Q.B.G. No. _____of 2009

CANADA)
PROVINCE OF SASKATCHEWAN)

IN THE QUEEN'S BENCH
JUDICIAL CENTRE OF SASKATOON

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36

AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT FOR THE CREDITORS OF BIG SKY FARMS INC., DRYCAST SYSTEMS INC. and BIG SKY MANAGEMENT CONSULTING CORP.

AFFIDAVIT OF CANUTE TAGSETH

I, **CANUTE TAGSETH**, of the City of Saskatoon, in the Province of Saskatchewan, Chartered Accountant, **MAKE OATH AND SAY THAT**:

1. I am employed as the Chief Financial Officer (the "CFO") of the Applicant, Big Sky Farms Inc. ("Big Sky"), such that I have personal knowledge of the facts and matters hereinafter deposed to, except where stated to be based upon information and belief, and where so stated I do verily believe the same to be true.

2. The relationship between Big Sky, Drycast Systems Inc. and Big Sky Management Consulting Corp. is described below in paragraphs 6, 7 and 8 hereof. For purposes of this Affidavit, I refer to Big Sky Farms Inc., Drycast Systems Inc. and Big Sky Management Consulting Corp. collectively as "Big Sky".

BACKGROUND TO THE APPLICANTS

Background to Big Sky Farms Inc.

3. Big Sky Farms Inc. is a Saskatchewan corporation which maintains its head office in Humboldt, Saskatchewan and which has its registered office in Saskatoon, Saskatchewan. Attached and marked as Exhibit "1" to this Affidavit is a true copy of a Saskatchewan Corporations Branch Corporate Registry Profile Report for Big Sky Farms Inc., together with a list of holders of Class "A" shares in Big

Sky Farms Inc. as at July 28, 2009.

4. Big Sky is one of the largest agricultural enterprises in the Province of Saskatchewan. Big Sky is the largest hog producer in the Province of Saskatchewan and one of the two or three largest hog producers in Canada. Big Sky maintains a sow herd comprising over 40,000 breeding sows and sells approximately 850,000 market weight hogs per year. The majority of these hogs are sold by Big Sky to pork processing companies located in Western Canada, as well as to pork processing companies located in the United States of America. In recent years, Big Sky has typically sold approximately 80,000 feeder pigs and 145,000 early wean pigs per year, primarily to finishers located in the United States of America.

5. Big Sky operates in approximately 24 communities in rural Saskatchewan and Manitoba and is one of the largest employers in many of these communities. As more particularly described below in paragraph 13 hereof, Big Sky employs approximately 430 employees.

Background to Drycast Systems Inc. & Big Sky Management Consulting Corp.

6. Drycast Systems Inc. ("Drycast") is a Saskatchewan corporation which has its registered office in Saskatoon, Saskatchewan and which is a wholly owned subsidiary of Big Sky Farms Inc. Drycast was incorporated on March 15, 2000 in order to manufacture slatted concrete flooring to be used in the construction of hog barns by Big Sky Farms Inc. Drycast later began manufacturing penning to be used in the construction of hog barns by Big Sky Farms Inc. At present, Drycast no longer manufactures flooring and only manufactures a limited amount of penning. Attached and marked as Exhibit "2" to this Affidavit is a true copy of a Saskatchewan Corporations Branch Corporate Registry Profile Report for Drycast.

7. Big Sky Management Consulting Corp. ("BSMCC") is a Saskatchewan corporation affiliated with Big Sky Farms Inc. which has its registered office in

Saskatoon, Saskatchewan. BSMCC was incorporated on January 3, 2006 as a vehicle to facilitate management of third party hog production operations. At present, BSMCC is inactive. Attached and marked as Exhibit "3" to this Affidavit is a true copy of a Saskatchewan Corporations Branch Corporate Registry Profile Report for BSMCC.

8. Both Drycast and BSMCC are guarantors of the principal secured obligations owed by Big Sky Farms Inc. to its senior secured lenders. As a result, in addition to Big Sky Farms Inc., each of Drycast and BSMCC are Applicants within these proceedings.

Corporate Structure of Big Sky

9. The President and Chief Executive Officer of Big Sky is Casey Smit of Humboldt, Saskatchewan. Mr. Smit has been involved in the Saskatchewan hog industry for over 20 years and has been the Vice-President of Nutrition, responsible for managing the Feed Division of Big Sky, for the past twelve years. Mr. Smit assumed his duties effective September 25, 2009, when he succeeded John LaClare as President and CEO of Big Sky.

10. The Chairman of the board of directors of Big Sky is Dr. Larry Martin, Senior Research Fellow at the George Morris Centre of Guelph, Ontario.

11. Big Sky has issued a total aggregate amount of 10,698,808 Class "A" common voting shares. The single largest holder of the Class "A" common voting shares of Big Sky is a crown corporation of the Government of Saskatchewan known as CIC Asset Management Inc. ("CAMI"), which owns 6,725,000 such shares.

12. Apart from CAMI, the next six largest shareholders of Big Sky are as follows, namely:

   (a) Saskatchewan Government Growth Fund III Ltd. ("SGGF III"), an immigrant investor fund managed by a crown corporation of the Government of Saskatchewan, which owns 1,263,360 such shares;

(b) B & F Holdings Ltd., which owns 645,718 such shares;

(c) Saskatchewan Indian Equity Foundation, which owns 443,703 such shares;

(d) FCC Ventures, a Division of Farm Credit Canada ("FCC Ventures"), which owns 411,765 such shares;

(e) Golden Opportunities Fund Inc., a labour-sponsored venture capital fund based in Saskatoon, Saskatchewan ("GOFI"), which owns 411,765 such shares; and

(f) Big Sky Employees' Fund Inc., which owns 345,880 such shares.

Employees & Contract Labour Paid by Big Sky

13. In total, Big Sky employs approximately 430 employees. These employees work at the Head Office of Big Sky and at its 20 hog production facilities and 21 feed mill facilities located in rural Saskatchewan and Manitoba. The total aggregate annual payroll which Big Sky pays to its various employees is approximately Thirteen Million ($13,000,000.00) Dollars.

14. In order to attract and retain motivated and high quality employees, Big Sky provides an extensive benefit program to its employees, including 100% employer-paid group health benefits and a matched pension plan.

15. In recent years, Big Sky has created 36 summer student positions for students seeking summer employment in their home rural communities. Certain of these summer student employees of Big Sky have returned to their home rural communities upon graduation from their respective degree or diploma programs and have chosen to join Big Sky as permanent, full-time employees. Initiatives such as these have enabled Big Sky to make a major contribution to creating jobs in smaller rural communities in Saskatchewan and Manitoba and to sustaining and growing those rural communities in which it operates.

16. Continuously from 1999 until the present date, Big Sky has developed and implemented a lease operator program to enable it to attract and retain the services of quality transportation service providers. In total, Big Sky's lease operator program comprises 20 truck transportation units owned by lease operators (the "Lease Operators"). Big Sky owns the trailers which are used by the Lease Operators to transport its products. As well, Big Sky pays for the licensing and insurance of both the truck transportation units owned by the Lease Operators and the trailers owned by Big Sky which are used by the Lease Operators to transport its products.

17. To the full extent possible, Big Sky seeks to attract locally-based Lease Operators from the rural Saskatchewan and Manitoba communities in which it operates. Such Lease Operators derive their business income from the delivery of transportation services to Big Sky, as such truck units are dedicated exclusively to the transportation of pigs owned by Big Sky.

History of Big Sky

18. In 1995, Big Sky was formed by Florian Possberg, together with chartered accountant Mike Deutscher and veterinarians Dr. Jim Sawatsky and Dr. John Harding. Big Sky developed the first integrated "three site" hog production units in Western Canada. These "three site" hog production units were a type of farrow to finish hog production method in which the animals were physically segregated from one another on different sites throughout the growth stages of their life cycle. These "three site" production pyramids comprised breeding/farrowing, nursery and finishing sites at different locations. Between 1995 and 1999, Big Sky designed and built three different 3000-sow multi-site operations, including the Big Sky I, Big Sky II and Big Sky III production pyramids.

