

2007

S.H. No. 285667

IN THE MATTER OF:

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

- and -

IN THE MATTER OF:

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

THIRD REPORT OF MONITOR – BDO DUNWOODY GOODMAN ROSEN INC.

October 31, 2007

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1. THIRD REPORT OF THE MONITOR

- 1.1. Pursuant to an Order (“Initial Order”) of the Supreme Court of Nova Scotia dated September 18, 2007, BDO Dunwoody Goodman Rosen Inc. was appointed as Monitor (“the Monitor”) pursuant to the application of Federal Gypsum Company (“Federal”) for protection under the Companies’ Creditors Arrangement Act (“CCAA”).
- 1.2. Pursuant to Paragraph 2A of the Initial Order, it was specified that a further hearing in the CCAA proceeding was to be held on Thursday, October 18, 2007 at 9:30 a.m. or such alternative date as the Court may fix, at which time the Initial Order was to be supplemented or otherwise varied and the Stay of Termination Date as defined in the Initial Order was to be either extended or terminated.
- 1.3. On October 18, 2007, the hearing (comeback hearing) referred to in Paragraph 1.2 was convened before Mr. Justice A. David MacAdam of the Supreme Court of Nova Scotia and, as a result, an Order extending the Stay of Termination Date set out in Paragraph 3 of the Initial Order was extended to November 29, 2007 at 4:00 p.m., subject to the rights of creditors of Federal to request a review and reconsideration of the extension provisions of the Order on November 5, 2007 at 9:30 a.m. Federal was required to file its documents in connection with the November 5 hearing no later than October 31, 2007. This Order was taken out on October 23, 2007 and is attached hereto as Exhibit 1. The main purpose of the November 5 hearing is to consider an application by Federal for an increase in Debtor-in-Possession (“DIP”) financing.
- 1.4. To date, the Monitor has filed two previous reports with This Honorable Court, being its first report dated September 20, 2007 and its second report dated October 15, 2007.
- 1.5. Since the date of the Monitor’s second report dated October 15, 2007, the Monitor advises that it has undertaken or been involved with a number of actions and activities generally hereafter described:
 - The Monitor has been in continuous contact and communication with Rhyne (Mike) Simpson, Jr. and Michael Simpson, both being the senior officers of Federal, Federal’s legal counsel, and counsel to the Monitor. Generally speaking, these contacts and communications considered the review of the financial position of Federal, its cash flow and operations, valuation of its assets, progress in obtaining new DIP financing and progress in considering, very generally, a Plan of Arrangement for consideration by Federal’s creditors and the Court.
 - On a daily basis, the Monitor continues to respond to numerous telephone, email, and correspondence received from creditors whose concerns have involved both pre-filing obligations and post-filing supply of goods and services.

- The Monitor and its legal counsel have met and communicated numerous times with respect to various CCAA proceeding issues and the gathering of information and progress towards the production of legal opinions with respect to the validity and priority of the various security interests.
 - The Monitor continues to review the weekly Cash Flow Statement and materials supplied to it by Federal. In doing so, the Monitor raises inquiries with respect to cash flow items and considers responses related thereto.
 - We have issued the Cash Flow Statements supplied to us by Federal to counsel for secured creditors for distribution to their respective clients and, in two cases, to the secured creditors themselves. We have responded to inquiries raised by the recipients of the Cash Flow Statements.
 - We have met with the officers of Federal, its legal counsel, and Monitor's counsel to discuss various aspects of the CCAA process, including DIP financing, the appraisal of assets, and the Plan of Arrangement.
 - We had a number of communications with Jeff Johnson, Vice-President of Century Services Inc. ("Century") with respect to its potential provision of DIP financing.
 - We reviewed, in consultation with legal counsel and Federal, various versions of the Term Sheet provided to Federal by Century, which Term Sheet as executed by Federal on October 23, 2007 was supplied to the most interested secured creditors as directed by This Honorable Court.
 - We reviewed the appraisal of the movable assets as conducted by Mr. F.W. Niggemyer, President of Universal Worldwide LLC ("Universal"), and dated October 26, 2007. We reviewed the contents of this appraisal with Federal and its legal counsel and suggested to Federal that it circulate same on a private and confidential basis to the most interested creditors as directed by the Court. Circulation of this appraisal of movables was undertaken by counsel for Federal on October 30, 2007. The Monitor agreed with officials of Federal that due to the sensitivity of this appraisal, the information contained therein be kept confidential for the time being except as received by certain secured creditors in a privileged fashion.
 - The Monitor attended to and reviewed a number of other matters and materials not otherwise referred to herein in the period from its last report (second report) to present.
- 1.6. Since the Monitor's second report dated October 15, 2007, the Monitor and its counsel attended the comeback court hearing in Halifax on October 18, 2007 as referred to in Paragraph 1.3 above.

