

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
- and -

IN THE MATTER OF: A Plan of Compromise or Arrangement of the Applicant,
Federal Gypsum Company

AFFIDAVIT

I, Rhyne Simpson, Jr. of Califon, in the State of New Jersey, make oath and say as follows:

1. I am a Director and the President Federal Gypsum Company (the "Company"), an unlimited company incorporated under the laws of the Province of Nova Scotia, and have personal knowledge of matters deposed to herein unless such knowledge is otherwise stated to be by way of information and belief.
2. This affidavit is given in support of an application made by the Company under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA").

Background

3. The Company was incorporated under the *Companies Act* (Nova Scotia) on July 23, 2004 and carries on the business of the operation of a gypsum board manufacturing plant in Point Tupper, Nova Scotia. The shares of the Company are owned by myself through a holding company, Federal Gypsum Inc. (82%), and by Blue Thunder Construction Ltd., a New Brunswick company (18%).
4. I started working on the facility project in 2002. It required two years to negotiate the financing and the lease for the Point Tupper site at the former USG gypsum fibreboard plant (a product that has not succeeded in the North American market). USG returned the facility to the Province of Nova Scotia in November 2002 and removed the vast majority of the equipment from the facility. The Company spent 18 months and approximately \$25,000,000 modifying the building and installing gypsum wallboard manufacturing equipment. Other new production capacity for a similar size facility is approximately \$65,000,000. At full capacity, the facility will produce approximately 275 million square feet of ½ inch wallboard using 225,000 tons of gypsum ore which is mined in Nova Scotia, one hundred percent recycled paper and natural gas produced in Nova Scotia. The plant is a state-of-the art facility using new and reconditioned equipment.
5. The Company presently employs 25 people and can employ up to 80 people when the plant is operating at full capacity. Recently, the plant has not been able to operate at full capacity given the financial difficulties described below.

6. I personally have over 20 years experience in this industry dating back over 40 years. I have been involved in two previous plant start-ups which ultimately have been successful.

Financial Statements

7. The unaudited internally-prepared financial statements of the Company for the months August 2006 through to and including July 2007 are attached hereto and marked Exhibits A through L. Also attached as Exhibit M are the audited financial statements for the period ended December 31, 2005 prepared by KPMG LLP.

Management of the Business

8. I, along with my son, Michael Simpson, also a director and the Executive Vice President, Secretary and Treasurer of the Company, are responsible for the day-to-day management of the Company and have been so responsible since the Company was formed in 2004.

Banking and Financial Arrangements

9. The Company entered into a loan agreement with Royal Bank of Canada (the "Bank") on August 31, 2006.

10. The Bank issued a non-compliance letter to the Company on November 8, 2006 requiring that certain breaches of covenant by the Company be remedied by November 24, 2006. Such remedy did not occur.

11. In early December 2006, the Company was advised that the Bank had transferred the Company's account to the Bank's Special Loans division.

12. On January 15, 2007, the Company's solicitors, Stewart McKelvey, were advised by the Bank that the Bank intended to issue a demand for payment and Notice of Intention to Enforce Security and would require that the Company enter into a forbearance agreement.

13. Throughout this period, the Company sought additional financing from several sources, including Nova Scotia Business Inc., the Nova Scotia Department of Economic Development and Enterprise Cape Breton Corporation and outside investors to enable the Company to repay the amounts owed to the Bank. All such efforts were unsuccessful.

14. On January 26, 2007, the Bank issued a demand for payment, a copy of which notice is attached hereto as Exhibit N and issued the Notice of Intention to Enforce Security under the *Bankruptcy and Insolvency Act* (Canada) (the "BIA"), a copy of which is attached hereto as Exhibit N. At the same time, the Company and the Bank executed the forbearance agreement (the "Forbearance Agreement"), a copy of which is attached hereto as Exhibit P.

15. Following the execution of the Forbearance Agreement, the Company continued in its efforts to raise additional equity to provide for the restructuring of the Company but continued to be unsuccessful.

16. On March 8, 2007, the Company received a letter from the Bank, a copy of which is attached hereto as Exhibit Q, advising that the Bank was reducing the margin requirements for inventory.
17. The Company was unable to repay amounts owing to the Bank on May 15, 2007 as required by the terms of the Forbearance Agreement.
18. On June 12, 2007, the Bank approached the Company with respect to a possible amendment to the Forbearance Agreement which would extend the term of the Forbearance Agreement to July 31, 2007. Issues arose with respect to the break fee required by the Bank. The Bank and the Company were not able to resolve these issues and the proposed amendment to the Forbearance Agreement was never signed.
19. On August 28, 2007, the Bank issued a new demand for payment, a copy of which is attached hereto as Exhibit R. The Bank is claiming repayment of the total sum of \$839,959.59 on or before September 28, 2007. Included in the amounts owing to the Bank is the sum of \$414,633.57 in connection with a lease for heavy equipment/rolling stock which is currently paid up to date and a working capital loan of \$424,326.02. The balance of the working capital loan outstanding to the Bank as at September 13, 2007 is \$473,838.28 which balance is well secured against the Company's inventory and accounts receivable. As of September 13, 2007, The accounts receivable of the Company are valued at approximately \$798,000, the finished goods inventory is valued at approximately \$531,000 and the raw materials inventory is valued at approximately \$906,000.
20. The Bank also issued a new Notice of Intention to Enforce Security under the BIA, a copy of which is attached as Exhibit S together with a Notice of Intention to Enforce Security under the *Personal Property Security Act* (Nova Scotia), a copy of which is attached hereto as Exhibit S.
21. By way of letter agreement dated July 22, 2004, as accepted by the Company on August 4, 2004 (the "CBGF Loan Agreement"), the Company entered into a loan agreement with the Cape Breton Growth Fund ("CBGF").
22. Concurrent with the execution of the CBGF Loan Agreement the Company entered into a loan agreement with Enterprise Cape Breton Corporation, acting on behalf of the Atlantic Canada Opportunities Agency ("ACOA"), (the "ECBC/ACOA Loan Agreement").
23. In addition to the above-noted funding, the Company entered into a loan agreement with Nova Scotia Business Inc. ("NSBI") as of November 1, 2004 (the "NSBI Loan Agreement"). In connection with this loan, the Company signed a 99 year lease of the manufacturing plant located in Point Tupper as well as an operating agreement, the latter of which includes covenants on behalf of the Company relating to job creation in the Strait region.
24. Concurrent with the execution of the NSBI Loan Agreement, the Company entered into a loan agreement with Her Majesty the Queen in Right of the Province of Nova Scotia, as represented by the Minister of Economic Development ("OED"), (the "OED Loan Agreement").
25. Each of NSBI, OED and CBGF are parties to an inter-creditor agreement made as of November 1, 2004, such agreement setting forth the parties respective rights and priorities in

connection with the security interests granted pursuant to the CBGF Loan Agreement, the NSBI Loan Agreement and the OED Loan Agreement.

26. The Company received further financial assistance from ECBC, acting in its own capacity and not on behalf of ACOA, pursuant to a letter loan agreement dated November 28, 2005, accepted by the Company on December 1, 2005 and amended by way of letter dated February 10, 2006 (the "ECBC Loan Agreement").

27. Each of the NSBI Loan Agreement, the OED Loan Agreement and the CBGF Agreement have also been subsequently amended to increase the respective indebtedness of the Company due and owing thereunder.

28. In January, 2006 the Company agreed to convert a portion of the account payable to Black & McDonald Limited ("B&M"), a significant supplier of electrical and mechanical services to the project, into a note payable. Pursuant to a letter agreement dated January 18, 2006, the Company agreed to issue B&M a promissory note and granted B&M a subordinated security interest in the Company's equipment.

29. There are existing default in connection with the loans owing to NSBI, OED, CBGF, ACOA, ECBC and B&M.

30. In addition to the amounts owing to its secured creditors as outlined in this affidavit, the Company also owes the sum of \$5,643,537.26 (as at September 6, 2007) to various unsecured creditors.

31. As noted above, the shares of the Company are owned by FGI and Blue Thunder. Blue Thunder invested \$1,090,000 for an 18% interest in the Company. FGI has contributed \$6,151,800 by way of cash and the actual cash cost of equipment for an 82% interest in the Company.

Operating Conditions

32. Construction cost overruns caused the Company to be under-capitalized at the time of the start-up of production in June 2006. Many of the amounts owing to unsecured creditors relate to the construction cost overruns. Further, the Company has sustained substantial operating losses during its first full year of operation.

33. Market conditions for gypsum board are challenging. The Company initially sold its products in the United States. However, due to a housing crisis in that country, the Company has discontinued its shipments to the United States as gypsum board prices have dropped to variable cost.

34. Demand for gypsum board in Canada is good. However, Canadian buying groups have resisted the Company's entry into the market. Rather than welcome new competition in the gypsum board industry, several buying groups appear to have discouraged their members from doing business with the Company.

35. The Company is now exploring opportunities in the European market and is currently seeking ways to adapt its manufacturing process to European specifications. The Company is also exploring cost-effective methods of delivering its products to these markets.

Statement of Projected Cash Flows

36. The Company has prepared a statement of projected weekly cash flows until January 28, 2008, a copy of which is attached hereto as Exhibit U.

Monitor

37. I have been advised by Paul G. Goodman, and do verily believe, that BDO Dunwoody Goodman Rosen Inc. has consented to act as monitor for the Company should this Honourable Court grant the stay requested under the CCAA. A copy of the consent provided by BDO Dunwoody Goodman Rosen Inc. is attached hereto as Exhibit V.

Relief Sought


38. The Company seeks an order under the CCAA granting a stay of proceedings for at least 30 days against its creditors and certain other relief set out in the draft order submitted with this application.

39. I believe that the Company, if the order sought by the Company is granted, will be able to effect a successful restructuring.

40. If the order sought by the Company is granted by this Honourable Court, the Company will finalize arrangements to obtain Debtor in Possession financing ("DIP Financing") to allow the Company to fund its operations through the stay period. The Company expects to return before this Honourable Court within a short time to obtain approval for the DIP Financing.