19. In 2000, CIC Industrial Interests Inc. (a crown corporation of the Government of Saskatchewan) and Crown Life Insurance Company ("CLIC") made investments in Big Sky. CIC Industrial Interests Inc. subsequently changed its name to Investment Saskatchewan Inc. ("ISI"). ISI subsequently changed its name to CIC

Asset Management Inc. ("CAMI"). Through a series of inter-corporate distributions to its shareholders, CLIC ultimately transferred all of its interests in Big Sky to CAMI.

20. Also in 2000, Big Sky built the Big Sky IV and Big Sky V production pyramids, establishing the first integrated 6000-sow unit in Canada.

21. Big Sky subsequently built two additional 6,000-sow units. In the fall of 2005, Big Sky purchased 16 farrow to finish hog barns located in Saskatchewan and Manitoba from Community Pork Ventures Inc.

Severe Downturn in the North American Hog Industry

22. The North American hog industry, and the Canadian hog industry in particular, have experienced a severe downturn in late 2008 and 2009, owing to a number of extraordinary market forces, including:

(a) the very negative impact upon prices obtained by Canadian hog producers from U.S. pork packers for Canadian pigs as a result of United States legislation requiring "Mandatory Country of Origin Labelling" ("MCOOL");

(b) the very negative impact upon prices for pigs obtained by North American hog producers resulting from the international H1N1 flu virus which has been unfortunately characterized as "swine flu", the impact of which characterization has been an abatement in the consumer demand of pork, thereby further depressing the price of pigs;

(c) unusually high feed prices (in large part due to U.S. Government policy mandating minimum ethanol production amounts and the impact of that policy on corn prices) ; and

(d) the strengthening of the Canadian dollar against the U.S. dollar.

23. Attached and marked collectively as Exhibit "4" to this Affidavit are true copies

of recent newspaper articles describing the negative impact upon Canadian hog prices of MCOOL and of international media coverage of the H1N1 flu virus.

ASSETS OF THE APPLICANTS

24. As at September 19, 2009, the total aggregate book value of the assets of Big Sky was approximately $141,853,000.00, comprising:

(a) current assets with a book value of approximately $37,140,000.00;

(b) capital assets with a depreciated book value of approximately $94,605,000.00;

(c) breeding stock with a book value of approximately $10,053,000.00; and

(d) other assets with a book value of approximately $56,000.00.

25. The current assets of Big Sky comprise accounts receivable with a book value of approximately $4,095,000.00; inventory with a book value of approximately $32,881,000 and prepaid insurance with a book value of approximately $164,000.00.

26. As at October 17, 2009, Big Sky's hog inventory was comprised of the following numbers of the following types of animals:

Category	Number of Animals	Comment
Sows	41,994	Breeding Herd
Suckling (≤ 21 days)	68,326	Less than 21 days old
Nursery	122,901	22-55 days old
Wean to Finish US	29,600	22 – 120 days old

Wean to Finish Canada	13,291	22-120 days old
Finisher – US	23,460	56-120 days old
Finisher – Canada	232,066	56-120 days old
Boars	195	Boar stud inventory

<u>Accounts Receivable From Hog Production Contracts</u>

27. Big Sky sells and ships approximately 83% of the market weight hogs sold by it to Canadian pork processors located in Western Canada. Of these hogs shipped by Big Sky to Canadian pork processors located in Western Canada, approximately 61% of such hogs shipped by Big Sky to Canadian pork processors are sold and shipped by Big Sky to the pork processing plant owned and operated by Maple Leaf Foods Inc. ("Maple Leaf") in Brandon, Manitoba and approximately 39% of such hogs shipped by Big Sky to Canadian pork processors are sold and shipped by Big Sky to the pork processing plant owned and operated by Olymel S.E.C. ("Olymel") in Red Deer, Alberta.

28. Big Sky sells and ships approximately 17% of the market weight hogs sold by it to the American pork processing plant owned and operated by Sioux-Preme Packing Company in the City of Sioux Centre, Iowa, United States of America.

<u>Maple Leaf</u>

29. Maple Leaf is a Canadian food production company which is the successor in interest to a Saskatchewan pork processing company based in Saskatoon and known as Mitchell's Gourmet Foods Inc. ("Mitchell's").

30. Pursuant to a Supply Agreement between Mitchell and Big Sky, Big Sky was to deliver to Mitchell's a fixed quantity of pigs per year for the period commencing on November 10, 1998 and ending on November 10, 2010. Such pigs were to be delivered by Big Sky to the pork processing facilities operated by Mitchell's in

Saskatoon, Saskatchewan.

31. Mitchell's was acquired by Maple Leaf and the Mitchell's Supply Agreement was subsequently assigned by Mitchell's to Maple Leaf pursuant to an assignment agreement.

32. Pursuant to the Mitchell's Supply Agreement, Big Sky presently sells and ships a fixed quantity of pigs annually to the Brandon, Manitoba production facility operated by Maple Leaf (the Saskatoon pork processing facility having been closed by Maple Leaf). The Mitchell's Supply Agreement expires in November of 2010.

Olymel

33. Olymel is a Quebec-based pork processing company which operates a pork processing plant in Red Deer, Alberta.

34. Big Sky and Olymel entered into a one-year hog supply contract made effective as of the 30th day of March, 2009 (the "Olymel Supply Contract") whereby Big Sky agreed to sell and ship pigs to the Red Deer, Alberta plant.

35. The Olymel Supply Contract expires in March of 2010.

Sioux-Preme

36. Sioux-Preme is an American pork processing company which carries on business in the City of Sioux Centre, Iowa, United States of America.

37. On January 21, 2009, Big Sky and Sioux-Preme entered into an Agreement with a minimum two-year term whereby Big Sky agreed to make available to Sioux-Preme a fixed quantity of hogs per week (the "Sioux-Preme Supply Contract"). Big Sky has delivered hogs to Sioux-Preme pursuant to the Sioux-Preme Supply Contract continuously since January of 2009.

CAPITAL ASSETS OF THE APPLICANTS

Hog Production Facilities Owned and Operated by Big Sky

38. As more particularly described below in paragraphs 39 to 43 hereof and Exhibit "5" hereto, Big Sky owns and operates 20 hog production facilities in rural communities located across the Provinces of Saskatchewan and Manitoba.

39. Big Sky owns and operates the following six multi-site hog production Pyramids located in or near the following ten rural communities, namely:

    (a) Burr/Kelvington, Saskatchewan (BSF I);

    (b) Lintlaw/Goodeve, Saskatchewan (BSF II);

    (c) Preeceville/Sturgis, Saskatchewan (BSF III);

    (d) Ogema, Saskatchewan (BSF IV);

    (e) Rama, Saskatchewan (BSF V); and

    (f) Weekes/Chelan, Saskatchewan (BSF VI).

40. Big Sky owns and operates the following two Farrow to Wean Hog Barns located in or near the following two rural communities, namely:

    (a) Pelly, Saskatchewan (BSF VII); and

    (b) Star City, Saskatchewan (Kelsey).

41. Big Sky owns and operates the following nine Farrow to Finish Hog Barns located in or near the following nine rural communities, namely:

    (a) Burr, Saskatchewan (Hillsley);

    (b) Arborfield, Saskatchewan (Pasquia);

(c) Rosthern, Saskatchewan (Sask Valley);

(d) Unity, Saskatchewan (Sask West);

(e) Theodore, Saskatchewan (Yellowhead);

(f) Strasbourg, Saskatchewan (Last Mountain);

(g) Treherne, Manitoba (Norfolk);

(h) Melita, Manitoba (Southwest); and

(i) Boissevain, Manitoba (Whitewater).

