

2007

S.H. No. 285667

IN THE MATTER OF:

The *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 as amended

- and -

IN THE MATTER OF:

A Plan of Compromise or Arrangement of the Applicant, Federal Gypsum Company

SECOND REPORT OF MONITOR – BDO DUNWOODY GOODMAN ROSEN INC.

October 15, 2007

TABLE OF CONTENTS

<u>Section Description</u>	<u>Page</u>
1. Second Report of the Monitor.....	3
2. Cash Flow, Cash Projections, and Debtor-in-Possession (“DIP”) Financing.....	5
3. Professional Fees Subject to the Administration Charge.....	7
4. Status of Plan of Arrangement Under Companies’ Creditors Arrangement Act (“CCAA”).....	8
5. Recommendations.....	10

<u>Exhibits</u>	<u>Number</u>
DIP Order (September 27, 2007).....	1
Cash Flow Statement.....	2
Details of Professional Fees Subject to Administration Costs.....	3
Revised Calculation of Secured Creditor Percentages.....	4

1. SECOND REPORT OF THE MONITOR

- 1.1. Pursuant to an Order (“Initial Order”) of the Supreme Court of Nova Scotia dated September 18, 2007, BDO Dunwoody Goodman Rosen Inc. was appointed as Monitor (“the Monitor”) pursuant to the application of Federal Gypsum Company (“Federal”) for protection under the Companies’ Creditors Arrangement Act (“CCAA”).
- 1.2. Paragraph 2A of the Initial Order specified that a further hearing in the CCAA proceeding is to be held on Thursday, October 18, 2007 at 9:30 a.m. or such alternative date as the Court may fix, at which time the Initial Order may be supplemented or otherwise varied and the Stay of Termination Date as defined in the Initial Order is to be either extended or terminated.
- 1.3. On September 24, 2007, Federal made application to the Court for an Order approving the arrangements for debtor-in-possession (“DIP”) financing to Federal. An Order for this purpose was granted by the Honorable Justice A. David MacAdam in a format that was consented to by Federal and certain secured creditors, and the said Order was taken out on September 27, 2007. The DIP Order is attached hereto as Exhibit 1.
- 1.4. The Monitor prepared its first report to This Honorable Court under date of September 20, 2007 and this report was filed with This Honorable Court prior to the DIP financing hearing on September 24, 2007. The Monitor’s first report was considered at the September 24 hearing.
- 1.5. Since the date of the Monitor’s first report on September 20, 2007, the Monitor advises that we have undertaken or been involved with various actions and activities as described hereafter on a general basis:
 - We have been in almost constant daily contact and communication with Rhyne Simpson, Jr. and/or Michael Simpson, Federal’s legal counsel, and counsel to the Monitor for the purpose of a continuing review of the financial position of Federal, its cash flow, its operations, and certain aspects of the progress towards the drafting of a Plan of Arrangement for consideration by Federal’s creditors and the Court.
 - We have, on a daily basis, fielded numerous communications by telephone, email, and correspondence with creditors and we have responded to their inquiries and concerns, including questions about pre-filing obligations and post-filing supply and certainty of payment related thereto.
 - We communicated with secured creditors to obtain the balances of the obligations owing to them by Federal as at September 18, 2007, including coordination of efforts to obtain security documentation for the review of the Monitor’s legal counsel. Our counsel has advised that, at this writing, and despite having requested copies of security documents from certain secured creditors, this documentation has

not yet been received from all secured creditors by our legal counsel, and hence a security review has not yet been completed by Monitor's counsel.

- We reviewed the Cash Flow Statement and materials related thereto which are supplied to us on a weekly basis by Federal and, in a number of instances, we arranged for corrections and changes to be made where we believed appropriate and after discussing same with Federal.
- We sent copies of the Cash Flow Statements that were supplied to us by Federal to counsel for secured creditors for distribution to their respective clients. In a number of instances, we responded to questions raised by secured creditors upon receipt of the Cash Flow Statements.
- In addition to the continued contact and communications with the officers of Federal, its legal counsel, and counsel to the Monitor, we also attended at certain meetings with them to discuss various aspects of the CCAA process, including DIP financing, future financing, and the Plan of Arrangement.
- We had a number of communications with various parties about providing new DIP financing and, in one particular instance, we dealt with a potential DIP financier in terms of its provision of specific DIP financing and we undertook communications to qualify that party to do so.
- By conference call (on October 11, 2007), we attended a meeting with officials of Enterprise Cape Breton Corporation ("ECBC") and Cape Breton Growth Fund ("CBGF") and their legal counsel, along with Federal and its counsel.
- We attended a meeting (on October 12, 2007) with senior officials of Nova Scotia Business Inc. ("NSBI") and Province of Nova Scotia – Office of Economic Development ("PNS OED") and their counsel, along with Federal and its counsel.
- On October 10, 2007, we sent a letter to all creditors of Federal as listed in Exhibit 6 of the Monitor's first report as well as to others, which letter reminded creditors of the comeback hearing to be held on October 18, 2007. We invited the addressees to review the materials filed by Federal in anticipation of the October 18 application by visiting the Monitor's website at www.bdo.ca/fgc.
- On the Monitor's website (www.bdo.ca/fgc), we placed all materials filed with This Honorable Court in the CCAA proceeding and other materials related thereto that we thought appropriate.