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

- 2.1. The Monitor, as required by the Initial Order, continues to review the Cash Flow Statements and related material as provided by Federal. The Monitor does not audit these statements or materials.
- 2.2. Attached as Exhibit 2 is the Cash Flow Statement dated October 26, 2007 which pertains to the week of October 22, 2007 to October 26, 2007, including a comparison to the original Cash Flow Statement as filed with the Initial Order application. This Cash Flow Statement is also cumulative for the period from the date of the Initial Order on September 18, 2007 through to October 26, 2007 inclusive, with the comparison to the budget plan as filed with the Initial Order.
- 2.3. As at October 26, 2007, Federal has indicated to the Monitor that the accounts receivable trade are \$686,322, there are no accounts payable to post-filing suppliers, finished goods inventory is estimated to be \$553,027, and raw materials inventory is estimated to be \$846,918.
- 2.4. The Monitor makes the following observations with respect to the October 26, 2007 Cash Flow Statement (Exhibit 2):
 - On a cumulative basis, actual cash receipts are \$121,779 better than the budget plan filed with the Initial Order application.
 - Actual expenditures to October 26, 2007 are \$108,685 less than the budget plan. Again, this better-than-plan result is derived from the fact that production and production-related costs are geared to sales levels, and whereas sales are under plan, so are expenses.
 - Net cash flow is \$230,464 better than plan and, therefore, as a result, only \$105,483 of the DIP financing has been used.
 - To October 26, 2007, sales levels are \$267,537 less than the budget plan. Again, the Monitor continues to have considerable concern about sales levels, but we have been in constant communication with Messrs. Simpson about this under plan performance and Federal’s efforts to counter balance the under plan results. The Monitor is aware of Federal’s new sales initiatives, including the October 1 hiring of two new experienced sales persons and the inroads made with significant potential customers. It is the Monitor’s understanding that the issue of the sales performance will be dealt with in a considerable manner in an affidavit to be filed by Mr. Mike Simpson in aid of the November 5, 2007 application for DIP financing.
- 2.5 That as reported in the Monitor’s second report, and as discussed at the October 18, 2007 comeback hearing, and as referred to elsewhere herein, Century and Federal have

signed a Term Sheet which would provide up to \$1.5 million of DIP financing, subject to the completion of final due diligence and credit approval by Century and the approval of This Honorable Court. Also as indicated in the Monitor's second report, the purpose of the Century DIP financing would be to replace the present DIP lender at \$200,000 as drawn, pay out the Royal Bank of Canada working capital loan, subject to Court approval, at approximately \$530,000 and provide additional DIP funds, subject to Court approval, to allow Federal to continue operations and permit it to have time to finalize and file a Plan of Arrangement for consideration of creditors.

- 2.6 The Monitor has spoken to Mr. Jeff Johnson, Vice-President of Century, and Mr. Johnson has advised the Monitor that Century should be in a position late in the afternoon of October 31, 2007 to confirm the result of its due diligence and its decision as to whether it is prepared to advance the DIP funds, subject to any additional terms and subject to Court approval.
- 2.7 A Weekly Cash Flow prepared on a go-forward basis and dated October 29, 2007, as prepared by Michael Simpson on behalf of Federal, is attached hereto as Exhibit 3. This exhibit reflects that DIP financing in the week of November 26, 2007 will approximate \$437,538, an amount in excess of the present DIP financing approved at \$350,000. Further, a review of the same Exhibit 3, and subject to This Honorable Court, approving an extension beyond November 29, 2007 reveals that DIP financing will increase significantly in the month of December, 2007.
- 2.8 In order to summarize and provide a snapshot of certain key factors and indicators of the financial position of Federal through the course of this present CCAA proceeding, the Monitor has prepared Exhibit 4 from certain information supplied by Federal. In Exhibit 4, the Monitor has illustrated the trend of cash, accounts receivable trade, inventories, accounts payable/post filing, DIP financing used, and revenue.

3. PROFESSIONAL FEES SUBJECT TO THE ADMINISTRATION CHARGE

- 3.1. As previously reported, Paragraph 31 of the Initial Order provides for an Administration Charge with respect to the fees and costs of the Monitor, counsel to the Monitor, and Federal's counsel. The Administration Charge provisions specify that as security for the reasonable professional fees and disbursements incurred both before and after the making of the Initial Order, the parties referred to are granted a charge against all present and future property of Federal in the form of the Administration Charge, such charge not to exceed \$300,000 without further Order of the Court.
- 3.2. Century has advised the Monitor that it understands the Administration Charge is only intended to provide security for any unpaid reasonable professional fees of the persons referred to in the Initial Order and not to place a cap on such fees at the \$300,000 amount. This opinion is concurred with by Monitor's counsel and, as a result, it was determined that it was unnecessary to make provisions in the Term Sheet for any possible applications to Court for an increase in the Administration Charge.
- 3.3. Attached as Exhibit 5 is a schedule of the details of the professional fees which relate to the Administration Charge to the extent that these fees are unpaid. The schedule reflects fees as billed and indicates which ones are paid and which ones are not as at the date of this report. The Monitor notes that total professional fees related to the CCAA as billed to the date of this report are \$107,353.75 of which \$82,166.55 is paid, either by the cash flow of Federal or by retainer. The amount of \$25,187.20 unpaid as at October 31, 2007, plus any amounts accrued since that date, is secured by the Administration Charge.
- 3.4. The Monitor has requested its counsel, Carl Holm of Wickwire Holm, to prepare a legal opinion with respect to the various security interests of creditors. In particular, Monitor's counsel has addressed the validity and priority of the following security interests:
- Nova Scotia Business Inc. ("NSBI")
 - Nova Scotia Provincial Department of Economic Development ("PNS-OED")
 - Cape Breton Growth Fund Corporation ("CBGF")
 - Enterprise Cape Breton Corporation ("ECBC")
 - Royal Bank of Canada ("RBC")
 - Black & McDonald Limited ("B&M")
 - Ford Credit Canada Limited ("Ford")
 - National Leasing Group Inc. ("NLG")
- 3.5. Attached as Exhibit 6 is a letter from Monitor's counsel to the Monitor providing his preliminary report on the validity and priority of certain security interests referred to above. The Monitor has not attached to Exhibit 6 those enclosures that were part of the

Monitor's counsel's submission as it was the intention of the Monitor to simply summarize for the Court the validity and priority of the various security interests without providing a bulk of detail.