42. Big Sky owns and operates the following two Wean to Finish hog barns located in the following two rural communities, namely:

(a) Shaunavon, Saskatchewan (Red Coat); and

(b) Broderick, Saskatchewan (Great West).

43. Big Sky owns and operates the Big Quill Boar Stud Barn in Quill Lake, Saskatchewan, which facility supplies semen for the production of hogs by artificial insemination at the various Big Sky hog barns described above.

44. Attached and marked as Exhibit "5" to this Affidavit is a true copy of a map showing the geographic locations of the 20 Big Sky production facilities described above in paragraphs 39 to 43 (inclusive) hereof.

45. Big Sky annually pays a total aggregate amount of approximately $294,000 in municipal property taxes and road maintenance agreement payments to the 31 rural municipalities in which it operates.

46. In order to ensure that its products are produced in a safe and responsible manner, Big Sky has arranged for all of its hog production facilities to be registered with the Canadian Pork Council's Canadian Quality Assurance ("CQA") Program. The CQA Program requires that all registered hog production facilities maintain

high standards for operating procedures pertaining to the safe use of medications, adequate sanitation procedures and proper biosecurity standards.

47. Big Sky requires all persons employed by it at its hog production facilities to undertake mandatory CQA training. All Big Sky hog production facilities are validated to CQA standards and must perform an annual or partial re-validation, as stipulated by CQA standards.

48. The pork technicians and farm managers employed by Big Sky care for the animals produced by Big Sky in accordance with a Big Sky Animal Welfare Code of Practice. Audits of Big Sky hog production facilities are carried out regularly, in order to ensure adherence to the Big Sky Animal Welfare Code of Practice. Big Sky employees participate in continuing education initiatives regarding the importance of animal welfare issues.

49. Detailed production data pertaining to all pigs produced by Big Sky are recorded and verified within Big Sky's information system. The Big Sky information system enables Big Sky to track and retrieve detailed production information about each group of animals produced by it from birth until the time that they leave the Big Sky production facilities.

50. Each of the Big Sky hog production facilities is managed by a Unit Manager. In addition, the Unit Managers report to, and are supported by, Production Managers employed by Big Sky. Each Production Manager has a number of Big Sky hog production facilities assigned to him or her, and each Production Manager frequently visits those hog production facilities. The Production Managers assist the Unit Manager at their assigned hog production facilities in the areas of training, farm management, herd health, updates on new information and assistance regarding production problems that may arise from time to time.

51. Big Sky operates an internal Herd Health Division which is led by a staff veterinarian employed by Big Sky. The Big Sky Herd Health staff support the various Big Sky hog production facilities in all aspects of animal health. Big Sky

has developed and implemented a strict biosecurity program, in order to maximize herd health and to ensure the genetic integrity of Big Sky's farm breeding programs.

<u>Feed Mills Owned and Operated by Big Sky</u>

52. Big Sky purchases over Thirty Million ($30,000,000.00) Dollars' worth of wheat, barley and peas annually from local area farmers located in or near the communities in which it operates. This quantity of grain purchased by Big Sky from local area farmers comprises approximately 200,000 tonnes of feed and makes up approximately 75% of the annual feed requirements of Big Sky.

53. Big Sky owns and operates 21 feedmills which produce over 280,000 tonnes of feed annually. These 21 feedmills are located in or near the following 18 rural Saskatchewan and Manitoba communities in which Big Sky owns and operates hog production facilities, namely:

(a) Goodeve Mill (2):	Goodeve, Saskatchewan;
(b) Kelvington Mill (2):	Kelvington, Saskatchewan;
(c) Sturgis Mill (2):	Sturgis, Saskatchewan;
(d) Ogema Mill:	Ogema, Saskatchewan;
(e) Rama Mill:	Rama, Saskatchewan;
(f) Porcupine Plain Mill:	Porcupine Plain, Saskatchewan;
(g) Sask West Pork:	Unity, Saskatchewan;
(h) Eagle Creek:	Plenty, Saskatchewan;
(i) Red Coat:	Shaunavon, Saskatchewan;
(j) Pasquia Pork:	Arborfield, Saskatchewan;

(k) Sask Valley:	Rosthern, Saskatchewan;
(l) Kelsey:	Star City, Saskatchewan;
(m)Great West:	Broderick, Saskatchewan;
(n) Last Mountain	Strasbourg, Saskatchewan;
(o) Yellowhead:	Theodore, Saskatchewan;
(p) Whitewater:	Boiisevain, Manitoba;
(q) Southwest:	Melita, Manitoba; and
(r) Norfolk:	Treherne, Manitoba.

CREDITORS OF THE APPLICANTS

Senior Secured Debt Owed by Big Sky to Lending Syndicate

54. Pursuant to a Third Amended and Restated Credit Agreement dated as of July 14, 2006 (the "Syndicate Credit Agreement") between Big Sky Farms Inc., Drycast Systems Inc. and Big Sky Management Consulting Corp, as borrowers, and a syndicate of lenders (the "Lending Syndicate"), the Lending Syndicate made available to Big Sky credit facilities in the total aggregate original principal amount of Eighty-Six Million, One Hundred and Sixty-Two Thousand and Forty-Seven ($86,162,047.00) Dollars. The Lending Syndicate comprises Bank of Nova Scotia ("BNS"), Bank of Montreal ("BMO"), National Bank of Canada ("National Bank") and Farm Credit Canada ("FCC"). BNS acts as administrative agent for the Lending Syndicate and manages the indebtedness owed by Big Sky to the Lending Syndicate (the "Syndicate Indebtedness") on behalf of the Lending Syndicate. Attached and marked as Exhibit "6" to this Affidavit is a true copy of the Syndicate Credit Agreement.

55. The credit facilities made available to Big Sky by the Lending Syndicate under the Syndicate Credit Agreement comprise:

(a) an overdraft credit facility in the maximum amount of Four Million, Five Hundred Thousand ($4,500,000.00) Dollars ("Credit A1");

(b) a revolving credit facility in the maximum amount of Twenty Million ($20,000,000.00) Dollars ("Credit A2");

(c) a non-revolving credit facility in the amount of Forty-One Million, Six Hundred and Sixty-Two Thousand and Forty-Seven ($41,662,047.00) Dollars ("Credit B"); and

(d) a non-revolving credit facility in the amount of Twenty Million ($20,000,000.00) Dollars ("Credit C").

56. The Syndicate Credit Agreement has been amended by the following amending agreements between Big Sky and the Lending Syndicate (the "Syndicate Amending Agreements") and has been supplemented by the following letter agreements between Big Sky and the Lending Syndicate (the "Letter Agreements"), namely:

(a) the First Amending Agreement made as of March 7, 2007, which excluded certain future income taxes from the ratio calculation;

(b) the Second Amending Agreement made as of May 23, 2007, which amended the financial covenant regarding the debt servicing ratio;

(c) the Third Amending Agreement made as of December 14, 2007, which extended the maturity date of Credit A;

(d) the Fourth Amending Agreement made as of May 5, 2008, which increased the credit available under Credit A from $24,500,000 to $26,500,00, suspended principal payments with respect to Credit B and tranche 1 of Credit C and amended various financial covenant provisions, interest rates and fees;

(e) the Fifth Amending Agreement made as of December 22, 2008, which outlined the terms and conditions for which the Lending Syndicate agreed to provide a forbearance period and an extension of the maturity date of Credit A;

(f) the letter agreement between BNS, on behalf of the Lending Syndicate, and Big Sky dated June 26, 2009 and accepted and agreed to by Big Sky on June 29, 2009;

(g) the letter agreement between BNS, on behalf of the Lending Syndicate, and Big Sky dated July 29, 2009 and accepted and agreed to by Big Sky on July 30, 2009;

(h) the letter agreement between BNS, on behalf of the Lending Syndicate, and Big Sky dated August 25, 2009 and accepted and agreed to by Big Sky on August 25, 2009, whereby the Lending Syndicate agreed to make available to Big Sky a temporary operating credit of up to Two Million ($2,000,000.00) Dollars (the "Temporary Credit");

(i) the letter agreement between BNS, on behalf of the Lending Syndicate, and Big Sky dated September 14, 2009 and accepted and agreed to by Big Sky on September 14, 2009;

(j) the letter agreement between BNS, on behalf of the Lending Syndicate, and Big Sky dated October 15, 2009 and accepted and agreed to by Big Sky on October 15, 2009, whereby the Lending Syndicate agreed to increase the Temporary Credit by Two Hundred Thousand ($200,000.00) Dollars;

(k) the letter agreement between BNS, on behalf of the Lending Syndicate, and Big Sky dated October 21, 2009 and accepted and agreed to by Big Sky on October 22, 2009, whereby the Lending Syndicate agreed to increase the Temporary Credit by One Million ($1,000,000.00) Dollars; and

(l) the letter from Big Sky to BNS, on behalf of the Lending Syndicate, dated October 22, 2009.

