

IN THE QUEEN'S BENCH  
JUDICIAL CENTRE OF SASKATOON

IN THE MATTER OF THE *COMPANIES' CREDITOR ARRANGEMENT ACT*  
R.S.C. 1985, c. C-36, AS AMENDED (the "CCAA")

AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT FOR THE  
CREDITORS OF STOMP PORK FARM LTD.

FIRST REPORT OF THE MONITOR

**INTRODUCTION**

1. On March 26, 2008, the Applicant, Stomp Pork Farm Ltd., filed for protection from its creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended, (the "CCAA"). On March 27, 2008 this Honourable Court such an order under the CCAA (the "Initial Order").
2. Pursuant to the Initial Order, Meyers Norris Penny Limited, was appointed monitor of the Applicant during these CCAA proceedings (the "Monitor").
3. The Initial Order was amended by Fiat of this Honourable Court made March 27, 2008 and this proceeding is now governed by the Initial Order, as amended (the "Amended Initial Order").
3. The purpose of this first report of the Monitor (the "First Report") is to provide this Honourable Court with an update in respect of the following:
  - a) matters arising with the Applicants creditors in the United States;
  - b) financial forecasts provided by the Applicant for its Operation in the United States;
  - c) progress in securing the DIP Financing and advances;
  - d) matters affecting the ability of the Applicant to advance a restructuring plan;

## **TERMS OF REFERENCE**

4. In preparing this First 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 ("CICA") Handbook has not been performed. Future oriented financial information relied upon in this report is based on management's assumptions regarding future events and actual results will vary from this information and the variations may be material.

## **BACKGROUND**

5. The Applicant is primarily in the business of pork production and owns and manages numerous facilities in Saskatchewan. It also leases hog facilities in the United States. Information regarding the CCAA proceedings, including the Amended Initial Order, has been posted by the Monitor on its website at [www.MNPBankruptcy.ca](http://www.MNPBankruptcy.ca). Further background on the Applicant is contained in the material filed relating to the Amended Initial Order and includes the Affidavit of Ivan Stomp. As well, in preparing this report the Applicant has reviewed the Second Affidavit of Ivan Stomp, the Notice of Motion and supporting material filed by the National Bank of Canada and the Notice of Motion filed by the Applicant.

## **Matters Affecting US Operations**

6. The Applicant has arrangements in the United States under which it leases finishing facilities from a variety of American operators. The facilities are located in the states of Iowa, Minnesota and South Dakota. There are approximately 70 US facilities. They are being managed by various United States corporations;
7. Hogs are bred, born and raised in the Applicant's Saskatchewan facilities and are then shipped to the US facilities to complete their growth before processing. To this end, the US facilities need to be supplied with such things as feed, veterinary services and trucking. These goods and services are supplied by businesses located in the US and through the ordinary course of business the Applicant

incurs debt with them (the "US Creditors"). The Monitor has reviewed statements of account from the US Creditors and is satisfied that they are necessary for the conduct of the Applicant's US facilities.

8. The Amended Initial Order does not apply to any US creditors. However, because of the nature of this CCAA proceeding and the terms of the Initial Order, the Applicant does not have the ability to pay the US Creditors. The inability of the Applicant to pay US Creditors could lead to the necessity of costly US bankruptcy proceedings.
9. As outlined in the Second Affidavit of Ivan Stomp:
  - a) cash flow from the sale of US inventory has been disrupted;
  - b) service providers such as customs brokers need assurance of payments if they are to continue to provide service;
  - c) there are inherent risks, problems and uncertainties with a US bankruptcy proceedings,
  - d) the cash flow projections which will be commented on later in this report, indicate that ongoing and uninterrupted US Operations will be important to the Applicants restructuring efforts.
10. To allow the Applicant's US facilities to continue operating, it seems prudent to support the Applicants application to pay pre-filing debt owing to US Creditors.

### **Financial Projects for US Operations**

11. Attached to the Second Affidavit of Ivan Stomp at Exhibit "M" are financial projects prepared by the Applicant. The Monitor has reviewed those projections. Mindful that those projections are based on a set of assumptions that may vary materially from actual results, these projections appear reasonable.