- 3.6. There is a further contractual interest as between Federal and First Union Rail Corporation with respect to the lease of 30 rail cars. Monitor's counsel presently is reviewing this contract as requested by the Monitor.

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

- 4.1. The Monitor and its counsel have continued communications with Rhyne Simpson, Jr. (Mike) and Michael Simpson and Federal's legal counsel for the purpose of discussing the generalities of the type of Plan of Arrangement under CCAA that might be developed to solicit favorable consideration by creditors.
- 4.2. However, since the October 18 comeback hearing, because of the short window of time Federal had in order to conclude the critical arrangements for the DIP financing with Century and obtain the appraisal from Universal as well as deal with operational and sales matters, Federal has not had substantial time available in the past 10 days to make further substantive progress on a Plan of Arrangement.
- 4.3. Notwithstanding our above comment, and as previously indicated, the Universal appraisal prepared on a liquidation basis has been obtained and will be of use in developing the Plan of Arrangement.
- 4.4. The Monitor and Michael Simpson had concluded that given the short window of time between October 18, 2007 and November 5, 2007 and the critical matters that needed to be addressed by Federal in that time period, and given that it was not certain that This Honorable Court would extend the Stay of Termination Date beyond November 5, 2007, we felt it would not be efficient for Michael Simpson to expend considerable time preparing 2008, 2009, and 2010 projections containing workable and conservative sales and expense numbers until it was certain the Stay of Termination Date would be extended beyond November 5, 2007.
- 4.5. The Monitor understands that between the date of this present report and the November 5, 2007 hearing, Federal plans communications either in person or by conference call with officials of ECBC, CBGF, NSBI, and PNS-OED as well as Federal's minority shareholder. The Monitor understands from counsel to Federal that it is Federal's intention to, as a courtesy, communicate with RBC officers and/or RBC counsel in the period between October 31, 2007 and November 5, 2007, but Federal cannot do so until the final financing decision and any additional terms, if any, have been received from Century.
- 4.6. The Monitor believes that Federal is acting in good faith and continues to act in good faith and with due diligence in moving forward to the preparation of a Plan of Arrangement, but that in the past 10 days, officials of Federal had to redirect their personal efforts and time to address the more critical issues to be considered at the November 5, 2007 DIP hearing.

- 4.7. It is further the view of the Monitor that notwithstanding the under performance of sales, the actual net cash flow of Federal is not adverse to the cash flow plan as filed with the Initial Order application and, therefore, we are of the view that an extension of the Stay of Termination Date to November 29, 2007 will allow Federal more time to progress further on developing the Plan of Arrangement.
- 4.8. The Monitor is of the view that Federal will have to return to This Honorable Court prior to the filing of a Plan of Arrangement to seek directions with respect to the classification of creditors and a claims bar process.

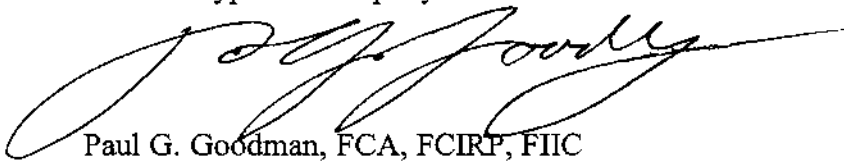
5. RECOMMENDATIONS

- 5.1. The Monitor recommends to This Honorable Court that a Stay of Termination Date under the CCAA proceeding be continued to at least the November 29, 2007 date as contemplated at the October 18, 2007 hearing.
- 5.2. Subject to Century's approving the DIP financing at the requested level of \$1.5 million, and subject to the approval of the DIP financing by This Honorable Court, the Monitor recommends that, subject to the availability of funds under the DIP, This Honorable Court approve Federal's plan to pay out the working capital loan of Royal Bank of Canada of approximately \$530,000. Notwithstanding that the interest rate of the Century DIP financing is greater than the interest rates charged by Royal Bank of Canada, the continuing cost of professional fees in dealing with the concerns of Royal Bank are an offset to the higher interest costs.

Dated at Halifax, Nova Scotia this 31st day of October, 2007.

Respectfully submitted

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



Paul G. Goodman, FCA, FCIRP, FIIC
President

2007

S.H. No. 285667

IN THE SUPREME COURT OF NOVA SCOTIA

IN THE MATTER OF:

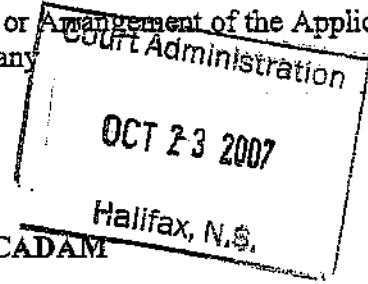
The *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 as amended

- and -



IN THE MATTER OF:

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



ORDER

BEFORE THE HONOURABLE JUSTICE A. DAVID MACADAM

UPON READING the Affidavit of Michael Simpson sworn October 15, 2007; and

UPON HEARING Maurice P. Chiasson, counsel for the Company

AND UPON HEARING:

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

IT IS HEREBY ORDERED THAT:

1. The Company not be required to serve notice of this application on any of its creditors except for Royal Bank of Canada, Enterprise Cape Breton Corporation, Cape Breton Growth Fund Corporation, Her Majesty in Right of the Province of Nova Scotia (Nova Scotia Economic Development), Nova Scotia Business Incorporated and Black & McDonald.
2. The Stay Termination Date as set out in paragraph 3 of the initial order of this Honourable Court dated September 18, 2007 (the "Initial Order") be extended to November 29, 2007 at 4:00 p.m. subject to the right of the creditors of the Company to request a review and reconsideration of this Order on November 5, 2007 at 9:30 a.m.
3. 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

at 9:30 a.m. The Company shall file materials in connection with this application on all parties consenting to this Order no later than October 31, 2007.