Attached and marked collectively as Exhibit "7" to this Affidavit are true copies of the Syndicate Amending Agreements and the Letter Agreements.

57. On August 21, 2009, the Lending Syndicate formally demanded payment of the Syndicate Indebtedness from Big Sky and served upon Big Sky statutory notices of intention to enforce security pursuant to section 244 of the *Bankruptcy and Insolvency Act*, section 21 of the *Farm Debt Mediation Act* and section 12 of *The Saskatchewan Farm Security Act*.

58. As a result of the Letter Agreements:

(a) the current arrangements between Big Sky and the Lending Syndicate are to the effect that Big Sky is presently not required to make payments to the Lending Syndicate of either principal or interest on the Syndicate Indebtedness; and

(b) the Lending Syndicate has obtained options entitling it to purchase five percent (5%) of the common equity of Big Sky on a fully diluted basis.

59. As at October 17, 2009, the total aggregate amount of the Syndicate Indebtedness owed by Big Sky to the Lending Syndicate in regard to Credit A1, Credit A2, Credit B and Credit C was $68,865,501.00, which amount was comprised of:

(a) $4,500,000.00 in regard to Credit A1 (this is the authorized limit on this credit facility, as the actual balance fluctuates from day to day);

(b) $24,200,000.00 in principal and $641,408.00 in accrued interest in regard to Credit A2;

(c) $31,083,538.00 in principal and $878,957.00 in accrued interest in regard to Credit B; and

(d) $7,350,000.00 in principal and $211,598.00 in accrued interest in regard to Credit C.

60. In addition to the amounts described in the immediately preceding paragraph, Big Sky is indebted to the Lending Syndicate in regard to certain interest rate swap transactions (in an amount less than $500,000.00), pursuant to a Scotiabank Visa Business Card (in an amount less than $100,000.00) and pursuant to the Temporary Credit (in the amount of $3,200,000.00).

Subordinated Secured Debt Owed by Big Sky

61. As more particularly described below, Big Sky owes various types of subordinated secured debt to CAMI, GOFI, FCC Ventures, Florian Possberg and Cliff Wiegers, which subordinated secured debt totalled, in the aggregate, $9,678,783.67 (as at October 17, 2009).

2006 Subordinated Debt Advanced to Big Sky by GOFI & FCC Ventures

62. Big Sky, GOFI and FCC Ventures entered into an Investment Agreement dated October 2, 2006 (the "2006 Investment Agreement") whereby each of GOFI and FCC Ventures agreed to purchase from Big Sky:

(a) debentures in the principal amount of One Million, Five Hundred Thousand ($1,500,000) Dollars; and

(b) 411,765 common shares in the capital stock of Big Sky for a purchase price of Three Million, Five Hundred Thousand ($3,500,000) Dollars.

Attached and marked as Exhibit "8" to this Affidavit is a true copy of the 2006 Investment Agreement.

63. As contemplated in the 2006 Investment Agreement, GOFI and Big Sky entered into a Subordinated Debenture dated October 16, 2006 (the "GOFI 2006 Subordinated Debenture") pursuant to which GOFI agreed to extend to Big Sky a term loan in the aggregate amount of One Million, Five Hundred Thousand

($1,500,000) Dollars. Attached and marked as Exhibit "9" to this Affidavit is a true copy of the GOFI 2006 Subordinated Debenture.

64. As contemplated in the 2006 Investment Agreement, FCC Ventures and Big Sky entered into a Subordinated Debenture dated October 16, 2006 (the "FCC Ventures 2006 Subordinated Debenture") pursuant to which FCC Ventures agreed to extend to Big Sky a term loan in the aggregate amount of One Million, Five Hundred Thousand ($1,500,000) Dollars. Attached and marked as Exhibit "10" to this Affidavit is a true copy of the FCC Ventures 2006 Subordinated Debenture.

65. In order to secure the repayment of the GOFI 2006 Subordinated Debenture and the FCC Ventures 2006 Subordinated Debenture, Big Sky granted in favour of GOFI and FCC Ventures a collateral mortgage dated October 16, 2006 (the "GOFI and FCC Ventures 2006 Collateral Mortgage") in the principal amount of Three Million ($3,000,000) Dollars charging all the real property of Big Sky. Attached and marked as Exhibit "11" to this Affidavit is a true copy of the GOFI and FCC Ventures 2006 Collateral Mortgage.

66. In order to secure the repayment of the GOFI 2006 Subordinated Debenture, Big Sky executed a General Security Agreement dated October 16, 2006 (the "GOFI 2006 GSA") granting to GOFI a security interest in all of Big Sky's present and after-acquired property. Attached and marked as Exhibit "12" to this Affidavit is a true copy of the GOFI 2006 GSA.

67. In order to secure the repayment of the FCC Ventures 2006 Subordinated Debenture, Big Sky executed a General Security Agreement dated October 16, 2006 (the "FCC Ventures 2006 GSA") granting to FCC Ventures a security interest in all of Big Sky's present and after-acquired property. Attached and marked as Exhibit "13" to this Affidavit is a true copy of the FCC Ventures 2006 GSA.

68. Each of the GOFI 2006 Subordinated Debenture and the FCC Ventures Subordinated Debenture provides that:

(a) the loan shall be repaid in five equal annual installments of Three Hundred Thousand ($300,000) Dollars commencing on November 15, 2008 and continuing on November 15 of each year thereafter, with any balance to be paid on the maturity date of October 16, 2014; and

(b) the loan shall bear interest at a fixed rate of twelve and one-half (12.5%) per cent per annum on outstanding amounts, calculated monthly, plus an additional four (4%) per cent per annum or such other rate such that the interest paid by Big Sky would result in a pre-tax internal rate of return on the principal amount equal to sixteen and one-half (16.5%) per cent per annum.

69. Pursuant to an Inter-Lender Priority Pari Passu Agreement dated as of October 16, 2006 between GOFI and FCC Ventures and Big Sky, it was agreed that the security interests held by GOFI and FCC Ventures securing the loans provided pursuant to the GOFI 2006 Subordinated Debenture and the FCC Ventures 2006 Subordinated Debenture ranked *pari passu* with the other. Attached and marked as Exhibit "14" to this Affidavit is a true copy of the Inter-Lender Priority Pari Passu Agreement described in this paragraph.

70. As at October 17, 2009, the total aggregate amount of debt owed by Big Sky in respect of the Subordinated Debentures described above was $3,455,651.00, which amount was comprised of the following components, namely:

(a) to GOFI, principal of $1,500,000.00 and accrued interest of $235,788.00;

(b) to FCC Ventures, principal of $1,500,000.00 and accrued interest of $219,863.00.

