

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.

Initial Order

2. On September 18, 2007, Mr. Justice A. David MacAdam issued an initial order (the "Initial Order") granting the Company relief pursuant to the *Companies' Creditors Arrangement Act*, RSC 1985, c. C-36, as amended (the "CCAA").
3. The terms of the Initial Order provided that Paul G. Goodman of BDO Dunwoody Goodman Rosen Inc. be appointed monitor of the Company (the "Monitor").
4. The terms of the Initial Order also provided that debtor in possession ("DIP") financing could be sought by the Company, subject to such terms and with such priority as this Court may determine.

DIP Order

5. On September 27, 2007, Mr. Justice A. David MacAdam issued an order (the "Santa Fe DIP Order") authorizing the Company to enter into a non-revolving credit facility (the "Santa Fe DIP Facility") with Santa Fe Resources, LLC (the "Santa Fe DIP Lender") in the maximum total principal amount of \$350,000 Cdn., on the terms and conditions set forth in the September 27, 2007 term sheet between the Santa Fe DIP Lender and the Company (the "Santa Fe Term Sheet"). Of the \$350,000 Cdn. maximum amount authorized, the Santa Fe DIP Lender has, to date, advanced \$200,000 Cdn. to the Company.

Extension of Time

6. On October 23, 2007, Mr. Justice A. David MacAdam issued an order (the "Extension Order") extending the Stay Termination Date, the date for filing of the Plan (each as defined in the Initial Order), and extending the date for the filing of materials necessary to summon and convene meetings to consider and approve the Plan. In all cases the dates were extended to November 29, 2007, subject to the right of creditors to request a reconsideration of the Extension Order at a hearing to be held before this Honourable Court on November 5, 2007.
7. The Extension Order further provided that the Company shall file an application before this Honourable Court relating to the consideration of further debtor-in-possession financing for hearing on November 5, 2007, and that the Company shall file materials in connection with this application on all parties consenting to the Extension Order no later than October 31, 2007.

Purpose of this Application

8. This affidavit is provided in support of an application for an order authorizing the Company to enter into an arrangement to obtain from Century Services Inc. ("Century") a demand operating credit facility (the "Century DIP Facility") in the maximum total principal amount of the lesser of \$1,500,000 Cdn. or a sum defined in subsection 2(b) of the October 23, 2007 term sheet between Century and the Company (the "Century Term Sheet"). A copy of the Century Term Sheet is attached to this my affidavit as Exhibit "A".
9. The sum defined in subsection 2(b) of the Century Term Sheet is subject to determination by Century in its sole discretion, and based upon its own determination and appraisal of the assets of the Company.

Support for this Application

10. The Company has undertaken this restructuring process with a view to maximizing value for all stakeholders. I believe that if the restructuring were unsuccessful, either as a result of denial of additional DIP financing or for any other reason, the assets of the Company would have to be liquidated, resulting in a serious diminution in value.
11. The Company requires additional financing during the restructuring period in order to enable the Company to continue to carry on business in the ordinary course while it completes its restructuring.
12. The Company has prepared a projected cash flow statement dated October 29, 2007 for the Company. A copy of the statement is attached hereto as Exhibit "B".
13. As set out in the statement attached as Exhibit "B", DIP financing requirements are projected to reach a peak of \$1,016,791.31 Cdn. during the week of January 7, 2008, and reach an amount as high as \$846,320.14 as early as the week of December 10, 2007.