- 1.6. Since the hearing on September 18, 2007, with respect to the Initial Order, the Monitor and its counsel attended the Court hearing in Halifax on September 24, 2007 dealing with the DIP financing application by Federal.

2. CASH FLOW, CASH FLOW PROJECTIONS, AND DEBTOR-IN-POSSESSION (“DIP”) FINANCING

- 2.1. The Monitor continues to review the weekly Cash Flow Statements and materials related thereto as supplied by Federal.
- 2.2. Attached as Exhibit 2 is the Cash Flow Statement for the week October 8, 2007 to October 12, 2007, along with a comparison to the original Cash Flow Statement filed with the Initial Order application. As well, included in Exhibit 2 is the cumulative cash flow for the period from the date of the Initial Order on September 18, 2007 through to October 12, 2007, again with a comparison to the budget as filed with the Initial Order.
- 2.3. As at October 12, 2007, Federal advises the Monitor that accounts receivable from customers are \$477,920.42, accounts payable to suppliers are \$27,522.43, and inventory at cost is estimated to be \$1,427,531.53, being comprised of finished goods of \$527,803.57 and raw materials of \$899,727.96.
- 2.4. The Monitor believes that certain key points to be observed on the October 12, 2007 Cash Flow Statement (Exhibit 2) are as follows:
 - Actual cash receipts are \$47,184 better than the budget plan filed with the Initial Order Application;
 - Actual expenditures are \$125,346 less than (better than) the budget plan. We believe this arises because certain expenses were projected on a usage basis and the plant is functioning on a basis less than projected;
 - Net cash flow is \$172,530 better than budget and, as a result, to October 12, 2007, only \$25,962 of the DIP has been used;
 - If all of the \$27,522 of payables at October 12 had been paid, only \$53,484 of the DIP would have been used as opposed to the plan of \$198,493;
 - Sales are \$153,181 less than budget. The Monitor has some concern about this trend. We believe that, in part, the revenue under plan may be a result of Federal’s customers being uncertain as to its ability to deliver a quality product due to the CCAA proceeding and the fact that senior management have spent unbalanced amounts of time dealing with various CCAA proceeding matters as opposed to sales and operations.
- 2.5. The Monitor is aware that two new senior experienced sales staff were hired by Federal effective October 1, 2007 and these additions may assist greatly in turning around the sales trend to bring it closer to budget.
- 2.6. As previously indicated, only \$25,962 has been drawn at October 12, 2007 against the DIP. The Cash Flow Statement filed with the September 18 Initial Application reflects

that DIP in the week of December 10 will top out at \$820,000 after rising through October and November. It is clear that Federal needs to seek the approval of the Court for an increase in the DIP financing level above the present amount approved by the Court at \$350,000.

- 2.7 We have been advised by Federal that the \$200,000 of DIP financing initially required in the DIP Order of September 27 (Exhibit 1) has been provided by the DIP lender.
- 2.8 In anticipation of the projected rise in DIP financing and with the consent and assistance of the Monitor, Federal sought out new parties to provide DIP financing at the maximum level as well as for other purposes.
- 2.9 The Monitor is in receipt of a Term Sheet from Century Services Inc. ("Century") a new potential DIP lender. This Term Sheet was received on October 11 and both Federal and its counsel and the Monitor and its counsel have not, at this writing, had time to fully review its terms, conditions, and impact. The Monitor is aware that Century is undertaking due diligence, and if Century is satisfied and Federal is satisfied as to terms and conditions as may be negotiated, the result will be the availability of a new DIP facility of up to \$1.5 million, which would have to be approved by This Honorable Court.
- 2.10 The Monitor and Federal have discussed the application of the new DIP facility which, in general, would be used as follows:
- Replace present DIP as drawn from Sante Fe Resources LLC \$ 200,000
 - Replace present DIP as approved by Court, but not drawn from Sante Fe Resources LLC 150,000
 - Provide additional DIP funds, subject to Court approval 500,000
 - Pay out RBC working capital loan, subject to Court approval 530,000
- 2.11 The Monitor has now received responses from all major secured creditors regarding the amounts owing to them by Federal as at September 18, 2007. We again note that Monitor's counsel has not yet confirmed the validity and priority of the various securities for the reason previously discussed herein. Using the balances now provided by secured creditors, the Monitor has recalculated the impact that the DIP will have as against the secured creditor positions. Attached as Exhibit 4 is a revised calculation showing the percentage of the various secured creditor interests as they would participate in any allocation of DIP or Administration Charges.

