Q.B. No. 1461 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, AS AMENDED (the "CCAA")

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

SECOND REPORT OF THE MONITOR

ERNST & YOUNG INC.

DECEMBER 28, 2009

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SECOND REPORT OF THE MONITOR

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INTRODUCTION

1. On November 10, 2009, Big Sky Farms Inc., Drycast Systems Inc. and Big Sky Management Consulting Corp. (collectively, the "**Applicants**" or "**Big Sky**") filed for and obtained protection from their creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c C-36, as amended, (the "**CCAA**") pursuant to an order of this Honourable Court dated November 10, 2009 (the "**Initial Order**").

2. Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor of the Applicants during these CCAA proceedings (the "**Monitor**").

3. The Initial Order established a Stay of Proceedings until December 10, 2009 (the "**Stay Period**"). Pursuant to an Order of this Honourable Court dated December 9, 2009, the Stay Period was extended until February 1, 2010.

4. On November 12, 2009, the U.S. Bankruptcy Court for the Northern District of Iowa (the "**US Bankruptcy Court**") granted an Order (the "**U.S. Order**") granting provisional relief and a stay of proceedings pending a full hearing regarding recognition of the Canadian CCAA proceedings as a foreign main proceeding.

5. On December 7, 2009, the Monitor issued its first report (the "**First Report**"), the purpose of which was to advise this Honourable Court with respect to, *inter alia*: (a) Background information pertaining to each of the Applicants; (b) Background information and the status of US proceedings commenced under Chapter 15 of the US Bankruptcy Code; (c) The request by the Applicants for an Order approving a claims process whereby Big Sky would, *inter alia*: (i) Call for claims of its creditors through the implementation of the Claims Process; (ii) Establish a Claims Bar Date of 5:00pm

(Central Time) on January 15, 2010; and (iii) Establish a dispute resolution process that included the appointment of a Claims Officer; (d) The existence of potential Agricultural Lien Claims of indeterminable priority filed in respect to the pigs located in the State of Iowa, USA; (e) The cash flow of the Applicants between November 10 and November 29, 2009; (f) The activities and of the Applicants and the Monitor since the making of the Initial Order; (g) The basis and requirement for the Applicants request for an extension of the Stay Period; and (h) The recommendations of the Monitor pertaining to the Claims Process, including the Claims Bar Date, and request for the extension of the Stay Period.

6. On December 16, 2009, the Monitor issued its third report (the "**Third Report**") the purpose of which was to, *inter alia*, advise this Honourable Court with respect to the status of the US proceedings pursuant to Chapter 15 of the US Bankruptcy Code and the Applicant's request for an Order: (a) Approving an Insurance Finance Charge in favour of CAFO in the amount of $589,879.68, secured solely by the unearned or returned premiums and other amounts due to the Applicants in the event that the Applicants' insurance policy is cancelled or collapsed; and (b) Requesting the assistance of the US Bankruptcy Court for a determination of the validity and priority of the Agricultural Lien Claims.

7. The Monitor advises this Honourable Court that the Third Report was issued in advance of this report (the "**Second Report**") as it was originally prepared concurrently with the Third Report and was to be filed with this Honourable Court on or about the same date; however, the filing of the Second Report was delayed as a result of a delay in the filing of the Plan (as defined below). As motion and other materials referencing the Third Report

had been filed with this Honourable Court, in respect of the matters addressed therein, it was determined that the sequential issuance of the reports could not be maintained.

8. The purpose of this Second Report of the Monitor is to provide information to this Honourable Court related to the status of the restructuring efforts and the Applicant's request for an Order:

   a. Authorizing and directing the filing of the Plan of Compromise and Arrangement (the "**Plan**") as described herein;

   b. Authorizing and establishing the procedure for Big Sky to call, hold and conduct the meeting of its creditors to consider and vote on the Plan;

   c. Approving the form of materials to be distributed to creditors affected by the Plan; and

   d. Setting the conditions for approval of the Plan in order for the Plan to be sanctioned by the Court.

9. Capitalized terms not defined in this Second Report are as defined in the Initial Order, the Claims Process Order, the Plan, the First Report or the Third Report. All references to dollars are in Canadian currency unless otherwise noted. A copy of all motion records and reports will be available for creditors on the Monitor's website at www.ey.com/ca/bigskyfarms.

TERMS OF REFERENCE

10. In preparing this Second Report, the Monitor has relied upon unaudited financial information, company records, and discussions with management of the Applicants. The Monitor has not performed an audit, review or other verification of such information. An

examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future orientated financial information relied upon in this report is based on management's assumptions regarding future events and actual results achieved may vary from this information and the variations may be material.

BACKGROUND INFORMATION

11. Background information pertaining to the Applicants and the CCAA proceedings is contained in the First Report and Third Report filed with this Honourable Court.

