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.

THIRD REPORT OF THE MONITOR

ERNST & YOUNG INC.

DECEMBER 16, 2009

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THIRD 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 December 7, 2009, the First Report of the Monitor was issued, 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 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.

5. The purpose of this Third Report of the Monitor (the "**Third Report**") is to 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 (as defined below), in favour of CAFO (as defined below), 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, with the quantum of said charge reduced on a monthly basis by the equivalent of each monthly finance payment actually made by the Applicants; and

   b. Requesting the assistance of the United States Bankruptcy Court for the Northern District of Iowa (the "**US Bankruptcy Court**") for a determination of the validity and priority of the Agricultural Lien Claims.

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

TERMS OF REFERENCE

7. In preparing this Third Report, the Monitor has relied upon unaudited financial information, company records, and discussions with management of the Applicant. 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

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

9. On December 9, 2009, this Honourable Court issued an Order approving the Company's proposed Claims Process, the Claims Bar Date, and the appointment of the Claims Officer with the necessary authority to value the Claims (the "**Claims Process Order**")

US PROCEEDINGS

10. In the First Report the Monitor advised that the US Bankruptcy Court had made an Order on November 12, 2009 granting provisional relief to Big Sky pursuant to Chapter 15 of the US Bankruptcy Code. The Monitor further advised that a petition, returnable on December 10, 2009, before the US Bankruptcy Court was filed pursuant to sections 1515 and 1517 of the US Bankruptcy Code seeking recognition of this CCAA proceeding as a foreign main proceeding and Saskatchewan, Canada as the "centre of main interest" (the "**COMI**").

11. The December 10, 2009 hearing before the US Bankruptcy Court was continued to December 30, 2009, due to inclement weather. A draft Order has been circulated to the

party that filed an objection to the application and certain other interested parties. The Monitor anticipates that an Order will be obtained from the US Bankruptcy Court at the December 30, 2009 hearing, or sooner, if a Consent Order can be negotiated with those parties in the form attached hereto as Appendix "A", which will have the effect, *inter alia*, of:

a. Recognizing the Monitor as a foreign representative;

b. Recognizing Saskatchewan, Canada as the COMI;

c. Recognizing the Canadian proceeding as a foreign main proceeding pursuant to section 1517 of the US Bankruptcy Code;

d. Enjoining all third parties and creditors based in the United States from taking any actions or proceedings in respect to the Big Sky assets located in the United States;

e. Recognizing the right of US based feed suppliers to assert US Agricultural Liens and adequate protection rights, without making a finding as to the validity or priority of the US Agricultural Liens; and

f. Addressing such other matters as are customary in respect of proceedings granted under sections 1515 and 1517 of the US Bankruptcy Code, including the preservation of the jurisdiction of the US Bankruptcy Court with respect to various matters pertaining to the continuing proceedings.

INSURANCE FINANCE PROPOSAL

12. In the normal course of their business, the Applicants insure their operations in respect of insurable losses, including, *inter alia*, third party liability, property, livestock and business interruption losses.

13. In October of 2009, the Applicants negotiated the renewal of their insurance policy (the "**Policy**"). The premiums in aggregate total $887,178 plus a $100,000 broker fee payable to Aon Reed Steenhouse Inc. The effective date of the Policy is November 1, 2009.

14. In order to finance the payment of the insurance premiums described in the immediately preceding paragraph, the Applicants negotiated and obtained an insurance premium finance proposal (the "**Insurance Premium Finance Proposal**") from CAFO Insurance Premium Finance ("**CAFO**") (a copy of the Insurance Premium Finance Proposal is attached as Appendix "B").

15. The Applicants recommend the acceptance of the Insurance Premium Finance Proposal, which provides for the total insurance premium in respect of the Policy of $987,178, to be financed as follows:

    a. A cash down payment of $410,513.00;

    b. The balance of $576,665.00 to be paid by 8 monthly payments of $73,734.96, which includes interest at an annual percentage rate of 6.075%. The total cost of the financing over the 8 payments equates to approximately $13,214.68.