3. PROFESSIONAL FEES SUBJECT TO THE ADMINISTRATION CHARGE

- 3.1. Paragraph 31 of the Initial Order provides that the Monitor, counsel to the Monitor, and Federal's counsel, as security for their reasonable professional fees and disbursements incurred both before and after the making of the Initial Order in respect to the CCAA proceedings, were granted a charge against all present and future property of Federal in the form of an Administration Charge, such charge not to exceed \$300,000 without further Order of the Court.
- 3.2. Attached as Exhibit 3 is a schedule of the details of professional fees which are subject to the Administration Charge. This schedule portrays those fees as billed and indicates which ones are paid or are unpaid, as the case may be as of October 15, 2007.
- 3.3. The Monitor does not believe there is a need to seek approval of the Court at this time for an increase in the Administration Charge.
- 3.4. As previously indicated, Exhibit 4 shows the impact of the Administration Charge on the secured creditors on a percentage basis.

4. STATUS OF PLAN OF ARRANGEMENT UNDER COMPANIES' CREDITORS ARRANGEMENT ACT ("CCAA")

- 4.1. The Monitor and its legal counsel have met with Rhyne Simpson, Jr. and Michael Simpson of Federal and its legal counsel and we have discussed in very general terms the type of Plan of Arrangement under CCAA that might be developed for consideration of creditors and, in doing so, the steps, process, and prerequisites that would be required to result in a successful plan.
- 4.2. The Monitor, in general principle, is of the view that a successful CCAA plan which would be financially attractive to creditors and result in a viable business for Federal on a go-forward basis may include, but would not be limited to, a combination of investor equity funding along with a reduction of all classes of debt. Some of the debt reduction may be in part replaced with some form of participation.
- 4.3. The Monitor has indicated to Federal's officers that there is certain information that is required in order to develop various scenarios for consideration in determining a Plan of Arrangement to be put forward to creditors for consideration. These prerequisites include:
 - financial projections for the 2008, 2009, and 2010 years, containing workable and conservative sales and expense numbers;
 - a current appraisal of all of the movable equipment of Federal as presently located at the Point Tupper plant;
 - substantial discussions with an qualified long term working capital lender, including the availability of future credit consistent with the financial projections.
- 4.4. The Monitor suggested that it and senior Federal officials meet with the most significant secured creditors, being ECBC, CBGF, NSBI, and PNS – OEC. The meeting with ECBC and CBGF was held on October 11, 2007 and the meeting with NSBI and PNS – OED was held on October 12, 2007. The purpose of these meetings was twofold. Firstly, Federal sought the support of these senior secured creditors for the application to be made on October 18, 2007 for the continuance of the CCAA stay. Secondly, Federal, in very general terms, outlined its current preliminary thinking in terms of developing a Plan of Arrangement and how these senior secured creditors may be treated.
- 4.5. With respect to the appraisal of the movable equipment, Federal has arranged for a going concern and liquidation value appraisal to be completed and the Monitor understands that this activity should be completed before the end of October, 2007. We are advised that Bill Niggemyer of Universal Worldwide LLC is a knowledgeable person who will be completing this function. He is from the United States and has been very involved in recent years in buying and selling equipment such as is located at the Point Tupper plant.

- 4.6. As previously indicated in this report, Federal has already made significant progress in attracting a potential new lender to provide DIP financing at levels which would carry Federal through the next year. While a Term Sheet has been provided by Century, at this writing, the financing has not been finalized as it requires review by Federal's officials and counsel and also requires the completion of due diligence by the potential lender.
- 4.7. Having met with Federal and its legal counsel, and having had preliminary discussions with them as to the general principles and format of a Plan of Arrangement, and having considered the progress made in financing and sales opportunities, and having had initial discussions with senior secured creditors, the Monitor concludes that Federal has acted, and continues to act, in good faith and with due diligence and, if given sufficient time by This Honorable Court, should be able to file a Plan of Arrangement under CCAA that will have a significant chance of being successful.
- 4.8. The Monitor believes Federal may also have to return to This Honorable Court to seek its direction with respect to the classification of creditors and a Claims Bar Process.