### **DIP FINANCING ARRANGEMENTS**

12. The Monitor is aware that there have been some practical difficulties with securing advances of the DIP funding. In addition the Monitor is aware that the

DIP Lender and the Applicant had some issues with respect to the terms and interpretation of DIP Credit Facility.

13. The Monitor is also aware that as of this morning the Applicant and the DIP Lender have executed revised terms and conditions for operation of the DIP Credit Facility by signing a Revolving Demand Credit Agreement. A copy is attached at Appendix A of this Report.
14. The Monitor recommends that the Amended Initial Order be amended to substitute the Revolving Demand Credit Agreement for the Commitment Letter referred to in Paragraph 33(a) of the Amended Initial Order so that it will be clear and certain as to the reporting obligations of Applicant.
15. The Monitor is also aware that as of this morning, the DIP Lender has undertaken to pay directly the feed bill owing to Cargill for feed delivered since the Amended Initial Order was issued which is approximately \$450,000.00 as of April 2, 2008 and that the DIP Lender has now advanced a further \$500,000.00 to the Applicant.

#### **THE ABILITY OF THE APPLICANT TO ADVANCE A PLAN**

16. Since the issuance of the Amended Initial Order the Monitor and its representative have been working on a daily basis with the Applicant.
17. The Monitor is aware that the Applicant has been inundated with requests for information and reports, and trying to act reasonably, and maintain important relationships, has been trying to honor those requests.
18. The Applicant's desire to respond to these requests must be curbed. It has not been able to devote the necessary time since the issuance of the Amended Initial Order to development of systems to comply with the new reporting requirement required by the Amended Initial Order or advance its restructuring plan.
19. The Applicant and all interested parties need to be reminded that the Amended Initial Order and the DIP Lending Facility spell out the Applicant's reporting obligations. All other requests for information should be governed by paragraph



PROTECTED

## REVOLVING DEMAND CREDIT AGREEMENT

April 2, 2008

Stomp Pork Farm Ltd.  
P.O. Box 2650  
Humboldt, SK  
S0K 2A0

Customer #100048300

Dear Sir/Madam:

Farm Credit Canada ("FCC" or "Us" or "We" or "Our") is pleased to approve the following new loan totaling \$3,000,000.00 (collectively the "New Loan") to Stomp Pork Farm Ltd. (referred to as "You" or "Your") in connection with and in satisfaction of the granting of the Amended Ex Parte Initial Order issued in the Court of Queen's Bench, Judicial Centre of Saskatoon on the 28<sup>th</sup> day of March, 2008 under the *Companies Creditors Arrangement Act, Canada* (the "CCAA Order").

LOAN A: 326124

Draw #1

Draw Amount: \$3,000,000.00

Product: Revolving Demand Debtor-In-Possession Loan (the "DIP Facility")  
– Open Variable Product #110

Purpose: To fund essential operating expenses associated with Your operations during the Initial Companies Creditors Arrangement Act (CCAA) Period.

Availability: Canadian Dollars – Revolving in multiples of \$25,000.00.

Funding: Subject to the terms of the CCAA Order and satisfaction of all conditions precedent set forth hereof, up to \$1,000,000.00 is to be made available to You during the week of March 31, 2008. Funding beyond \$1,000,000.00 shall be subject to satisfactory review by FCC of Your financial projections and business plan to be received no later than April 9, 2008, as more fully set out below.

The DIP Facility may only be used, and each and every advance or subsequent advance hereunder will be made strictly in accordance with (i) the terms hereof; (ii) the CCAA Order (as herein defined); and (iii) the detailed cash flow projections prepared by You and provided to FCC prior to the date hereof and as updated and extended from time to time in accordance with this Agreement.

Term: April 22, 2008, being the Expiry Date of the Stay Period (the "Stay Period") under the CCAA Order.

Interest Rate: Prime Rate of Canadian Imperial Bank of Commerce plus 3.0% per annum

**Scheduled Payments:** Monthly Interest Only

**Balance Due Date:** To be repaid on or before the end of the Stay Period, or such later date as FCC in its sole discretion may agree.