THE PLAN

Overview of the Plan

12. The Applicants have developed a Plan which Big Sky believes is in the best interests of all of its stakeholders, including creditors and employees. The Applicants have advised the Monitor that the Plan seeks to achieve a balance of the equities of the stakeholders of Big Sky by: (i) providing an immediate return on the Claims of Affected Creditors that is superior to that available to the Affected Creditors under alternative insolvency proceedings (such as a bankruptcy or receivership); (ii) effecting a series of restructuring transactions in order to modify the corporate structure and equity holdings and rights in respect of the Applicants with a view to creating an efficient, viable and stable business and structure for the Applicants in the future; and (iii) enabling the business of Big Sky to continue, in the expectation that a greater benefit will be derived from the continued operation of the business of Big Sky for the holders of Affected Claims and for the rural communities within the Provinces of Saskatchewan and Manitoba, Canada, and the State of Iowa, U.S.A., in which the Applicants operate.

Affected Creditors

13. The Plan provides that for the purposes of considering and voting on the Plan and receiving a distribution pursuant to the Plan, there shall be only one class of creditors, which shall be comprised solely of Affected Creditors. The Affected Creditors Class will represent the holders of unsecured claims, which includes but is not limited to all Pre-filing Claims, Subsequent Claims, Sub-Debt Claims, Capital Lease Deficiency Claims, the Saskatchewan Hog Loan Claim and Employee Restructuring Claims but excludes the Excluded Claims, Special Crown Claims and all payments contemplated by subsections 6(5) and 6(6) of the CCAA.

14. Each Affected Creditor, that has submitted a Proof of Claim, which has been admitted by the Applicants, with the concurrence of the Monitor, will have:

    a. A Proven Distribution Claim – the amount of the Affected Claim that will be allowed for distribution purposes in regards to the Plan following the Plan Implementation Date; and

    b. A Proven Voting Claim – the amount of the Affected Claim that will be allowed for voting purposes at the Creditors' Meeting.

Affected Creditor Distributions

15. Provided the Plan is approved by the Requisite Majority of Creditors, each Affected Creditor with a Proven Distribution Claim of less than $4,000 will received cash in an amount equal to 99% (up to a maximum of $3,960) of the full amount of its Proven Distribution Claim in full and final satisfaction of its Claim.

16. Provided the Plan is approved by the Requisite Majority of Creditors, each Affected Creditor with a Proven Distribution Claim of more than $4,000 who has filed a

Distribution Option Election with the Monitor on or before 5:00 pm (Central Time) on February 4, 2010 ("**Election Deadline**") and has elected to receive the:

a. Fixed Distribution will receive a cash payment in an amount equal to $3,960 in full and final satisfaction of its Affected Claim; or

b. Percentage Distribution will receive a cash payment in an amount equal to 10% of the Proven Distribution Claim in full and final satisfaction of its Affected Claim. In the event that an Affected Creditor fails to file a Distribution Option Election with the Monitor on or before the Election Deadline, the Affected Creditor shall be deemed to have elected to receive a Percentage Distribution.

17. Any Affected Creditor with a Disputed Claim will not be entitled to receive a distribution under the Plan in respect thereof unless and until such Disputed Claim is determined to be a Proven Distribution Claim. The Monitor will hold the necessary funds to pay the distribution to any Disputed Claims within the Disputed Claim Reserve pending final determination of the Disputed Claim for distribution purposes under the Plan.

Distribution under the Plan

18. The distribution to Affected Creditors pursuant to the Plan will be paid from the funds provided to the Monitor by the Applicant and retained in the Plan Distribution Fund and Disputed Claim Reserve pending disbursement to the Affected Creditors. On the Plan Implementation Date, the Applicants will pay to the Monitor an amount sufficient to: (i) fund the Plan Distribution Fund, and (ii) the Disputed Claim Reserve (if any), both as estimated by the Applicants and the Monitor.

Sections 95-101 of BIA Not Applicable

19. Included in the Plan is the condition that Sections 95 to 101 of the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") dealing with preference and transfer at undervalue transactions shall not apply, upon acceptance and implementation of the Plan. All transactions as between the Applicant and any third party, whether related or not related, at arm's length or not at arm's length, shall be deemed to be confirmed and to have been consummated at a value that is not conspicuously different than the fair market value of the property or services of the subject transactions.

20. The effect of this condition, if the Plan is accepted by the Required Majority of Creditors and Sanctioned by this Honourable Court, is that possible transactions at values conspicuously less than fair market value, if made by the Applicants prior to the Plan Implementation Date cannot be challenged.