16. In order to secure the payment to CAFO of the amounts due to CAFO by the Applicants under the Insurance Premium Finance Proposal, CAFO requires the Applicants to apply for and obtain an Order of the Court containing the following provisions:

a. That CAFO be granted a first ranking charge (the **"Insurance Finance Charge"**) in the amount of $589,879.68 ($73,734.96 per month for 8 months) on the unearned or returned premiums and other amounts due to the Applicants in the event that the Policy is cancelled or collapsed; and

b. Providing that if the Applicants default on any payment owing to CAFO under the Insurance Premium Finance Proposal, CAFO may rely upon the Insurance Finance Charge notwithstanding provisions of the Initial Order or the CCAA, and cancel the Policy financed by the Insurance Premium Finance Proposal after giving any notice required by applicable provincial or federal legislation, and may, without further application to the Court, apply any unearned or returned premiums or other amounts due upon cancellation of the Policy to any amount owing by the Applicants to CAFO.

17. In the Monitor's view, it is in the best interest of the Applicants and their creditors that the Court grant (within the scope of the Initial Order) the Insurance Finance Charge, subject only to the following conditions:

a. That the Insurance Finance Charge shall be secured solely by the unearned or returned premiums and other amounts due to the Applicants by CAFO in the event that the Policy financed by the Insurance Premium Finance Proposal is cancelled or collapsed; and

b. That the quantum of the Insurance Finance Charge shall be reduced on a monthly basis by the equivalent of each monthly finance payment actually made by the Applicants to CAFO.

18. Based on the foregoing, it is the recommendation of the Monitor that this Honourable Court grant the Insurance Finance Charge as requested by the Applicants.

U.S. AGRICULTURAL LIENS

19. In its First Report the Monitor described:

a. The nature of agricultural liens in the State of Iowa, USA, pertaining to the operations of Big Sky; and

b. Certain actions that had been taken by US based feed suppliers to seek "adequate protection" in respect to the amounts alleged to be outstanding and due to such suppliers that pre-dated the making of the Initial Order on November 10, 2009.

20. It is now proposed that a motion will be brought early in the new year to approve the filing of a plan of compromise and arrangement and schedule a meeting of creditors to consider same in early to mid February 2010, it is imperative that the validity and priority of the US Agricultural Liens be determined at the earliest possible date.

21. The creditors asserting the US Agricultural Lien claims reside in the State of Iowa in the United States of America. The legislation pertaining to a determination of said rights is based on laws and statutes of the State of Iowa, USA. Accordingly, the Applicants are requesting that this Honourable Court grant an Order seeking the aid and assistance of the US Bankruptcy Court to determine the validity and priority of these alleged agricultural liens under Iowa law at the earliest possible date suitable to the US Bankruptcy Court.

22. Based on the foregoing, the Monitor recommends that this Honourable Court make an Order seeking the aid and assistance of the US Bankruptcy Court to make a determination of the rights of creditors asserting US Agricultural Liens.

MONITOR'S RECOMMENDATIONS

23. Based on the foregoing, the Monitor recommends that this Honourable Court grant 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 the Applicants' Policy financed by CAFO is cancelled or collapsed, with the quantum of said charge to be reduced on a monthly basis by the equivalent of each monthly finance payment actually made by the Applicants; and

    b. Requesting the aid and assistance of the US Bankruptcy Court in making a determination of the validity and priority of the Agricultural Lien Claims at the first suitable opportunity.

All of which is respectfully submitted this 16th 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"

US BANKRUPTCY COURT ORDER

UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF IOWA

In re:	)	Case No. 09-03293
	)	Chapter 15
Big Sky Farms Inc. by	)	
Ernst & Young Inc., as its Monitor,	)	ORDER GRANTING RECOGNITION
	)	OF FOREIGN MAIN PROCEEDING
Debtor in a Foreign Proceeding.	)	

This matter came before the Court by telephone on December 10, 2009, on the Petition for Recognition of a Foreign Main Proceeding Pursuant to 11 U.S.C. §1521 (the "Petition") filed on November 10, 2009, by Julie Johnson McLean of the law firm of Davis, Brown, Koehn, Shors & Roberts, P.C., 215 10th Street, Suite 1300, Des Moines, Iowa 50309, as United States counsel for Ernst & Young Inc., an international insolvency and restructuring firm of Vancouver, British Columbia, Canada, as monitor (the "Monitor") of Big Sky Farms Inc., a corporation formed under the law of Saskatchewan, Canada (the "Debtor" or "Big Sky").