5. RECOMMENDATIONS

- 5.1. The Monitor recommends that Federal make every effort to have the appraisal of the movable equipment completed and available for the Monitor's review by October 26, 2007.
- 5.2. That in order to develop the Plan of Arrangement, the Monitor recommends that Federal provide to the Monitor cash projections, income statements, and balance sheets for the 2008, 2009, and 2010 operating years and that such information be provided to the Monitor by October 29, 2007. Along with these financial projections, the Monitor is to be provided with the plausible assumptions that support the projections.
- 5.3. That because the Monitor believes that by its actions, Federal is acting in good faith and with due diligence in moving forward towards the preparation of a Plan of Arrangement, and whereas the actual net cash flow of Federal is not adverse to the cash flow plan as presented with the application for the Initial Order, the Monitor recommends to This Honorable Court that Federal be granted a continuance of the Stay of Termination Date under CCAA, and hence an extension of time to make further progress towards the development and completion of a Plan of Arrangement for the consideration of creditors, such extension to be not less than 30 days from October 18, 2007. The Monitor is of the view that Federal cannot complete all of the necessary activities in a timeframe which is less than 30 days.
- 5.4. The Monitor recommends that Federal return to This Honorable Court not later than October 31, 2007 at which time Federal must make an application for an increase in the DIP financing level and such other matters as may relate thereto.

Dated at Halifax, Nova Scotia this 15th day of October, 2007.

Respectfully submitted

BDO DUNWOODY GOODMAN ROSEN INC.
Court-Appointed Monitor in the CCAA Application of
Federal Gypsum Company

Original Signed by P.G. Goodman

Paul G. Goodman, FCA, FCIRP, FIIC
President

IN THE SUPREME COURT OF NOVA SCOTIA

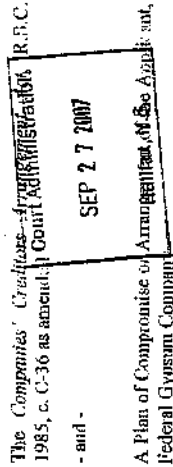
IN THE MATTER OF:

The Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36 as amended, Court Administrators

- and -

IN MATTER OF:

A Plan of Compromise or Arrangement of the Assets of Federal Gypsum Company



ORDER

BEFORE THE HONOURABLE JUSTICE A. DAVID MACADAM

UPON READING the Affidavit of Michael Simpson sworn September 20, 2007 and the First Report of BDO Dunwoody Goodman Rosen Inc., as Monitor of Federal Gypsum Company (the "Company") dated September 20, 2007 (the "Monitor's First Report"); and

UPON HEARING Maurice P. Chiasson, counsel for the Company

AND UPON **HEARING:**

- Carl Holm, Q.C., counsel to BDO Dunwoody Goodman Rosen Inc.
- Thomas Boyne, Q.C., counsel to Royal Bank of Canada
- Robert Sampson, counsel to Enterprise Cape Breton Corporation and Cape Breton Growth Fund Corporation
- Stephen McGrath, counsel to Her Majesty in Right of the Province of Nova Scotia (Nova Scotia Economic Development) and Nova Scotia Business Incorporated
- Michael Sitwiger, counsel to Black & McDonald Limited

IT IS HEREBY ORDERED THAT:

1. The Company not be required to serve notice of this application on any of its creditors except for the secured creditors listed in paragraph 4.6 of the Monitor's First Report filed with this application.
2. The Monitor's First Report and the activities of the Monitor described therein are hereby approved.
3. The Company is hereby authorized and empowered to enter into an arrangement to obtain a non-revolving credit facility (the "DIP Facility") from Rhyne Simpson Jr. (the "DIP Lender") in the maximum total principal amount of \$350,000 Cdn, on the terms and conditions set forth in the September 20, 2007 term sheet between the DIP Lender and

the Company, as such agreement may from time to time thereafter be amended by the parties, hereto with the consent of the Moulton and approved by the Court (the "DIP Term Sheet"), to fund the ongoing, ordinary course activities of the Company and to permit the Company to pay such amounts as may be permitted by the terms of this Order, the Initial Order and the DIP Term Sheet.

4. The Company shall be authorized to borrow and otherwise obtain credit from the DIP Lender in accordance with the DIP Term Sheet, provided that the total outstanding principal amount thereunder does not at any time exceed \$350,000 Cdn, and the Company is hereby authorized and directed to perform all of its obligations under the DIP Term Sheet and the DIP Credit Documentation (as defined below), and the Company shall pay when due all principal and interest under the DIP Facility, provided that nothing in this Order shall obligate the DIP Lender to make any advance to the Company.

5. Any and all present and future rights, property, assets and undertakings of the Company, whether real or personal, wherever located, and whether held in whole or in part, directly or indirectly, as principal or nominee, beneficially or otherwise including, without limitation, any or all real property, personal property or intellectual property of the Company or any and all securities, instruments, debentures, notes or bonds issued to or held by or on behalf of the Company (collectively, the Property), is hereby charged by:

- (a) a fixed and floating charge, mortgage, hypothec, lien and security interest, and
- (b) any charge, mortgage, hypothec, lien or security interest included in or contemplated by the DIP Credit Documentation (as defined below),

(the charges, mortgages, hypothecs, liens and security interests referred to in the foregoing paragraphs (a) and (b) being collectively referred to as the "DIP Charge") in favour of the DIP Lender, as security for payment of all present and future indebtedness, obligations and liabilities of the Company to the DIP Lender under the DIP Term Sheet, the DIP Credit Documentation and this Order (and any of them) together with all interest, fees, charges and other amounts payable in respect thereof (the "DIP Liabilities").