41. I believe that the Company has proceeded diligently and in good faith in making this application and further that circumstances exist that make the relief sought appropriate. If the stay of proceedings and the other relief sought under the CCAA are not immediately granted to the Company, I believe that the Company will be forced to immediately shut down its operations which would result in serious prejudice and damage to the Company, its creditors, its employees, its shareholders and the local economy in the Port Hawkesbury area.

SWORN TO before me at Halifax,
Province of Nova Scotia, this 14th day of
September, 2007.


A Barrister of the Supreme Court of
Nova Scotia

LYDIA S. BUGDEN


RHYNE SIMPSON, JR.

2007

No. SH

This is Exhibit "A" referred to in
the Affidavit of Rhyne Simpson, Jr.

sworn before me this

14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 8/31/2006 (Unaudited)

	Balance
Assets	
Current Assets	
Chequing/Savings	
Company Chequing - Canadian	376,682
Company Chequing - US (in C\$)	(254,676)
Blocked Account - Canadian	0
Blocked Account - US (in C\$)	0
Total Chequing/Savings	122,005
Accounts Receivable	
Accounts Receivable Accounts	708,830
Total Accounts Receivable	708,830
Inventory	
Finished Goods	614,909
Raw Materials	725,490
Spare Parts	15,881
Total Inventory	1,356,280
Other Current Assets	
HST Paid on Purchases	65,384
Other Current Assets	14,969
Total Other Current Assets	80,353
Total Current Assets	2,267,468
Fixed Assets (Net of Depr. and Amort.)	
Startup Overhead	2,535,602
Office Equipment	151,195
Vehicles	117,465
Leasehold Improvements	383,796
Manufacturing Equipment	21,524,468
Rolling Stock	530,241
Total Fixed Assets	25,242,766
Other Assets (Net of Depr. and Amort.)	
Capital Acquisition	
Financial Fees	196,667
Legal	157,945
Total Capital Acquisition	354,612
Company Organization	54,850
Utility Deposits & Prepaid Expenses	131,686
Total Other Assets	541,148
Total Assets	28,051,382

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 8/31/2006 (Unaudited)

	Balance
Liabilities & Equity	
Liabilities	
Current Liabilities	
Notes Payable - Banks	492,848
Accounts Payable	
Canadian	2,602,165
US (in C\$)	1,120,955
Total Accounts Payable	3,723,120
Accrued Expenses	
Accrued Interest	522,740
Other Accrued Expenses	122,301
Total Accrued Expenses	645,041
HST Collected on Sales	3,147
Current Portion of Long Term Debt	2,691,796
Total Other Current Liabilities	162,842
Total Current Liabilities	7,718,795
Long Term Liabilities	
Note Payable - CBGF	5,000,000
Note Payable - ECBC	2,250,000
Note Payable - NSBI	5,500,000
Note Payable - OED	2,500,000
Subtotal	15,250,000
Notes Payable - Other	1,052,730
Notes Payable - Vehicles	64,181
Leases Payable - Sweeper	15,377
Leases Payable - Rolling Stock	433,626
Long Term Principal Due Within 1 Year	(2,691,796)
Total Long Term Debt	14,124,118
Subordinated Stockholder Debt	
Federal Gypsum, Inc. Senior	1,750,000
Blue Thunder Construction, Ltd.	1,088,200
Federal Gypsum, Inc.	4,401,800
Subtotal Subordinated Stockholder Debt	7,240,000
Total Long Term Liabilities	21,364,118
Total Liabilities	29,082,912
Equity	
Common Stock	10,000
Retained Earnings	(1,041,530)
Total Equity	(1,031,530)
Total Liabilities & Equity	28,051,382

Federal Gypsum Company
Summary Income Statement
Accounting Period Ending: 8/31/2006 (Unaudited)

	Period To Date Actual	Percentage Of Total Revenue	Year To Date Actual	Percentage Of Total Revenue
Gross Revenue	691,264.35	129.67%	1,608,954.25	130.32%
Less: Freight	(146,866.53)	(27.55%)	(351,049.91)	(28.43%)
Cash Discount & Returns	(11,320.81)	(2.12%)	(23,310.59)	(1.89%)
Net Sales	533,077.01	100.00%	1,234,593.75	100.00%
Cost of Sales				
Direct Costs	402,025.05	75.42%	831,205.53	67.33%
Manufacturing Burden	175,062.49	32.84%	467,047.69	37.83%
Depreciation	72,724.72	13.64%	225,422.57	18.26%
Amortization	59,412.46	11.15%	176,789.73	14.32%
Total Cost of Sales	709,224.72	133.04%	1,700,465.52	137.73%
Gross Margin	(175,947.71)	(33.04%)	(465,871.77)	(37.73%)
Selling, General & Administrative Expenses				
Selling	24,303.88	4.56%	66,446.66	5.38%
General & Administrative	121,353.65	22.76%	249,015.97	20.17%
Depreciation	2,900.38	0.54%	2,900.38	0.23%
Amortization	16,638.79	3.12%	49,916.37	4.04%
Total Selling, General & Admin Expenses	165,196.70	30.99%	366,503.84	29.69%
Income from Operations	(341,344.41)	(64.07%)	(832,375.61)	(67.42%)
Interest, Other Income and Expense				
Interest Income and Expense	62,766.62	11.77%	190,093.85	15.40%
Other Income and Expense	28,310.37	5.31%	19,060.69	1.54%
Total Interest, Other Income and Expense	91,076.99	17.09%	209,154.54	16.94%
Earnings Before Income Taxes	(432,421.40)	(81.12%)	(1,041,530.14)	(84.36%)
Income Tax				
Total Income Tax	0.00	0.00%	0.00	0.00%
Net Income (Loss)	(432,421.40)	(81.12%)	(1,041,530.14)	(84.36%)

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 2/28/2007 (Unaudited)

	Balance
Liabilities & Equity	
Liabilities	
Current Liabilities	
Notes Payable - Banks	1,310,226
Accounts Payable	
Canadian	3,079,448
US (in C\$)	1,314,963
Total Accounts Payable	4,394,410
Accrued Expenses	
Accrued Interest	894,265
Other Accrued Expenses	350,840
Total Accrued Expenses	1,245,105
HST Collected on Sales	24,660
Current Portion of Long Term Debt	4,462,640
Total Other Current Liabilities	(41,966)
Total Current Liabilities	11,395,076
Long Term Liabilities	
Note Payable - CBGF	5,000,000
Note Payable - ECBC	2,208,329
Note Payable - NSBI	5,500,000
Note Payable - OED	2,500,000
Subtotal	15,208,329
Notes Payable - Other	1,088,359
Notes Payable - Vehicles	55,363
Leases Payable - Sweeper	12,792
Leases Payable - Rolling Stock	376,952
Long Term Principal Due Within 1 Year	(4,462,640)
Total Long Term Debt	12,279,154
Subordinated Stockholder Debt	
Federal Gypsum, Inc. Senior	1,750,000
Blue Thunder Construction, Ltd.	1,088,200
Federal Gypsum, Inc.	4,401,800
Subtotal Subordinated Stockholder Debt	7,240,000
Total Long Term Liabilities	19,519,154
Total Liabilities	30,914,231
Equity	
Common Stock	10,000
Retained Earnings	(3,541,801)
Total Equity	(3,531,801)
Total Liabilities & Equity	27,382,430

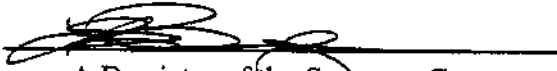
Federal Gypsum Company
Summary Income Statement
Accounting Period Ending: 2/28/2007 (Unaudited)

	Period To Date Actual	Percentage Of Total Revenue	Year To Date Actual	Percentage Of Total Revenue
Gross Revenue	929,550.13	145.30%	2,137,495.93	144.20%
Less: Freight	(249,307.41)	(38.97%)	(572,861.99)	(38.65%)
Cash Discount & Returns	(40,516.40)	(6.33%)	(82,336.95)	(5.55%)
Net Sales	639,726.32	100.00%	1,482,296.99	100.00%
Cost of Sales				
Direct Costs	492,522.29	76.99%	1,202,908.27	81.15%
Manufacturing Burden	160,112.70	25.03%	329,235.15	22.21%
Depreciation	72,724.69	11.37%	145,449.38	9.81%
Amortization	59,412.48	9.29%	118,824.96	8.02%
Total Cost of Sales	784,772.16	122.67%	1,796,417.76	121.19%
Gross Margin	(145,045.84)	(22.67%)	(314,120.77)	(21.17%)
Selling, General & Administrative Expenses				
Selling	16,554.11	2.59%	34,701.60	2.34%
General & Administrative	92,053.60	14.39%	196,072.26	13.23%
Depreciation	20,992.06	3.28%	25,571.67	1.73%
Amortization	0.00	0.00%	16,638.79	1.12%
Total Selling, General & Admin Expenses	129,599.77	20.26%	270,965.80	18.28%
Income from Operations	(274,645.61)	(42.93%)	(585,086.57)	(39.47%)
Interest, Other Income and Expense				
Interest Income and Expense	73,685.83	11.52%	149,541.41	10.09%
Other Income and Expense	8,481.79	1.33%	(3,071.33)	(0.21%)
Total Interest, Other Income and Expense	82,167.62	12.84%	146,470.08	9.88%
Earnings Before Income Taxes	(356,813.23)	(55.78%)	(731,556.65)	(49.35%)
Income Tax				
Total Income Tax	0.00	0.00%	0.00	0.00%
Net Income (Loss)	(356,813.23)	(55.78%)	(731,556.65)	(49.35%)

2007

No. SH

This is Exhibit "H" referred to in
the Affidavit of Rhyne Simpson, Jr.
sworn before me this
14th day of September, 2007


A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 3/31/2007 (Unaudited)