**Security:** A first priority charge on all of Your accounts receivable and inventory and the Canadian Agricultural Income Stabilization Program – AgriStability Targeted Advance Payment ("CAIS TAP") (collectively referred to as the "DIP Security") as provided under the CCAA Order. See attached Schedule A for a copy of the CCAA Order.

**Covenants:** The attached Schedule B – Covenants and Conditions form part of this Revolving Demand Credit Agreement.

**Fees:** A Commitment Fee of \$10,000.00 to be retained from the loan proceeds.

**Availability:** Requests for drawings under this DIP Facility must be received by FCC on or before 12:00 noon on the day of the requested advance. Provided that the Borrower has complied with all covenants and conditions precedent referenced herein and has not defaulted under the terms and provisions of this Agreement, the amount of the advance approved by FCC will be deposited directly into the account of the Borrower maintained at the Financial Institution, as referenced in Schedule "B" hereto for availability on the clearing of the deposit.

**Notice:** Any notice or other communication under this Revolving Demand Credit Agreement must be in writing and must be delivered personally, by mail, by courier or by fax. Any notice will be conclusively regarded as having been received on the day of personal delivery, on the fourth business day following mailing, on the day of receipt by courier or on the day following transmission by fax. Until changed in accordance with the provisions of this Revolving Demand Credit Agreement, notices and other communications must be addressed as follows:

|  |  |
|--|--|
| If to You at:                            | Stomp Pork Farm Ltd.<br>P.O. Box 2650<br>Humboldt, SK S0K 2A0<br>Fax No.: 306-366-2217   |
| If to FCC at:                            | Farm Credit Canada<br>P.O. Box 4320,<br>1800 Hamilton Street<br>Regina, SK S4P 4L3<br>Attention: William Wilmot<br>Fax No.: 306-780-3491 |
| If to FCC Loan<br>Administration Centre: | FCC Loan Administration Centre<br>10250 – 101 <sup>st</sup> Street N.W.<br>Edmonton, AB T5J 3P4<br>Fax No.: 780-495-5665                 |

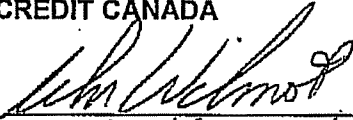
**Existing Loans:**

Any and all of the Borrower's existing loans with FCC not included in this Revolving Demand Credit Agreement will continue in accordance with the terms and conditions as set forth in the loan

documentation relative to those existing loans, save and except to the extent that payments are affected during the Stay Period.

Please indicate Your acceptance of the terms of this Revolving Demand Credit Agreement by returning a signed copy of this Revolving Demand Credit Agreement. The New Loan being offered will expire if We do not receive a signed copy of this Revolving Demand Credit Agreement by April 3, 2008.

**FARM CREDIT CANADA**

Per: 

Name: *William Wilmot*

Title: *Senior Account Manager*

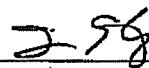
**ACCEPTANCE**

By accepting this Revolving Demand Credit Agreement, You promise to repay the New Loan by making all Scheduled Payments of interest and by paying any principal and interest outstanding on such loan on the Balance Due Date, as set out in this Revolving Demand Credit Agreement.

You agree to all of the terms and conditions of this Revolving Demand Credit Agreement, including the attached Schedules.

Accepted this 3<sup>rd</sup> day of April, 2008.

**STOMP PORK FARM LTD.**

Per:   
I have authority to bind the Corporation

SCHEDULE A – SECURITY

CCA Order

Q.B. No. 363 of 2008

CANADA  
PROVINCE OF SASKATCHEWAN

IN THE COURT OF QUEEN'S BENCH  
JUDICIAL CENTRE OF SASKATOON

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENTS ACT*, R.S.C. 1985,  
c. C-36, AS AMENDED (the "CCA")

AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT FOR THE  
CREDITORS OF STOMP PORK FARM LTD.