<u>May, 2008 Subordinated Debt Advanced to Big Sky by GOFI, ISI and FCC Ventures</u>

71. On May 9, 2008, the following parties agreed to advance to Big Sky loans in the following additional amounts, which amounts were secured by the following

security agreements, namely:

(a) GOFI agreed to advance a loan to Big Sky in the original principal amount of Two Hundred and Fifty Thousand ($250,000) Dollars (the "May, 2008 GOFI Loan");

(b) in order to secure the repayment of the May, 2008 GOFI Loan, by means of a Credit Agreement dated as of May 9, 2008 and a General Security Agreement dated as of May 9, 2008, Big Sky granted to GOFI a security interest in all of the present and after-acquired undertaking and property of Big Sky (the "May, 2008 GOFI Security"). Attached and marked as Exhibit "15" to this Affidavit is a true copy of the Credit Agreement and the General Security Agreement creating the May, 2008 GOFI Security;

(c) FCC Ventures agreed to advance a loan to Big Sky in the original principal amount of Two Hundred and Fifty Thousand ($250,000) Dollars (the "May, 2008 FCC Ventures Loan");

(d) in order to secure the repayment of the May, 2008 FCC Ventures Loan, by means of a Credit Agreement dated as of May 9, 2008 and a General Security Agreement dated as of May 9, 2008, Big Sky granted to FCC Ventures a security interest in all of the present and after-acquired undertaking and property of Big Sky (the "May, 2008 FCC Ventures Security"). Attached and marked as Exhibit "16" to this Affidavit is a true copy of the Credit Agreement and the General Security Agreement creating the May, 2008 FCC Ventures Security;

(e) ISI agreed to advance a loan to Big Sky in the original principal amount of One Million, Eight Hundred Thousand ($1,800,000) Dollars (the "First May, 2008 ISI Loan");

(f) in order to secure the repayment of the First May, 2008 ISI Loan, by means of a Credit Agreement dated as of May 9, 2008 and a General

Security Agreement dated as of May 9, 2008, Big Sky granted to ISI a security interest in all of the present and after-acquired undertaking and property of Big Sky (the "First May, 2008 ISI Security"). Attached and marked as Exhibit "17" to this Affidavit is a true copy of the Credit Agreement and the General Security Agreement creating the First May, 2008 ISI Security;

(g) ISI agreed to advance a loan to Big Sky in the original principal amount of Seven Hundred Thousand ($700,000) Dollars (the "Second May, 2008 ISI Loan"); and

(h) in order to secure the repayment of the Second May, 2008 ISI Loan, by means of a Credit Agreement dated as of May 9, 2008 and a General Security Agreement dated as of May 9, 2008, Big Sky granted to ISI a security interest in all of the present and after-acquired undertaking and property of Big Sky (the "Second May, 2008 ISI Security"). Attached and marked as Exhibit "18" to this Affidavit is a true copy of the Credit Agreement and the General Security Agreement creating the Second May, 2008 ISI Security.

72. The agreements pertaining to the May, 2008 GOFI Loan; the May, 2008 FCC Ventures Loan; the First May, 2008 ISI Loan and the Second May, 2008 ISI Loan (collectively, the "May, 2008 Loans") provided that:

(a) each of the May, 2008 Loans bore interest at a fixed rate of eighteen (18%) per cent per annum on outstanding amounts, compounded monthly;

(b) each of the May, 2008 Loans had a maturity date of November 9, 2009;

(c) as part of the agreements for each of the May, 2008 Loans, Big Sky was required to grant to each of the respective lenders a specified number of share purchase warrants, each such warrant entitling the holder to purchase a common share in the capital stock of Big Sky for the purchase price of One ($0.01) Cent per share;

(d) such warrants were scheduled to expire on March 31, 2010;

(e) in regard to the First May, 2008 ISI Loan, Big Sky granted to ISI One Hundred and Eighty Thousand (180,000) such share purchase warrants;

(f) in regard to the Second May, 2008 ISI Loan, Big Sky granted to ISI Seventy Thousand (70,000) such share purchase warrants;

(g) in regard to the May, 2008 GOFI Loan, Big Sky granted to GOFI Twenty-Five Thousand (25,000) such share purchase warrants;

(h) in regard to the May, 2008 FCC Ventures Loan, Big Sky granted to FCC Ventures Twenty-Five Thousand (25,000) such share purchase warrants;

(i) if Big Sky did not repay one of the May, 2008 Loans on or before its respective maturity date(s), Big Sky would be required to grant to the lender under such loan one additional such share purchase warrant for each Ten ($10.00) Dollars of the loan and all accrued and unpaid interest outstanding as of the maturity date of November 9, 2009;

(j) pursuant to an Inter-Lender Priority and Pari Passu Agreement dated as of the 9th day of May, 2008 between ISI, GOFI, FCC Ventures and Big Sky, it was agreed that each of the respective security interests held by ISI, GOFI and FCC Ventures securing the May, 2008 Loans ranked *pari passu* with the other. Attached and marked as Exhibit "19" to this Affidavit is a true copy of the Inter-Lender Priority and Pari Passu Agreement described in this paragraph; and

(k) by means of an Inter-Creditor Agreement made as of the 12th day of May, 2008 between, among others, Big Sky, BNS (as authorized agent for the Lending Syndicate), ISI, FCC Ventures and GOFI, each of ISI, FCC Ventures and GOFI agreed, among other things, to subordinate the security held by each of them in the assets of Big Sky as security for the May, 2008 Loans to and in favour of the security held by the Lending Syndicate in order to secure the repayment of the Syndicate Indebtedness. Attached and marked as Exhibit "20" to this Affidavit is a true copy of the Inter-Creditor Agreement described in this paragraph.

73. As at October 17, 2009, the total aggregate amount of debt owed by Big Sky in respect of the May, 2008 Loans was $3,875,465.30, which amount was comprised of the following components, namely:

(a) to ISI, principal of $2,500,000.00 and accrued interest of $729,554.38;

(b) to GOFI, principal of $250,000 and accrued interest of $72,955.46; and

(c) to FCC Ventures, principal of $250,000 and accrued interest of $72,955.46.

<u>December, 2008 Working Capital Loans to Big Sky by ISI, GOFI and FCC Ventures</u>

74. On December 15, 2008, the following parties agreed to advance to Big Sky working capital loans in the following additional amounts, namely:

(a) ISI agreed to advance a loan to Big Sky in the original principal amount of One Million ($1,000,000) Dollars (the "December, 2008 ISI Loan");

(b) in order to secure the repayment of the December, 2008 ISI Loan, by means of a Credit Agreement dated as of December 15, 2008, Big Sky granted to ISI a security interest in all of the present and after-acquired undertaking and property of Big Sky (the "December, 2008 ISI Security"). Attached and marked as Exhibit "21" to this Affidavit is a true copy of the Credit Agreement creating the December, 2008 ISI

Security;

(c) GOFI agreed to advance a loan to Big Sky in the original principal amount of Two Hundred and Fifty Thousand ($250,000) Dollars (the "December, 2008 GOFI Loan");

(d) in order to secure the repayment of the December, 2008 GOFI Loan, by means of a Credit Agreement dated as of December 15, 2008, Big Sky granted to GOFI a security interest in all of the present and after-acquired undertaking and property of Big Sky (the "December, 2008 GOFI Security"). Attached and marked as Exhibit "22" to this Affidavit is a true copy of the Credit Agreement creating the December, 2008 GOFI Security;

(e) FCC Ventures agreed to advance a loan to Big Sky in the original principal amount of Two Hundred and Fifty Thousand ($250,000) Dollars (the "December, 2008 FCC Ventures Loan"); and

(f) in order to secure the repayment of the December, 2008 FCC Ventures Loan, by means of a Credit Agreement dated as of December 15, 2008, Big Sky granted to FCC Ventures a security interest in all of the present and after-acquired undertaking and property of Big Sky (the "December, 2008 FCC Ventures Security"). Attached and marked as Exhibit "23" to this Affidavit is a true copy of the Credit Agreement creating the December, 2008 FCC Ventures Security.

