Company have the same board of directors providing oversight. They are:

Henry Holtmann
Chair

Mark Van Klei
DIDC representative

Stuart Boeve
Alberta Milk representative

Merlis Wiebe
SaskMilk representative

Miriam Sweetnam
Dairy Farmers of Manitoba representative

Financial statements

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Independent Auditor's Report

To the Members of Dairy Innovation West Inc.

Opinion

We have audited the financial statements of Dairy Innovation West Inc. ("the Organization"), which comprise the statement of financial position as at July 31, 2024, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Dairy Innovation West Inc. as at July 31, 2024 and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Organization’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 Organization’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 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 Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Doane Grant Thornton LLP

Edmonton, Canada
October 25, 2024

Chartered Professional Accountants

Dairy Innovation West Inc.

Statement of Operations

For the year ended July 31, 2024

		2024		2023
REVENUES:				
Interest Income (Note 3)	**$**	**271,202**	$	154,867
Member Assessment Fees (Note 3)		**-**		75,000
Total Revenues		**271,202**		**229,867**
EXPENSES:				
Contract Services		**-**		8,125
Director Per Diems		**-**		9,300
Office		**3,810**		1,316
Professional Fees		**66,984**		116,617
Property Taxes		**-**		12,606
Total Expenses		**70,794**		147,964
EXCESS OF REVENUES OVER EXPENSES FOR THE YEAR	**$**	**200,408**	$	81,903

See accompanying notes to the financial statements.

Dairy Innovation West Inc.

Statement of Financial Position

As at July 31, 2024

		2024		2023
		ASSETS		
CURRENT ASSETS:				
Cash	**$**	**315,121**	$	1,778
Accounts Receivable (Note 3)		**473,891**		154,894
Total Current Assets		**789,012**		156,672
MORTGAGE RECEIVABLE (Note 3)		**3,695,620**		3,695,620
TOTAL ASSETS	**$**	**4,484,632**	$	3,852,292
		LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:				
Accounts Payable	**$**	**432,499**	$	567
Total Current Liabilities		**432,499**		567
NET ASSETS		**4,052,133**		3,851,725
TOTAL LIABILITIES AND NET ASSETS	**$**	**4,484,632**	$	3,852,292

APPROVED ON BEHALF OF THE BOARD:

Henry Holtmann

Mark Van Klei

See accompanying notes to the financial statements.

Dairy Innovation West Inc.

Statement of Changes in Net Assets

For the year ended July 31, 2024

		2024		2023
BALANCE AT BEGINNING OF THE YEAR	**$**	**3,851,725**	$	3,390,742
DISPOSAL OF CAPITAL ASSETS IN RELATED PARTY TRANSACTION		**-**		379,080
EXCESS OF REVENUES OVER EXPENSES FOR THE YEAR		**200,408**		81,903
BALANCE AT END OF THE YEAR	**$**	**4,052,133**	$	3,851,725

See accompanying notes to the financial statements.

Dairy Innovation West Inc.

Statement of Cash Flows

For the year ended July 31, 2024

		2024		2023
CASH PROVIDED BY (USED FOR):				
OPERATING ACTIVITIES:				
Excess of Revenues over Expenses for the Year	**$**	**200,408**	$	81,903
Changes in Non-Cash Working Capital Items:				
Accounts Receivable		**(318,997)**		(153,833)
Prepaids		**-**		14,738
Accounts Payable		**431,932**		(11,655)
Net Cash from (to) Operating Activities		**313,343**		(68,847)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR		**313,343**		(68,847)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,778**		70,625
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**$**	**315,121**	**$**	**1,778**

See accompanying notes to the financial statements.

Notes to the Financial Statements

July 31, 2024

1. NATURE OF OPERATIONS:

Dairy Innovation West Inc. ("the Organization") is a non-profit organization established on April 30, 2020 under the Canada Not-for-profit Corporations Act and extra-provincially registered in Alberta. Pursuant to Section 149(1)(e) of the Income Tax Act the Organization is exempt from income tax.