21. The Monitor has reviewed the business and financial affairs of the Applicants and advises this Honourable Court that nothing has come to its attention to indicate that transactions were consummated by the Applicants at amounts conspicuously different than the fair market value of the underlying transaction such that the Affected Creditors would be prejudiced through the inclusion of the subject clause in regards to the conduct of the Applicants.

MEETING OF CREDITORS

Procedure for Creditors' Meeting

22. Big Sky, in conjunction with the Monitor, has prepared a proposed procedure protocol for the meeting of creditors, which Big Sky is seeking to have approved by order of this Honourable Court (the "**Creditors' Meeting Order**").

23. Pursuant to the Creditors' Meeting Order (if approved by this Honourable Court), Big Sky will be authorized to call, hold and conduct a Creditors' Meeting to consider and vote on the Plan. The Creditors' Meeting is proposed to be held at the Holiday Inn Express Hotel located at 315 Idylwyld Drive, Saskatoon, Saskatchewan on Monday, February 8, 2009 and will be called to order at 10:00am (Central Time).

24. The Creditors' Meeting will be held and conducted in accordance with the provisions of the Creditors' Meeting Order, notwithstanding the provisions of any other agreement or instrument or this Second Report.

25. An officer of the Monitor will act as the chair of the Creditors' Meeting (the "**Chair**") and decide all matters relating to the rules, procedures and conduct of the Creditors' Meeting in accordance with the terms of the Plan, the Creditors' Meetings Order, as approved by this Honourable Court, and any further Order of this Honourable Court.

26. The quorum for the Creditors' Meeting is two Affected Creditors with a Proven Voting Claim (the "**Eligible Voting Creditor**") present in person or by proxy. If the requisite quorum is not present at a Creditors' Meeting, then the Creditors' Meeting shall be adjourned by the Chair to such time and place as the Chair deems necessary or desirable.

27. An Affected Creditor with a Proven Voting Claim shall be entitled to attend and vote at the Creditors Meeting in person or by proxy. To vote by proxy an Eligible Voting

Creditor must submit the Proxy and Voting Letter to the Chair on or before 5:00 pm (Central Time) on the business day prior to the Meeting.

28. Voting at the Creditors' Meeting will be conducted as follows:

a. On a resolution pertaining to the approval of the Plan (the "**Arrangement Resolution**"), a written ballot containing information sufficient to derive a result regarding the Required Majority of Creditors. The vote would include permitting each Eligible Voting Creditor to vote individually, subject to assignment of Proving Voting Claim restrictions outlined elsewhere within this report, and the aggregate value of its Proven Voting Claim;

b. On a resolution pertaining to the inclusion or exclusion of the media from the Creditors' Meeting (the "**Media Resolution**"), a vote by simple majority of those individual Eligible Voting Creditors in attendance at the Creditors' Meeting; and

c. On a resolution on any matter, other the Arrangement Resolution or Media Resolution, that may come before a Creditors' Meeting, a vote by which each Eligible Voting Creditor entitled to vote will be entitled to vote by written ballot for the aggregate value of its Proven Voting Claim with the result of the resolution determined by majority of the aggregate votes cast in respect of the resolution.

29. If the Creditors' Meeting is adjourned by the Chair in its sole discretion or by a vote of the requisite majority of Creditors at a Creditors' Meeting, the Creditors' Meeting will be adjourned to such date, time and place as may be decided by the Chair. Neither the Company nor the Monitor will be required to deliver any notice of adjournment of the

Creditors' Meeting other than announcing the adjournment and posting notice thereof on the Monitor's website.

Notice of Creditors' Meeting

30. The Applicants, with the assistance of the Monitor, shall send the following documents (collectively referred to as the "**Information Package**") to all Eligible Voting Creditors by ordinary mail or courier at the address appearing on such Creditor's Proof of Claim filed with the Applicants or such other address subsequently provided to the Applicant, on notice to the Monitor, by such Eligible Voting Creditor or at such Creditor's last known address as recorded on the books and records of Big Sky if such Creditor has not specified an address in its Proof of Claim form filed with the Applicants:

    a. The Information Circular and the Notice of Meeting, the Plan and the Monitors Recommendation on the Plan all in substantially the form attached to the Creditors' Meeting Order;

    b. The form of Proxy and Voting Letter to be used by Affected Creditors, in substantially the form attached to the Creditors' Meetings Order; and

    c. A copy of the Distribution Option Election in substantially the form attached to the Plan.

31. Further, the Monitor will publish, as soon as practicable and no later than January 16, 2010, a notice of the Creditors' Meeting, in substantially the form attached as Schedule "D" to the Creditors' Meeting Order (the "**Newspaper Notice**"), in the *Saskatoon StarPhoenix*, *Regina Leader-Post*, *Winnipeg Free Press*, and *Des Moines Register* newspapers.

