FEB. 11. 2010 1:48PM   NO. 3015   P. 2

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Our File: 59,462.000
E-mail: rthornton@SHTB-law.com

February 11, 2010

Via Fax: 975-7145

Big Sky Farms Inc.
c/o MacPherson Leslie & Tyerman LLP
1500 – 410 22nd Street East
Saskatoon SK S7K 5T6

Attention: Jeffrey M. Lee

Dear Sir:

Re: Big Sky Farms Inc. and Big Sky Finishers (No. 1) Inc.

As you are aware we act as solicitors for Big Sky Finishers (No. 1) Inc. ("Finishers"). Pursuant to Section 32(8) of the *Companies' Creditors Arrangements Act*, Finishers hereby requests that you provide in writing the reasons for the proposed disclaimer or resiliation set out in the Notice by Debtor Company to Disclaim or Resiliate an Agreement dated February 4, 2010, within 5 days of the date of this letter. Thank you.

Yours truly,

STEVENSON HOOD THORNTON BEAUBIER LLP

Per:

Robert F. Thornton, Q.C.

RFT/dkp

THIS IS EXHIBIT "H" referred to in
the Affidavit of [illegible]
SWORN before me at [illegible]
this 8th day of March, 20 10

A COMMISSIONER FOR OATHS in and
for the Province of Saskatchewan
Being a Solicitor – OR –
My Commission expires Jan 31/2011

STEVENSON HOOD THORNTON BEAUBIER LLP
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TO: Jeffrey M. Lee	FROM: Robert F. Thornton, Q.C.
FIRM/COMPANY: MacPherson Leslie & Tyerman LLP	FILE NO. 39,462
FAX NO.: 975-7145	DATE: February 11, 2010

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This is page 1 of 2 pages

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MESSAGE:

Please see attached correspondence.

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Email: info@SHTB-law.com • Website: www.SHTB-law.com

Big Sky Farms Inc.
P.O. Box 610
Humboldt, Sask.
S0K 2A0
Phone: 306-682-5041
Fax: 306-682-5042

February 16, 2010

Big Sky Finishers (No. 1) Inc.
400 – 410 22nd Street East
Saskatoon, SK S7K 5T6
Attention: Mr. John Beckton

Dear John:

With respect to our notice of repudiation on February 4, 2010 ("**Repudiation Notice**") of the contracts that exists between Big Sky Farms Inc. ("**Big Sky**") and Big Sky Finishers ("**Finishers**"), we have been asked to outline the reasons for the repudiation of the contracts in the request made by Robert Thornton on behalf of Finishers. The rationale for issuance of the Repudiation Notice can be summarized under three major considerations:

1. Emergence from CCAA;
2. Cost control and Competitiveness;
3. Current contract pricing gap.

Emergence from CCAA

Discussions pertaining to the Finishers contracts have been on-going for several months, without substantive advancement or resolution of the issues pertaining to making the contracts competitive in the marketplace or cost competitive to Big Sky. As you are aware, Big Sky has received the requisite approval from the affected creditors in respect of the Amended and Restated Plan of Compromise and Arrangement dated February 8, 2010 (the "**Amended Plan**"). As you are also aware, the Amended Plan was sanctioned by Order of the Saskatchewan Court of Queen's Bench dated February 11, 2010.

The lack of progress in negotiations pertaining to contract amendments and Big Sky's desire to exit CCAA at the earliest possible date precipitated a requirement to issue the Repudiation Notice on February 4, 2010. As you will appreciate, from the perspective of Big Sky the window for deriving a consensual amendment to the existing contracts was rapidly closing and it appeared that Finishers did not share the same sense of urgency to have this matter resolved, as a result Big Sky felt the negotiations had come to an impasse.

Based on the foregoing, Big Sky was left with no alternative but to issue the Repudiation Notice.

Cost Control and Competitiveness

The hog industry has recently gone through a tremendous upheaval as a result of more than 30 months of negative returns to producers. In order for hog production companies such as Big Sky to be successful they need to be cost competitive not only in Canada, but all of North America. The hog industry competes globally for market share and the Canadian industry is largely impacted by the currency exchange rates that exist between Canada and the United States. What we receive for a finished animal is derived from a US$ formula base price, basis US packers. The exchange rate currently impacts Big Sky operations with every one cent movement in the US$ impacting Cdn$ revenue by nearly one million dollars. The appreciation of the Canadian dollar over the last several years is a reality that all companies within Canada have to live with.