The Organization's purpose is to promote and facilitate the efficient transportation of milk and milk components by producers to the processors in western Canada by establishing a dairy concentration plant to process raw milk to separate and concentrate the components for trans-shipment to other dairy plants, and ensuring that the concentration plant acts as a tolling station in the transportation of milk and milk components from producers to processors.

2. SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation

The Organization has prepared these financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO).

Revenue recognition

The Organization follows the deferral method of accounting for contributions. Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue in the year when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash balances with banks and other institutions.

Financial instruments

Initial measurement

The Organization's financial instruments are measured at fair value when issued or acquired except for certain non-arm's length transactions, if any, which are measured at cost or fair value depending on the nature of the transaction. For financial instruments subsequently measured at amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in the statement of operations in the year in which they are incurred.

Subsequent measurement

At each reporting date, the Organization measures its financial assets and liabilities obtained in arm's length transactions at amortized cost using the effective interest method (less impairment in the case of financial assets), except for equities quoted in an active market, which must be measured at fair value. The Organization has no financial instruments measured at fair value. The financial instruments measured at amortized cost are cash, accounts receivable, mortgage receivable, and accounts payable. The carrying amounts of the Organization's financial instruments approximate their fair values unless otherwise noted.

For financial assets measured at amortized cost, the Organization regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Organization determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in the statement of operations in the year the reversal occurs.

Related party financial instruments

Financial assets and financial liabilities in related party transactions are initially measured at cost, with the exception of certain instruments which are initially measured at fair value. Subsequent measurement is based on how the Organization initially measured the instrument. The Organization does not have any financial assets or financial liabilities in related party transactions measured at fair value.

Use of estimates

Management reviews the carrying amount of items in the financial statements at each balance sheet date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require management's best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

The estimates are reviewed periodically and adjustments are made to surplus of revenues over expenses as appropriate in the year they become known.

Items subject to significant management estimate include the valuation of the allowance for uncollectible accounts receivable and mortgage receivable.

3. RELATED PARTY TRANSACTIONS:

The Organization is related to its four members, as each member exercises significant influence over the Organization. Member assessment fees charged to each member during the year were as follows:

	2024	2023
Dairy Industry Development Council	$ -	$ 26,568
Saskatchewan Milk Marketing Board	-	9,198
Alberta Milk	-	26,396
Dairy Farmers of Manitoba	-	12,838
	$ -	$ 75,000

Alberta Milk was reimbursed for office expenses in the period totaling $594 (2023 - $540). Dairy Farmers of Manitoba was reimbursed for professional fees in the period totaling $14,030 (2023 - $nil). The Organization received payments from members during the year which became refundable to the members when the transactions did not proceed. Total amounts owing to members as at July 31, 2024 were $15,517 to Dairy Industry Development Council (2023 - $nil), $5,474 to Saskatchewan Milk Marketing Board (2023 - $nil), $17,675 to Alberta Milk (2023 - $567), and $10,419 to Dairy Farmers of Manitoba (2023 - $nil).

The Organization is related to DIW Buildings & Land Corporation ("DBLC") as both entities are under common control. DBLC will hold and maintain capital assets necessary for the operation of a dairy concentration plant, which when constructed, will be leased to the Organization. The Organization holds a mortgage receivable from DBLC bearing interest at prime (being the prime interest rate charged by Canadian Imperial Bank of Commerce from time to time) less 0.35%. Interest earned during the year was $271,202 (2023 - $154,867) and the amount of interest receivable included in accounts receivable at year-end is $426,069 (2023 - $154,867).

In December 2022, the Organization and Farm Credit Canada ("FCC") entered into a postponement and standstill agreement such that the Organization has agreed to postpone the mortgage payments owed by DBLC until all the debt due and owing from DBLC to FCC are satisfied in full. The Organization can receive interest-only payments under the mortgage agreement with DBLC, and until the full indebtedness of DBLC to FCC is repaid, the Organization will not, without FCC's prior written consent, make any demand for payment or accelerate any payments to be made from DBLC. Thus, the Organization presented the mortgage receivable as a long-term asset.