32. The Monitor shall cause a copy of the Information Package, the Creditors' Meetings Order, including all schedules, and this Second Report to be posted on the Monitor's website (www.ey.com/ca/bigskyfarms) as soon as practicable after the granting of the Creditors' Meeting Order.

33. Pursuant to the terms of the Plan, the Applicants, with the consent of the Senior Secured Lenders, shall be authorized by this Honourable Court to vary, amend, modify or supplement the Plan by way of a supplementary or amended and restated plan or plans of compromise or arrangement or both, at any time or from time to time prior to and during the Creditors' Meetings, provided that notice of any such variation, amendment, modification or supplement is given to all Eligible Voting Creditors, present in person or by proxy at the Creditors' Meeting, prior to the vote being taken at the Creditors' Meetings (or any adjournment thereof), in which case any such supplementary or amended and restated plan or plans of compromise or arrangement or both shall, for all purposes, be and be deemed to be part of, and incorporated into the Plan.

34. Pursuant to the terms of the Plan, the Applicants will also be authorized to vary, amend, modify or supplement the Plan at any time and from time to time after the Creditors' Meetings (both prior to and subsequent to the Sanction Order), without obtaining a further Order of this Honourable Court and without notice to any Creditors, if Big Sky and the Monitor determine that such variation, amendment, modification or supplement is of a technical or administrative nature that would not be materially prejudicial to the interests of any of the Affected Creditors under the Plan and is necessary in order to give effect to the substance of the Plan or the Sanction Order.

Voting at Creditors' Meeting

35. The only Persons entitled to vote at the Creditors' Meeting are Affected Creditors with Proven Voting Claims and those creditors holding Disputed Claims that have been allowed for voting purposes.

36. All Affected Creditors with claims of less than $4,000 and those that have elected through the filing with the Monitor of the Distribution Option Election to receive the Fixed Distribution in full and final settlement of the Affected Claim shall be deemed to have voted their Proven Voting Claims in the Affirmative (in favour of the Plan).

37. All Affected Creditors that will receive the Percentage Distribution in full and final settlement of their Proven Distribution Claim shall vote the value of their Proven Voting Claim either in favour or against the Plan. Each Proven Voting Creditor shall have one vote, which vote shall carry the value of their Proven Voting Claim as determined in accordance with the Claims Process Order or the Creditors' Meeting Order.

38. Persons with Excluded Claims shall not be entitled to vote on the Plan.

39. If an amount of a Disputed Claim has not been resolved for voting purposes at least three (3) Business Days prior to the date of the Creditors' Meetings, the holder thereof shall be entitled to vote the amount of the Disputed Claim in accordance with the provisions of the Creditors' Meetings Order, without prejudice to the rights, of the Applicants, the Monitor or the Creditor with respect to the final determination of the Disputed Claim for distribution purposes and such vote shall be separately tabulated by the Monitor.

40. The Chair shall direct a vote by the Proven Voting Creditors by way of written ballot on the Arrangement Resolution.

41. The Monitor will appoint scrutineers (the "**Scrutineers**") for the supervision and tabulation of the votes cast at the Creditors' Meetings. A Person or Persons may be designated by the Chair to act as secretary at the Creditors' Meetings and such person, with the assistance of the Scrutineers, shall tabulate all Proven Voting Claims (and, if applicable, Disputed Claims) voted at the Creditors' Meetings.

42. The Monitor shall keep a separate record and tabulation of any votes cast in respect of Proven Voting Claims and Disputed Claims. The Chair shall file its report to this Honourable Court by no later than two (2) Business Days after the date of the Creditors' Meetings with respect to the results of the Votes Cast, including whether:

    a. The plan has been accepted by the Required Majority of Creditors; and

    b. The votes cast by Affected Creditors with Disputed Claims voted for or against the Plan, if any, that would affect the results of the vote.

Assignment of Claims

43. If any Affected Creditor transferred or transfers or assigned or assigns all or part of its Claim, the Affected Creditor must provide a notice of transfer or assignment executed by the Affected Creditor and the transferee or assignee, together with such other evidence of such transfer or assignment as may be required by the Monitor and/or the Applicants (collectively, the "**Proof of Assignment**"), not later than five (5) calendar days prior to the date of the Creditors' Meeting; in order for such transferee or assignee is to be included on the list of Eligible Voting Creditors entitled to vote at the Creditors' Meeting. Such transferee or assignee, having complied with the foregoing, is entitled to attend and vote the transferred or assigned portion of such Claim if and to the extent such Claim may otherwise be voted at such Creditors' Meeting; provided, however, that for the

purpose of determining whether the Plan has been approved by more than 50% of the Votes Cast, only the vote of the transferor or the transferee, whichever holds the highest dollar value of such Claim, will be counted, and if such value shall be equal, only the vote of the transferee will be counted. If a Claim has been transferred to more than one transferee, for the purposes of determining whether this Plan has been approved by votes exceeding more than 50% of the Votes Cast, only the votes of the transferee with the highest value of such Claims will be counted unless all of the transferees deliver a notice to the Applicants and the Monitor at least five (5) calendar days prior to the date of the Creditors' Meeting and designate therein the name of the transferee whose vote is to be counted, in which case the votes of such designated transferee will be counted.