	Balance
Liabilities & Equity	
Liabilities	
Current Liabilities	
Notes Payable - Banks	993,997
Accounts Payable	
Canadian	3,353,741
US (in C\$)	1,570,519
Total Accounts Payable	4,924,260
Accrued Expenses	
Accrued Interest	947,783
Other Accrued Expenses	291,150
Total Accrued Expenses	1,238,934
HST Collected on Sales	22,355
Current Portion of Long Term Debt	4,546,260
Total Other Current Liabilities	(22,691)
Total Current Liabilities	11,703,115
Long Term Liabilities	
Note Payable - CBGF	5,000,000
Note Payable - ECBC	2,202,376
Note Payable - NSBI	5,500,000
Note Payable - OED	2,500,000
Subtotal	15,202,376
Notes Payable - Other	1,094,427
Notes Payable - Vehicles	93,641
Leases Payable - Sweeper	12,347
Leases Payable - Rolling Stock	368,489
Long Term Principal Due Within 1 Year	(4,546,260)
Total Long Term Debt	12,225,020
Subordinated Stockholder Debt	
Federal Gypsum, Inc. Senior	1,750,000
Blue Thunder Construction, Ltd.	1,088,200
Federal Gypsum, Inc.	4,401,800
Subtotal Subordinated Stockholder Debt	7,240,000
Total Long Term Liabilities	19,465,020
Total Liabilities	31,168,135
Equity	
Common Stock	10,000
Retained Earnings	(3,819,467)
Total Equity	(3,809,467)
Total Liabilities & Equity	27,358,668


Federal Gypsum Company
Summary Income Statement
Accounting Period Ending: 3/31/2007 (Unaudited)

	Period To Date Actual	Percentage Of Total Revenue	Year To Date Actual	Percentage Of Total Revenue
Gross Revenue	928,658.91	131.57%	3,066,154.84	140.13%
Less: Freight	(209,977.88)	(29.75%)	(782,839.87)	(35.78%)
Cash Discount & Returns	(12,841.36)	(1.82%)	(95,178.31)	(4.35%)
Net Sales	705,839.67	100.00%	2,188,136.66	100.00%
Cost of Sales				
Direct Costs	472,026.19	66.87%	1,674,934.46	76.55%
Manufacturing Burden	183,580.92	26.01%	514,191.02	23.50%
Depreciation	72,724.69	10.30%	218,174.07	9.97%
Amortization	59,412.48	8.42%	178,237.44	8.15%
Total Cost of Sales	787,744.28	111.60%	2,585,536.98	118.16%
Gross Margin	(81,904.61)	(11.60%)	(397,400.32)	(18.16%)
Selling, General & Administrative Expenses				
Selling	17,698.79	2.51%	52,401.46	2.39%
General & Administrative	82,840.03	11.74%	278,917.94	12.75%
Depreciation	5,122.63	0.73%	30,694.30	1.40%
Amortization	16,532.16	2.34%	33,170.95	1.52%
Total Selling, General & Admin Expenses	122,193.61	17.31%	391,784.46	17.90%
Income from Operations	(204,098.22)	(28.92%)	(789,184.78)	(36.07%)
Interest, Other Income and Expense				
Interest Income and Expense	67,665.93	9.59%	217,207.33	9.93%
Other Income and Expense	5,901.91	0.84%	2,830.58	0.13%
Total Interest, Other Income and Expense	73,567.84	10.42%	220,037.91	10.06%
Earnings Before Income Taxes	(277,666.05)	(39.34%)	(1,009,222.70)	(46.12%)
Income Tax				
Total Income Tax	0.00	0.00%	0.00	0.00%
Net Income (Loss)	(277,666.05)	(39.34%)	(1,009,222.70)	(46.12%)

2007

No. SH

This is Exhibit "I" referred to in
the Affidavit of Rhyne Simpson, Jr.
sworn before me this
14th day of September, 2007


A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 4/30/2007 (Unaudited)

	Balance
Assets	
Current Assets	
Chequing/Savings	
Company Chequing - Canadian	(5,615)
Company Chequing - US (in C\$)	(81,005)
Blocked Account - Canadian	149,711
Blocked Account - US (in C\$)	(0)
Total Chequing/Savings	63,091
Accounts Receivable	
Accounts Receivable Accounts	576,270
Total Accounts Receivable	576,270
Inventory	
Finished Goods	752,623
Raw Materials	859,679
Spare Parts	16,057
Total Inventory	1,628,359
Other Current Assets	
HST Paid on Purchases	129,566
Other Current Assets	52,309
Total Other Current Assets	181,875
Total Current Assets	2,449,595
Fixed Assets (Net of Depr. and Amort.)	
Startup Overhead	2,402,126
Office Equipment	126,007
Vehicles	110,380
Leasehold Improvements	375,195
Manufacturing Equipment	20,569,441
Rolling Stock	455,821
Total Fixed Assets	24,038,970
Other Assets (Net of Depr. and Amort.)	
Capital Acquisition	
Financial Fees	187,778
Legal	150,807
Total Capital Acquisition	338,584
Company Organization	52,371
Utility Deposits & Prepaid Expenses	184,496
Total Other Assets	575,452
Total Assets	27,064,017

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 4/30/2007 (Unaudited)

	Balance
Liabilities & Equity	
Liabilities	
Current Liabilities	
Notes Payable - Banks	697,173
Accounts Payable	
Canadian	3,561,527
US (in C\$)	1,854,995
Total Accounts Payable	5,416,523
Accrued Expenses	
Accrued Interest	1,001,301
Other Accrued Expenses	161,186
Total Accrued Expenses	1,162,487
HST Collected on Sales	17,927
Current Portion of Long Term Debt	4,626,064
Total Other Current Liabilities	98,010
Total Current Liabilities	12,018,184
Long Term Liabilities	
Note Payable - CBGF	5,000,000
Note Payable - ECBC	2,196,423
Note Payable - NSBI	5,500,000
Note Payable - OED	2,500,000
Subtotal	15,196,423
Notes Payable - Other	1,100,531
Notes Payable - Vehicles	69,297
Leases Payable - Sweeper	11,898
Leases Payable - Rolling Stock	359,981
Long Term Principal Due Within 1 Year	(4,626,064)
Total Long Term Debt	12,112,067
Subordinated Stockholder Debt	
Federal Gypsum, Inc. Senior	1,750,000
Blue Thunder Construction, Ltd.	1,088,200
Federal Gypsum, Inc.	4,401,800
Subtotal Subordinated Stockholder Debt	7,240,000
Total Long Term Liabilities	19,352,067
Total Liabilities	31,370,250
Equity	
Common Stock	10,000
Retained Earnings	(4,316,233)
Total Equity	(4,306,233)
Total Liabilities & Equity	27,064,017

Federal Gypsum Company
Summary Income Statement
Accounting Period Ending: 4/30/2007 (Unaudited)

	Period To Date Actual	Percentage Of Total Revenue	Year To Date Actual	Percentage Of Total Revenue
Gross Revenue	233,608.61	137.19%	3,299,763.45	139.91%
Less: Freight	(35,953.43)	(21.11%)	(818,793.30)	(34.72%)
Cash Discount & Returns	(27,377.63)	(16.08%)	(122,553.94)	(5.20%)
Net Sales	170,277.55	100.00%	2,358,414.21	100.00%
Cost of Sales				
Direct Costs	126,328.79	74.19%	1,801,263.25	76.38%
Manufacturing Burden	145,857.76	85.66%	661,600.70	28.05%
Depreciation	72,724.69	42.71%	290,898.76	12.33%
Amortization	59,412.48	34.89%	237,649.92	10.08%
Total Cost of Sales	404,323.72	237.45%	2,991,412.63	126.84%
Gross Margin	(234,046.17)	(137.45%)	(632,998.42)	(26.84%)
Selling, General & Administrative Expenses				
Selling	27,132.88	15.93%	79,394.36	3.37%
General & Administrative	75,211.10	44.17%	354,022.03	15.01%
Depreciation	4,649.75	2.73%	35,344.05	1.50%
Amortization	16,532.16	9.71%	49,703.11	2.11%
Total Selling, General & Admin Expenses	123,525.89	72.54%	513,758.41	21.78%
Income from Operations	(357,572.05)	(209.99%)	(1,146,756.84)	(48.62%)
Interest, Other Income and Expense				
Interest Income and Expense	85,518.14	50.22%	302,725.48	12.84%
Other Income and Expense	53,676.31	31.52%	56,506.89	2.40%
Total Interest, Other Income and Expense	139,194.45	81.75%	359,232.37	15.23%
Earnings Before Income Taxes	(496,766.51)	(291.74%)	(1,505,989.20)	(63.86%)
Income Tax				
Total Income Tax	0.00	0.00%	0.00	0.00%
Net Income (Loss)	(496,766.51)	(291.74%)	(1,505,989.20)	(63.86%)

2007

No. SH

This is Exhibit "J" referred to in
the Affidavit of Rhyne Simpson, Jr.
sworn before me this
14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 5/31/2007 (Unaudited)

	Balance
Assets	
Current Assets	
Chequing/Savings	
Company Chequing - Canadian	53,876
Company Chequing - US (in C\$)	(145,358)
Blocked Account - Canadian	9,964
Blocked Account - US (in C\$)	110,777
Total Chequing/Savings	29,258
Accounts Receivable	
Accounts Receivable Accounts	957,048
Total Accounts Receivable	957,048
Inventory	
Finished Goods	594,763
Raw Materials	1,114,701
Spare Parts	16,057
Total Inventory	1,725,521
Other Current Assets	
HST Paid on Purchases	93,142
Other Current Assets	18,615
Total Other Current Assets	111,757
Total Current Assets	2,823,584
Fixed Assets (Net of Depr. and Amort.)	
Startup Overhead	2,387,907
Office Equipment	123,488
Vehicles	108,249
Leasehold Improvements	374,120
Manufacturing Equipment	20,447,681
Rolling Stock	446,519
Total Fixed Assets	23,887,965
Other Assets (Net of Depr. and Amort.)	
Capital Acquisition	
Financial Fees	186,667
Legal	149,914
Total Capital Acquisition	336,581
Company Organization	52,061
Utility Deposits & Prepaid Expenses	163,906
Total Other Assets	552,548
Total Assets	27,264,097

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 5/31/2007 (Unaudited)