DBLC was reimbursed for insurance, legal, and professional fees in the period totaling $69,735 (2023 - $nil) and as at July 31, 2024, was owed $73,084 (2023 - $nil).

The Organization's four members, as well as DBLC, each have credit agreements to support DBLC's construction of a dairy concentration plant. The Organization guarantees and provides security for these credit agreements. As at July 31, 2024, DBLC was in violation of the fixed charge coverage ratio covenant of its credit agreement, however, in October 2024, the lender waived the covenant requirement for DBLC for the year ending July 31, 2024.

All related party transactions during the year were measured at the exchange amount.

4. FINANCIAL INSTRUMENT RISKS:

The Organization's main financial instrument risk exposure is detailed as follows:

Credit risk

The Organization has determined that the financial assets with credit risk exposure are accounts receivable and mortgage receivable since the failure of any of these parties to fulfill their obligations could result in financial loss for the Organization. The ability of the Organization to collect the mortgage receivable from the related party is contingent on the related party generating sufficient funds to repay the obligation. Management monitors the cash flow projections of the related entity to assess the collectability of the mortgage receivable.

Liquidity risk

The Organization's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with its financial liabilities. The Organization, therefore, is exposed to liquidity risk with respect to its accounts payable.

5. SUBSEQUENT EVENT

Subsequent to year-end, the Organization obtained a line of credit with a maximum draw of $7,000,000. Interest is charged at prime (being the prime interest rate charged by Canadian Imperial Bank of Commerce from time to time). The line of credit is repayable on demand. Security includes a general security agreement provided by the Organization, a guarantee provided by DIW Buildings & Land Corporation ("DBLC"), a general security agreement provided by DBLC, and a $7,000,000 mortgage against land held by DBLC.

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Independent Auditor's Report

To the Shareholders of DIW Buildings and Land Corporation

Opinion

We have audited the financial statements of DIW Buildings and Land Corporation ("the Company"), which comprise the balance sheet as at July 31, 2024, and the statements of income, retained earnings and cash flows for the year ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DIW Buildings and Land Corporation as at July 31, 2024 and its results of operations and its cash flows for the year ended in accordance with Canadian accounting standards for private enterprises.

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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Doane Grant Thornton LLP

Edmonton, Canada
October 25, 2024

Chartered Professional Accountants

DIW Buildings & Land Corporation

Income Statement

For the year ended July 31, 2024

		(366 days) 2024		(344 days) 2023
REVENUES:	**$**	**-**	$	-
EXPENSES:				
Contract Services		**88,025**		21,204
Director Per Diems		**5,863**		10,250
Insurance		**2,750**		2,750
Interest		**12,513**		-
Office		**24,972**		3,510
Professional Fees		**557,350**		528,500
Total Expenses		**691,473**		566,214
NET LOSS	**$**	**691,473**	$	566,214

See accompanying notes to the financial statements.

DIW Buildings & Land Corporation

Balance Sheet

As at July 31, 2024

		2024		2023
ASSETS				
CURRENT ASSETS:				
Cash	$	**4,683,161**	$	314,658
Accounts Receivable		**1,171,980**		118,971
Prepaids and Deposits		**325,457**		428,337
Total Current Assets		**6,180,598**		861,965
FACILITY UNDER CONSTRUCTION (Note 4)		**35,079,938**		6,221,964
TOTAL ASSETS	$	**41,260,536**	$	7,083,929
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts Payable (Notes 3 and 5)	$	**3,404,344**	$	255,218
Construction Holdbacks		**3,022,544**		-
Loan - CAFO Inc.		**-**		290,926
Total Current Liabilities		**6,426,888**		546,144
LOAN - DAIRY INNOVATION WEST INC. (Notes 3 and 5)		**3,695,620**		3,695,620
LOAN - FARM CREDIT CANADA (Note 5)		**2,150,000**		2,150,000
TOTAL LIABILITIES		**12,272,508**		6,391,764
COMMON SHARES (Notes 3 and 6)		**30,624,795**		1,637,460
DEFICIT		**(1,636,767)**		(945,294)
TOTAL SHAREHOLDERS' EQUITY		**28,988,028**		692,166
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	**41,260,536**	$	7,083,929

APPROVED ON BEHALF OF THE BOARD:

Henry Holtmann

Mark Van Klei

See accompanying notes to the financial statements.