Big Sky continually strives to be one of the most cost competitive companies within the hog industry and benchmarks itself against the industry through Agristats, a benchmarking company. Agristats generates data from 24 companies representing over 1.7 million sows. The report includes data from three prominent Canadian companies in addition to Big Sky. To this end, the appreciation in the Cdn$ has eroded the cost advantage provided to Big Sky through its contract arrangement with Finishers, such that the cost of hog grower operations in Canada is eroding finished hog sales margins and thereby threatening the longer term viability of Big Sky.

Based on the foregoing, the only options available to Big Sky to counter the negative impact associated with the appreciation in the Cdn$ would be to: (i) shift contract grower operations to the US, resulting in a natural hedge in the operations of Big Sky; (ii) purchase longer term financial hedge facilities (Big Sky does not have access to sufficient capital to undertake such a program); or (iii) revise the contractual arrangements with Finishers to reflect current market rates. The preferred option to Big Sky was to renegotiate the contractual terms with Finishers to achieve a fair balance of equities. We made every effort with Finishers to achieve this result, without success.

Current Contract Pricing Gap

Contract Space Summary (excluding Finishers)

Big Sky currently contracts finishing spaces in Canada and in the United States (Iowa). Finishing space contracts are available as follows:

- Contracts in Iowa average $30 to $35 per space US$.
- Contracts in Canada range between $36 to $40 per space Cdn$.
- Contracts in the Canada and the US include all labor, operating costs and manure removal.

Finisher Contract Summary

- Base price of $104,000 per month.
- A crystallized $1.50 per hog marketing incentive has been in place and equates to an additional $8,550 per month (24,000 spaces x 95% utilization x 3 turns x $1.50 / 12 months = $8,550 per month).
- Base price includes all operating costs excluding manure.
- Contract space summary is $104,000 base price + $8,550 incentive x 12 months / 24,000 spaces = $56.28 per space equivalent.
- In addition, Big Sky provides manure removal at a cost of $9.75 per space.
- Based on the foregoing, the total net price per space equivalent is $66.03.

Net Contract Summary

- As a result of the foregoing, the impact on Big Sky as a result of the current contractual obligations with Finishers equates to approximately $780,000 annually (Finisher contract equivalent space costs (Cdn$66.03) minus (Iowa average equivalent space cost (US$32) divided by Bank of Canada February 15, 2010 noon rate (Cdn$1=US$0.9542)) multiplied by 24,000 spaces).
- The negative impact on Big Sky associated with the current contractual obligations threatens the viability of Big Sky.

Finisher Facilities and Fair Market Value

- The Canadian hog industry went through a tremendous growth period starting in the early nineties and continued for the ensuing 10 -15 years. As a result, the Canadian sow herd grew to over 1.6 million sows at its peak in 2006 and has now retracted to approximately 1.3 million sows today. Retraction of the sow herd occurred in the US, but not to the extent as in Canada. As a result of the retraction and the appreciation of the Canadian dollar there is excess finishing capacity in Canada with much of the available finishing spaces located in western Canada. This excess capacity has resulted in substantial depreciation of values in finishing barns throughout North America.

- There is a Put option currently in place within the Finisher contracts that would require Big Sky to purchase facilities from Finishers any time prior to or at the conclusion of the contract in 2018 for $1.8 million.
- The fair market values of production units have dropped considerably as a result of the protracted downturn in the hog market and excess capacity as described above; particularly in Saskatchewan and Manitoba. The Stomp bankruptcy has resulted in numerous production units that are currently empty throughout Saskatchewan.
- Current transactions for finisher barns suggest that the value of such facilities has deteriorated substantially, as an example the Leroy Agra Pork finishing barns (40,000 spaces) were sold to Hytek in May of 2009 for $2 million or $50/space.
- Assuming a similar value for the Finishers finishing barns this would equate to a combined gross value of $1,200,000, far below the current Put option value.
- Based on the foregoing, Big Sky cannot be exposed to the Put option of Finishers, which if exercised would have a material impact on the cash flow of Big Sky and jeopardize its viability in the future.

Conclusion

All of the above factors identify what we believe is ample evidence that the price for the existing finishing contract with Finishers is far in excess of comparable contracts that could be entered into today. The hog industry is and will remain a very competitive business and companies like Big Sky are faced with the new reality of today's market place. The Finishers contracts were made at a time of continued growth in the industry and contracts of this nature go well beyond what would be considered normal in today's environment.

The Finishers contracts if maintained with:

1. A cost disadvantage associated with the appreciation of the Cdn$;
2. The negative cost elements to competitive sites (estimated at $780,000 annually); and
3. An over-value of the Put option (currently estimated at a minimum of $600,000).

will threaten the very existence and viability of Big Sky in the future. For these reasons, Big Sky has issued, with the concurrence of the Monitor, the Repudiation Notice.

Sincerely,

Casey Smit
CEO
Big Sky Farms Inc.