14. The Century Term Sheet provides for a charge on all existing and after-acquired assets of the Company in favour of Century as security for payment of all present and future indebtedness owing to Century in respect of the Century DIP Facility. Such charge would have priority over all other charges except the Administration Charge referred to in paragraph 31 of the Initial Order.
15. The Century Term Sheet also specifically provides in section 7 for repayment of the existing operating facility in favour of Royal Bank of Canada (the "Royal Bank"), if such repayment is permitted by this Court, and as noted above in paragraph 9, also subject to an independent determination and appraisal by Century.
16. The Company is pursuing this repayment so as to afford the best chance of success for its restructuring plan (the "Plan") when it is presented to creditors, and thereby the best chance of a reasonable resolution. Throughout the Company's proceedings under the CCAA to this point, the Royal Bank has been consistently vocal in its opposition to the restructuring process. It is most likely that the Royal Bank's continued participation in the process will only hinder it, necessitating the use of further time and the expenditure of additional costs in order to ultimately achieve a fair restructuring, a result that will be most beneficial to the Company, and given the limited alternatives, most beneficial to the creditors as a whole. It is for these reasons that the Company considers repayment of the operating facility to be in the best interests of all stakeholders.
17. Subject to the approval of this Honourable Court, it is contemplated that part of the proposed financing with Century, would be used to retire the Santa Fe DIP Facility, leaving Century as the sole provider of debtor-in-possession financing to the Company. The repayment of the Santa Fe DIP Facility is required by Century.
18. The Century Term Sheet was executed on October 23, 2007, and Century is actively conducting its due diligence. A deposit in the amount of \$20,000 Cdn. has been paid by the Company to Century pursuant to section 13 of the Century Term Sheet.
19. The Company has also arranged for an appraisal of the assets of the Company (the "Appraisal") by Universal Worldwide LLC. The Appraisal is being conducted on a liquidation basis. The purpose of the Appraisal is to allow the Company to present accurate information to its various stakeholders as part of the consideration of its Plan.
20. The Company continues to be engaged in the process of restructuring its business and operations, and the formulation of the Plan, which seeks to balance the interests of all of the Company's stakeholders. Beyond securing the execution of the Century Term Sheet and the commissioning of the Appraisal, the Company continues to assist the Monitor in the preparation and filing of its periodic Monitor's reports.
21. The Company is also currently in the process of scheduling meetings with its minority shareholder to discuss a restructuring of the Company's shareholdings. One of the elements of the Plan will likely involve such a restructuring.
22. The Company's sales are progressing in many significant ways, despite being slower than projected. With reference to the projected cash flow statement attached as Exhibit "B", sales have not dropped below pre-filing levels, and the total accounts receivable are in

line with pre-filing levels. Current assets remain above \$2,000,000. In general, the Company has received \$122,000 more than originally projected and spent \$109,000 less than projected. Conservative timing estimates and a matching of production to the lower-than-expected sales created these variances. The projections made in the attached statement more accurately forecast sales than previous cash flow materials, based not only on their currency, but also on recent encouraging market developments discussed below.

23. The Company is a start-up enterprise which only commenced producing and selling gypsum board products in June, 2006. From its inception to the current day, one of the most significant down-turns in housing construction in North America has taken place. It is to be expected that any new business will require several months in order break even, let alone generate profits; given the inhospitable business environment the Company has developed in, such expectations must be even lower. By way of comparison, management of the Company has extensive experience starting and operating a single-plant gypsum operation similar to their current business, and have invariably found that such businesses cannot become profitable until at least twenty-four months of existence.
24. However, recent changes to the gypsum industry in Atlantic Canada are now working in favour of the Company. In July 2007, Lafarge North America ("Lafarge") announced the closing of its Corner Brook, Newfoundland plant. The Company immediately started negotiations to hire two Lafarge salespeople responsible for the Atlantic Canada market, and was successful - they started work for the Company on October 1, 2007. In addition, the Company's Point Tupper, Nova Scotia plant is the nearest gypsum board facility to the Newfoundland/Labrador and Nova Scotia markets.
25. In August 2007, the Company's two remaining competitors located in Atlantic Canada announced regional price increases for the month of October; as a result most wallboard buyers in the area stocked their warehouses to capacity in September in anticipation of the higher prices. This in turn caused a severe diminution in sales activity throughout the month of October. The Company believes, however, that by the end of November, the excess supply will be out of the market and sales will rebound.
26. The Company's sales force expects to capitalize on the significant customer resentment caused by the October price increases. Since October 1st, the Company has processed fifteen new credit applications, and more importantly has filled orders for eight new customers - indeed, the Company has even received repeat business from two of these new customers.
27. One of the customers which commenced ordering in October is a large buying group that had not supported the Company historically, going so far as to contact other potential customers to advise them not to purchase product from the Company.
28. The Company's new sales-staff have also been negotiating with more than twenty additional buyers whose warehouses are currently full - all have committed to order from the Company when they start buying again.