6. Notwithstanding any other provision of this Order, the Company is hereby authorized and empowered to execute and deliver such mortgages, charges, hypothecs, security agreements, debentures (collectively, the "DIP Security") and such other agreements and documents (together with the DIP Security, the "DIP Credit Documentation") as are contemplated by the DIP Term Sheet or the DIP Charge or as may be reasonably required by the DIP Lender from time to time in respect of the borrowings under the DIP Facility.

7. The DIP Security and the DIP Charge shall attach, as of 12:01 a.m. (Montreal time) on the date of this Order, to all Property of the Company.

8. The Company shall pay the DIP Lender when due all amounts owing, and shall perform all other obligations of the Company to the DIP Lender pursuant to the DIP Term Sheet, the DIP Credit Documentation and this Order (and any of them).

9. Subject to the following, nothing in this Order shall apply to prevent, enjoin, restrain, or stay:

- (a) any right of the DIP Lender to terminate the making of or refuse to make advances to the Company under the DIP Term Sheet and to make demands thereunder, or from issuing any notices of intention to enforce security, notices of powers of sale, notices of disposition or other such notices, and from exercising any acceleration rights or rights of set-off or combination of accounts, or any rights and remedies under the DIP Credit Documentation, the DIP Charge or the DIP Security;
- (b) without limiting paragraph (a) above, prevent the DIP Lender from applying to this Court for the appointment of an interim receiver, receiver and manager and/or for the appointment of a trustee in bankruptcy in connection with the enforcement of the DIP Charge and the DIP Security or the payment of the DIP Liabilities or for other relief;
- (c) the right of the DIP Lender to receive and apply all amounts received from the Company in accordance with the DIP Term Sheet, the DIP Credit Documentation and this Order, provided the leave of the Court is first obtained;
- (d) the DIP Lender from exercising its rights and remedies as against the Company in respect of the DIP Charge or the DIP Credit Documentation; and
- (e) the Company from paying amounts from time to time on account of the DIP Liabilities to the extent permitted by this Order in accordance with the DIP Term Sheet and the DIP Credit Documentation.

Notwithstanding any other provision of this Order, the DIP Lender shall not enforce any security (or exercise any right of set-off or combination of accounts) against the Company or its Property without the prior leave of this Court, provided that the DIP Lender may deliver to the Company demands and notices and exercise acceleration rights without the leave of the Court.

10. The DIP Lender, in such capacity, shall, unless it otherwise agrees, be treated in all respects as an unfettered creditor in these proceedings, in the reorganization plan filed by the Company or in any other plan filed by the Company (the "Plan") and, unless otherwise agreed by the DIP Lender, all indebtedness and liability owing by the Company to the DIP Lender with respect to the DIP Facility shall be paid to the DIP Lender in full no later than the date of implementation of the Plan.
11. The DIP Lender and its advisors shall be given clear and unfettered access to the books and records of the Company and such other information as the DIP Lender and its advisors deem necessary or appropriate.
12. No order shall be made varying, rescinding or otherwise affecting the provisions of this Order with respect to the DIP Facility, the DIP Credit Documentation, the DIP Charge and the DIP Security unless either:

- (a) notice of a motion for such order is served on the DIP Lender by the moving party within ten (10) days after such moving party is served with a copy of this Order;^{cc}
- (b) the DIP Lender applies for or consents to such order.
13. The Company shall execute the documents and take the other actions necessary or appropriate to give effect to the DIP Charge.
14. The DIP Charge shall attach to all present and future Property of the Company, including any lease, sublease, offer to lease or other contract, except that the DIP Charge shall not attach to the last day of the term of any lease of real property or to any such lease, sublease, offer to lease, or other contract to the extent that such attachment would constitute a breach of its terms or permit a party to terminate such agreement. If the DIP Charge does not attach to any Property in accordance with this paragraph, the Company shall bind its interests in such lease, sublease, offer to lease or other contract or any proceeds therefrom in trust for the DIP Lender and shall assign such interests to the DIP Lender or its assignees upon obtaining the required consent or upon order of the Court.
15. Advances made under the DIP Facility shall be made to the Company as required for the operations of the Company, as determined by the Monitor and in accordance with the most recent cash-flow projections of the Company. The DIP Charge resulting from any such advance has priority over all mortgages, charges, security interests, liens and encumbrances of any kind or nature (collectively, the "Encumbrances" and individually an "Encumbrance") in or against any and all of the Property of the Company, subject to applicable prior statutory liens, and provided that the amount owing under the DIP Facility for such advances shall only have priority over any Encumbrance in the same proportion as that Encumbrance was to all of the Encumbrances against the Property of the Company at the date of the Initial Order of September 18, 2007. The DIP Charge Encumbrances in accordance with the percentage allocations contained in the chart attached hereto as Schedule "A". The Monitor will provide a summary of advances made under the DIP Facility which summary shall include the amount and purpose of each draw and for which each draw was made (the "DIP Summary"). The Monitor will circulate the DIP Summary to secured creditors on a bi-weekly basis. The Monitor shall ensure that the Company maintains detailed and accurate records with respect to any advances made under the DIP Facility which records shall reflect the purpose the advance was made. Such records may be inspected by secured creditors of the Company or their representatives upon request.
16. Except as otherwise expressly provided for herein, the Company shall not grant any Encumbrance of any Property that ranks in priority to, or *pari passu* with the DIP Charge unless the Company obtains the prior written consent of the DIP Lender and approval of the Court.
17. None of the DIP Charge, the obligations of the Company pursuant to the DIP Charge, or any of the documents delivered pursuant thereto, shall be illegal, invalid or unenforceable obligations of the Company or otherwise be rendered unenforceable against the Company

on any of the Property, nor shall they be void or voidable by creditors or shareholders of the Company, a trustee in bankruptcy of the Company or any other person, by reason of:

- (a) the pendency of these proceedings and the declarations of insolvency made herein;
- (b) the pendency of any petition for any receiving order or any receiving order issued under the *Bankruptcy and Insolvency Act* ("BIA") in respect of the Company, or any assignment under the BIA being made or deemed to have been made; or
- (c) the provisions of any federal or provincial law.

18. The DIP charge and the Administration Charge have relative priority as follows:

- (a) firstly, the Administration Charge; and
- (b) secondly, the DIP Charge.

19. The beneficiaries of the DIP Charge shall not be required to file, register, record or perfect the DIP Charge, notice thereof or any financing statement with respect thereto and the DIP Charge shall be valid and enforceable for all purposes against all existing and after-acquired Property for all purposes, with priority over any right, title or interest filed, registered, recorded or perfected prior or subsequent to the DIP Charge coming into existence, despite any failure to file, register, record or perfect the DIP Charge, notice thereof, or any financing statement with respect thereto. Despite anything in this Order, the beneficiaries of the DIP Charge may take such steps as they deem necessary or appropriate to register, record or perfect the DIP Charge, notice thereof or any financing statement with respect thereto, if they deem it advisable to do so.

20. The creation of the DIP Charge and any payments made by the Company, and any agreements, instruments or other documents delivered pursuant to this Order do not constitute fraudulent preferences, fraudulent conveyances, oppressive conduct, settlements or other challengeable or reviewable transactions under any applicable law.

21. None of the DIP Charge, the DIP Facility, the DIP Credit Documentation or the DIP Security shall be, or be deemed to be, invalid or ineffective by reason of any negative covenant, prohibition or other similar provision with respect to incurring debt or other obligations or the creation of any Encumbrance contained in any agreement to which the Company is a party and, despite any provision to the contrary in such agreements:

- (a) none of the DIP Charge, the obtaining of the DIP Facility, or the creation of any of the DIP Credit Documentation and none of the execution, delivery, perfection or registration of any agreements, instruments or other documents delivered pursuant thereto shall create or be deemed to constitute a breach by the Company of any agreement to which it is a party; and
- (b) no person shall have any liability to any other person whatsoever as a result of any breach of any agreement caused by or resulting from the DIP Charge, the

obtaining of the DIP Facility, the creation of any of the DIP Credit Documentation or the execution, delivery or registration of any agreements, instruments or other documents delivered pursuant thereto.

DATED at Halifax, Nova Scotia, this 27 day of September, 2007.

K. Stoyles

Deputy Prothonotary **KAREN STOYLES**
Deputy Prothonotary

CONSENTED TO:

This ... day of September, 2007

[Signature]
Carl Holm, Q.C., Counsel to BDO
Dunwoody Goodman Rosen Inc.

I hereby certify that the foregoing document is a true copy of the original.