Upon review of the Petition and the Certificate of Service filed by Monitor's counsel on November 17, 2009, the Court finds that the Monitor served copies of the Petition and the Notice of Hearing on the Petition on all creditors and parties in interest of Big Sky located in the United States in accordance with Bankruptcy Rule 2002(q)(1). The Court further finds that, in accordance with the Notice, Farmers Cooperative Company of Hinton ("Hinton"), through its counsel, Heidi L. Oligmueller, timely filed an Objection to the Petition. No other objections were filed. Counsel of record for DEL-uxe Feeds, Inc. ("DEL-uxe"), Daniel E. DeKoter, participated with counsel for the Monitor and counsel for Hinton in the telephonic scheduling conference on the Petition.

Upon review of the Petition, hearing the arguments presented by counsel during the conference, and understanding that counsel for the Monitor, Hinton and DEL-uxe have approved the form of this Order, the Court finds that relief to protect the assets of Big Sky located in the United States and the interests of all of the creditors of Big Sky is necessary and appropriate and, accordingly, finds the Petition should be granted.

THE COURT HEREBY FINDS AND DETERMINES THAT:

A. The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law. To the extent any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

B. This Court has jurisdiction to consider this matter pursuant to 28 U.S.C. §§157 and 1334. This is a core proceeding pursuant to 28 U.S.C. §157(b)(2)(P). Venue for this proceeding is proper before this Court pursuant to 28 U.S.C. § 1410(1) because the principal assets of Big Sky located in the United States are located in this District.

C. This Chapter 15 case arises out of an application of Big Sky and the consent of Ernst & Young Inc. to act as the Monitor of Big Sky under the Companies' Creditors Arrangement Act pursuant to an Order entered by the Court of Queen's Bench for Saskatchewan Judicial Centre of Saskatoon (the "Canadian Court") in Q.B. No. 1461 of 2009 (the "Canadian Proceeding") on November 10, 2009, appointing the Monitor.

D. The Monitor is the duly appointed and authorized "foreign representative" of Big Sky within the meaning of Section 101(24) of the Bankruptcy Code.

E. This Chapter 15 case was properly commenced pursuant to Sections 1504, 1509 and 1515 of the Bankruptcy Code, and the Chapter 15 Petition satisfies the requirements of Sections 1515 and 1517.

F. The Monitor has satisfied the requirements of Section 1515 of the Bankruptcy Code and Rules 1007(a)(4) and 2002(q) of the Federal Rules of Bankruptcy Procedure.

G. The Canadian Proceeding is a "foreign proceeding" pursuant to Section 101(23) of the Bankruptcy Code.

H. The Canadian Proceeding is entitled to recognition by this Court pursuant to Section 1517 of the Bankruptcy Code.

I. Saskatchewan, Canada is the center of main interests of Big Sky and, accordingly, the Canadian Proceeding is a "foreign main proceeding" pursuant to Section 1502(4) of the Bankruptcy Code, and is entitled to recognition as a foreign main proceeding pursuant to Section 1517(b)(1).

J. Big Sky maintains assets in the United States that are not subject to the stay in place in the Canadian Proceeding. Thus, Big Sky and its assets in the United States are susceptible to actions in the United States taken by one or more creditors, at the expense of all other creditors.

K. The Monitor and Big Sky are entitled to all of the automatic relief available pursuant to Section 1520 of the Bankruptcy Code without limitation.

L. The Monitor and Big Sky are further entitled to the discretionary relief set forth in Section 1521(a) and (b) of the Bankruptcy Code.

M. The relief granted herein is necessary and appropriate, in the interests of the public and international comity, consistent with the public policy of the United States, and warranted pursuant to Sections 1515, 1517, 1520 and 1521 of the Bankruptcy Code.