29. As an indication of the Company's ability to retain accounts once generated, even after the Company filed for protection under the CCAA, only one existing customer ceased placing orders. The Company is actively seeking a reversal of this customer's decision.
30. It is my belief that advances under the Century DIP Facility will benefit all stakeholders by contributing to the Company's ability to meet its operational demands, and thereby afford the Company a reasonable opportunity to continue its efforts to finalize its Plan. The Company's ability to present a Plan is wholly dependent on its success in receiving DIP financing of an amount exceeding that which has already been granted.
31. I believe the Company will, if the order requested is granted, be able to effect a successful restructuring. Without the additional DIP financing provided in this application, the Company will most likely be unable to continue, and as such will be unable to complete and present a viable restructuring plan. Without being able to present such a plan, the Company will almost certainly have to proceed by way of asset liquidation, a result which the Appraisal suggests would be highly detrimental to the interests of both the Company and the vast majority of its creditors.
32. If this Honourable Court should grant the relief sought by the Company, I believe that any material prejudice to the position of the existing creditors would be outweighed by the consequences of the Company ceasing to operate. It is acknowledged that all proceedings under the CCAA, by their very nature, will cause prejudice to the creditors affected thereby. The positive ramifications of a successful restructuring, for the Company and creditors alike, however, more than balances the prejudice to creditors that can be expected under the CCAA regime.

SWORN TO at Halifax, in the County of
Nova Scotia, this ~~30th~~ day of October,
2007, before me:


A Barrister of the Supreme Court of
Nova Scotia

Maurice P. Chiasso


RHYNE SIMPSON, JR.

2007

No. SH285667

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

sworn before me this

30th day of October, 2007

A handwritten signature in black ink, appearing to read "Mauria P. Chiasson", is written over a horizontal line. The signature is enclosed within a large, hand-drawn oval.

A Barrister of the Supreme Court
of Nova Scotia

Mauria P. Chiasson

CENTURY

SERVICES INC.
www.centuryservices.com

10 Director Court, Suite 203
Vaughan, ON L4L 7E8
Tel: (416) 862-8100
Fax: (416) 862-8121

October 23, 2007

Federal Gypsum Company
221 Henry Paint Road
Point Tupper
Nova Scotia
B9A 1Y8

Attn: Mr. Rhyné Simpson, Jr

Dear Sir:

Term Sheet

Based on your representations and the information provided to us, Century Services Inc. ("Century"), subject to the successful completion of its due diligence and credit committee approval, is pleased to outline the terms of a Demand Operating Facility (the "Credit Facility") that Century would be willing to extend to Federal Gypsum Company (the "Borrower").

1. **BORROWER:** Federal Gypsum Company.

2. **TYPE OF FACILITY/AMOUNT:** Demand Operating Facility which will not exceed the lesser of:
 - a) \$ 1,500,000
 - and
 - b) Sum of the following:
 - i) 75% of the good quality, fully earned, creditworthy, undisputed accounts receivable acceptable to Century in its sole discretion.
 - ii) A percentage of the cost of the Borrower's eligible inventory as determined by Century's appraisal
 - iii) 75% of the Forced Sales Value of the Borrower's fixed assets as determined by Century's appraisal.

3. **INTEREST RATE:** Interest shall be calculated at the rate of Fifteen percent (15%) per annum, determined daily and calculated and payable monthly in arrears, before and after maturity, default or judgment, with interest on overdue interest calculated in the same manner at any time on the daily balance outstanding at the same rate based on the actual number of days lapsed divided by 365.

4. **TERM:** Twelve months open facility.
5. **PAYMENT:** The Credit Facility is to be fully paid within 365 days of closing and interest thereon is to be paid at the end of each month.
6. **DOCUMENTATION AND SECURITY:** The liabilities and obligations herein and any future obligations of any nature and kind of the Borrower shall be evidenced, governed and secured, as the case may be, by the following documents completed in form and substance satisfactory to Century and its counsel;
- a. Loan Agreement;
 - b. Promissory Notes in the amount of each advance;
 - c. General Security Agreement of Borrower;
 - d. Postponement of all shareholder loans and their associated and related company's outstanding loans to the Borrower as at date of filing.
 - e. All supporting authorizations, certificates, acknowledgements and legal opinions as Century may reasonably require including, without limitation, satisfactory legal opinions of the Century lawyers relating to any business style registration or incorporation, organization and corporate powers of Borrower, and to the enforceability and priority of the security.
 - f. Such further security from Borrower and other documentation that Century and its counsel may require.
7. **PURPOSE/USE OF PROCEEDS** Proceeds of the Credit Facility will be used by the Borrower first, to pay all fees and expenses incurred by Century, including without limitation, professional fees incurred by Century in connection with the Credit Facility, second to finance the Borrower's general working capital needs and restructuring costs as disclosed in the Borrower's cash flow projections, and third, to pay such other expenses as may be consented to in writing in advance by Century in its sole discretion, if permitted by the Court, to repay the existing operating facility in favour of Royal Bank of Canada.
8. **CONDITIONS:** The obligation of Century to make the Credit Facility available to the Borrower is subject to and conditional upon each of the following which is for the exclusive benefit of Century and, unless waived in writing by Century, shall be fulfilled, satisfied and performed by the Borrower, as applicable:
- a. Acceptance by the Borrower of this Term Sheet and receipt by Century of the Processing Fee as provided below.