	Balance
Liabilities & Equity	
Liabilities	
Current Liabilities	
Notes Payable - Banks	642,231
Accounts Payable	
Canadian	3,620,327
US (in C\$)	2,316,952
Total Accounts Payable	5,937,279
Accrued Expenses	
Accrued Interest	1,054,820
Other Accrued Expenses	159,639
Total Accrued Expenses	1,214,459
HST Collected on Sales	77,912
Current Portion of Long Term Debt	4,709,752
Total Other Current Liabilities	139,685
Total Current Liabilities	12,721,319
Long Term Liabilities	
Note Payable - CBGF	5,000,000
Note Payable - ECBC	2,190,470
Note Payable - NSBI	5,500,000
Note Payable - OED	2,500,000
Subtotal	15,190,470
Notes Payable - Other	1,106,672
Notes Payable - Vehicles	67,555
Leases Payable - Sweeper	11,445
Leases Payable - Rolling Stock	351,429
Long Term Principal Due Within 1 Year	(4,709,752)
Total Long Term Debt	12,017,819
Subordinated Stockholder Debt	
Federal Gypsum, Inc. Senior	1,750,000
Blue Thunder Construction, Ltd.	1,088,200
Federal Gypsum, Inc.	4,401,800
Subtotal Subordinated Stockholder Debt	7,240,000
Total Long Term Liabilities	19,257,819
Total Liabilities	31,979,137
Equity	
Common Stock	10,000
Retained Earnings	(4,725,040)
Total Equity	(4,715,040)
Total Liabilities & Equity	27,264,097

Federal Gypsum Company
Summary Income Statement
Accounting Period Ending: 5/31/2007 (Unaudited)

	Period To Date Actual	Percentage Of Total Revenue	Year To Date Actual	Percentage Of Total Revenue
Gross Revenue	630,138.69	124.71%	3,929,902.14	137.23%
Less: Freight	(120,912.32)	(23.93%)	(939,705.62)	(32.81%)
Cash Discount & Returns	(3,951.63)	(0.78%)	(126,507.57)	(4.42%)
Net Sales	505,274.74	100.00%	2,863,688.95	100.00%
Cost of Sales				
Direct Costs	513,559.67	101.64%	2,314,822.92	80.83%
Manufacturing Burden	61,701.97	12.21%	722,930.23	25.24%
Depreciation	72,724.69	14.39%	363,623.45	12.70%
Amortization	59,412.48	11.76%	297,062.40	10.37%
Total Cost of Sales	707,398.81	140.00%	3,698,438.99	129.15%
Gross Margin	(202,124.07)	(40.00%)	(834,750.04)	(29.15%)
Selling, General & Administrative Expenses				
Selling	27,107.20	5.36%	106,807.21	3.73%
General & Administrative	73,809.29	14.61%	428,209.70	14.95%
Depreciation	4,649.75	0.92%	39,993.80	1.40%
Amortization	16,532.16	3.27%	66,235.27	2.31%
Total Selling, General & Admin Expenses	122,098.40	24.16%	636,229.26	22.22%
Income from Operations	(324,222.47)	(64.17%)	(1,470,979.30)	(51.37%)
Interest, Other Income and Expense				
Interest income and Expense	68,897.21	13.64%	371,622.69	12.98%
Other Income and Expense	15,687.21	3.10%	72,194.10	2.52%
Total Interest, Other Income and Expense	84,584.42	16.74%	443,816.79	15.50%
Earnings Before Income Taxes	(408,806.89)	(80.91%)	(1,914,796.09)	(66.86%)
Income Tax				
Total Income Tax	0.00	0.00%	0.00	0.00%
Net Income (Loss)	(408,806.89)	(80.91%)	(1,914,796.09)	(66.86%)

2007

No. SH

This is Exhibit "K" referred to in
the Affidavit of Rhyne Simpson, Jr.
sworn before me this
14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 6/30/2007 (Unaudited)

Liabilities & Equity	<u>Balance</u>
Liabilities	
Current Liabilities	
Notes Payable - Banks	605,791
Accounts Payable	
Canadian	3,612,144
US (in C\$)	2,545,946
Total Accounts Payable	<u>6,158,090</u>
Accrued Expenses	
Accrued Interest	1,108,338
Other Accrued Expenses	180,563
Total Accrued Expenses	<u>1,288,901</u>
HST Collected on Sales	48,382
Current Portion of Long Term Debt	4,793,496
Total Other Current Liabilities	145,558
Total Current Liabilities	<u>13,040,217</u>
Long Term Liabilities	
Note Payable - CBGF	5,000,000
Note Payable - ECBC	2,190,470
Note Payable - NSBI	5,500,000
Note Payable - OED	2,500,000
Subtotal	<u>15,190,470</u>
Notes Payable - Other	1,112,849
Notes Payable - Vehicles	65,810
Leases Payable - Sweeper	10,989
Leases Payable - Rolling Stock	350,026
Long Term Principal Due Within 1 Year	(4,793,496)
Total Long Term Debt	<u>11,936,647</u>
Subordinated Stockholder Debt	
Federal Gypsum, Inc. Senior	1,750,000
Blue Thunder Construction, Ltd.	1,088,200
Federal Gypsum, Inc.	4,401,800
Subtotal Subordinated Stockholder Debt	<u>7,240,000</u>
Total Long Term Liabilities	<u>19,176,647</u>
Total Liabilities	<u>32,216,864</u>
Equity	
Common Stock	10,000
Retained Earnings	(5,036,971)
Total Equity	<u>(5,026,971)</u>
Total Liabilities & Equity	<u><u>27,189,893</u></u>

Federal Gypsum Company
Summary Income Statement
Accounting Period Ending: 6/30/2007 (Unaudited)

	<u>Period To Date</u> <u>Actual</u>	<u>Percentage Of</u> <u>Total Revenue</u>	<u>Year To Date</u> <u>Actual</u>	<u>Percentage Of</u> <u>Total Revenue</u>
Gross Revenue	579,715.09	124.30%	4,509,617.23	135.42%
Less: Freight	(75,057.28)	(16.09%)	(1,014,762.90)	(30.47%)
Cash Discount & Returns	(38,284.11)	(8.21%)	(164,791.68)	(4.95%)
Net Sales	<u>466,373.70</u>	<u>100.00%</u>	<u>3,330,062.65</u>	<u>100.00%</u>
Cost of Sales				
Direct Costs	326,887.84	70.09%	2,641,710.76	79.33%
Manufacturing Burden	156,444.71	33.54%	879,325.65	26.41%
Depreciation	72,724.69	15.59%	436,348.14	13.10%
Amortization	59,412.48	12.74%	356,474.88	10.70%
Total Cost of Sales	<u>615,469.72</u>	<u>131.97%</u>	<u>4,313,859.43</u>	<u>129.54%</u>
Gross Margin	<u>(149,096.02)</u>	<u>(31.97%)</u>	<u>(983,796.78)</u>	<u>(29.54%)</u>
Selling, General & Administrative Expenses				
Selling	15,201.30	3.26%	122,015.89	3.66%
General & Administrative	57,139.99	12.25%	485,352.81	14.57%
Depreciation	4,649.75	1.00%	44,643.55	1.34%
Amortization	16,532.16	3.54%	82,767.43	2.49%
Total Selling, General & Admin Expenses	<u>93,523.20</u>	<u>20.05%</u>	<u>729,801.75</u>	<u>21.92%</u>
Income from Operations	<u>(242,619.22)</u>	<u>(52.02%)</u>	<u>(1,713,598.52)</u>	<u>(51.46%)</u>
Interest, Other Income and Expense				
Interest Income and Expense	68,394.76	14.67%	440,017.45	13.21%
Other Income and Expense	841.92	0.18%	73,110.93	2.20%
Total Interest, Other Income and Expense	<u>69,236.68</u>	<u>14.85%</u>	<u>513,128.38</u>	<u>15.41%</u>
Earnings Before Income Taxes	<u>(311,855.90)</u>	<u>(66.87%)</u>	<u>(2,226,726.91)</u>	<u>(66.87%)</u>
Income Tax				
Total Income Tax	<u>0.00</u>	<u>0.00%</u>	<u>0.00</u>	<u>0.00%</u>
Net Income (Loss)	<u>(311,855.90)</u>	<u>(66.87%)</u>	<u>(2,226,726.91)</u>	<u>(66.87%)</u>

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 7/31/2007 (Unaudited)

	<u>Balance</u>
Assets	
Current Assets	
Chequing/Savings	
Company Chequing - Canadian	139,837
Company Chequing - US (in C\$)	10,047
Blocked Account - Canadian	43,004
Blocked Account - US (in C\$)	3,831
Total Chequing/Savings	<u>196,718</u>
Accounts Receivable	
Accounts Receivable Accounts	920,877
Total Accounts Receivable	<u>920,877</u>
Inventory	
Finished Goods	392,720
Raw Materials	1,114,011
Spare Parts	16,057
Total Inventory	<u>1,522,788</u>
Other Current Assets	
HST Paid on Purchases	82,904
Other Current Assets	76
Total Other Current Assets	<u>82,980</u>
Total Current Assets	<u>2,723,364</u>
Fixed Assets (Net of Depr. and Amort.)	
Startup Overhead	2,359,470
Office Equipment	118,450
Vehicles	103,987
Leasehold Improvements	371,970
Manufacturing Equipment	20,206,442
Rolling Stock	427,914
Total Fixed Assets	<u>23,588,233</u>
Other Assets (Net of Depr. and Amort.)	
Capital Acquisition	
Financial Fees	184,444
Legal	148,130
Total Capital Acquisition	<u>332,574</u>
Company Organization	51,441
Utility Deposits & Prepaid Expenses	225,061
Total Other Assets	<u>609,076</u>
Total Assets	<u><u>26,920,673</u></u>

Federal Gypsum Company
Balance Sheet
Accounting Period Ending: 7/31/2007 (Unaudited)