DIW Buildings & Land Corporation

Statement of Deficit

For the year ended July 31, 2024

		(366 days)		(344 days)
		2024		2023
BALANCE AT BEGINNING OF THE PERIOD	**$**	**(945,294)**	$	-
OTHER EQUITY (NOTE 3)		**-**		(379,080)
NET LOSS		**(691,473)**		(566,214)
BALANCE AT END OF THE PERIOD	**$**	**(1,636,767)**	$	(945,294)

See accompanying notes to the financial statements.

DIW Buildings & Land Corporation

Cash Flow Statement

As at July 31, 2024

	(366 days) 2024	(344 days) 2023
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Net Loss	**$ (691,473)**	$ (566,214)
Changes in Non-Cash Working Capital Items:		
Accounts Receivable	**(553,009)**	(118,971)
Prepaids and Deposits	**102,880**	(147,108)
Accounts Payable	**281,667**	255,218
Net Cash from (to) Operating Activities	**(859,935)**	(577,075)
FINANCING ACTIVITIES:		
Government Assistance Received	**500,000**	-
Proceeds from Farm Credit Canada Loan	**-**	2,150,000
Repayment of CAFO Inc. Loan	**(290,926)**	-
Issuance of Common Shares	**28,987,335**	1,637,460
Net Cash from Financing Activities	**29,196,409**	3,787,460
INVESTING ACTIVITIES:		
Expenditures on Facility Under Construction	**(26,990,515)**	(2,895,727)
Change in Construction Holdbacks	**3,022,544**	-
Net Cash to Investing Activities	**(23,967,971)**	(2,895,727)
INCREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD	**4,368,503**	314,658
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**314,658**	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**$ 4,683,161**	$ 314,658

See accompanying notes to the financial statements.

Notes to the Financial Statements

July 31, 2024

1. NATURE OF OPERATIONS:

DIW Buildings & Land Corporation ("the Company") is a corporation established on August 22, 2022 under the Canada Business Corporations Act and extra-provincially registered in Alberta. The Company's purpose is to hold and maintain capital assets necessary for the operation of a dairy concentration plant, which when constructed, will be leased to a related party, Dairy Innovation West Inc.

2. SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation

The Company has prepared these financial statements in accordance with Canadian Accounting Standards for Private Enterprises (ASPE).

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash balances with banks and other institutions.

Facility under construction

The facility under construction is initially measured at cost and will be subsequently measured at the cost less depreciation and any impairment adjustments. Cost includes the purchase price and other expenditures directly attributable to bringing the asset to the condition necessary for its intended use.

The cost of the facility under construction includes land acquisition costs, direct construction costs, specific interest, property taxes, and other direct costs associated with development. Government assistance is deducted from the cost of the facility.

Capitalization of carrying costs ceases when the facility is substantially complete and ready for productive use.

Income taxes

The Company accounts for income taxes using the taxes payable method. The taxes payable and provision for income taxes are based on the corporate income tax returns filed. There is no adjustment for income taxes related to temporary differences and no recognition of the benefit of income tax losses carried forward.

Financial instruments

Initial measurement

The Company's financial instruments are measured at fair value when issued or acquired except for certain non-arm's length transactions, if any, which are measured at cost or fair value depending on the nature of the transaction. For financial instruments subsequently measured at amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in the income statement in the year in which they are incurred.