- b. The Borrower obtaining a court order (the "Order" or the "DIP Order") in form and content satisfactory to Century:
- 1) authorizing the borrowing under the Credit Facility on the terms and conditions outlined in this Term Sheet and the execution and delivery by the Borrower of all Security Documents and all other documents and instruments required in connection with the Credit Facility;
 - 2) creating a court ordered first ranking charge in favour of Century over all existing and after-acquired real and personal property of Federal Gypsum Company (the "Borrower Named in the CCAA Order"), as security for repayment of the Credit Facility, and all interest, fees, expenses and other amounts payable by the Borrower Named in the CCAA Order to Century, subject only to the Administration Charge, as defined in the initial order issued under the CCAA dated September 18, 2007, to a maximum amount of \$300,000;
 - 3) prohibiting the granting of any additional liens, charges, security interests or any other encumbrances upon the property or assets of the Borrower Named in the CCAA Order;
 - 4) granting Century the right, upon the occurrence of an Event of Default (as defined below), to enforce the rights and remedies available to it pursuant to law;
 - 5) prohibiting any further borrowing by the Borrower Named in the CCAA Order, without the prior written consent of Century;
 - 6) authorizing Century to effect such registrations, filings and recordings wherever Century in its discretion deems appropriate regarding the security granted to Century in the Security Documents and the charge created by the Order;
 - 7) declaring that the granting of the security to Century by the Borrower Named in the CCAA Order provided for in the Security Documents and the execution and delivery of all other documents and instruments contemplated herein, including the Loan Agreement, the payment of all amounts by the Borrower Named in the CCAA Order to

Century, including any and all fees and interest, and the actions taken to perfect and record the Security granted to Century, do not constitute settlements, reviewable transactions, fraudulent preferences, fraudulent conveyances, conduct meriting an oppression remedy, or other transactions which might be challenged or reviewed under applicable federal or provincial legislation;

- 8) providing that the liabilities and obligations of Borrower Named in the CCAA Order shall not be subject to, or compromised or affected in any way by, any plan of compromise or arrangement in respect to the Borrower in the CCAA proceedings;
- 9) requiring the Monitor appointed pursuant to the CCAA proceedings to monitor the Borrower's cash receipts and disbursements and to report thereon to the Court and to report to the Court as to the compliance by the Borrower generally with respect to its obligations under all Orders made under the CCAA Proceedings, including the DIP Order;
- 10) providing that this Term Sheet, the Loan Agreement, the Security, and all obligations and liabilities of the Borrower Named in the CCAA Order hereunder and thereunder, shall be valid and effective for all purposes, notwithstanding that execution of this Term Sheet, the Loan Agreement and the Security may result in a breach, violation or infringement of any contract or restriction (a "negative covenant") to which the Borrower Named in the CCAA Order are subject, and that no person entitled to the benefit of any such negative covenant shall have any right at any time to make any claim against Century based on the execution of the Term Sheet, the Loan Agreement and the Security and the granting of the security provided for in the Security Documents, the performance by the Borrower Named in the CCAA Order of their obligations hereunder or thereunder or the exercise by Century of its rights hereunder or thereunder;
- 11) declaring the Order, and the charge granted thereunder, binding upon a trustee in bankruptcy of the Borrower Named in the CCAA Order, receiver, receiver-manager or other officer of the Court; and