	Balance
Liabilities & Equity	
Liabilities	
Current Liabilities	
Notes Payable - Banks	633,711
Accounts Payable	
Canadian	3,297,553
US (in C\$)	2,501,746
Total Accounts Payable	5,799,299
Accrued Expenses	
Accrued Interest	1,166,290
Other Accrued Expenses	173,225
Total Accrued Expenses	1,339,515
HST Collected on Sales	99,965
Current Portion of Long Term Debt	4,877,297
Total Other Current Liabilities	457,776
Total Current Liabilities	13,207,563
Long Term Liabilities	
Note Payable - CBGF	5,000,000
Note Payable - ECBC	2,190,470
Note Payable - NSBI	5,500,000
Note Payable - OED	2,500,000
Subtotal	15,190,470
Notes Payable - Other	1,112,585
Notes Payable - Vehicles	70,539
Leases Payable - Sweeper	10,528
Leases Payable - Rolling Stock	334,188
Long Term Principal Due Within 1 Year	(4,877,297)
Total Long Term Debt	11,841,014
Subordinated Stockholder Debt	
Federal Gypsum, Inc. Senior	1,750,000
Blue Thunder Construction, Ltd.	1,088,200
Federal Gypsum, Inc.	4,401,800
Subtotal Subordinated Stockholder Debt	7,240,000
Total Long Term Liabilities	19,081,014
Total Liabilities	32,288,577
Equity	
Common Stock	10,000
Retained Earnings	(5,377,904)
Total Equity	(5,367,904)
Total Liabilities & Equity	26,920,673

2007

No. SH

This is Exhibit "L" referred to in
the Affidavit of Rhyne Simpson, Jr.
sworn before me this
14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

Federal Gypsum Company
Summary Income Statement
Accounting Period Ending: 7/31/2007 (Unaudited)

	Period To Date Actual	Percentage Of Total Revenue	Year To Date Actual	Percentage Of Total Revenue
Gross Revenue	646,041.51	118.78%	5,155,658.74	133.08%
Less: Freight	(39,256.75)	(7.22%)	(1,054,019.65)	(27.21%)
Cash Discount & Returns	(62,881.95)	(11.56%)	(227,673.63)	(5.88%)
Net Sales	543,902.81	100.00%	3,873,965.46	100.00%
Cost of Sales				
Direct Costs	420,980.93	77.40%	3,062,691.69	79.06%
Manufacturing Burden	72,782.34	13.38%	953,052.01	24.60%
Depreciation	72,724.69	13.37%	509,072.83	13.14%
Amortization	59,412.48	10.92%	415,887.36	10.74%
Total Cost of Sales	625,900.44	115.08%	4,940,703.89	127.54%
Gross Margin	(81,997.63)	(15.08%)	(1,066,738.43)	(27.54%)
Selling, General & Administrative Expenses				
Selling	38,975.18	7.17%	161,265.19	4.16%
General & Administrative	119,489.58	21.97%	605,003.31	15.62%
Depreciation	4,649.75	0.85%	49,293.30	1.27%
Amortization	16,532.16	3.04%	99,299.59	2.56%
Total Selling, General & Admin Expenses	179,646.68	33.03%	908,504.40	23.45%
Income from Operations	(261,644.30)	(48.10%)	(1,975,242.83)	(50.99%)
Interest, Other Income and Expense				
Interest Income and Expense	80,095.49	14.73%	520,112.94	13.43%
Other Income and Expense	(806.88)	(0.15%)	72,304.05	1.87%
Total Interest, Other Income and Expense	79,288.61	14.58%	592,416.99	15.29%
Earnings Before Income Taxes	(340,932.91)	(62.68%)	(2,567,659.82)	(66.28%)
Income Tax				
Total Income Tax	0.00	0.00%	0.00	0.00%
Net Income (Loss)	(340,932.91)	(62.68%)	(2,567,659.82)	(66.28%)

2007

No. SH

This is Exhibit "M" referred to in
the Affidavit of Rhyne Simpson, Jr.
sworn before me this
14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

Financial Statements of

**FEDERAL GYPSUM
COMPANY**

Year ended December 31, 2005



KPMG LLP
Chartered Accountants
Commerce Tower
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PO Box 1
Sydney NS B1P 6G9
Canada

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AUDITORS' REPORT

To the Shareholders of Federal Gypsum Company

We have audited the balance sheet of Federal Gypsum Company as at December 31, 2005 and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Sydney, Canada

March 30, 2006

FEDERAL GYPSUM COMPANY

Balance Sheet

December 31, 2005, with comparative figures for 2004

	2005	2004
Assets		
Current assets:		
Cash	\$ 20,894	\$ 1,007,862
HST receivable	397,183	112,719
Prepaid expenses	17,417	-
Deposits (note 2)	102,630	99,400
	538,124	1,219,981
Capital assets, at cost:		
Manufacturing equipment	19,747,876	3,735,674
Furniture and fixtures	5,920	1,757
Vehicles	122,675	72,264
Computers	102,995	22,716
Equipment	12,876	7,764
Leasehold improvements	387,021	355,817
	17,379,362	4,195,982
Assets under capital leases (note 3)	573,461	-
Deferred development costs (note 4)	1,447,702	468,385
	\$ 19,938,649	\$ 5,884,358
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,197,132	\$ 321,549
Current portion of long-term debt:		
Principal payments due within one year (note 5)	338,700	12,159
Current portion obligation under capital lease (note 6)	105,200	-
	4,841,032	333,708
Long-term debt (note 5)	8,632,790	50,650
Obligations under capital leases (note 6)	414,827	-
Due to Federal Gypsum, Inc. (note 8)	5,161,800	4,401,800
Due to Blue Thunder Construction Ltd. (note 9)	1,088,200	1,088,200
Shareholders' equity:		
Share capital:		
Authorized:		
100,000,000 common shares with no par value		
Issued and outstanding:		
10,000 Common shares	10,000	10,000
Commitments (note 12)		
Subsequent events (note 13)		
	\$ 19,938,649	\$ 5,884,358

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

FEDERAL GYPSUM COMPANY

Statement of Cash Flows

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Change in non-cash operating working capital:		
Increase in HST receivable	\$ (284,464)	\$ (112,719)
Increase in prepaid expenses	(17,417)	-
Increase in deposits	(3,230)	(99,400)
Increase in accounts payable and accrued liabilities	3,875,583	321,549
	<u>3,570,472</u>	<u>109,430</u>
Financing:		
Increase in long-term debt	8,908,681	62,809
Increase in obligations under capital lease	520,027	-
Increase in due to Federal Gypsum, Inc.	750,000	4,401,800
Increase in due to Blue Thunder Construction Ltd.	-	1,088,200
Issue of capital stock	-	10,000
	<u>10,178,708</u>	<u>5,562,809</u>
Investments:		
Additions to capital assets	(13,183,370)	(4,195,992)
Additions to assets under capital lease	(573,461)	-
Additions to deferred development costs	(979,317)	(468,385)
	<u>(14,736,148)</u>	<u>(4,664,377)</u>
Increase (decrease) in cash	(986,968)	1,007,862
Cash, beginning of year	1,007,862	-
Cash, end of year	<u>\$ 20,894</u>	<u>\$ 1,007,862</u>
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	\$ 57,493	\$ 375
Interest received	8,052	5,687

See accompanying notes to financial statements.

FEDERAL GYPSUM COMPANY

Notes to Financial Statements

Year ended December 31, 2005

Federal Gypsum Company (the "Company") is incorporated under the laws of the Province of Nova Scotia and its principal business activity is the development of a gypsum plant which is anticipated to be operational in 2006. Since inception, the efforts of the Company have been devoted to the development of a plant and acquisition of equipment to facilitate production. To date, the Company has not earned revenues and is considered to be in the development stage. All expenditures incurred by the Company have been capitalized.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis assumes that the Company will complete development of the gypsum plant and begin operations in the foreseeable future to be able to realize its assets and discharge its liabilities in the normal course of business. The application of the going concern basis is dependent on the continued support of the shareholders and lenders, and the Company's ability to complete development and generate profitable sales in the foreseeable future. Management is of the opinion that sufficient working capital will be obtained from future cash flows to meet the Company's liabilities and commitments as they become payable.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then significant adjustments would likely be necessary in the carrying value of assets and liabilities and the balance sheet classifications used.

(b) Capital assets:

Property, plant and equipment are stated at cost. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Manufacturing equipment	Declining balance	30%
Vehicles	Declining balance	30%
Furniture and fixtures	Declining balance	20%
Computers	Declining balance	30%
Leasehold improvements	Straight-line	5 years
Equipment	Declining balance	20%
Assets under capital leases	Declining balance	20%

The Company is in the development stages and as a result no depreciation will be taken on capital assets until they are placed in use.

FEDERAL GYPSUM COMPANY

Notes to Financial Statements

Year ended December 31, 2006

1. Significant accounting policies (continued):

(c) Deferred development costs:

Costs associated with the development of the gypsum plant will be deferred until commencement of operations, at which point such costs will be amortized on a straight-line basis over a period of five years. If it is determined that the capitalized deferred development costs do not contain economically recoverable costs, such costs will be charged to expense in the year in which that assessment is established.

(d) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(e) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the balance sheet date. Expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in deferred development costs.

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

2. Deposits:

Deposits represent refundable amounts paid for security on the Company's Nova Scotia Power Corporation account including any interest earned on the deposit during the year.

FEDERAL GYPSUM COMPANY

Notes to Financial Statements

Year ended December 31, 2005

3. Assets under capital leases:

	2005	2004
Photocopier	\$ 15,861	\$ -
Tenant sweeper	21,600	-
Rolling stock	536,000	-
	\$ 573,461	\$ -

The Company is in the development stages and as a result depreciation has not been recorded.

4. Deferred development costs:

Development costs which meet generally accepted criteria, including reasonable assurance regarding recoverability, are deferred and will be amortized from the beginning of commercial production. Deferred development costs include organization costs, financing fees, foreign exchange losses, operational and legal expenses incurred in the development phase. Annually, the Company reviews the recoverability of deferred development costs through an evaluation of the expected future cash flows from operations to determine if there has been an impairment in the recoverable amount.