(the "Applicant")

AMENDED EX PARTE INITIAL ORDER

BEFORE THE HONOURABLE ) FRIDAY, THE 27<sup>th</sup> DAY  
MADAM JUSTICE A.R. ROTHERY ) OF MARCH, 2008  
IN CHAMBERS )

UPON THE AMENDED *EX PARTE* APPLICATION of counsel on behalf of the Applicant, and upon hearing read the Notice of Motion, dated the 26th day of March, 2008; the Memorandum to the Presiding Judge; the Affidavit of Ivan Stomp, sworn the 26th day of March, 2008 and the Draft Ex Parte Initial Order all filed:

IT IS HEREBY ORDERED, ADJUDGED, AND DECLARED THAT:

TERM OF ORDER

1. The hearing of the application on this proceeding shall be held at the Court House situated at 520 Spadina Crescent East, Saskatoon Saskatchewan, at 10:00 o'clock in the forenoon on the 22<sup>nd</sup> day of April, 2008. All of the relief provided for in the subsequent paragraphs of

this Order is granted to the Applicant on an interim basis only, and the relief made in the subsequent paragraphs will expire at 11:59 p.m. (Central Standard Time) on the 25<sup>th</sup> day of April, 2008, unless extended by this Court.

### APPLICATION

2. The Applicant is a Company to which the CCAA applies.

### PLAN OF ARRANGEMENT

3. The Applicant shall have the authority to file and may, subject to further order of this Court, file with this Court one or more plans of compromise or arrangement (hereinafter referred to as the "Plan" or "Plans") between, *inter alia*, the Applicant and one or more classes of its secured and/or unsecured creditors as it deems appropriate.

### POSSESSION OF PROPERTY AND OPERATIONS

4. The Applicant shall remain in possession and control of its current and future assets, undertakings and property of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property"). Subject to further Order of this Court, the Applicant shall continue to carry on business in a manner consistent with the preservation of its business (the "Business") and Property. The Applicant shall be authorized and empowered to continue to retain, employ, and pay the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "Assistants") currently retained or employed by it, with liberty to retain, employ, and pay such further Assistants as it deems reasonably necessary or desirable, all in the ordinary course of business or for the carrying out of the terms of this Order.
5. The Applicant shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:
  - (a) all outstanding and future wages, salaries, employee and pension benefits, contributions to pension plans, vacation pay, bonuses, and expenses payable on or

after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements; and

- (b) the fees and disbursements of any Assistants retained or employed by the Applicant in respect of these proceedings, at their standard rates and charges.

6. Except as otherwise provided to the contrary herein, the Applicant shall be entitled but not required to pay all reasonable expenses incurred by the Applicant in carrying on the Business in the ordinary course after the date of this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and
- (b) payment for goods or services actually supplied to the Applicant.

7. The Applicant shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;
- (b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Applicant in connection with the sale of goods and services by the Applicant, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order; and

- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicant.
8. Until such time as the Applicant repudiates a real property lease in accordance with paragraph 10(f) of this Order, the Applicant shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated by the Applicant from time to time ("Rent"), for the period commencing from and including the date of this Order, bi-weekly, in advance (but not in arrears).
9. Except as specifically permitted herein, the Applicant is hereby directed, until further Order of this Court:
- (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicant to any of its creditors as of the date of this Order;
  - (b) to grant no security interests, trusts, mortgages (or other real property interests), liens, charges, or encumbrances upon or in respect of any of its Property; and
  - (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

### RESTRUCTURING

10. The Applicant shall, subject to such covenants as may be contained in the DIP Lender Documents (as hereinafter defined), if any, have the right to:
- (a) subject to paragraph 10(f), if applicable, permanently or temporarily cease, downsize or shut down any of its Business or operations;
  - (b) sell its assets in the ordinary course of its Business;

- (c) dispose of (by sale or otherwise) redundant or non-material assets not exceeding \$100,000 in any one transaction or \$100,000 in the aggregate under a series of connected transactions;
- (d) dispose of (by sale or otherwise) redundant or non-material assets not authorized by paragraph 10(c) of this Order only with the approval of the Monitor;
- (e) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate on such terms as may be agreed upon between the Applicant and such employee, or failing such agreement, to deal with the consequences thereof in the Plan;
- (f) in accordance with paragraphs 11 and 12, vacate, abandon or quit any leased premises and/or repudiate any real property lease and any ancillary agreements relating to any leased premises, on not less than seven (7) days' notice in writing to the relevant landlord on such terms as may be agreed upon between the Applicant and such landlord, or failing such agreement, to deal with the consequences thereof in the Plan;
- (g) repudiate such of its arrangements or agreements (including, without limitation, leases of personal property) of any nature whatsoever, whether oral or written, as the Applicant deems appropriate on such terms as may be agreed upon between the Applicant and such counter-parties, or failing such agreement, to deal with the consequences thereof in the Plan; and
- (h) pursue all avenues of refinancing and offers for sale for all or any material part or parts of its Business or Property, subject to prior approval of this Court being obtained before any material refinancing is undertaken, or all or any material part or parts of its Business or Property is sold, (except as permitted by subparagraphs (b) through (d), above),