Voting by Proxy

44. Each Affected Creditor entitled to vote at the Creditors' Meeting may vote in person or by proxy. A form of proxy (the "**Proxy and Voting Letter**") for use at the Creditors' Meetings accompanies the Plan and Meeting Documents (referred to herein as the "Information Package") which is to be sent to Affected Creditors pursuant to the Creditors' Meeting Order. An Affected Creditor may use the Proxy and Voting Letter to appoint its proxyholder and may appoint any Person to act on its behalf at a Creditor's Meeting in the Proxy and Voting Letter. If no Person is appointed as the proxyholder in the Proxy and Voting Letter, the Eligible Voting Creditor shall be deemed to have appointed Kevin Brennan or Sean MacNeil of the Monitor as the Proven Voting Creditor's proxyholder.

45. A Proxy and Voting Letter must be completed in accordance with the instructions contained therein and be received by the Monitor at the address noted thereon prior to 5:00 pm (Central Time) on February 5, 2010.

CONDITIONS FOR APPROVAL OF THE PLAN

46. The Plan must be approved at the Creditors' Meeting by the Affected Creditors, representing not less than 66 2/3% in value of the Proven Voting Claims and 50% in number of the Affected Creditors with Proven Voting Claims present and voting in person or by proxy at the Creditors' Meeting.

47. The Plan has been filed with this Honourable Court pursuant to the CCAA. The CCAA requires that the Plan be sanctioned by the Court following approval by the requisite majorities of applicable Affected Creditors. The hearing in respect of the Sanction Order, at which hearing the sanction of the Plan under CCAA by this Honourable Court will be sought, is scheduled to take place on February 11, 2010.

LIQUIDATION ANALYSIS

48. The Monitor has prepared an illustrative estimated realization value for the assets and undertakings of Big Sky (the "**Assets**") as at December 4, 2009, which is attached as Appendix "A". This illustrative estimated realization value is referred to herein as the "Liquidation Analysis".

49. The Liquidation Analysis has been prepared from the information supplied by Big Sky's management and based on discussions with Big Sky's management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such financial information. The Liquidation Analysis has been compiled solely for the Affected Creditors of Big Sky for the purpose of assessing the liquidation value of the

Assets in comparison to the consideration offered pursuant to the terms of the Plan. Readers are cautioned that this Liquidation Analysis may not be appropriate for other purposes. Each prospective user must rely on its own inspection and investigation and no representations or warranties are made by the Monitor in respect of any such matters. The actual proceeds from the realization of the Assets could be materially lower or higher than the amounts set out in the Liquidation Analysis and no representation or warranty can be or is being made with respect to the actual proceeds that could be achieved in such realization proceedings. This Liquidation Analysis will not be updated for events and circumstances occurring after its date and therefore actual results may vary from these estimates due to subsequent events at Big Sky or in the marketplace.

50. If Big Sky is unable to implement a Plan of Compromise or Arrangement pursuant to the CCAA, then the stay of proceedings granted by the Court in the Initial Order may be terminated. If the stay is terminated, substantially all of Big Sky's stayed debt obligations would become due and payable or subject to immediate acceleration. Big Sky does not have sufficient financial resources to meet these obligations. Accordingly, this would likely result in creditors proceeding to enforce all of their rights and remedies against Big Sky, including enforcing on their security, appointing a receiver or seeking to assign the Company into bankruptcy under the BIA. In the Monitor's view, such realization proceedings would likely result in a liquidation of the Assets as described below.

SUMMARY OF LIQUIDATION ANALYSIS

	Book Value Dec 4, 2009	Est. Liquidation Value Low	High
Estimated Gross Liquidation Proceeds			
Trade Receivables	1,386,809	918,552	1,110,637
Other Accounts Receivable	295,041	-	166,850
Inventory	41,777,173	13,875,756	19,166,146
Property, Plant & Equipment	87,172,295	20,215,886	33,817,459
Total Gross Estimated Liquidation Proceeds	**130,631,318**	**35,010,194**	**54,261,093**
Less: Realization Costs and Priority Charges			
Asset Realization Costs		(3,501,019)	(3,798,276)
Debtor-in-Possession Financing - Priority Charge		(3,800,000)	(3,800,000)
Employee Wages & Vacation Pay – BIA priority charges		(860,000)	(860,000)
Agricultural Claims		(395,000)	(395,000)
Employee Source Deductions		(175,000)	(175,000)
Total Realization Costs and Priority Charges		**(8,731,019)**	**(9,028,276)**
Total Estimated Net Liquidation Value		26,279,174	45,232,816
Secured Debt			
Senior Secured Debt		(71,177,768)	(71,177,768)
Subordinated Debt		(10,046,020)	(10,046,020)
Saskatchewan Hog Loan		(4,620,688)	(4,620,688)
Total Secured Debt		(86,039,351)	(86,039,351)
Net Deficiency of Assets Available to Unsecured Creditors, before Environmental Remediation Costs (if any) and professional fees[1]		**(59,760,177)**	**(40,806,535)**