	2005	2004
Company organization	\$ 42,437	\$ 20,220
Financing fees	170,000	91,000
Deferred foreign exchange losses	128,781	101,630
Operational expenses	978,922	205,535
Legal	127,552	50,000
	\$ 1,447,702	\$ 468,385

FEDERAL GYPSUM COMPANY

Notes to Financial Statements

Year ended December 31, 2005

5. Long-term debt:

	2005	2004
<p>Cape Breton Growth Fund Corporation. Non-interest bearing loan repayable in 84 consecutive monthly installments of \$70,375, beginning January 1, 2007, secured by a general security agreement in the principal amount of \$3,000,000 providing for a first security interest, shared on a pro rata, pari passu basis with OED and NSBI on all machinery, equipment and chattels including all future additions.</p>	\$ 2,700,000	\$ -
<p>Atlantic Canada Opportunities Agency. Non-interest bearing loan repayable in 84 consecutive monthly installments of \$5,953, beginning August 1, 2006.</p>	500,000	-
<p>Nova Scotia Business Inc. 8.24% loan repayable in monthly installments of \$57,300 plus interest in 96 consecutive monthly installments, beginning September 1, 2006, secured by a demand debenture in the principal amount of \$4,500,000, a general security agreement in the principal amount of \$4,500,000, an assignment of the lease, an assignment of the rolling stock leases, an assignment and postponement with respect to shareholders loans and equity investments in the amount of \$5,500,000, key-man life insurance with loss payable to NSBI and OED as sole loss payees in the amount of \$1,000,000 and fire insurance with loss payable to NSBI as its interests may appear.</p>	4,659,044	-
<p>Office of Economic Development 8.31% loan repayable in monthly installments of \$15,625 plus interest in 96 consecutive monthly installments, beginning September 1, 2006, secured by a demand debenture in the principal amount of \$1,000,000 providing for a fixed and floating charge on all assets including any interest in land and leasehold interests, a general security agreement in the principal amount of \$1,000,000 providing for a fixed and floating charge on all assets, an assignment of the lease, an assignment of rolling stock leases, an assignment and postponement with respect to shareholders loans and equity investments in the amount of \$5,500,000, key-man life insurance with loss payable to OED and NSBI as sole loss payees in the amount of \$1,000,000, and fire insurance with loss payable to OED as its interests may appear.</p>	1,033,351	-
Subtotal	8,892,395	-

FEDERAL GYPSUM COMPANY

Notes to Financial Statements

Year ended December 31, 2005

5. Long-term debt (continued):

	2005	2004
Carry forward	\$ 8,892,395	\$ -
Ford Credit Canada Limited non-interest bearing loan repayable in monthly installments of \$630.01, maturing October 2009, secured by 2004 Ford-150 vehicle.	28,980	36,540
Ford Credit Canada Limited loan bearing interest of 8.4%, repayable in blended monthly installments of \$552.62, maturing October 2009, secured by 2005 Ford Taurus vehicle.	21,742	26,269
Ford Credit Canada Limited loan bearing interest of 9.6%, repayable in blended monthly installments of \$597.28, maturing January 2010, secured by 2005 Ford Explorer vehicle.	28,373	-
	8,971,490	62,609
Less principal payments due within one year	338,700	12,159
	\$ 8,632,790	\$ 50,650

Principal payments due on long-term debt for each of the five years subsequent to March 31, 2005 are as follows: 2006 - \$338,700; 2007 - \$2,573,000; 2008 - \$1,605,100; 2009 - \$1,636,500 and 2010 - \$1,659,900.

FEDERAL GYPSUM COMPANY

Notes to Financial Statements

Year ended December 31, 2005

11. Income taxes:

The tax effects of temporary differences that give rise to future tax assets at December 31, 2005 are presented below:

	2005	2004
Deferred development costs	\$ 93,735	\$ 175,228
Less valuation allowance	(93,735)	(175,228)
Net future tax asset	\$ -	\$ -

12. Commitments:

The Company has committed to capital expenditures relating to the development of a gypsum plant in Port Hawkesbury, Nova Scotia. The expenditures, estimated to aggregate \$20,000,000 for manufacturing equipment, \$1,000,000 for rolling stock, and \$500,000 for leasehold improvements, will be incurred over a three year period ending in 2006. The expenditures will be funded through loans of \$5,000,000 from the Cape Breton Growth Fund Corporation, \$1,750,000 from Enterprise Cape Breton Corporation, \$500,000 from the Atlantic Canada Opportunities Agency, \$5,500,000 from Nova Scotia Business Inc., \$2,500,000 from the Province of Nova Scotia Office of Economic Development and the balance by shareholders and suppliers. The Company has also committed to a triple net lease agreement with Nova Scotia Business Inc. to lease premises for \$1 per annum for a term of ninety-nine years.

The Company has signed a supply agreement with Emera Energy Incorporated for the purchase of natural gas. Pursuant to the agreement, this contract may be terminated on 30 days written notice, but shall remain in effect until the expiration of the latest delivery period of any transaction.

The Company has in place an exclusive supply agreement with Nova Construction Co. Ltd. (Nova) for the purchase of gypsum ore. Pursuant to the agreement, Nova is the exclusive supplier to the Company until a cumulative total of 450,000 tonnes of gypsum ore has been purchased.

13. Subsequent events:

Subsequent to the year-end, the Company issued a promissory note to Black & McDonald Limited for settlement of accounts payable at December 31, 2005. The terms of the note call for repayment of the principal amount of \$1,000,000 together with an annual interest rate of 7% to be paid in full before December 31, 2006.

FEDERAL GYPSUM COMPANY

Notes to Financial Statements

Year ended December 31, 2005

14. Comparative figures:

Certain 2004 comparative figures have been reclassified to conform with the financial presentation adopted per the current year.

2007

No. SH

This is Exhibit "N" referred to in
the Affidavit of Rhyne Simpson, Jr.
sworn before me this
14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

The Bank hereby demands payment within 10 days of the date of this letter of the said sum of principal, interest and fees of \$1,636,373.74 plus interest at the rate of \$343.53 per diem from January 15th, 2007 until the date of payment and any other sums that have been drawn down under the Credit Facility since January 15, 2007. If payment is not received as aforesaid, the Bank will be entitled to commence legal action to collect the full amount outstanding and to realize upon the security that is held by it in support of this indebtedness.

Please give this matter your immediate attention.

Yours very truly,

BOYNE CLARKE


Thomas O. Boyne

TOB/ktj

2007

No. SH

This is Exhibit "O" referred to in
the Affidavit of Rhyne Simpson, Jr.

sworn before me this
14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

2007

No. SH

This is Exhibit "O" referred to in
the Affidavit of Rhyne Simpson, Jr.

sworn before me this
14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

NOTICE OF INTENTION TO ENFORCE SECURITY
SECTION 244(1) – BANKRUPTCY AND INSOLVENCY ACT

TO: Federal Gypsum Company, an insolvent person
Federal Gypsum, Inc.
Rhyne Simpson
221 Henry Paint Street
Point Tupper, NS B9A 1Y8

TAKE NOTICE THAT:

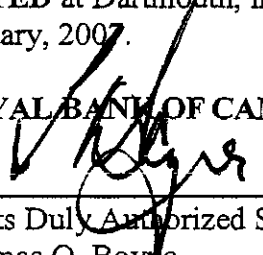
1. Royal Bank Asset Based Finance, a Division of Royal Bank of Canada (the "Bank"), a secured creditor intends to enforce its security on the property of the insolvent person, as described below:

Personal property, shares, inventory and accounts receivable of Federal Gypsum Company.

2. The security that is enforced is in the form of:
- a. A General Security Agreement;
 - b. A Notice of Intention, a Promise to Give Security and an Assignment all pursuant to Section 427 of the *Bank Act*;
 - c. A Guarantee and Postponement of Claim of Federal Gypsum, Inc.;
 - d. A Pledge Agreement from Federal Gypsum, Inc. re shares of Federal Gypsum Company;
 - e. A Postponement and Assignment of Claim from Federal Gypsum, Inc.;
 - f. A Guarantee and Postponement of Claim from Rhyne Simpson, Jr.; and
 - g. A Postponement and Assignment of Claim from Blue Thunder Construction Ltd.
3. The total amount of indebtedness secured by the security is \$1,636,373.74 as at January 15th, 2007..
4. The secured creditor will not have the right to enforce the security until after the expiry of the ten-day (10) period following the sending of this notice, unless the insolvent person consents to an earlier enforcement.

DATED at Dartmouth, in the Halifax Regional Municipality, Nova Scotia, this 26th day of January, 2007.

ROYAL BANK OF CANADA


By Its Duly Authorized Solicitor
Thomas O. Boyle

2007

No. SH

This is Exhibit "P" referred to in
the Affidavit of Rhyne Simpson, Jr.

sworn before me this
14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

FORBEARANCE AGREEMENT

THIS AGREEMENT made this 29 day of January, 2007.

BETWEEN:

ROYAL BANK ASSET BASED FINANCE, a division of
ROYAL BANK OF CANADA, a Chartered Bank,

(the "Bank")

- and -

FEDERAL GYPSUM COMPANY, ULC,

(the "Borrower")

- and -

FEDERAL GYPSUM, INC. and RHYNE SIMPSON, JR.

(the "Guarantors")

1. RECITALS

1.01 The Borrower is indebted to the Bank in the approximate total amount of \$1,636,373.74 as of the 15th day of January 2007 (the "Indebtedness").

1.02 The Bank holds certain security and obligations as security for the Indebtedness upon the assets of the Borrower and guarantees and security from the Guarantors (the "Guarantees") (collectively, the "Security").

1.03 The Borrower is experiencing financial adversity and is endeavouring to rearrange and restructure its affairs to enable it to overcome such adversity.

1.04 The Borrower is unable to re-pay the Indebtedness to the Bank, and the Guarantors are unable to pay, if called upon, the Guarantees.

1.05 The Borrower has advised the Bank that there currently exists defaults under the Borrower's financing and other arrangements with its other creditors (collectively, the "Existing Defaults").

1.06 The Borrower requires the forbearance of the Bank for a period of time to rearrange and restructure its affairs including the raising of equity and the obtaining of additional financing.

1.07 Notwithstanding that the Bank has issued demands for payment and has issued a Notice of Intention to Enforce Security pursuant to Section 244(1) of the *Bankruptcy and Insolvency Act* (the "BIA"), to the Borrower, the Bank has agreed to forebear from pursuing the remedies available to it under the Security subject to the terms of this Agreement.

1.08 The Guarantors are joining in this Agreement to acknowledge its existence, to consent to the dealings as proposed between the Bank and the Borrower, and to confirm their obligations under the Guarantees.