Subsequent measurement

At each reporting date, the Company measures its financial assets and liabilities obtained in arm's length transactions at amortized cost using the effective interest method (less impairment in the case of financial assets), except for equities quoted in an active market, which must be measured at fair value. The Company has no financial instruments measured at fair value. The financial instruments measured at amortized cost are cash, accounts receivable, accounts payable, holdbacks payable, and debt. The carrying amounts of the Company's financial instruments approximate their fair values unless otherwise noted.

For financial assets measured at amortized cost, the Company regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Company determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the income statement. Any reversals of previously recognized impairment losses are recognized in the income statement in the year the reversal occurs.

Related party financial instruments

Financial assets and financial liabilities in related party transactions are initially measured at cost, with the exception of certain instruments which are initially measured at fair value. Subsequent measurement is based on how the Company initially measured the instrument. The Company does not have any financial assets or financial liabilities in related party transactions measured at fair value.

Impairment of long-lived assets

The Company tests for impairment when events or changes in circumstances indicate the carrying amount of an item or class of capital assets may not be recoverable. Recoverability is determined by comparing the carrying amount of the asset to the undiscounted future cash flows expected from use and eventual disposition of the asset. In such situations, the asset is measured at its fair value and presented in the balance sheet at the lower of the fair value or carrying amount. No impairment was recorded for the year ended July 31, 2024.

Use of estimates

Management reviews the carrying amount of items in the financial statements at each balance sheet date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require management's best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

The estimates are reviewed periodically and adjustments are made to net income as appropriate in the year they become known.

Items subject to significant management estimate include the valuation of the allowance for uncollectible accounts receivable and the impairment assessment of the facility under construction.

3. RELATED PARTY TRANSACTIONS:

The Company is related to its four shareholders, as each shareholder exercises significant influence over the Company. Related party transactions and balances related to the issuance of common shares are disclosed in Note 6. Alberta Milk was reimbursed for office expenses in the period totaling $594 (2023 - $360) and as at July 31, 2024, was owed $624 (2023 - $378).

The Company's four shareholders each have credit agreements to support the Company's construction of the dairy concentration plant. The shareholders use the proceeds from their credit agreements to purchase common shares of the Company. The Company guarantees and provides security for these credit agreements.

The Company is related to Dairy Innovation West Inc. ("DIW") as both entities are under common control. Related party transactions and balances related to debt owed to DIW are disclosed in Note 5. The Company was reimbursed for insurance, legal, and professional fees paid on DIW's behalf in the period totaling $69,735 and as at July 31, 2024, was owed $73,084.

During the prior year, the Company purchased land with a carrying value of $3,316,540 from DIW for consideration consisting of a mortgage payable of $3,695,620 to DIW. The land purchase was a non-cash transaction and was therefore excluded from the cash flow statement. The Company recorded the acquisition cost of the land at the carrying value of $3,316,540 and the excess of the consideration over the carrying value of the land of $379,080 as an increase in shareholders' deficit as there was no substantive change in control upon the sale of land from DIW to the Company.

Subsequent to year-end, DIW obtained a line of credit with a maximum draw of $7,000,000 for which the Company has provided a guarantee secured with a general security agreement and a $7,000,000 mortgage.

All related party transactions during the year were measured at the exchange amount.

4. FACILITY UNDER CONSTRUCTION:

	Cost	Accumulated Amortization	**2024 Net Book Value**	2023 Net Book Value
Land	$ 3,782,122	$ -	**$ 3,782,122**	$ 3,510,921
Construction in progress	31,297,816	-	**31,297,816**	2,711,043
	$ 35,079,938	$ -	**$ 35,079,938**	$ 6,221,964

Construction in progress contains costs related to building construction that is not yet fully completed and/or available for use. Once the asset is available for use, the cost is transferred to the appropriate asset category and the item is amortized based on the policy for the applicable category of asset. Amortization is not recorded for construction in progress as the related assets are not complete and available for use.

During the year, $1,000,000 of government assistance was provided to the Company which was credited against construction in progress.

The Company has entered into a construction contract for the construction of buildings and equipment for the dairy concentration plant. The total estimated cost of construction is $71,285,808.