Note:

1 – The Liquidation analysis excludes the assets and obligations associated with capital lease commitments.

51. The Liquidation Analysis estimates a range of the net realizable value of the Assets under a high and low scenario. The low scenario assumes a forced liquidation, where the majority of Big Sky's operations cease immediately and the assets are liquidated over a period of 3 to 4 months, with the duration of the entire realization process occurring over 4 to 6 months. The high scenario is based on the assumption that a more orderly liquidation of the Assets occur, which involves the sale of certain of the productive hog

operating pyramids as going concern operations. The following is a summary of the key assumptions upon which the Liquidation Analysis is based:

Liquidation Analysis		
Assumptions:	**Low Scenario**	**High Scenario**
Basis of Sale	Forced Liquidation	Orderly Sale
Operations	Discontinue all operations	Continue certain operations until sold
Estimated Timeframe	4-6 months	4-6 months
Realization Factors:		
Trade Receivable		
<30 Days	75%	90%
31-60 Days	65%	70%
61-90 Days	40%	50%
>90 Days	15%	25%
Other Receivables		
GST Refund	75%	100%
Employee Loans	0%	25%
Inventory		
Sows, Feeders, and Nursery Hogs	Current Market Price less 50%	Current Market Price less 25%
Market Finished Hogs	Current Market Price less 20%	Current Market Price less 10%
Property, Plant and Equipment	10 – 25% of Book Value	30 – 40% of Book Value
Asset Realization Costs	10% of Gross Liquidation Proceeds	7% of Gross Liquidation Proceeds

52. As indicated in the Liquidation Analysis, the estimated net realizable value of the Assets after paying asset realization costs and priority charges would result in a deficiency on the indebtedness owed to the Secured Lenders of approximately \$40.8 million to \$59.8 million. In order for the unsecured creditors to receive any recovery, the debt owed to the Senior Secured Lender's of approximately \$71.3 million, the Sub-Debt Lenders of approximately \$10.1 million and in respect of the Saskatchewan Hog Loan of

approximately $4.6 million, totalling approximately $86.0 million, would have to be paid in full first.

53. As reported in the First Report, the Monitor has received an opinion from the Monitor's legal counsel with respect to the security held by the Senior Secured Lenders and is satisfied based on such opinion that the Senior Secured Lenders' security is sufficiently documented and registered so as to be enforceable against a trustee in bankruptcy in respect of all Assets of the Applicants located in Saskatchewan and Manitoba, Canada. Legal counsel to the Monitor has not opined on the security of the Senior Secured Lenders in respect of the assets of the Applicants located in the State of Iowa, USA.

54. The Liquidation Analysis illustrates that if the Plan is not approved and the Assets are liquidated, the unsecured creditors would receive no recovery of their Affected Claims.

55. The estimated recovery to Affected Creditors under the Plan is as follows:

Affected Creditors	Estimated Claim	Estimated Payout	% Recovery
Less than $4,000	645,804	639,346	
More than $4,000, Less than $40,000	4,450,262	1,386,000	
Over $40,000	27,374,555	2,737,455	
	32,470,620	**4,762,801**	**15%**

Based on the foregoing, the estimated distribution to the Affected Creditors under the Plan of approximately 15% is significantly greater than the recovery to the unsecured creditors under a liquidation of the Assets.

BOARD RESOLUTION

56. The Monitor advises this Honourable Court that Article 9.2 of the Plan provides, *inter alia*, as a condition of implementation of the Plan that the Restructuring Transaction (as described in the Plan) be consummated; including the Senior Secured Lenders making

available to the Applicants the Exit Loan Facility as referenced in Schedule "B" to the Plan.

57. The Applicants and the Senior Secured Lenders, with the participation of the Monitor, have been diligently working in a positive and constructive fashion to negotiate and conclude a binding agreement upon which the terms and conditions of the Exit Loan Facility will be made available to Big Sky such to provide operating liquidity, as required, following the Plan Implementation Date. The Applicants are desirous to achieve a binding agreement with the Senior Secured Lenders pertaining to the Exit Financing Facility on or before January 15, 2010.