to permit the Applicant to proceed with an orderly restructuring of the Business (the "Restructuring").

11. The Applicant shall provide each of the relevant landlords with notice of the Applicant's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicant's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Applicant, or by further Order of this Court upon application by the Applicant on at least two (2) days' notice to such landlord and any such secured creditors. If the Applicant repudiates the lease governing such leased premises in accordance with paragraph 10(f) of this Order, it shall not be required to pay Rent under such lease pending resolution of any such dispute, and the repudiation of the lease shall be without prejudice to the Applicant's claim to the fixtures in dispute.
  
12. If a lease is repudiated by the Applicant in accordance with paragraph 10(f) of this Order, then (a) during the notice period prior to the effective time of the repudiation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the repudiation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicant in respect of such lease or leased premises and such landlord shall be entitled to notify the Applicant of the basis on which it is taking possession and to gain possession of and re-lease such leased premises to any third party or parties on such terms as such landlord considers advisable, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.
  
13. Subject to the other provisions of this Order (including the payment of Rent as herein provided) and any further Order of this Court, the Applicant shall be permitted to dispose of any or all of the Property located (or formerly located) at such leased premises without any interference of any kind from landlords (notwithstanding the terms of any leases) and, for

greater certainty, the Applicant shall have the right to realize upon the Property and other assets in such manner and at such locations, including leased premises, as it deems suitable or desirable for the purpose of maximizing the proceeds and recovery therefrom.

#### **NO PROCEEDING AGAINST THE APPLICANT OR THE PROPERTY**

14. Until and including April 22, 2008 or such later date as this Court may order (the "Stay Period"), no proceeding (the "Proceeding") or enforcement process (the "Enforcement") in any court or tribunal shall be commenced or continued against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicant and the Monitor, or with leave of this Court and any or all Enforcements or Proceedings currently underway against or in respect of the Applicant or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

#### **NO EXERCISE OF RIGHTS OR REMEDIES**

15. During the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (a) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on; (b) exempt the Applicant from compliance with statutory or regulatory provisions relating to health, safety or the environment; (c) prevent the filing of any registration to preserve or perfect a mortgage or security interest; or (d) prevent the registration or filing of a lien or claim for lien or the commencement of a Proceeding to protect a lien or other rights that might otherwise be barred or extinguished by the effluxion of time, provided that no further steps shall be taken in respect of such lien, claim for lien or Proceeding except for service of the initiating documentation on the Applicant.

**NO INTERFERENCE WITH RIGHTS**

16. During the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicant, except with the written consent of the Applicant and the Monitor, or leave of this Court.

**CONTINUATION OF SERVICES**

17. During the Stay Period, all Persons having oral or written agreements with the Applicant or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation, utility or other services to the Business or the Applicant, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicant, and that the Applicant shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicant in accordance with normal payment practices of the Applicant or such other practices as may be agreed upon by the supplier or service provider and each of the Applicant and the Monitor, or as may be ordered by this Court.

**NON-DEROGATION OF RIGHTS**

18. Notwithstanding anything else contained herein, no Person shall be under any obligation after the making of this Order to provide goods or services on credit or to provide further advances of money or credit.

**PROCEEDINGS AGAINST DIRECTORS AND OFFICERS**

19. During the Stay Period, and except as permitted by subsection 11.5(2) of the CCAA, or by further order of this Court, no Proceeding or Enforcement may be commenced or continued against any one or more of the former, current or future directors or officers of the Applicant (the "Past and Present Directors") with respect to any claim against any one or