- 4. Subject to the provisions of this Order, the time for the filing of a Plan of Arrangement as stipulated in paragraph 23 of the Initial Order be extended to November 29, 2007 at 4:00 p.m.

DATED at Halifax, Nova Scotia, this 23 day of October, 2007.

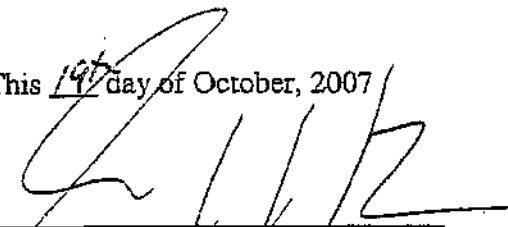


 Danielle Dixon-Toulouse

Deputy Prothonotary

CONSENTED TO:

DANIELLE DIXON-TOULOUSE
Deputy Prothonotary

This 19th day of October, 2007


Carl Holm, Q.C., counsel to BDO
Dunwoody Goodman Rosen Inc.

This ___ day of October, 2007

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

Dated 23 day of October, 07

 Danielle Dixon-Toulouse
 Deputy Prothonotary

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

This ___ day of October, 2007

 Robert Sampson, counsel to
 Enterprise Cape Breton Corporation
 and Cape Breton Growth Fund Corporation

at 9:30 a.m. The Company shall file materials in connection with this application on all parties consenting to this Order no later than October 31, 2007.

- 4. Subject to the provisions of this Order, the time for the filing of a Plan of Arrangement as stipulated in paragraph 23 of the Initial Order be extended to November 29, 2007 at 4:00 p.m.

DATED at Halifax, Nova Scotia, this ____ day of October, 2007.

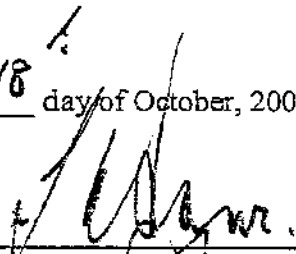
Deputy Prothonotary

CONSENTED TO:

This ____ day of October, 2007

Carl Holm, Q.C., counsel to BDO
Dunwoody Goodman Rosen Inc.

This 18 day of October, 2007



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

This ____ day of October, 2007

Robert Sampson, counsel to
Enterprise Cape Breton Corporation
and Cape Breton Growth Fund Corporation

at 9:30 a.m. The Company shall file materials in connection with this application on all parties consenting to this Order no later than October 31, 2007.

- 4. Subject to the provisions of this Order, the time for the filing of a Plan of Arrangement as stipulated in paragraph 23 of the Initial Order be extended to November 29, 2007 at 4:00 p.m.

DATED at Halifax, Nova Scotia, this ___ day of October, 2007.

Deputy Prothonotary

CONSENTED TO:

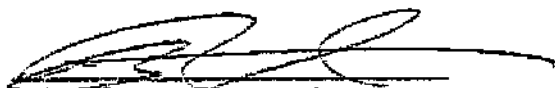
This ___ day of October, 2007

Carl Holm, Q.C., counsel to BDO
Dunwoody Goodman Rosen Inc.

This ___ day of October, 2007

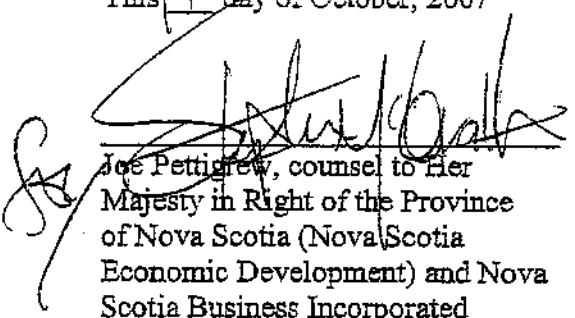
Thomas Boyne, Q.C., counsel to
Royal Bank of Canada

This 19 day of October, 2007



Robert Sampson, counsel to
Enterprise Cape Breton Corporation
and Cape Breton Growth Fund Corporation

This ²⁴ day of October, 2007



Joe Pettigrew, counsel to Her
Majesty in Right of the Province
of Nova Scotia (Nova Scotia
Economic Development) and Nova
Scotia Business Incorporated