58. The Monitor has been advised by management of Big Sky that the Board of Directors of the Applicants passed a resolution, at a duly convened Board Meeting on December 24, 2009, that failing the achievement of a binding agreement between the Senior Secured Lenders and the Applicants pertaining to the Exit Financing Facility on or before January 15, 2010, the Applicants may return to this Honourable Court to seek further direction as may be required in the circumstances.

59. The Monitor advises this Honourable Court that the scope of the direction sought may include, *inter alia*:

a. Amendments to the terms of the Plan;

b. A delay in the conducting of the Creditors' Meeting to consider the Plan; and/or

c. Such other action(s) as the Applicants deem appropriate, including *potentially* the withdrawal of the Plan with or without the submission of an alternative plan of compromise and arrangement for the consideration of the Creditors.

60. In addition to the foregoing, it is permissible for the Applicants to waive the condition set forth in Article 9.2 of the Plan as related to the Exit Financing Facility, either in whole or in part.

61. Based on the status of negotiations and certain comfort provided by the Senior Secured Lenders, in writing, to the Applicants in respect of the Exit Financing Facility, the Monitor remains confident that a binding agreement will be achieved and/or the negotiations will have substantively advanced on or before January 15, 2010 such that the Applicants may dispense with seeking further direction of this Honourable Court with respect to the Plan prior to the Creditors' Meeting to consider same.

MONITOR'S RECOMMENDATIONS

62. Based on the foregoing, the Monitor respectfully recommends that this Honourable Court grant an Order:

   a. Authorizing and directing the filing of the Plan as describe herein;

   b. Approving the form of materials to be distributed to Affected Creditors ;

   c. Authorizing and establishing the procedure for the Applicants to call, hold and conduct a meeting of the Affected creditors to consider and vote on the Plan; and

   d. Setting the conditions for approval of the Plan in anticipation of an application for an order sanctioning the Plan.

All of which is respectfully submitted this 28th day of December 2009.

ERNST & YOUNG INC.
In its capacity as Court Appointed Monitor of Big Sky Farms Inc., Drycast Systems Inc. and Big Sky Management Consulting Corp.
Per:

Kevin Brennan, CA·CIRP, CIRP
Senior Vice President

APPENDIX "A"

LIQUIDATION ANALYSIS

APPENDIX A

Big Sky Farms
Liquidation Analysis
As of December 27, 2009

	Book Value as of Dec 4, 2009	Estimated Liquidation Value[2] Low	High	Notes
Estimated Gross Liquidation Proceeds				
Trade Receivables	1,386,809	918,552	1,110,637	3
Other Accounts Receivable	295,041	-	166,850	4
Inventory	41,777,173	13,875,756	19,166,146	5
Property, Plant & Equipment	87,172,295	20,215,886	33,817,459	6
Total Gross Estimated Liquidation Proceeds	**130,631,318**	**35,010,194**	**54,261,093**	
Less: Realization Costs and Priority Charges				
Asset Realization Costs		(3,501,019)	(3,798,276)	7
Debtor-in-Possession Financing - Priority Charge		(3,800,000)	(3,800,000)	8
Employee Wages & Vacation Pay - BIA Priority Charges		(860,000)	(860,000)	9
Agricultural Claims		(395,000)	(395,000)	10
Employee Source Deductions		(175,000)	(175,000)	11
Total Realization Costs and Priority Charges		**(8,731,019)**	**(9,028,276)**	
Total Estimated Net Liquidation Value		**26,279,174**	**45,232,816**	
Less: Secured Debt				
Senior Secured Debt		(71,294,000)	(71,294,000)	
Subordinated Debt		(10,124,663)	(10,124,663)	
Saskatchewan Hog Loan		(4,620,688)	(4,620,688)	
Total Secured Debt		**(86,039,351)**	**(86,039,351)**	
Net Deficiency of Assets Available to Unsecured Creditors, before Environmental Remediation Costs (if any) and Professional Fees		**(59,760,177)**	**(40,806,535)**	

Notes to accompany Liquidation Analysis on are on page 2.

Big Sky Farms
Liquidation analysis
As of December 27, 2009

Notes to accompany Liquidation Analysis:

General

1 The Liquidation Analysis contains numerous estimates of potential recovery values and realization assumptions based on hypothetical liquidation proceedings. In preparing the Liquidation Analysis, we have not audited, reviewed or otherwise attempted to verify the Companies' financial information and we express no opinion thereon. Actual results may vary from the assumptions set out in the Analysis, and such variations may be material.