- 12) such other terms and conditions as Century may reasonably deem necessary or appropriate.
- c. No appeal shall have been made with respect to the Order or any appeals therefrom shall have been dismissed.
 - d. No Event of Default (as defined below) shall have occurred.
 - e. Each of the warranties and representations made by the Borrower in this Term Sheet, in the Loan Agreement and in any other document, material, information or report supplied or delivered by the Borrower, their agents or their representatives to Century, its solicitors or representatives shall be true, complete and correct in all material respects and Century shall have received a certificate executed by senior executives of the Borrower confirming same immediately prior to any new advance under the Credit Facility being made to the Borrower.
 - f. Arrangements satisfactory to Century have been made to satisfy the Borrower's obligations to make all payments that, if not paid, could result in statutory liens, trust and other Crown Claims, including but not limited to the payment of employee source deductions, HST, employee claims and workers' compensation premiums.
 - g. Century shall be satisfied that the Borrower has complied with and are continuing to comply with all applicable material federal, provincial and municipal laws, regulations and policies in relation to their activities.
 - h. Century shall have obtained a right of first refusal to match an offer on any liquidation by the Borrower during the term of the Credit Facility.
 - i. Century to be provided upon acceptance hereof with the following:
 - i. Copy of the Memorandum and Articles of Association of the Borrower;
 - ii. Last three months' bank statements for Borrower;
 - iii. Full details of ownership of Borrower.
 - iv. Copy of all financial and other information or documentation in respect of the Borrower and the Borrower's assets as requested by Century.

9. **ONGOING REPORTING:**

The Borrower are to provide such financial and other information as Century may reasonably request, from time to time, including, but not limited to:

- i. Monthly bank statements
- ii. Monthly internally prepared financial statements
- iii. Evidence of payment of all government priority payables within 15 days of their respective due dates
- iv. Evidence of compliance with any material federal, provincial and municipal laws, regulations and policies in relation to their activities.

10. **ONGOING COVENANTS:**

In addition to those covenants set out in the Security, the Borrower shall provide to Century in the Loan Agreement the covenants provided below, together with any other covenants of the kind generally provided for in loan transactions of the kind contemplated herein or otherwise required by Century, the form and substance of which shall be determined by Century, in its sole and absolute discretion. Without limiting the scope of the covenants to be included in the Loan Agreement, the Borrower covenant as follows:

- a. the Borrower shall not request, obtain or consent to a variation of the Order, without the prior written consent of Century;
- b. the Borrower shall provide Century with two business days advance notice of all court filings made by them, together with copies of all related court materials, and shall provide Century with notice of all court filings that any other person intends to make, as indicated in any way to any of the Borrower by such person, as soon as reasonably practicable after obtaining knowledge of such intended filings;
- c. the Borrower shall maintain its current insurance coverage over the Borrower's assets and property and designate Century as first loss payee as its interests may appear;
- d. the Borrower shall forthwith provide Century with written notice of any material adverse change in its financial condition and of any matter, act or thing materially adversely affecting its property or assets;
- e. the Borrower shall forthwith provide Century with written notice of the occurrence of an Event of Default (as defined below);

- f. the Borrower shall establish and maintain systems of internal controls in respect of the Borrower's businesses (including without limitation, inventory and cash management systems) acceptable to Century in its sole and absolute discretion;
- g. the Borrower may not pledge assets, acquire or merge with other companies, change the capital structure and/or shareholder(s) without Century's prior written consent, which will not be unduly withheld, and without a fee to Borrower;
- h. the Borrower must obtain Century's prior written consent before permitting shareholder(s) to sell or transfer their shares or before any change in effective voting control by contractual or other means, which consent will not be unreasonably withheld and without a fee to Borrower;
- i. the Borrower may not pay any dividends or make any other shareholder withdrawals and/or management bonus without the written permission of Century which permission will not be unreasonably withheld and without a fee to Borrower;
- j. the Borrower may not make loans to or investments in, or give guarantees on behalf of, others; and
- k. Except where the stay of proceedings applies as granted in the initial order or as renewed or extended by court, the Borrower shall pay when due all statutory liens, trust and other Crown claims including but not limited to the payment of employee source deductions, HST, employee claims and workers' compensation premiums.