EXHIBIT 2

**FEDERAL GYPSUM COMPANY
VARIANCE ANALYSIS
OCTOBER 26, 2007**

	Week of:			Period to Date:		
	Projected	Actual	Variance	Projected	Actual	Variance
Cash Receipts						
A/R Receipts		58,323.76	58,323.76	626,807.14	748,586.25	121,779.11
Expenses						
Freight	18,671.97	13,687.00	4,984.97	110,770.50	92,383.08	18,387.42
Leases		663.71	(663.71)	18,000.00	14,849.56	3,150.44
Direct Costs						
Salaries/Wages			-	182,400.00	172,960.95	9,439.05
Employee Benefits		150.00	(150.00)	5,500.00	6,468.14	(968.14)
Raw Materials						
Paper		1,603.32	(1,603.32)	22,000.00	1,603.32	20,396.68
Gypsum	12,000.00	10,000.00	2,000.00	72,000.00	39,500.00	32,500.00
Others	9,095.33		9,095.33	46,508.42	44,957.60	3,550.82
Utilities						
Natural Gas	15,000.00	24,713.00	(9,713.00)	80,000.00	62,488.16	17,511.84
Electricity	15,000.00	12,000.00	3,000.00	80,000.00	72,047.95	7,952.05
Water			-	4,000.00	-	4,000.00
Contracted Services			-	6,400.00	6,898.49	(498.49)
Insurance - Property/Casualty			-	24,824.26	12,393.09	12,431.17
Manufacturing Supplies	2,000.00		2,000.00	12,000.00	5,535.20	6,464.80
Repair Supplies	4,000.00	3,943.11	56.89	24,000.00	27,235.92	(3,235.92)
Total Direct Costs	57,095.33	52,409.43	4,685.90	561,632.68	452,088.82	109,543.86
Selling Expenses						
Salaries/Wages			-	25,000.00	24,630.58	369.42
Travel			-	1,000.00	5,872.34	(4,872.34)
Vehicle			-	1,000.00	1,451.38	(451.38)
Meals & Entertainment	5,000.00	2,451.00	2,549.00	6,500.00	3,961.87	2,538.13
Telephone			-	350.00	-	350.00
Total Selling Expenses	5,000.00	2,451.00	2,549.00	33,850.00	35,916.17	(2,066.17)
General & Administrative Expenses						
Professional Fees						
Legal	10,000.00	6,660.98	3,339.02	100,000.00	76,337.67	23,662.33
Accounting			-	5,000.00	-	5,000.00
Consulting		5,632.74	(5,632.74)	45,000.00	55,566.13	(10,566.13)
Contracted Services		4,937.88	(4,937.88)	2,500.00	91,998.90	(89,498.90)
Travel		2,238.03	(2,238.03)	7,500.00	7,691.61	(191.61)
Vehicle			-	500.00	1,126.48	(626.48)
Meals & Entertainment		90.00	(90.00)	500.00	436.92	63.08
Insurance - Receivables			-	5,000.00	5,143.78	(143.78)
Postge/XprssMail			-	200.00	500.30	(300.30)
Office Supplies		352.29	(352.29)	500.00	1,431.39	(931.39)
Telephone			-	4,000.00	2,939.64	1,060.36
Bank Charges		417.21	(417.21)	3,750.00	1,275.68	2,474.32
Janitorial Exp			-	1,500.00	-	1,500.00
DIP Fees and Interest	11,456.98	5,000.00	6,456.98	16,422.69	5,000.00	11,422.69
HST	35,700.60		35,700.60	46,129.39	9,383.93	36,745.46
Occupancy Taxes			-	-	-	-
Property Taxes			-	-	-	-
Total General & Admin Expenses	57,157.57	25,329.13	31,828.44	238,502.08	258,832.41	(20,330.33)
Total Selling, General & Admin Expenses	62,157.57	27,780.13	34,377.44	272,352.08	294,748.58	(22,396.50)
Total Cash Outflow	137,924.87	94,540.27	43,384.60	962,755.25	854,070.04	108,685.21
NET CASH FLOW	(137,924.87)	(36,216.51)	101,708.36	(335,948.11)	(105,483.79)	230,464.32
ACCOUNTS PAYABLE						
DIP FINANCING		198,826.51			198,826.51	
CASH BALANCE					93,342.72	
REVENUE	166,458.90	99,978.65	(66,480.25)	876,124.11	608,586.60	(267,537.51)