2 The Liquidation Analysis has been prepared assuming that a liquidation of the assets of Big Sky occurs by way of the appointment of a trustee in bankruptcy (a "Trustee") under the *Bankruptcy and Insolvency Act* (Canada) (the "BIA"). The Liquidation Analysis makes certain assumptions regarding the realizable value of the assets of Big Sky and the costs to be incurred to undertake and complete the realizations process, including costs of operations and feed necessary to protect the welfare of the animals. The tenure of the bankruptcy process for purpose of the liquidation analysis is assumed to not exceed a period of six months. The liquidation analysis has been prepared on the basis of net proceeds available to the secured debt holders prior to the occurrence of professional fees associated with the bankruptcy process. The Liquidation Analysis estimates the net liquidation value based on a high and low scenario, described as follows:

The **Low Scenario** assumes a forced liquidation of the property, plant and equipment whereby the majority of Big Sky's operations cease immediately and the hog inventory is sold as soon as possible, given animal welfare restrictions. The effect of selling Big Sky's inventory over a short period of time may depress market prices, therefore we have adjusted the estimated sale prices to account for the increase in supply. The low scenario also assumes that given that current depressed state of the hog industry and the surplus of barns for sale on the market, the probability of selling most of Big Sky's hog facilities as a going concern operation is unlikely and that the maximum recovery would likely be achieved by ceasing operations, depopulating the barns, and selling the assets over a period of 3-4 months in order to reduce realization and holding costs.

The **High Scenario** assumes a more orderly sale which involves the sale of certain of the productive hog operating pyramids as going concerns, which would result in higher realizations.

Each scenario under the Liquidation Analysis assumes no recovery on capitalized lease assets net of retirement costs and obligations.

Accounts receivable

3 The recovery from trade receivables is estimated using a range of general estimates of collectability based on the aging of the receivables.

4 Other accounts receivable includes goods and services tax refunds and short-term loans made to employees. The estimated recovery is based on our expectation of recovery under each different scenario.

Inventory

5 The low end scenario assumes a liquidation of Big Sky's inventory would materially depress short term pricing for sows, feeder and nursery hogs and be sold at 50% of current cash prices, less net feed costs for the period of realization. Market hogs would be sold to the meat packing companies at a 20% discount from current cash prices. The low end assumes three months of payroll and operating costs required to liquidate the inventory and exit barn operations.

The high end scenario assumes an orderly sale of a number of Big Sky's more productive operating pyramids, as a going concern. A going concern sale would not depress short term cash prices for sows, feeder and nursery hogs to the same degree. The high end assumes these pigs are sold at a 25% discount on current cash prices, less feed costs for the selling period. Market hogs would be sold at a 10% discount from current cash prices. The high end scenario assumes three months of payroll and operating costs required to liquidate the inventory and exit barn operations.

Big Sky Farms
Liquidation analysis
As of December 27, 2009

Notes to accompany Liquidation Analysis:

Property, plant & equipment

6 The low end scenario assumes a forced liquidation. Property plant and equipment in the higher quality, more productive pyramids are estimated to be sold for 25% of book value, less holding costs for the selling period, fees and commissions. The low end assumes that realization on the property, plant and equipment in the less productive pyramids would be 10% of book value, before costs.

The high end scenario assumes the going concern sale of a number of Big Sky's more productive operating pyramids. Management estimates, based on recent distressed asset sales and the supply of hog operations currently for sale, that it could realize at most an average of $1,000 per sow space equivalent on the sale of its more productive pyramids, before holding costs and commissions. This is approximately 40% of the book value for those pyramids. The assumption is that the less productive pyramids would realize 30% of book value, before costs.

Realization costs and priority charges

7 With regards to asset realization costs, we have assumed costs of 7% to 10% of gross realization value, which costs account for broker and selling agent commissions, maintenance and repair costs, certain remediation costs, continuing head office operating expenses and such other costs to be incurred to prepare the inventory and property, plant and equipment for sale.

8 The balance owing on the Debtor-in-Possession (DIP) Loan is forecast to be approximately $3,800,000 by early February 2010. The DIP lender has been granted a first-ranking security over the assets of Big Sky for the indebtedness under the DIP facility.

9 Upon bankruptcy or receivership proceedings, the Crown would be entitled to a priority claim under the BIA, up to a maximum of $2,000 per employee with outstanding wages, against the current assets of Big Sky that ranks in priority to all other creditor claims, including the claims of the secured creditor debt holders. The liquidation analysis estimates the Crown would have a preferred charge of $860,000 (430 employees x $2,000).

10 Pursuant to provisions of the BIA and agricultural lien rights for the State of Iowa, a feed supplier that has sold and delivered products of agriculture to Big Sky would be provided a lien right for the unpaid amount in respect of products delivered to the purchaser within defined time periods pursuant to the applicable legislation. Amount represents an estimate of the value of product delivered by qualifying suppliers.

11 Unremitted employee source deductions owed to the Canada Revenue Agency constitute a deemed trust claim, which are payable in priority to all other claims and liquidation costs.