NOW, THEREFORE, THE COURT HEREBY ORDERS, ADJUDGES, AND DECREES AS FOLLOWS:

1. The Canadian Proceeding is granted recognition as a foreign main proceeding pursuant to Section 1517 of the Bankruptcy Code.

2. Sections 361 and 362 of the Bankruptcy Code shall hereby apply with respect to Big Sky and the property of Big Sky that is within the territorial jurisdiction of the United States.

3. Sections 363, 549 and 552 of the Bankruptcy Code shall hereby apply to a transfer of an interest of property of Big Sky that is within the territorial jurisdiction of the United States to the same extent that such Sections would apply to property of an estate, and Section 552 applies to all of Big Sky's property in the United States.

4. Pursuant to Section 1521(a)(6), all provisional relief granted to Big Sky and/or the Monitor by this Court pursuant to Section 1519(a) of the Bankruptcy Code shall be extended and this Court's Order Granting Provisional Relief entered on November 12, 2009 [Docket No. 9] shall remain in full force and effect, notwithstanding anything to the contrary contained therein.

5. All entities (as that term is defined in Section 101(15) of the Bankruptcy Code), other than the Monitor and its expressly authorized representatives and agents, are hereby enjoined from:

(a) execution against Big Sky's assets to the extent that it has not been stayed under Section 1520(a);

(b) taking or continuing any act to obtain possession of, or exercise control over Big Sky or any of its property;

(c) taking or continuing any act to enforce a lien or other security interest, set-off or other claim against Big Sky or any of its property;

(d) transferring, relinquishing or disposing of any property of Big Sky to any entity (as that term is defined in Section 101(15) of the Bankruptcy Code) other than the Monitor;

(e) interfering or discontinuing any right or agreement in favor of Big Sky for the provision of goods and services, provided in each case that the normal prices or charges provided to Big Sky on and after November 10, 2009, are paid by Big Sky in accordance with normal payment practices;

(f) interfering with, intercepting, garnishing or asserting a claim against monies, accounts receivable or other amounts payable to Big Sky by any person, including, without limitation, Sioux-Preme Packing Co., JBS USA, LLC, Swift and Tyson Fresh Meats, Inc., except (i) as may be agreed by Big Sky and the subject person, including, without limitation, DEL-uxe, Hinton or any other feed supplier, in writing and provided to the packer; or (ii) to the extent a final non-appealable Order is entered providing DEL-uxe, Hinton or the feed supplier with adequate protection of its interest under Section 361 of the Bankruptcy Code as provided in paragraph 13 below;

(g) requiring that any or all payments for goods sold by Big Sky to Sioux-Preme Packing Co., JBS USA, LLC, Swift and Tyson Fresh Meats, Inc. (including, without limitation, pigs and related products) be made payable to any person other than "Big Sky Farms Inc." ;

(h) commencing or continuing of any collection, enforcement or other action or proceeding against Big Sky or concerning Big Sky's assets, rights, obligations or liabilities pursuant to Section 1521(a) to the extent they have not been stayed under Section 1520(a); and

(i) declaring or considering the filing of the Canadian Proceeding or this Chapter 15 case a default or event of default under any agreement, contract or arrangement;

provided, however, in each case, such injunction shall be effective solely within the territorial jurisdiction of the United States.

In order to protect the packers from any consequences resulting from the actions enjoined by paragraphs 5 (f) and (g) above, Sioux-Preme Packing Co., JBS USA, LLC, Swift, Tyson Fresh Meats, Inc. and any and all other packers are directed to continue to make payments to Big Sky for all goods sold by Big Sky to them in accordance with ordinary payment terms between Big Sky and the packers, including, without limitation, to continue to make checks for such payments to Big Sky payable solely to "Big Sky Farms Inc." (and to no other party) and to continue to deliver such checks to Big Sky at its offices in Canada in accordance with ordinary payment practices, and the packers shall incur no liability to any party (including, without limitation, DEL-uxe, Hinton or any other feed supplier) in so doing.

6. Subject to any order of the Canadian Court, the Monitor may exercise the rights and powers of a trustee under and to the extent provided by Section 1520 of the Bankruptcy Code.