EXHIBIT 3

**WEEKLY CASH FLOW
OCTOBER 29, 2007**

Week	17-Sep-07	24-Sep-07	1-Oct-07	8-Oct-07	15-Oct-07	22-Oct-07	29-Oct-07	5-Nov-07	12-Nov-07
Cash Receipts									
A/R Receipts	144,281.59	28,738.59	306,443.30	13,220.73	197,578.28	58,323.76	127,454.58		261,382.19
Expenses									
Freight	7,446.50	32,683.59	12,089.50	12,114.33	14,362.16	13,687.00	19,189.59	19,189.59	29,394.90
Leases		663.71	10,597.49	962.89	1,961.76	663.71	12,000.00		3,000.00
Direct Costs									
Salaries/Wages			116,661.16		56,289.79		60,000.00	12,000.00	60,000.00
Employee Benefits			6,318.14			150.00	5,500.00		1,000.00
Raw Materials									
Paper						1,603.32		11,000.00	
Gypsum		7,500.00	12,000.00		10,000.00	10,000.00	10,000.00	10,000.00	15,000.00
Others		9,937.90	2,500.00		32,519.70		6,542.13	6,542.13	8,921.09
Utilities									
Natural Gas		8,037.73	9,873.43	10,000.00	9,764.00	24,713.00	12,000.00	12,000.00	18,000.00
Electricity		24,000.00	12,000.00	12,000.00	12,047.95	12,000.00	12,000.00	12,000.00	18,000.00
Water								4,000.00	
Contracted Services		3,192.00			3,706.49		1,600.00	1,600.00	
Insurance - Property/Casualty					12,393.09				12,412.13
Manufacturing Supplies	399.00		862.22		4,273.98		2,000.00	2,500.00	2,500.00
Repair Supplies		3,716.01	15,479.41	250.79	3,944.80	3,943.11	7,500.00	7,500.00	7,500.00
Total Direct Costs	399.00	56,385.64	175,794.36	22,250.79	144,849.60	52,409.43	117,142.13	79,142.13	143,333.22
Selling Expenses									
Salaries/Wages	5,000.00		14,630.58		5,000.00		10,000.00	15,000.00	10,000.00
Travel			3,191.38		2,680.96			1,000.00	
Vehicle					1,451.38			3,000.00	
Meals & Entertainment / Other					1,510.87	2,451.00		1,500.00	
Telephone								355.00	
Total Selling Expenses	5,000.00	-	17,821.96	-	10,643.21	2,451.00	10,000.00	20,850.00	10,000.00
General & Administrative Expenses									
Professional Fees									
Legal		50,000.00	5,147.36		14,529.33	6,660.98	10,000.00	10,000.00	10,000.00
Accounting									5,000.00
Consulting		25,000.00	14,051.18	4,164.42	6,717.79	5,632.74	5,000.00	5,000.00	5,000.00
Contracted Services			49,023.04	486.21	37,551.77	4,937.88	3,000.00	3,000.00	3,000.00
Travel		689.71	2,321.24		2,442.63	2,238.03	7,500.00		
Vehicle			1,128.48				500.00		
Meals & Entertainment					346.92	90.00	500.00		
Insurance - Receivables					5,143.76		5,000.00		
Postge/Exprs/Mail			302.60		197.80		200.00		
Office Supplies			959.96		119.14	352.29	500.00		
Telephone			977.48		1,962.16		4,000.00		
Bank Charges		145.08	648.59	9.78	55.04	417.21	3,750.00		
Janitorial Exp							1,500.00		
DIP Fees and Interest						5,000.00	967.57	45,719.31	1,457.95
HST		9,383.93							
Occupancy Taxes									
Property Taxes									
Total General & Admin Expenses	-	85,218.72	74,557.83	4,660.39	69,066.34	25,329.13	42,417.57	63,719.31	24,457.95
Total Selling, General & Admin Exper	5,000.00	85,218.72	92,379.79	4,660.39	79,709.55	27,780.13	52,417.57	84,569.31	34,457.95
Total Cash Outflow	12,845.50	174,287.95	290,861.14	39,988.40	240,883.07	94,540.27	200,749.29	182,901.03	210,186.06
NET CASH FLOW	131,436.09	(145,549.36)	15,582.16	(26,767.67)	(43,304.79)	(36,216.51)	(73,294.71)	(182,901.03)	51,196.13
DIP FINANCING		14,113.27	(1,468.89)	25,295.76	66,603.57	104,820.08	178,114.79	361,015.82	309,819.69
Current Assets	2,480,146.82	2,468,932.96	2,487,676.12	2,393,133.41	2,405,484.06	2,263,192.90	2,262,965.05	2,223,473.91	2,322,437.35

19-Nov-07	26-Nov-07	3-Dec-07	10-Dec-07	17-Dec-07	24-Dec-07	31-Dec-07	7-Jan-08	14-Jan-08	21-Jan-08	28-Jan-08
87,127.40	159,306.44			319,212.11	106,404.04	138,600.00		484,801.04	161,600.35	155,925.00
33,159.39	32,034.39	32,034.39	44,496.94	46,254.18	-	34,284.39	44,004.18	44,004.18	44,004.18	44,004.18
	12,000.00			3,000.00		12,000.00		3,000.00		12,000.00
	60,000.00	12,000.00	60,000.00		60,000.00	12,000.00	60,000.00		60,000.00	
		5,500.00				5,500.00				
			11,000.00					11,000.00		11,000.00
15,000.00	15,000.00	15,000.00	20,000.00	20,000.00		15,000.00	20,000.00	20,000.00	20,000.00	20,000.00
9,813.20	9,813.20	9,813.20	12,638.21	13,084.26		9,813.20	13,084.26	13,084.26	13,084.26	13,084.26
18,000.00	18,000.00	22,500.00	30,000.00	30,000.00		22,500.00	30,000.00	30,000.00	30,000.00	30,000.00
18,000.00	18,000.00	18,000.00	24,000.00	24,000.00		18,000.00	24,000.00	24,000.00	24,000.00	24,000.00
		5,000.00					5,000.00			
1,600.00	1,600.00		1,600.00	1,600.00		1,600.00	1,600.00		1,500.00	1,500.00
				12,412.13				12,412.13		
2,500.00	2,500.00	2,500.00	2,500.00	2,500.00		2,500.00	2,500.00	2,500.00	2,500.00	2,500.00
7,500.00	7,500.00	7,500.00	7,500.00	7,500.00		7,500.00	7,500.00	7,500.00	7,500.00	7,500.00
72,413.20	132,413.20	97,813.20	169,238.21	111,096.39	60,000.00	94,413.20	163,684.26	120,496.39	158,684.26	109,684.26
	10,000.00	15,000.00	10,000.00		10,000.00		25,000.00		10,000.00	
	1,000.00				1,000.00					1,000.00
	3,000.00				3,000.00					3,000.00
684.00	1,500.00			684.00	1,500.00			684.00		1,500.00
	350.00				350.00					350.00
684.00	15,850.00	15,000.00	10,000.00	684.00	15,850.00	-	25,000.00	-	10,684.00	5,850.00
10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00
	7,500.00				7,500.00					7,500.00
	500.00				500.00					500.00
	500.00				500.00					500.00
	5,000.00				5,500.00					6,000.00
	200.00				200.00					200.00
	500.00				500.00					500.00
	4,000.00				4,000.00					4,000.00
	3,750.00				3,750.00					3,750.00
	1,500.00				1,500.00					1,500.00
1,251.19	1,390.04	1,766.98	2,431.77	3,417.83	2,865.53	2,988.20	3,081.43	4,106.27	2,814.14	3,207.88
(4,000.00)	17,507.41				16,113.73					32,229.95
15,251.19	60,347.45	19,766.98	20,431.77	21,417.83	60,929.26	20,988.20	21,081.43	22,106.27	20,914.14	77,887.83
15,935.19	76,197.45	34,766.98	30,431.77	22,101.83	76,779.26	20,988.20	46,081.43	22,108.27	31,598.14	63,737.63
121,507.78	252,645.03	164,614.57	244,166.92	182,452.40	136,779.26	161,685.76	253,769.88	189,606.85	234,286.59	249,426.08
(34,380.98)	(93,338.59)	(164,614.57)	(244,166.92)	136,759.71	(30,375.22)	(23,085.78)	(253,769.88)	295,194.19	(72,686.24)	(93,501.08)
344,200.07	437,538.66	602,153.22	846,320.14	709,560.43	739,935.65	763,021.44	1,016,791.31	721,587.12	794,283.36	887,784.44
2,182,187.13	2,227,004.89	2,199,768.61	2,331,838.78	2,511,984.07	2,367,823.84	2,261,419.80	2,254,639.97	2,429,941.85	2,131,442.71	2,145,144.25

