

IN THE COURT OF QUEEN'S BENCH OF NEW BRUNSWICK  
TRIAL DIVISION  
JUDICIAL DISTRICT OF SAINT JOHN

BETWEEN:

**IN THE MATTER OF THE COMPANIES'  
CREDITORS ARRANGEMENT ACT, R.S.C.  
1985, c.C-36, AS AMENDED**

COURT OF QUEEN'S BENCH  
CLERK / SAINT JOHN

REC'D  
REC'D  
DEC 13 2007  
(MOTION FILED)  
FILED  
DEPOSE

- and -

COUR DU BANC DE LA REINE  
GREFFIER / SAINT-JEAN

**IN THE MATTER OF THE APPLICATION  
OF ATLANTIC YARNS INC., a body  
corporate and ATLANTIC FINE YARNS INC.,  
a body corporate**

AFFIDAVIT

I, ROBERT C. SMITH, of the Town of Rothesay, and Province of New  
Brunswick, MAKE OATH AND SAY AS FOLLOWS THAT:

1. I am a Chartered Accountant, licensed Trustee in Bankruptcy, and Vice President of PricewaterhouseCoopers Inc. ("PWC") and have personal knowledge of the matters hereinafter deposed to, except where otherwise stated, and in such cases I do verily believe the truth of the contents deposed to.
2. This affidavit is presented to the Court in conjunction with a motion by Atlantic Yarns Inc. ("AY") and Atlantic Fine Yarns Inc. ("AFY") (collectively the "Applicants" and/or the



"Companies"), for an order pursuant to the provisions of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c.C-36, ("CCAA"):

- (a) authorizing the Applicant, Atlantic Fine Yarns Inc., to enter into an agreement to re-establish its credit facility with the State Bank of India (Canada);
  - (b) approving a claims process, as set out in the draft Claims Procedure Order set out in Schedule "B" attached to the Applicants' Notice of Motion, whereby the Applicants will call for claims of their creditors to allow the Applicants, with the assistance of the Monitor, to determine such claims for voting and distribution purposes to the extent that such claims are proposed to be affected under a Plan of Compromise or Arrangement to be presented by the Applicants; and
  - (c) authorizing the Applicant, Atlantic Yarns Inc., to pay to GE Canada Finance Holding Company ("GE") the sum of \$301,053.77, which amount represents the proceeds from the sale of some of the Applicant's machinery prior to the Initial Order of the Court dated October 26, 2007 (the "AY Machinery");
3. I believe the management of the Companies have proceeded diligently and in good faith subsequent to the Initial Order. The Companies continue to cooperate with the Monitor and work with their professional advisors.
4. No information has come to my attention that would suggest and/or indicate any irregularities on the part of the Companies since November 22, 2007.

Agreement with State Bank of India (Canada)

5. I was involved in the discussions between the State Bank of India (Canada) ("State Bank") and AFY. I believe that AFY's need for future support from an operating lender when it

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recommences operations in January will be satisfied by the agreement proposed by State Bank.

6. I believe that the agreement with State Bank would not be prejudicial to any of AFY's secured creditors and will greatly assist AFY in completing a successful reorganization of its operations which is in the best interests of all of its stakeholders.

#### Claims Procedure

7. The Applicants are seeking the approval of a process for the submission, evaluation and adjudication of claims against the Applicants, (the "Claims Procedure"). The Applicants, with the assistance of the Monitor will be responsible for the administration of the Claims Procedure.
8. The Applicants have proposed a compressed but achievable timetable to complete the Claims Procedure. The Applicants wish to avoid protracted CCAA proceedings which will be costly. The Applicants are providers of yarn and potential customers will consider both the reliability and stability of an enterprise when choosing a supplier. The Applicants believe an expedited process will contribute to their long term success.
9. In summary, the elements of the proposed Claims Procedure are as follows:
  - i. The Applicants will provide to the Monitor a complete list of known creditors (the "Creditors:");



- ii. On or before December 31, 2007, the Monitor will send the Claims Materials (as such term is defined in the within Motion) to each Creditor included on the list provided by the Applicants;
- iii. Notification of the Claims Procedure will be published in the Saint John Telegraph Journal and in the Campbellton Tribune, for two consecutive days prior to December 31, 2007; which notice will call for all claims against the Applicants in order to identify unknown creditors, who will be required to file a proof of claim. Notification will also be published on the Monitor's website [www.pwc.com/car-atlyarns](http://www.pwc.com/car-atlyarns);
- iv. Creditors will be required to file their claims by 5:00 p.m. on January 15, 2008, (the "Claims Bar Date");
- v. The Applicants, with the assistance of the Monitor, will review all Proofs of Claim received by the Claims Bar Date and determine whether to accept, revise or disallow each claim;
- vi. On or before January 22, 2008, the Monitor will send a Notice of Revision or Disallowance to each Creditor whose Claim the Applicants, with the assistance of the Monitor, have determined to revise or disallow. If the Monitor does not send



a Notice of Revision or Disallowance by such date to a Creditor who has submitted a Proof of Claim on or before the Claims Bar Date, the Monitor and the Applicants will be deemed to have accepted the Claim for all purposes;

vii. Any creditor who wishes to dispute its Claim as set out in a Notice of Revision of Disallowance shall by January 29, 2008 file a motion to have such Claim determined by the Court by serving the Applicants and the Monitor and filing a motion record in respect of such Creditor's motion, unless the Monitor and the Applicants agree with the Creditor to extend such timeframe; and

viii. Any creditor who does not serve and file a motion by January 29, 2008 to have their claim determined by the Court shall be deemed to have accepted the Claim as set out in the Notice of Revision or Disallowance.

10. Following the conclusion of the Claims Process one or more Creditors Meetings will be called for the purpose of considering and approving the Applicants' proposed plan of arrangement.

Payment to GE Canada Finance Holding Company

11. I was involved in the discussions between AY and GE. I believe that the contemplated payment will not be prejudicial to any of AY's secured creditors.




12. I believe it to be in the best interest of all of AY's stakeholders that GE continue to not oppose AY's efforts to reorganize and that the payment will assist in GE and AY working cooperatively in this CCAA process.


13. I further believe based on all the information I have received to date, that generally it is in the best interests of all creditors as a whole that the Companies be granted the requested relief.

SWORN TO at the City of Halifax, in the, )  
Province of Nova Scotia, this 13<sup>th</sup> )  
day of December, 2007. )

BEFORE ME: )

  
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A Notary Public in and for )  
The Province of Nova Scotia )  
Being a Solicitor )

MICHELLE M. KELLY  
A Notary Public in and for the  
Province of Nova Scotia

  
\_\_\_\_\_  
Robert C. Smith