7. The Monitor may monitor the business and financial affairs of Big Sky in the United States, including the assets of Big Sky in the United States, subject to the orders of the Canadian Court, including, without limitation, any orders of the Canadian Court requesting this Court determine the rights of the parties in assets of Big Sky located within the territorial jurisdiction of the United States, and the proceeds thereof. Big Sky shall cooperate with the Monitor in the exercise of its powers, including providing the Monitor with full and complete access to the books and records of Big Sky and the assets of Big Sky located in the United States. In addition to its powers under the Bankruptcy Code, the Monitor may monitor the receipts and disbursements of Big Sky with respect to its operations in the United States and may report to this Court as the Monitor may deem appropriate or as this Court may direct with respect to assets of Big Sky in the United States. All reports of the Monitor filed in the Canadian Proceeding shall be filed in this Chapter 15 case.

8. The Monitor is hereby authorized to examine witnesses, take evidence, seek production of documents, and deliver information concerning the assets, affairs, rights,

obligations or liabilities of Big Sky, as such information is required in the Canadian Proceeding, subject to the law of the United States.

9. The Monitor shall not take possession of the assets of Big Sky in the United States and shall take no part whatsoever in the management or supervision of the management of the business of Big Sky and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the business or assets of Big Sky.

10. The Canadian Proceeding shall be granted comity and given full force and effect.

11. No action taken by the Monitor, Big Sky or each of their successors, agents, representatives, advisors or counsel, in preparing, disseminating, applying for, implementing or otherwise acting in furtherance of or in connection with the Canadian Proceeding, this Order or this Chapter 15 case, or any adversary proceeding herein, or any further proceeding commenced hereunder, shall be deemed to constitute a waiver of the rights, benefits or immunities afforded such persons under Sections 306 and 1510 of the Bankruptcy Code.

12. A copy of this Order shall be served, within three (3) business days of entry of this Order, by first-class U.S. mail, postage prepaid, upon: (i) all creditors of Big Sky known to the Debtor within the United States; (ii) all persons or bodies authorized to administer foreign proceedings of the Debtor; (iii) all entities against whom provisional relief is sought under Section 1519 of the Bankruptcy Code; (iv) all parties to litigation pending in the United States in which the Debtor is a party at the time of the filing of the Petition; (v) the Office of the United States Trustee; and (vi) any other person who has filed a notice of appearance in this Chapter 15 case. Such service shall be good and sufficient service and adequate notice for all purposes.

13. Nothing in this Order shall prevent Hinton or DEL-uxe from claiming an interest in or lien against the property of the Debtor that is within the territorial jurisdiction of the United States, and the proceeds thereof, or from seeking adequate protection of its interest under Section 361 of the Bankruptcy Code.

14. This Court shall retain jurisdiction with respect to: i) the enforcement, amendment or modification of this Order; (ii) any requests for additional relief or any adversary proceeding brought in and through this Chapter 15 case; and (iii) any request by an entity for relief from the provisions of this Order, for cause shown as to any of the foregoing and provided that the same is properly commenced and within the jurisdiction of this Court.

DATED AND ENTERED ______________________________.

____
William L. Edmonds, Bankruptcy Judge

APPENDIX "B"

INSURANCE PREMIUMS FINANCE PROPOSAL

CAFO

FINANCE PROPOSAL (CONTINGENT)

AGENT :

Aon Reed Stenhouse Inc
Attn : Safiya Jamal-Esmail
2700-125 9 Avenue SE
Calgary, AB T2G 0P9
403 267 7010

BORROWER :

Big Sky Farms Inc
PO Box 610
Humboldt, SK S0K 2A0

Quote Number : 100000254544.004

Printed : 11/24/2009 04:04 PM

Policy Effective Date :	11/01/2009
Annual Percentage Rate :	6.075 %
Total Premium :	$987,178.00
Down Payment :	$410,513.00
Amount Financed :	$576,665.00
Finance Charge :	$13,214.68
Total Payments :	$589,879.68

8 Monthly Installments at $73,734.96

First Installment due on 12/01/2009

This is not an offering, but is merely an example of repayment terms that might be available through CAFO. Actual Quote is contingent upon credit review and approval.