FEDERAL GYPSUM COMPANY
CCAA PROCEEDING
SCHEDULE SHOWING CHANGES IN KEY ACCOUNTS
SINCE CCAA FILING ON SEPTEMBER 18, 2007

	<u>Week Ending</u>					
	<u>Sept 21</u>	<u>Sept 28</u>	<u>Oct 5</u>	<u>Oct 12</u>	<u>Oct 19</u>	<u>Oct 26</u>
Cash	\$ 131,436	\$ 63,472	\$ 178,864	\$ 145,341	\$ 125,401	\$ 93,342
Accounts receivable – trade	778,383	806,510	639,360	477,920	645,221	686,322
Inventory:						
Raw material	944,393	973,524	953,891	899,727	890,310	846,918
Finished goods	561,220	547,806	563,139	527,803	530,797	553,027
	<u>1,505,613</u>	<u>1,521,330</u>	<u>1,517,030</u>	<u>1,427,530</u>	<u>1,421,107</u>	<u>1,399,945</u>
Accounts payable – post filing	12,845	84,036	20,767	27,522	4,158	Nil
DIP used	Nil	14,113	1,468	25,962	69,267	105,483
Revenue – actual billings	105,819	111,597	84,402	107,686	109,281	99,978

**CCAA OF
FEDERAL GYPSUM COMPANY
DETAILS OF PROFESSIONAL FEES SUBJECT TO ADMINISTRATION CHARGE
REVISED AS AT OCTOBER 31, 2007**

<u>Supplier</u>	<u>Period</u>	<u>Total Invoices Including Disbursements and HST</u>	<u>Payments</u>	<u>Balance Unpaid</u>
<u>BDO Dunwoody Goodman Rosen Inc. (Monitor)</u>				
- First account	Sept 11/07 – Sept 30/07	\$ 14,051.18	\$ 14,051.18	\$ 0
- Second account	Oct 1/07 – Oct 7/07	4,164.42	4,164.42	0
- Third account	Oct 8/07 – Oct 14/07	6,717.79	6,717.79	0
- Fourth account	Oct 15/07 – Oct 21/07	5,632.74	5,632.74	0
- Fifth account	Oct 22/07 – Oct 28/07	4,511.65	0	4,511.65
		<u>35,077.78</u>	<u>30,566.13</u>	<u>4,511.65</u>
<u>Wickwire Holm (Counsel to the Monitor)</u>				
- First account	Sept 18/07 – Sept 30/07	5,147.36	5,147.36	0
- Second account	Oct 1/07 – Oct 10/07	4,468.80	4,468.80	0
- Third account	Oct 13/07 – Oct 19/07	6,660.98	6,660.98	0
- Fourth account	Oct 22/07 – Oct 26/07	5,298.72	0	5,298.72
		<u>21,575.86</u>	<u>16,277.14</u>	<u>5,298.72</u>
<u>Stewart McKelvey (Note 1) (Counsel to FGC)</u>				
- First account	Sept 1/07 – Sept 30/07	35,323.28	35,323.28	0
- Second account	Oct 1/07 – Oct 28/07	15,376.83	0	15,376.83
		<u>50,700.11</u>	<u>35,323.28</u>	<u>15,376.83</u>
TOTALS		<u>\$ 107,353.75</u>	<u>\$ 82,166.55</u>	<u>\$ 25,187.20</u>

NOTE 1: Stewart McKelvey appears to have been paid approximately \$25,000 out of the cash flow of Federal, which payment seems to relate to legal fees incurred prior to September 1, 2007. Stewart McKelvey's first account as above was paid in part from the retainer. The amount of \$2,511.24 reflected in the Monitor's is included in Stewart McKelvey's second account.



October 30, 2007

Via Courier

#46764-CAH
BDO Dunwoody Goodman Rosen Inc.,
in its Capacity as Monitor of Federal Gypsum Company
Suite 620
1718 Argyle Street
Halifax, NS B3J 3N6

Attention: Mr. Paul Goodman

Dear Paul:

Re: Federal Gypsum Company ("FGC")

You had asked us to provide you with our opinion in respect of security interests existing in the assets of FGC.