2. AGREEMENT

2.01 In consideration of the mutual covenants and agreements hereinafter contained, and the payment by the Borrower of the sum of Ten Dollars (\$10.00) to the Bank and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto covenant and agree as is hereinafter set out.

3. ACKNOWLEDGMENT

3.01 The Borrower and the Guarantors hereby acknowledge that:

- (a) The repayment of the Indebtedness was demanded by the Bank on the day of January, 2007 and the Borrower was unable to honour such demand and to repay the Indebtedness;
- (b) A Notice of Intention to Enforce Security pursuant to Section 244(1) of the *Bankruptcy and Insolvency Act* was served upon the Borrower and the Guarantors on the day of January, 2007; and
- (c) The Borrower signed a waiver and a Consent to Early Enforcement of Security on the day of January, 2007;

3.02 The Borrower does hereby acknowledge and confirm that the Indebtedness remains outstanding and due to the Bank, that it is, as of the date of this Agreement, unable to repay such indebtedness and that the demand for repayment remains outstanding and unsatisfied.

3.03 The Borrower and the Guarantors acknowledge and agree that if the Bank moves to collect the Indebtedness and to realize upon the Security, they waive any further demand or service of Notices of Intention to Enforce Security pursuant to the provisions of the BIA and agree that, where requested, they will execute consents to the enforcement of the Security should the Bank so require.

3.04 The Guarantors acknowledge the demands made upon the Borrower and upon the Guarantors and further acknowledge that they are unable to repay the Indebtedness and agree that, should the Bank choose to proceed against the Borrower, the Guarantors or any one of them, they will waive any further demand or service of Notices of Intention to Enforce Security upon the Borrower and the Guarantors and they will execute a consent to the enforcement of the Security should the Bank so require.

4. NEW EQUITY AND ADDITIONAL FINANCING

4.01 The Borrower agrees to immediately initiate inquiries to source new equity and to obtain additional financing and shall obtain such new equity or additional financing within 120 days of the date of this Agreement.

4.02 The Borrower will keep the Bank informed of its dealings with its customers, creditors and third parties regarding new equity and additional financing and will deliver to the Bank information and particulars of such, including copies of all offers, term sheet or other particulars.

4.03 The Borrower authorizes the Bank to fully release and exchange any information regarding the affairs of the Borrower with any prospective party with whom arrangements, restructuring or refinancing may be effected.

4.04 The Borrower shall reimburse the Bank and its advisors for all reasonable fees incurred by them in working with the Borrower and others with respect to any proposed rearrangement, restructuring or refinancing. Such fees shall be payable forthwith upon presentation of accounts and the Bank is authorized to deduct such fees directly from the Borrower's account.

5. BORROWER'S COVENANTS AND DEFAULT

5.01 The Borrower and the Guarantors covenant with the Bank to continue to operate to the best of their ability in the normal course and to operate the plant and the facility at Point Tupper and in that regard to deposit all receipts to the accounts maintained with the Bank.

5.02 The Borrower and the Guarantors covenant to comply with the terms and provisions of the Loan Agreement issued by the Bank and acknowledged and accepted by the Borrower and the Guarantors dated as of August 31, 2006 and all security granted pursuant thereto.

5.03 The Borrower and the Guarantors covenant that, in the event that a proposal is made pursuant to the BIA or the *Companies Creditors' Arrangement Act* (the "CCAA") or other similar legislation or process, in order to recognize the special nature of the revolving working capital credit facility provided by the Bank as contained in the Loan Agreement, they will propose and take all steps necessary to ensure that the Bank is identified as and established in a separate class of creditor and not included in a class with any other creditors or secured creditors and neither will advance any argument before any court that is inconsistent therewith.

5.04 Notwithstanding the forbearance agreed to herein by the Bank nor any other agreement now in existence between the Bank and the Borrower and the Guarantors or any other agreement reached from time to time during the term of this Agreement, the Bank shall be entitled to require immediate repayment of the Indebtedness and to realize on the Security, in each and every one of the events following:

- (a) if any one of the Borrower or the Guarantors breach any of the terms, conditions or covenants of this Forbearance Agreement;
- (b) if any creditor of the Borrower initiates any action or process to recover any moneys due to such creditor or to realize upon any security held by such creditor which in the Bank's sole opinion creates or is likely to create a risk to the Borrower's ability to continue in business or creates a risk to the Bank's security;
- (c) if an Order is made or an effective Resolution passed for the winding-up or liquidation of the Borrower or the Guarantors or any one of them;
- (d) if the Borrower or the Guarantors, or any one of them, make an assignment for the benefit of their creditors, or is declared bankrupt, or makes a proposal under the BIA, the CCAA or other legislation other than as covenanted for in Section 5.03, or if a custodian or a Receiver and Manager or any other officer with similar powers is appointed in respect of any one of the Borrower or the Guarantors or their respective property;
- (e) if an encumbrancer takes possession of any property of any one of the Borrower or the Guarantors or of any substantial part thereof or if a distress or execution or similar process is levied or enforced against such property and remains unsatisfied for such period as would permit such property or such part thereof to be sold thereunder;
- (f) if there is any change in the beneficial ownership of the issued shares of the Borrower or the Guarantors without the prior written consent of the Bank; or
- (g) in the event that in the Bank's sole opinion, acting reasonably, there is an adverse change in the financial status of any one of the Borrower and the Guarantors, or if in the opinion of the Bank, acting reasonably, there is no reasonable likelihood of the Borrower being able to rearrange, restructure or refinance its affairs and undertakings.

6. FOREBEARANCE

6.01 Subject to the provisions of this Agreement and the conditions hereinafter set out, the Bank agrees to forbear from taking any steps to realize upon the Security.

6.02 The Bank does not, by entering into this Agreement, in any way waive any default now existing or hereinafter arising on the part of the Borrower and the Guarantors.

6.03 In the event that the Bank shall proceed with the enforcement of the Security, the Borrower and the Guarantors hereby consent to the Bank appointing a Receiver and Manager to take over the operations of the parties or any of them and to enforce the Security.

6.04 On the 15th day of May, 2007, unless otherwise agreed in writing with the Bank, all credit arrangements agreed upon between the Borrower and the Guarantor and each of them and the Bank shall expire and all liabilities and indebtedness of each of the Borrower and the Guarantor, including without limitation, all fees, costs and expenses of the Bank, shall be fully and immediately due and payable to the Bank without demand and without further notice.

7. GENERAL

7.01 This Agreement constitutes the entire agreement between the Borrower and the Guarantor and the Bank relative to the forbearance as herein provided, from and after the date hereof.

7.02 Time shall in all respects be of the essence hereof.

7.03 No act, omission, extension of time or acquiescence by the Bank shall be deemed to be a waiver of any of its rights under this Agreement, the Security, or any other right whatsoever possessed by the Bank against the Borrower and the Guarantor in law or in equity by the Bank.

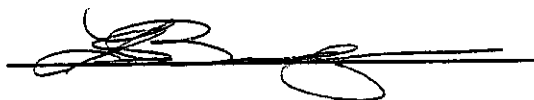
7.04 If any provision of this Agreement, is or becomes prohibited or unenforceable in any jurisdiction, relevant to this Agreement, such prohibition or unenforceability shall be and shall be deemed to be severable, and shall not invalidate or render unenforceable the provision contained in any other jurisdiction, nor shall its provisions, invalidate, affect or impair any of the remaining provisions.

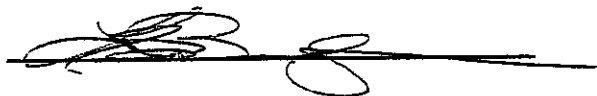
7.05 This Agreement shall enure to the benefit of and be binding upon each of the Borrower and the Guarantor and the Bank and their respective successors and assigns.

IN WITNESS WHEREOF the parties hereby have caused this Agreement to be executed the day and year first above written.

**SIGNED, SEALED AND DELIVERED
IN THE PRESENCE OF**






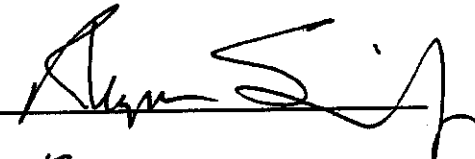


Colleen McDevie

FEDERAL GYPSUM COMPANY

Per: 

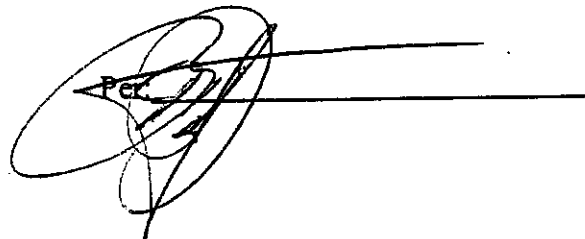
FEDERAL GYPSUM, INC.

Per: 



RHYNE SIMPSON, JR

ROYAL BANK OF CANADA

Per: 

2007

No. SH

This is Exhibit "Q" referred to in
the Affidavit of Rhyne Simpson, Jr.

sworn before me this

14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN



**RBC
Royal Bank**

Royal Bank of Canada
Special Loans and Advisory Services
339 Herring Cove Road
Halifax, Nova Scotia B3R 1V5
Tel.: 902-421-4207
Fax.: 902-421-4214

February 26, 2007

Federal Gypsum Company, Federal Gypsum Inc.
and Rhyne Simpson, Jr.
221 Henry Paint Street
Point Tupper, NS B9A 1Y8

Attention: Michael R. Simpson, Executive Vice President

Dear Michael:

Re: Credit Facility

I refer to our telephone conversation of today's date wherein I advised you that due to the current circumstances of the Federal Gypsum Company, the Bank is, effective immediately, limiting the credit facility to the amount currently drawn down, that is the sum of \$ 1,429,506.00. Continued operation of the credit facility will operate with a lending cap equal to the lesser of the above noted amount or the margin limit contained in the Loan Agreement dated August 31, 2006.

Please have one copy of this letter signed by the borrower (Federal Gypsum Company) and the Guarantors (Federal Gypsum Inc. and Rhyne Simpson, Jr.) acknowledging this amendment to the Loan Agreement and confirming that the parties will continue to use their best efforts to comply with the provisions of the Loan Agreement and the security granted in support thereof and with the terms of the Forbearance Agreement of January 2007.