Dated 27 day of September 2007
[Signature]
Deputy Prothonotary

This ... day of September, 2007

Thomas Boyne, Q.C., Counsel to
Royal Bank of Canada

This ... day of September, 2007

Robert Sampson, Counsel to
Enterprise Cape Breton Corporation
and Cape Breton Growth Corporation

SCHEDULE "A"



FEDERAL GYPSUM COMPANY
CCA - INITIAL ORDER - SEPTEMBER 18, 2007
PRELIMINARY CALCULATION OF SECURED CREDITOR PERCENTAGES

	Amount O/S Sept 18/07 (Note 1)	Creditors %
Royal Bank of Canada	\$ 530,000	
Loan	414,613	
Lease	944,613	5.53
Cape Breton (Novelty Corporation)	5,000,000	29.31
Enterprise Cape Breton Corporation	1,750,000	10.25
Novia Scotia Business Inc.	6,451,747	37.81
Novia Scotia - (Office of Economic Development)	2,845,232	16.57
Ford Credit Canada Limited	12,634	
Re: Terminus	16,380	
Re: F150	38,415	
Re: F500	63,459	0.38
National Leasing Group Inc.	9,172	0.05
Black and MacDonald Ltd. (\$1,123,364)	N/A	N/A
TOTALS	\$17,686,223	100%

Note 1: Amounts of secured creditor claims are estimated as at September 18, 2007 for the purpose of reflecting the allocation of DIP advances to the respective secured creditor interests.

Note 2: The secured creditor interests reflected herein are subject to change in quantum which is to be confirmed as owed to each secured creditor as at September 18, 2007.

Note 3: The secured creditor interests reflected herein are subject to confirmation of validity and priority ranking by Monitor's legal counsel.

Note 4: The DIP allocation has been made to Black and MacDonald Ltd. at this time as the Monitor believes they have a subordinate ranking, subject to review.

IN THE MATTER OF:

The Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36 as amended

- and -

IN THE MATTER OF:

A Plan of Compromise or Arrangement of the Applicant, Federal Gypsum Company

ORDER

STEWART MCKEEVEY
4599 Upper Water Street
Purdy's Wharf Tower One
P. O. Box 997
Jaffray, Nova Scotia
B3J 2X2
ATTC: NS33381-6

FEDERAL GYPSUM COMPANY
 VARIANCE ANALYSIS
 OCTOBER 12, 2007

EXHIBIT 2

	Week of: 10/08/2007			Period to Date: 10/08/2007		
	Projected	Actual	Variance	Projected	Actual	Variance
Cash Receipts						
A/R Receipts	-	13,220.79	13,220.73	445,500.00	492,684.21	47,184.21
Expenses						
Freight	22,071.97	12,114.33	9,957.64	73,426.56	64,333.92	9,092.64
Leases	-	962.89	(962.89)	15,000.00	12,224.09	2,775.91
Direct Costs						
Salaries/Wages	12,000.00		12,000.00	124,800.00	116,661.16	8,138.84
Employee Benefits	-		-	5,500.00	6,318.14	(818.14)
Raw Materials						
Paper	11,000.00		11,000.00	22,000.00	-	22,000.00
Gypsum	12,000.00		12,000.00	48,000.00	19,500.00	28,500.00
Others	9,095.33		9,095.33	30,317.76	12,437.90	17,879.86
Utilities						
Natural Gas	15,000.00	10,000.00	5,000.00	50,000.00	28,011.16	21,988.84
Electricity	15,000.00	12,000.00	3,000.00	50,000.00	48,000.00	2,000.00
Water				4,000.00	-	4,000.00
Contracted Services	1,600.00		1,600.00	4,800.00	3,192.00	1,608.00
Insurance - Property/Casualty				12,412.13	-	12,412.13
Manufacturing Supplies	2,000.00		2,000.00	8,000.00	1,261.22	6,738.78
Repair Supplies	4,000.00	250.79	3,749.21	16,000.00	19,448.21	(3,448.21)
Total Direct Costs	81,695.33	22,250.79	59,444.54	375,829.89	254,829.79	121,000.10
Selling Expenses						
Salaries/Wages	15,000.00		15,000.00	15,000.00	19,630.58	(4,630.58)
Travel				1,000.00	3,191.38	(2,191.38)
Vehicle				1,000.00	-	1,000.00
Meals & Entertainment				1,500.00	-	1,500.00
Telephone				350.00	-	350.00
Total Selling Expenses	15,000.00	-	15,000.00	18,850.00	22,821.96	(3,971.96)
General & Administrative Expenses						
Professional Fees						
Legal	10,000.00		10,000.00	80,000.00	55,147.36	24,852.64
Accounting				5,000.00	-	5,000.00
Consulting		4,164.42	(4,164.42)	35,000.00	43,215.60	(8,215.60)
Contracted Services		486.71	(486.21)	2,500.00	49,509.25	(47,009.25)
Travel				7,500.00	3,010.95	4,489.05
Vehicle				500.00	1,126.48	(626.48)
Meals & Entertainment				500.00	-	500.00
Insurance - Receivables				5,000.00	-	5,000.00
Postage/XpressMail				200.00	302.50	(102.50)
Office Supplies				500.00	959.96	(459.96)
Telephone				4,000.00	977.48	3,022.52
Bank Charges		9.76	(9.76)	3,750.00	803.43	2,946.57
Janitorial Exp				1,500.00	-	1,500.00
DIP Fees and Interest	160.53		160.53	4,507.65	-	4,507.65
HST				10,428.79	9,383.93	1,044.86
Occupancy Taxes				-	-	-
Property Taxes				-	-	-
Total General & Admin Expenses	10,160.53	4,660.39	5,500.14	160,886.44	164,436.94	(3,550.50)
Total Selling, General & Admin Expenses	25,160.53	4,660.39	20,500.14	179,736.44	187,258.90	(7,522.46)
Total Cash Outflow	128,927.83	39,988.40	88,939.43	643,982.89	518,646.70	125,336.19
NET CASH FLOW	(128,927.83)	(26,767.67)	102,160.16	(198,492.89)	(25,962.49)	172,530.40
ACCOUNTS PAYABLE					(27,522.43)	
DIP FINANCING		198,826.51			198,826.51	
CASH BALANCE					145,341.59	
REVENUE	166,033.90	107,686.49	(58,347.41)	543,206.32	390,024.64	(153,181.68)