75. The agreements pertaining to the December, 2008 ISI Loan; the December, 2008 GOFI Loan and the December, 2008 FCC Ventures Loan (collectively, the "December, 2008 Loans") provided that:

(a) each of the December, 2008 Loans bore interest at a fixed rate of twenty (20%) per cent per annum on outstanding amounts, compounded monthly;

(b) each of the December, 2008 Loans had a maturity date of October 30, 2009;

(c) as part of the agreements for each of the December, 2008 Loans, Big Sky was required to grant to each of the respective lenders a specified number of share purchase warrants, each such warrant entitling the holder to purchase a common share in the capital stock of Big Sky for the purchase price of One ($0.01) Cent per share;

(d) such warrants were scheduled to expire on March 31, 2010;

(e) in regard to the December, 2008 ISI Loan, Big Sky granted to ISI Two Hundred Thousand (200,000) such share purchase warrants;

(f) in regard to the December, 2008 GOFI Loan, Big Sky granted to GOFI Fifty Thousand (50,000) such share purchase warrants;

(g) in regard to the December, 2008 FCC Ventures Loan, Big Sky granted to FCC Ventures Fifty Thousand (50,000) such share purchase warrants;

(h) if Big Sky did not repay one of the December, 2008 Loans on or before its respective maturity date(s), Big Sky would be required to grant to the lender under such loan one additional such share purchase warrant for each Five ($5.00) Dollars of the loan and all accrued and unpaid interest outstanding as of the maturity date of November 9, 2009;

(i) pursuant to a Second Inter-Lender Priority and Pari Passu Agreement dated as of the 15th day of December, 2008 between, among others, ISI, GOFI, FCC Ventures and Big Sky, it was agreed that each of the respective security interests held by ISI, GOFI and FCC Ventures securing the December, 2008 Loans ranked *pari passu* with the other. Attached and marked as Exhibit "24" to this Affidavit is a true copy of the Second Inter-Lender Priority and Pari Passu Agreement described in this paragraph; and

(j) by means of an Inter-Creditor Agreement made as of the 22nd day of December, 2008 between, among others, Big Sky, BNS (as authorized agent for the Lending Syndicate), ISI, FCC Ventures and GOFI, each of ISI, FCC Ventures and GOFI agreed, among other things, to subordinate the security held by each of them in the assets of Big Sky as security for the December, 2008 Loans to and in favour of the security held by the Lending Syndicate in order to secure the repayment of the Syndicate Indebtedness. Attached and marked as Exhibit "25" to this Affidavit is a true copy of the Inter-Creditor Agreement described in this paragraph.

76. As at October 17, 2009, the total aggregate amount of debt owed by Big Sky in respect of the December, 2008 Working Capital Loans was $1,756,264.50, which amount was comprised of the following components, namely:

(a) to ISI, principal of $1,000,000.00 and accrued interest of $170,843.12;

(b) to GOFI, principal of $250,000.00 and accrued interest of $42,710.75; and

(c) to FCC Ventures, principal of $250,000.00 and accrued interest of $42,710.75.

Subordinated Debt Advanced to Big Sky by Florian Possberg

77. Pursuant to a Credit Agreement dated as of May 30, 2008 (the "Possberg Credit Agreement"), Florian Possberg agreed to provide to Big Sky a term loan in the amount of Four Hundred and Two Thousand, Five Hundred ($402,500) Dollars (the "Possberg Loan") in order to fund certain working capital deficiencies affecting Big Sky. Attached and marked as Exhibit "26" to this Affidavit is a true copy of the Possberg Credit Agreement.

78. Pursuant to Article 6 of the Possberg Credit Agreement, in order to secure the repayment of the Possberg Loan, Big Sky granted to Florian Possberg a security interest in all of Big Sky's present and after-acquired real and personal property.

79. The Possberg Credit Agreement provided that:

(a) the Possberg Loan shall be repaid in full on November 9, 2009; and

(b) the Possberg Loan shall bear interest at a fixed rate of eighteen (18%) per annum.

80. As at October 17, 2009, the amount of debt owing by Big Sky in respect of the Possberg Loan was $515,385.56, comprising principal of $402,500.00 and interest of $112,885.56.

Subordinated Debt Advanced to Big Sky by Cliff Wiegers

81. Pursuant to a Credit Agreement dated as of June 15, 2008 (the "Wiegers Credit Agreement"), Cliff Wiegers agreed to provide to Big Sky a term loan in the amount of Fifty Nine Thousand, Nine Hundred and Fifty ($59,950) Dollars (the "Wiegers Loan") in order to fund certain working capital deficiencies affecting Big Sky. Attached and marked as Exhibit "27" to this Affidavit is a true copy of the Wiegers Credit Agreement.

82. In order to secure the repayment of the Wiegers Loan, Big Sky granted to Cliff Wiegers pursuant to Article 6 of the Wiegers Credit Agreement, a security interest in all of Big Sky's present and after-acquired real and personal property.

83. The Wiegers Credit Agreement provided that:

(a) the Wiegers Loan shall be repaid in full on November 9, 2009; and

(b) the Wiegers Loan shall bear interest at a fixed rate of eighteen (18%) per annum.

84. As at October 17, 2009, the amount of debt owing by Big Sky in respect of the

Wiegers Loan was $76,017.31, comprised of principal of $59,950.00 and interest of $16,067.31.

Local Area Grain Farmers

85. Big Sky purchases approximately 75% of its requirements for grain (wheat, barley and peas) directly from local area grain farmers located in or near the various Saskatchewan and Manitoba communities in which Big Sky carries on business (the "Local Area Grain Farmers"). These Local Area Grain Farmers have come to rely upon Big Sky for competitive pricing and as an outlet for local grain sales, given the proximity of Big Sky production facilities to their local communities. Big Sky makes such grain purchases from the Local Area Grain Farmers for immediate delivery (0 to 30 days) using fixed-price contracts. Big Sky generally pays for such grain purchases within 15 business days. However, due to the prolonged downturn in the market, these payables have recently ranged between 30 to 60 days. If these Local Area Grain Farmers do not receive timely payment of amounts owing to them by Big Sky for feed purchases, the resulting economic hardship suffered by such Local Area Grain Farmers will severely impact the ability of Big Sky to secure future grain supplies. The continued supply of goods and services to Big Sky by the Local Area Grain Farmers is critical to the ability of Big Sky to continue to carry on business.

86. Feed costs normally represent between 55% and 65% of the variable costs of hog production enterprises. By locating its hog production facilities in rural Saskatchewan where the supply of feed grain is abundant, Big Sky has generally been able to manage its feed costs. The location of these Big Sky hog production facilities in rural Saskatchewan has provided the Local Area Grain Farmers with additional marketing options for their feed grain and has assisted in reducing transportation costs.

87. Owing to the strong network of relationships and communications among Western Canadian grain farmers, Big Sky is gravely concerned that, if it is unable to pay to the Local Area Grain Farmers the indebtedness owed by it to them, the result will

be that Big Sky will suffer irreparable harm to its business reputation and creditworthiness and will potentially be unable to secure adequate supplies of feed grain on economic terms.

Canadian Contract Growers

88. Big Sky produces a number of pigs which are not suited for finishing within its primary production units. Big Sky deals with such pigs by delivering them to contract growers in Canada (the "Canadian Contract Growers") who operate facilities which allow for finishing of pigs that typically take longer to reach market. There are five Canadian contract growers who provide to Big Sky the use of their production facilities and associated utilities, as well as associated management services and labour. The continued supply of goods and services to Big Sky by the Canadian Contract Growers is necessary in order for Big Sky to be able to continue to carry on business.

Transportation Services Purchased by Big Sky

89. In order to maintain reliable transportation of its products to various production destinations in Canada and the United States of America, Big Sky has developed strict transportation protocols and has established a network of high quality transportation service providers employing Trucker Quality Assurance certified drivers and "state of the art" equipment. These transportation protocols and relationships with quality transportation firms have enabled Big Sky to adhere to high biosecurity standards and animal welfare codes of practice.

90. Big Sky also owns three "truck wash" facilities at various locations throughout Saskatchewan, two of which it operates.