To that end, we have requested and obtained from each of:

1. Nova Scotia Business Inc.;
2. The Nova Scotia Provincial Department of Economic Development;
3. Cape Breton Growth Fund Corporation;
4. Enterprise Cape Breton Corporation;
5. Royal Bank of Canada;
6. Black & McDonald Limited;
7. Ford Credit Canada Limited;
8. National Leasing Group Inc.

copies of relevant loan agreements and security documentation.

We have conducted online searches of the Personal Property Registry and Real Property Registry. We have sought and obtained a search report of Notices of Intention to Give Security under the *Bank Act* registered in the Province of Nova Scotia.

Attached to this letter as Schedule "A" is a PPRS search result report as at September 20, 2007, as Schedule "B" a report from Property Online in respect of Parcel A, the property on which we understand FGC's plant is located (to date, we have found nothing in Property Online in respect of Parcel B – the water lot leased to FGC) and

as Schedule "C" confirmation letter from Canadian Securities Registration system reporting on notices of intention to give security registered under the *Bank Act*.

Security

Attached as Schedule "D" is a list of security held by each of Royal Bank, NSBI, OED, CBGF and ECBC. The list is an attachment to an Intercreditor Agreement made between these parties and FGC as of August 31, 2006.

In addition to the Security listed in Schedule "D", FGC and the Royal Bank are parties to a Master Lease Agreement dated June 30, 2005 and three Leasing Schedules respectively dated June 30, 2005, August 15, 2005 and August 30, 2005. The Lease and Lease Schedules relate to the serial numbered collateral described in RBC's PPSA filings.

Ford Credit has three retail instalment contracts, one in respect of each of the registrations which appear in the PRR search report.

National Leasing Group Inc. has a lease contract dated April 1, 2005 in respect of a used 2004 Model 8408 Power Sweeper.

Black & McDonald holds a General Security Agreement made in January of 2006.

Intercreditor Agreements

NSBI, OED, CBGF and ECCB (collectively the "Term Lenders") have entered into a series of Intercreditor Agreements relating to the priority of their security interests in FGC's assets. The most recent is an Amended and Restated Intercreditor Agreement dated July 10, 2006.

The Term Lenders and the Royal Bank have entered into an Intercreditor Agreement relating to the priority of their security interest in FGC's assets. This Intercreditor Agreement is dated August 31, 2006.

Preliminary Report

Please accept this as our preliminary report. We will provide a more detailed report once we have completed a thorough review of all documents and completed any necessary analysis.

Most of the security was not received until last week, OED's security last Friday, National Leasing on Monday, as a result while we have generally reviewed all of the security received, we have not completed our analysis.

1. In the Intercreditor Agreements, the Term Lenders and Royal Bank have agreed that:

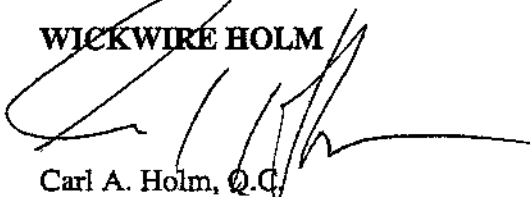
- a) The machinery, equipment, chattels and tangible assets enumerated and listed in Schedule "C" to the Lease between NSBI and FGC (a copy of Schedule "C" is attached to this letter as Schedule "E") are owned by NSBI with the exception of items 19 and 32 and in respect of item 31 only electrical panels and electrical wiring on site as of November 1, 2004 belong to NSBI;
 - b) All other machinery, equipment, chattels and tangible assets of FGC acquired by FGC since February 1, 2004 are deemed not to be fixtures which attach to the lands leased by NSBI to FGC and as a result are removable;
 - c) Based on the documents reviewed, registrations and the Intercreditor Agreements as between the Royal Bank and the Term Lenders:
 - (i) as noted in subparagraph (a), NSBI owns (has a 1st ranking security interest in the assets described in Schedule "E" other than items 19 and 32 and a portion of item 31;
 - (ii) Royal Bank has a 1st ranking security interest in FGC's Accounts, Inventory and in the equipment leased to FGC by the Bank (the "RBC Leased Equipment");
 - (iii) NSBI and OED have a 1st ranking security interest in the Lease and Operating Agreement which were entered into between NSBI and FGC, which security interest, as between NSBI and OED ranks *pari passu* based on FGC's total indebtedness to them;
 - (iv) Subject to the charges of Ford Credit and National Leasing, the Term Lenders have a 1st ranking security interest in all other assets of FGC and a 2nd ranking security interest in FGC's Accounts, Inventory and the RBC Leased Equipment, which as between them ranks *pari passu* based on FGC's total indebtedness to them.
2. With the exception of the likely prior ranking security interest of Ford Credit and National Leasing in the vehicles and rolling stock, which in the case of Ford Credit, was sold to FGC under retail sales contracts and in the case of National Leasing was leased to FGC, it is our preliminary opinion that the security interests and their ranking in respect of the assets of FGC are as set out above.

3. Black & McDonald Limited has a valid security interest in all of the assets of FGC to secure a \$1 million promissory note which ranks after the security interests of the Bank, Term Lenders, Ford Credit and National Leasing.

Please advise of any questions you may have as a result of the foregoing.

Yours very truly,

WICKWIRE HOLM

A handwritten signature in black ink, appearing to read 'Carl A. Holm', written over the printed name 'WICKWIRE HOLM'.

Carl A. Holm, Q.C.

Direct Dial: 902.482.7001
cholm@wickwireholm.com

CAH/smm
Encl.