Please see that a signed copy is returned to me by February 28, 2007.


Yours very truly,



ROYAL BANK OF CANADA

Per: Ross Backman, Special Loans

We hereby acknowledge receipt of this letter and agree to comply with this amendment to the Loan Agreement and with the Forbearance Agreement.


Federal Gypsum Company


Federal Gypsum Inc.


Rhyne Simpson, 

2007

No. SH

This is Exhibit "R" referred to in
the Affidavit of Rhyne Simpson, Jr.
sworn before me this
14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN



**RBC
Royal Bank**

Royal Bank of Canada
Special Loans Group - Atlantic
339 Herring Cove Road
Halifax, Nova Scotia B3R 1V5
Transit 07785
Tel: 902 421.4207
Fax: 902 421.4214

August 28, 2007

Federal Gypsum Company, ULC
Federal Gypsum, Inc.
Rhyne Simpson, Jr.
221 Henry Paint Street
Point Tupper, NS B9A 1Y8

AUG 30 2007

Dear Sirs:

Re: Royal Bank of Canada (the "Bank") and Federal Gypsum Company (the "Company") and Federal Gypsum, Inc. and Rhyne Simpson, Jr. (the "Guarantors")
Demand for Payment

The Bank hereby demands repayment by September 28, 2007 of the Company's outstanding indebtedness due to the Bank which as of August 22, 2007 amounted to \$425,326.02 on the asset based finance loan and as of August 28, 2007 amounts to \$414,633.57 on the forklift lease loans.

Attached is a Notice of Intention to Enforce Security issued pursuant to section 244(1) of the *Bankruptcy and Insolvency Act* (Canada) and a Notice of Intention to Enforce Security pursuant to s.59 of the *Personal Property Security Act* (Nova Scotia).

The Bank takes this position with reluctance and on the basis that it has extended every concession and courtesy to permit the Company to restructure, refinance or reposition itself, which the Company has been unable to do to date. The Bank notes the following:

1. A loan agreement was entered into between the Bank and the Company on August 31, 2006.
2. By letter dated November 8, 2006, the Bank issued a non-compliance letter to the Company requiring that the breaches of covenant by the Company be remedied by November 24, 2006. Such remedy did not occur.
3. In early December 2006, the Bank transferred the account to its Special Loans division.

4. On January 15, 2007, the Bank advised the Company's lawyers that the Bank intended to issue a demand for payment and Notice of Intention to Enforce Security and would require that the Company enter into a Forbearance Agreement. The Bank asserted its willingness to support the Company during its efforts to reorganize.
5. On January 16, 2007, the Company advised the Bank that a meeting had been held with the Premier of Nova Scotia and that the Company's request for additional Provincial Government funding had been rejected.
6. On January 26, 2007, the Bank demanded payment, issued Notice of Intention to Enforce Security and agreed to the form of draft Forbearance Agreement as negotiated with the Company's lawyers. The demand and the Notice were acknowledged and the Forbearance Agreement were completed by the Company and returned to the bank on January 29, 2007.
7. On February 20, 2007, a meeting was held between the Bank and the Company's two principals with both parties' lawyers present. The Bank was advised that the Company was considering flipping the company via a receivership with the consent of the secured creditors. This required an additional equity component in the area of \$1.5 - \$3.0 million. Clients acknowledged that the required equity was not yet raised but required additional time to pursue opportunities in this regard.
8. On February 21, 2007, in response to a request from the Company at the meeting of yesterday's date, the Bank advised that it could not agree to a transfer of the existing credit facility to a new entity without a full review but that it would review an application to provide a new credit facility based on its usual lending criteria.
9. On February 26, 2007, the Bank advised the Company in writing that the Bank was extremely concerned with the company's current situation, both in terms of business performance and their ability to execute a friendly flip. Therefore the Bank capped the credit facility, which was acknowledged by the Company on February 28, 2007.
10. On March 5, 2007, client advised the bank that the company had met with the secured lenders (ECDC, OED, & NSBI) to promote the idea of flipping the company via receivership. The secured lenders indicated that the Company's plan "had merit" but deferred any definitive decision pending confirmation that the required equity component had been fulfilled.
11. On March 8, 2007, the Bank forwarded a letter to the Company advising that the Bank was reducing the margin requirements for inventory, which letter was acknowledged by the Company by letter dated March 21, 2007.
12. May 15, 2007 was the date for repayment of the credit facility according to the Forbearance Agreement signed in January 2007, but no repayment occurred nor was there any response from the Company.

with respect to the break fee and on July 9, 2007, the Bank agreed to reduce the break fee from \$75,000.00 as contained in the loan agreement, to \$25,000.00 and an amended agreement was forwarded to the Company's lawyers.

14. The amendment to the Forbearance Agreement was never signed nor was any response ever received from the Company notwithstanding repeated follow-ups directly with the Company and with the Company's lawyers, by telephone, e-mail and voice messages.
15. The Company's in house year end financial statements disclose a net loss in excess of \$3,000,000.00 as at December 31, 2006 and a further loss for the six month period ending June 30, 2007 of \$2,200,000.00.

The Bank can only conclude that notwithstanding the efforts by the Company and its principals to resolve the Company's difficulties and to restructure it so that it may continue in business, such efforts have not been and will not be successful.

For the foregoing reasons and against the foregoing backdrop, the Bank regretfully has issued this demand for payment. Notwithstanding the continued indulgence by the Bank in giving the Company until the 28th of September, 2007, the Bank reserves to itself the right to sooner act should it perceive that the outstanding indebtedness or its security is at risk or that its opportunities for recovery may in some way be adversely affected.

Yours very truly,




A. Ross Backman
Manager Special Loans and Advisory Services
RBC Royal Bank

the Affidavit of Rhyne Simpson, Jr.

sworn before me this

14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

Federal Gypsum, Inc.
Rhyne Simpson
221 Henry Paint Street
Point Tupper, NS B9A 1Y8

TAKE NOTICE THAT:

1. Royal Bank Asset Based Finance, a Division of Royal Bank of Canada (the "Bank"), a secured creditor intends to enforce its security on the property of the insolvent person, as described below:

Personal property, shares, inventory and accounts receivable of Federal Gypsum Company.

2. The security that is enforced is in the form of:
 - a. A General Security Agreement;
 - b. A Notice of Intention, a Promise to Give Security and an Assignment all pursuant to Section 427 of the *Bank Act*;
 - c. A Guarantee and Postponement of Claim of Federal Gypsum, Inc.;
 - d. A Pledge Agreement from Federal Gypsum, Inc. re shares of Federal Gypsum Company;
 - e. A Postponement and Assignment of Claim from Federal Gypsum, Inc.;
 - f. A Guarantee and Postponement of Claim from Rhyne Simpson, Jr.; and
 - g. A Postponement and Assignment of Claim from Blue Thunder Construction Ltd.
3. The total amount of indebtedness secured by the security is \$839,959.59 as at August 28th, 2007..
4. The secured creditor will not have the right to enforce the security until after the expiry of the ten-day (10) period following the sending of this notice, unless the insolvent person consents to an earlier enforcement.

DATED at Halifax, in the Halifax Regional Municipality, Nova Scotia, this 28th day of August, 2007.

ROYAL BANK OF CANADA


Per: Ross Backman

the Affidavit of Rhyne Simpson, Jr.

sworn before me this

14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

TO: Federal Gypsum Company, an insolvent person
Federal Gypsum, Inc.
Rhyne Simpson
221 Henry Paint Street
Point Tupper, NS B9A 1Y8

TAKE NOTICE you are in default under:

- (a) the General Security Agreement dated August 31, 2006 for which a financing statement was filed under the PPSA on the 24th day of September, 2006 as Document # 11320314; and
- (b) the Master Lease Agreement and related documents for which a financing statement was filed under the PPSA on July 4, 2005 as Document # 9806560

and that the above security agreements secure all of your present and after acquired personal property, and that Royal Bank of Canada intends to seize, take possession of, and dispose of the collateral in accordance with sections 59 and 60 of the *Personal Property Security Act* (Nova Scotia), unless the collateral is redeemed.

The amount required to satisfy your obligations to the Bank as of August 28, 2007, is \$839,959.59 together with interest thereon as prescribed in the security agreements above to the date of payment in full, and together with all expenses incurred by and on behalf of the Bank prior to the date of payment in full.

The expenses incurred in retaking, holding, preparing for disposition, and disposing of the collateral are estimated to be \$50,000.00. Such expenses will be deducted from the proceeds of the disposition of the collateral.

Upon payment of the amounts due, being the principal, interest, and expenses referred to above, you may redeem the collateral.

Unless the amounts due are received within 10 days from the date you receive this notice, the Bank will enforce its rights under the security agreements, which rights include the seizure, repossession, and private or public disposal of the collateral, and you will be liable for any deficiency.

ROYAL BANK OF CANADA
Per: _____


Ross Backman

REPLY TO:

Mr. Ross Backman
Royal Bank of Canada
339 Herring Cove Road
Halifax, NS B3R 1V5

the Affidavit of Rhyne Simpson, Jr.

sworn before me this

14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

the Affidavit of Rhyne Simpson, Jr.

sworn before me this

14th day of September, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

Mr. Maurice Chiasson
Stewart, McKelvey, Stirling & Sclaes
Halifax, NS B3J 2X2

September 14, 2007

Dear Mr. Chiasson:

Re: **Federal Gypsum Company ULC**

I write to you to confirm that BDO Dunwoody Goodman Rosen Inc consents to act as the named monitor in a filing to be made by Federal Gypsum Company ULC under the Companies Creditors Arrangements Act.

Yours very truly

BDO DUNWOODY GOODMAN ROSEN INC.



Paul G. Goodman, FCA, FCIRP, FIC
President

PGG/bjm



Suite 301, 295 George Street
Sydney Nova Scotia B1P 1J7

Toll Free: (888) 666-5764
Telephone: (902) 539-9850
Fax: (902) 539-5373
Email: insol-sydney@bdo.ca

Appointments also held in other
locations in Nova Scotia