91. Big Sky annually purchases a total aggregate amount of approximately Nine Million, Five Hundred Thousand ($9,500,000) Dollars' worth of transportation services from Saskatchewan and Manitoba transportation service providers.

Environmental Services Purchased by Big Sky

92. As a result of the number of pigs produced by it, the production facilities operated by Big Sky generate over 200 million gallons of manure annually. As a result, Big Sky requires a reliable and consistent supply of environmental services to all of its production facilities in order to carry on business. These environmental services are provided to Big Sky by Alvin Olynick, carrying on business under the name and style of "Olynick Water and Sewer" (the "Environmental Contractor").

93. The Environmental Contractor is the exclusive supplier to Big Sky of specialized environmental services, including sewage and water lagoon servicing, line flushing, lift station maintenance and servicing of pumps and high pressure systems owned by Big Sky. The Environmental Contractor delivers services to Big Sky through the use of specialized equipment and is essentially "on call" to Big Sky. The Environmental Contractor provides environmental services to Big Sky production facilities across Saskatchewan essentially every business day and on many weekends.

Feed Suppliers to Big Sky

94. Big Sky currently purchases approximately One Million, Two Hundred and Fifty Thousand ($1,250,000.00) Dollars' worth of feed ingredients every week in order to feed the pigs owned, raised and finished by Big Sky.

95. The principal feed ingredients purchased by Big Sky include barley, wheat, corn, soymeal, canolameal, fishmeal, minerals, salt, vitamins, trace minerals, amino acids, animal fat, calcium and phosphorous. These ingredients are supplied to Big Sky by 15 principal suppliers located in the Northern United States and Western Canada.

96. Big Sky has entered into contracts with the principal suppliers of these feed ingredients for a specific amount of tonnes of such ingredients which are either "flat priced" or "basis only". Feed ingredient supply contracts which are "flat priced" are fixed for a specific delivery period, plus freight. Feed ingredient

supply contracts which are "basis only" are priced at Big Sky's option prior to a specific Chicago Board of Trade future closing contract, plus freight.

97. The feed ingredient supply contracts which Big Sky has with Viterra, Bunge, WCT and Constantini are all "flat priced" contracts. The feed ingredient supply contracts which Big Sky has with ADM and Cargill are a mixture of "flat priced" and "basis only" contracts.

98. The lengths of the feed ingredient supply contracts which Big Sky has entered into vary considerably. The contracts with Viterra and WCT are 1-30 day contracts.

<u>U.S.-Based Creditors of Big Sky</u>

<u>U.S. Contract Growers</u>

99. Big Sky has entered into contracts with a number of contract growers located in the United States of America (the "U.S. Contract Growers") who provide to Big Sky the goods and services required by Big Sky to finish pigs which Big Sky sells to American pork packers. The U.S. Contract Growers finish all of the pigs owned by Big Sky which are produced from the BSF VII farrow to wean production facility located in Pelly, Saskatchewan.

100. There are currently approximately fourteen different U.S. Contract Growers located in 24 different sites in eight different communities in the State of Iowa with whom Big Sky has entered into contracts. These contracts range in duration from one year to five years.

101. Attached and marked as Exhibit "28" to this Affidavit is a true copy of a spreadsheet identifying the names, locations and numbers of sites in the State of Iowa at which these pigs owned by Big Sky are currently located and cared for by the U.S. Contract Growers. The U.S. Contract Growers are located primarily in and around the Districts of Carroll and Hawarden in Northwestern Iowa.

102. Big Sky presently has approximately $5,000,000 worth of pigs located in the State

of Iowa which are fed and cared for by the U.S. Contract Growers. At present, Big Sky owes a total aggregate amount of approximately $2,000,000 to U.S.-based creditors.

103. The U.S. Contract Growers provide to Big Sky the use of their production facilities and associated utilities, as well as associated management services and labour. The continued supply of goods and services to Big Sky by the U.S. Contract Growers is critical to the ability of Big Sky to continue to carry on business.

U.S. Feed Suppliers

104. Big Sky's feed requirements for its pigs which are located in Iowa and are under the care of the U.S. Contract Growers are supplied by the following four U.S. feed mills (the "U.S. Feed Suppliers"), namely:

(a) De-Luxe Feeds in Sheldon, Iowa;

(b) Farmers Co-op in Hinton, Iowa;

(c) New Co-op in Palmer, Iowa; and

(d) FAC Coop in Arcadia, Iowa.

105. The U.S. Feed Suppliers provide to Big Sky a supply of complete feed suited to the nutritional requirements of pigs owned by Big Sky which are under the care of the U.S. Contract Growers. Big Sky has entered into certain forward pricing contracts with the U.S. Feed Suppliers in regard to the purchase of corn and soymeal.

Additional Creditors of Big Sky

106. Big Sky owes unsecured accounts payable to its trade creditors of all descriptions which, on average, total approximately $16,000,000.00.

107. The Saskatchewan Ministry of Agriculture announced the Short Term Hog Loan Program (the "STHLP") in early January of 2008. The STHLP allowed for loans to a maximum of Five Million ($5,000,000.00) Dollars to any single hog producer based on market hog sales in a specified period. Big Sky qualified for and received a loan (the "Big Sky STHLP Loan") in the maximum amount of loan available under the STHLP (i.e. - $5,000,000.00). Repayment terms under the Big Sky STHLP Loan were based on a formula derived from market hog sales over a minimum price level. Interest on the Big Sky STHLP Loan was based on the Government of Saskatchewan's borrowing rate (which is significantly lower than commercial interest rates). In April of 2009, further deferral options were allowed to borrowers under the STHLP due to continuing difficult economic circumstances in the hog industry. Big Sky opted to defer principal payments on the Big Sky STHLP Loan until May of 2010. In the meantime, Big Sky continues to make monthly payments of interest on the Big Sky STHLP Loan. Attached and marked collectively as Exhibit "29" to this Affidavit are true copies of documentation pertaining to the Big Sky STHLP Loan.

108. Certain of Big Sky's facilities (the "PHPLP Facilities") are leased by Big Sky under capital leases (the "PHPLP Leases") which Big Sky (as tenant) has entered into with Prairie Hog Production Limited Partnership ("PHPLP") (as landlord). The PHPLP Leases are ten-year year leases. From and after September of 2008, Big Sky has been paying a reduced negotiated amount of rent to PHPLP on the PHPLP Leases in the amount of $75,000 per month. The regular payments of rent which were originally required to be paid by Big Sky under the PHPLP Leases were monthly payments of $137,566.80 (including taxes). The use of the PHPLP Facilities is integral to the production system of Big Sky.

109. Certain of Big Sky's production facilities (the "BSF Facilities") are owned and operated by a corporation known as Big Sky Finishers (No. 1) Inc. ("Finishers"). Pursuant to contracts between Finishers and Big Sky regarding the BSF Facilities, Finishers provides to Big Sky the use of the BSF Facilities and the labour to operate the BSF Facilities. Big Sky is the only customer of Finishers. The BSF

facilities are integral to the production system of Big Sky.

Current Financial Position of Big Sky

110. Attached and marked collectively as Exhibit "30" to this Affidavit are true copies of:

    (a) the Unaudited Consolidated Financial Statements for Big Sky for the Fourth Quarter ending June 27, 2009; and

    (b) the Unaudited Financial Report of Big Sky for the three periods ending September 19, 2009.

111. Big Sky has experienced negative hog margins for the past twenty-two consecutive months. This is a period of negative hog margins unprecedented in the history of Big Sky.

112. As a result of these negative hog margins experienced by it for the past 22 months, Big Sky lacks the resources required to pay its liabilities generally as they come due. As a result, Big Sky has become insolvent.

113. In order to address the very serious financial difficulties faced by it, Big Sky has implemented a number of cost reduction initiatives, including:

    (a) closing certain underperforming operations;

    (b) reducing its breeding herd by over 18%;

    (c) consolidating its genetic lines;

    (d) selling certain non-core assets; and

    (e) reducing administrative costs.