EXHIBIT 3

**CCAA OF
FEDERAL GYPSUM COMPANY
DETAILS OF PROFESSIONAL FEES SUBJECT TO ADMINISTRATION CHARGE
REVISED AS AT OCTOBER 15, 2007**

<u>Supplier</u>	<u>Period</u>	<u>Total Invoices Including Disbursements and HST</u>	<u>Payments</u>	<u>Balance Unpaid</u>
BDO Dunwoody Goodman Rosen Inc. (Monitor)				
- Monitor's first account	Sept 11/07 – Sept 30/07	\$ 14,051.18	\$ 14,051.18	\$ 0
- Monitor's second account	Oct 1/07 – Oct 7/07	4,164.42	4,164.42	0
- Monitor's third account	Oct 8/07 – Oct 14/07	<u>6,717.79</u>		<u>6,717.79</u>
		<u>24,933.39</u>	<u>18,215.60</u>	<u>6,717.79</u>
Wickwire Holm (Counsel to the Monitor)				
- First account	Sept 18/07 – Sept 30/07	5,147.36	5,147.36	0
- Second account	Oct 1/07 – Oct 10/07	<u>4,468.80</u>		<u>4,468.80</u>
		<u>9,616.16</u>	<u>5,147.36</u>	<u>4,468.80</u>
Stewart McKelvey (Counsel to FGC)				
- First account	Sept 1/07 – Sept 30/07	35,323.28	35,323.28	0
- Second account	Oct 1/07 – Oct 10/07	<u>2,511.24</u>		<u>2,511.24</u>
		<u>37,834.52</u>	<u>35,323.28</u>	<u>2,511.24</u>
TOTALS		<u>\$ 72,384.07</u>	<u>\$ 58,686.24</u>	<u>\$ 13,697.83</u>

FEDERAL GYPSUM COMPANY
CCAA – INITIAL ORDER - SEPTEMBER 18, 2007
CALCULATION OF SECURED CREDITOR PERCENTAGES
(REVISED AS AT OCTOBER 15, 2007)

	<u>Amount O/S</u> <u>Sept 18/07</u> <u>(Note 1)</u>	<u>Creditor %</u>
Royal Bank of Canada		
Loan	\$ 530,000	
Lease	<u>414,613</u>	
	<u>944,613</u>	5.53
Cape Breton Growth Corporation	5,000,000	29.31
Enterprise Cape Breton Corporation	1,750,000	10.25
Nova Scotia Business Inc.	6,451,747	37.81
Nova Scotia - Office of Economic Development	2,845,232	16.67
Ford Credit Canada Limited		
Re Taurus	12,634	
Re F150	16,380	
Re F500	<u>36,445</u>	
	<u>65,459</u>	0.38
National Leasing Group Inc.	9,172	0.05
Black and MacDonald Ltd. (\$1,123,364)	<u>N/A</u>	<u>N/A</u>
TOTALS	<u>\$ 17,066,223</u>	<u>100%</u>

Note 1:

Amounts of secured creditor claims are estimated as at September 18, 2007 for the purpose of reflecting the allocation of DIP advances to the respective secured creditor interests.

Note 2:

The secured creditor interests reflected herein are subject to change in quantum which is to be confirmed as owed to each secured creditor as at September 18, 2007.

Note 3:

The secured creditor interests reflected herein are subject to confirmation of validity and priority ranking by Monitor's legal counsel.

Note 4:

No DIP allocation has been made to Black and MacDonald Ltd. at this time as the Monitor believes they have a subordinate ranking, subject to review.