The Company's legal counsel holds funds on the Company's behalf with respect to construction holdbacks payable, and with respect to proceeds received from share issuances prior to transfering the proceeds to the Company. Funds held by the Company's legal counsel as at July 31, 2024 were $3,397,638 (2023 - $nil).

The Company has provided a $245,000 letter of credit to a utilities provider with respect to a commitment agreement entered into with the utilities provider.

5. DEBT:

(a) Dairy Innovation West Inc.

The Company holds a mortgage payable to DIW for the purchase of land. Interest is charged at prime (being the prime interest rate charged by Canadian Imperial Bank of Commerce from time to time) less 0.35%. Interest charged during the year was $271,202 (2023 - $154,867) and the amount of interest payable included in accounts payable at year-end is $426,069 (2023 - $154,867).

In December 2022, DIW and Farm Credit Canada ("FCC") entered into a postponement and standstill agreement such that DIW agreed to postpone payments owing to it by the Company under this mortgage until all the debt due and owing from the Company to FCC are satisfied in full (Note 5 (b)). DIW can receive interest-only payments under the mortgage agreement with the Company, and until the full indebtedness of the Company to FCC is repaid, DIW will not, without FCC's prior written consent, make any demand for payment or accelerate any payments to be made to DIW from the Company. Thus the Company presented the mortgage loan with DIW as a long-term liability.

(b) Farm Credit Canada

The Company holds a loan payable to FCC. The maximum draw of the loan is $38,500,000, and funds advanced through the loan are used for the construction of a dairy concentration plant. Interest is charged at FCC's variable mortgage rate minus 1.35%. Interest charged during the year was $155,752 (2023 - $17,714). The repayment terms of the loan include interest-only payments until August 2025 and monthly blended payments starting in September 2025. The monthly blended payments will be amortized over a fifteen-year period. Security includes a mortgage of the Company's land and other assets, a general security agreement, pledge of cash and assignment, shareholder postponements (Note 5 (a)), an assignment of lease, construction contract and acknowledgement, and cash flow, and a guarantee from DIW. The loan is subject to various covenant requirements including a fixed charge coverage ratio. At July 31, 2024, the Company was in violation of the fixed charge coverage ratio in accordance with the debt agreement. In October 2024, FCC waived the covenant requirement for the Company for the year ended July 31, 2024 and therefore the Company presented the loan as a long-term liability.

(c) CAFO Inc.

The loan payable to CAFO Inc. was repaid in full during the year.

6. COMMON SHARES:

Authorized

Unlimited number of class A common shares without par.

Unlimited number of class B preferred shares without par.

Issued during the year

5,797,468 class A common shares were issued during the year.

	Shares		**Value**
Dairy Industry Development Council	2,080,910	$	**10,404,551**
Saskatchewan Milk Marketing Board	705,561		**3,527,799**
Alberta Milk	2,025,746		**10,128,732**
Dairy Farmers of Manitoba	985,251		**4,926,253**
	5,797,468	$	**28,987,335**

Total issued

A total of 6,124,960 class A common shares have been issued from the establishment of the Company to July 31, 2024.

	Shares		Value
Dairy Industry Development Council	2,169,464	**$**	**10,847,321**
Saskatchewan Milk Marketing Board	750,933		**3,754,659**
Alberta Milk	2,155,974		**10,779,872**
Dairy Farmers of Manitoba	1,048,589		**5,242,943**
	6,124,960	**$**	**30,624,795**

7. FINANCIAL INSTRUMENT RISKS:

The Company's main financial instrument risk exposure is detailed as follows:

Credit risk

The Company has determined that the financial assets with credit risk exposure are accounts receivable since the failure of any of these parties to fulfil their obligations could result in financial loss for the Company. The Company has assessed this risk as low.

Liquidity risk

The Company's liquidity risk represents the risk that the Company could encounter difficulty in meeting obligations associated with its financial liabilities. The Company, therefore, is exposed to liquidity risk with respect to its accounts payable, debt, and construction commitments.

DAIRY INNOVATION WEST

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