114. By means of a letter dated June 24, 2009, Big Sky notified its shareholders of a pre-emptive share offering designed to raise funds to provide additional liquidity to Big Sky. Attached and marked as Exhibit "31" to this Affidavit is a true copy of the letter described in this paragraph.

115. None of Big Sky's shareholders have exercised any rights to purchase shares under the pre-emptive share offering. Big Sky has engaged in discussions with various investors who have expressed an interest in the shares that were offered for sale under the pre-emptive share offering.

116. Attached and marked collectively as Exhibit "32" to this Affidavit is a true copy of cash flow projections for Big Sky for the next 16 weeks which I have prepared.

117. Big Sky is currently losing approximately $350,000 per week in cash due to the low hog prices currently being received. Hog prices are generally strongest during the spring and summer months. This year, due in large part to the negative publicity associated with the H1N1 virus, the hog industry did not experience the anticipated strong hog prices this spring and summer. This has resulted in the current high cash operating losses being experienced by Big Sky.

118. Big Sky is not alone in experiencing these operating losses as this is an industry-wide problem whereby all of Big Sky's competitors are facing the same types of issues. The problem has become so severe in the industry that, on August 15, 2009, the Government of Canada announced a program to provide assistance to the Canadian hog industry known as the Hog Industry Loan Loss Reserve Program ("HILLRP").

119. Subsequent to the announcement of HILLRP, the Lending Syndicate provided Big Sky with bridge financing in the form of the Temporary Credit to cover its operating losses while it prepared an application to the Government of Canada for financial assistance under HILLRP. However, announcement of the details of HILLRP has been delayed. As a result of such delay, Big Sky has exhausted the bridge financing provided to it by the Lending Syndicate (as described in this

paragraph).

120. The shareholders of Big Sky have informed Big Sky that they are not prepared to advance further debt to Big Sky against the potential proceeds of HIILRP, because HILLRP only covers funds advanced by registered financial institutions.

121. Unfortunately for Big Sky, it appears that it will take a number of weeks for any sort of funding under HILLRP to reach any Canadian hog producer – a situation which is too late to address Big Sky's current cash needs.

Debtor-in-Possession Financing

122. Big Sky will need to continue to secure feed in order to feed its animals. In that regard, Big Sky plans to seek an Order within these CCAA proceedings authorizing it to obtain debtor-in-possession financing ("DIP Financing") secured by a standard court-ordered first charge on its assets, in order to manage any animal welfare issues which may arise as a result of its cash flow challenges.

123. As at the date of my swearing this Affidavit on October 29, 2009, Big Sky has not yet secured a commitment from a lender to advance DIP Financing to Big Sky within these CCAA proceedings on terms which Big Sky is able to accept and to present to this Court for approval.

124. Big Sky has engaged in discussions regarding a potential DIP Financing credit facility to be advanced within these CCAA proceedings with the Lending Syndicate and with one or more other potential lenders. Big Sky intends to continue these discussions, with a view to securing a commitment from a lender to advance DIP Financing to Big Sky within these CCAA proceedings on terms which Big Sky is able to accept and to present to this Court for approval. To the full extent possible, Big Sky is working to be in a position to present such a commitment for DIP Financing to the Court at the anticipated hearing date of its application for an Initial Order within these CCAA proceedings on the morning of Tuesday, November 3, 2009.

Proposed Restructuring of Big Sky

125. Big Sky seeks an Order granting it protection from its creditors and a stay of proceedings under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (the "CCAA"), in order to permit Big Sky to develop and present a Plan of Arrangement to its creditors which will enable Big Sky to restructure its business and financial affairs and to continue to carry on business.

126. Attached and marked collectively as Exhibit "33" to this Affidavit are true copies of Saskatchewan Personal Property Registry Search Results for each of Big Sky Farms Inc., Drycast Systems Inc. and Big Sky Management Consulting Corp.

127. Attached and marked collectively as Exhibit "34" to this Affidavit are true copies of Manitoba Personal Property Registry Search Results for each of Big Sky Farms Inc., Drycast Systems Inc. and Big Sky Management Consulting Corp.

128. Attached and marked as Exhibit "35" to this Affidavit are true copies of Iowa Uniform Commercial Code Search Results for Big Sky Farms Inc. I have been informed by Jeffrey M. Lee of the law firm of MacPherson Leslie & Tyerman LLP, counsel to Big Sky, and I believe it to be true, that Iowa Uniform Commercial Code search results against Drycast Systems Inc. and Big Sky Management Consulting Corp. failed to yield any positive search results.

129. The proposed Plan of Arrangement being developed by Big Sky to restructure its business and financial affairs is in its early stages and will be subject to extensive further revisions and modifications as negotiations proceed between Big Sky and its various stakeholders. Big Sky will diligently advance the restructuring of its business and financial affairs and recognizes the importance of doing this in an expedited manner.

130. Big Sky has requested the accounting and restructuring firm of Ernst & Young Inc. of Vancouver, British Columbia to serve as court-appointed monitor of Big Sky in the event that Big Sky's application for relief under the CCAA is successful. Ernst & Young Inc. has agreed to serve in that capacity in the event

that the Court is disposed to make such an appointment.

131. I have been informed by Kevin Brennan of Ernst & Young Inc., and I verily believe it to be true, that in the event that Ernst & Young Inc. is appointed as Monitor of Big Sky by the Court, then Ernst & Young Inc. proposes to engage the law firm of Wallace Meshchishnick Clackson Zawada LLP as legal counsel to the Monitor.

132. Big Sky has engaged the law firm of MacPherson Leslie & Tyerman LLP of Saskatoon, Saskatchewan as its insolvency and restructuring counsel in regard to its application for relief under the CCAA.

133. In the event that its application for relief under the CCAA is successful, to the full extent possible, Big Sky will seek to maintain positive working relationships with its U.S.-based creditors and to continue to carry on business in the ordinary course in both Saskatchewan and Iowa. However, I have been informed by Kevin Brennan of Ernst & Young Inc., and I verily believe it to be true, that in the event that it becomes necessary for the proposed Monitor to enforce an Order made by the Saskatchewan Court under the CCAA in the Courts of the State of Iowa, the proposed Monitor proposes to engage the law firm of Davis Brown of Des Moines, Iowa as its Iowa insolvency and restructuring counsel in regard to a potential application to enforce a Saskatchewan CCAA Order in the U.S. Bankruptcy Court for the Northern District of Iowa under Chapter 15 of the *U.S. Bankruptcy Code*.

134. Given the very difficult financial circumstances currently faced by Big Sky, each of Ernst & Young Inc., Wallace Meshchishnick Clackson Zawada LLP, MacPherson Leslie & Tyerman LLP and the Davis Brown law firm have requested, as a condition of their agreement to accept their respective professional engagements by Big Sky, that Big Sky request of the Court that a provision be included in the Initial Order obtained by Big Sky under the CCAA providing for an Administration Charge on the assets of Big Sky in the amount of Five Hundred Thousand ($500,000,00) Dollars, in order to secure the payment of the respective

professional fees and disbursements in regard to the proposed restructuring of Big Sky of each of Ernst & Young Inc., MacPherson Leslie & Tyerman LLP, Wallace Meschishnick Clackson Zawada LLP and the Davis Brown law firm (both before and after the making of such Initial Order). Big Sky has agreed to request such a provision from the Court, as Big Sky regards such a provision in the Initial Order as essential to its ability to restructure its business and financial affairs.

135. I make this Affidavit in support of the application by Big Sky for relief pursuant to the CCAA.

SWORN BEFORE ME at the City of Saskatoon, in the Province of Saskatchewan this 29 day of October, 2009.	)))))	
A Commissioner For Oaths in and for the Province of Saskatchewan. ~~My appointment expires~~ OR Being a Solicitor		CANUTE TAGSETH