11. DEFAULT:

The Loan Agreement shall include the events of defaults provided below, together with standard events of default generally provided for in loan transactions of the kind described herein or otherwise required by Century, the form and substance of which shall be determined by Century. Without limiting the scope of the events of default to be provided in Loan Agreement, the following events shall constitute events of default (each, an "Event of Default"):

- a. if the Borrower fail to pay to Century when due any amount of principal, interest, fees or other amounts, whether by acceleration or otherwise, unless such default is remedied within four business days after notice thereof by Century to the Borrower;
- b. if the Borrower default, or with the passage of time will likely default, in the observance or performance of any term, covenant or condition in this Term Sheet, the Loan Agreement, any of the Security or any other agreement

between Century and the Borrower, unless such default is remedied within two business days after notice thereof by Century to the Borrower, or if any of the representations or warranties given by the Borrower herein or therein is or shall become untrue or inaccurate in any material respect;

- c. if Century determines, that a material adverse change has occurred after the date hereof in respect of the business, affairs or financial condition of the Borrower;
- d. if any government or creditor exercises any remedy against any property or assets of the Borrower;
- e. if the Borrower fails to pay wages to the Borrower's employees or to remit source deductions as they become due from time to time;
- f. if the Borrower fails to remit HST as it becomes due from time to time; or
- g. if (i) the Order is varied without the consent of Century or any other order is made which is or may be prejudicial to Century's interests; (ii) the Order is appealed or leave to appeal is granted; or (iii) the stay of proceedings contained in the order is terminated or lifted.
- h. It is understood that Borrower will have two business days to remedy any default, which is capable of being remedied, after notice thereof by Century to the Borrower.

12. FACILITY FEE:

Borrower shall pay to Century a Facility Fee of 3% of the Credit Facility on closing and thereafter on the last day of each month an amount which is half of one percent of the average outstanding balance of the Credit Facility for that month.

13. PROCESSING FEE:

Borrower shall pay to Century a Processing Fee upon acceptance of this Term Sheet by the Borrower. Century shall be entitled to payment from the Borrower of a fully earned and non-refundable Processing Fee in the amount of CDN \$20,000. Century acknowledges having received \$ 15,000 and therefore the balance on execution of this Terms Letter is CDN \$ 5,000.

14. REMEDIES

Upon the occurrence of an Event of Default, Century may demand immediate payment of all amounts owing by the Borrower and may exercise all rights and remedies available to it under the Order, this Term Sheet, the Loan Agreement, and the Security Documents or otherwise available to it, at law or in equity.

15. **ASSIGNMENT** Century may assign, transfer, or grant one or more participating interests in its rights, benefits and obligations under this Term Sheet, the Security and the Loan Agreement without the consent of the Borrower.
16. **GOVERNING LAW** This Term Sheet shall be governed by and construed in accordance with the laws of the Province of Nova Scotia and the laws of Canada applicable therein
17. **COSTS / EXPENSES** The Borrower shall be responsible for all documented reasonable legal, financial and other advisory fees, disbursements and out of pocket expenses of Century in connection with the transaction contemplated herein including, but not limited to, all fees incurred by Century in connection with the preparation of this Term Sheet, the Loan Agreement and all court attendances in Canada or elsewhere. All such fees and expenses shall be secured by the Security, whether or not any additional funds are advanced and shall include the time spent by Century and its representatives in retaking, holding, repairing, processing and preparing for disposition and disposing of Century's security calculated at Century's standard rates.
18. **FACSIMILE** Facsimile documents pertaining to this transaction are to be considered and treated the same as original documents.
19. **ACCEPTANCE** If these terms and conditions are acceptable, Borrower must sign and return this Term Sheet together with a cheque for CDN \$ 5,000 to Century before 5 PM E.S.T on Tuesday, Oct 23, 2007 failing which this Terms Letter is of no force and effect.

Yours truly,
Century Services Inc.

Per: 
Jeff Houston

Borrower hereby acknowledge the terms and conditions of this Terms Letter and in the event of entering into a Demand Operating Facility Agreement, agree to be bound thereby, and will provide the required Security. Our cheque in the amount of CDN \$5,000 is enclosed.

Date at Point Tupper Nova Scotia this 23rd day of October 2007

Federal Gypsum Company

Century Services Inc.

Page 9 of 10

Federal Gypsum Company
Attn: Mr. Rhyne Simpson, Jr

Per: Michael R. King
(I am authorized to bind the corporation)

Michael R. Simpson

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2007

No. SH285667

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

sworn before me this

30th day of October, 2007

A handwritten signature in black ink, appearing to read "M. Chiasso", is written over a horizontal line. The signature is enclosed within a large, hand-drawn oval.

A Barrister of the Supreme Court
of Nova Scotia

Marcia P. Chiasso

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

STEWART McKELVEY
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MPC: NS33381-6