

Cause No.: S/M/92/07

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-36, AS AMENDED

COURT OF QUEEN'S BENCH
CLERK / SAINT JOHN

and

REC'D
DEC 18 2007
FILED
DEPOSE
COUR DU BANC DE LA REINE
CLERK / SAINT-JEAN

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

CLAIMS PROCEDURE ORDER

UPON READING the Notice of Motion of the Applicants filed December 13, 2007, the Affidavit of Rao Palaparty sworn December 12, 2007, and the Affidavit of Robert C. Smith sworn December 13, 2007.

UPON HEARING, Joshua J.B. McElman and Rodney E. Larsen, Counsel for the Applicants.

IT IS ORDERED THAT:

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Motion and Record on Motion herein be and it is hereby abridged so that the motion is properly returnable today and, further, that there has been good and sufficient, service and delivery of the Notice of Motion and Record on Motion and further service to any interested party is hereby dispensed with.

Handwritten initials
X00



I certify that this is a true copy of the original on file in the Court Office, Judicial District of Saint John
Dated this 18th day of December 2007
Edward Jones
Edward Jones, under written authorization of
The Registrar dated the 23rd day of November 2001

DEFINED TERMS AND INTERPRETATION

2. THIS COURT ORDERS that capitalized terms not otherwise defined in this Order have the meanings ascribed to them in Appendix "A" attached hereto.
3. THIS COURT ORDERS that all references to the word "including" shall mean "including without limitation".
4. THIS COURT ORDERS that references to the singular herein include the plural, the plural include the singular, and any gender includes the other gender.

NOTICE TO CREDITORS AND CLAIMS PROCEDURE

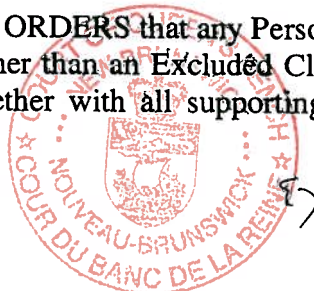
Publication of Notice to Creditors

5. THIS COURT ORDERS that, on two consecutive days prior to December 31, 2007, the Applicants shall cause the Notice to Creditors attached hereto as Schedule "1" of Appendix "A" to be published in the *Telegraph Journal* and *Campbellton Tribune*.

Creditors and Claims Process

6. THIS COURT ORDERS that the forms of the Claims Materials and the Notice of Revision or Disallowance, substantially in the forms attached in the Schedules to this Claims Procedure Order, are hereby approved. Despite the foregoing, the Applicants and the Monitor, may from time to time, make minor changes to such forms as the Applicants and the Monitor consider necessary or desirable.
7. THIS COURT ORDERS that, on or before 5:00 p.m. on December 31, 2007, the Monitor shall send the Claims Materials to each Creditor listed on the books and records of the Applicants with a Claim, other than an Excluded Claim, to the address of such Creditor set out in the Applicants' records.
8. THIS COURT ORDERS that the Monitor shall post a copy of the Claims Materials to the Website as soon as practicable after the making of this Order, and shall send the Claims Materials to each Person not served in accordance with paragraph 7 of this Order who prior to the Claims Bar Date makes a written request for them, within three Business Days of receipt of such request.
9. THIS COURT ORDERS that any Person who wishes to assert a Claim against the Applicants, other than an Excluded Claim, must file a properly completed Proof of Claim, together with all supporting documentation, including copies of any

[Handwritten signature]



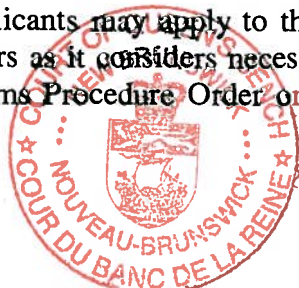
security documentation and a valuation of such Creditor's security if a Secured Claim is being asserted, with the Monitor by 5:00 p.m. on January 15, 2008 (defined herein as the Claims Bar Date). The Applicants will be allowed to review the Proofs of Claim and the Monitor will provide copies to the Applicants of any Proofs of Claim that they may request from time to time.

10. THIS COURT ORDERS that any Person who does not file a properly completed Proof of Claim with the Monitor by 5:00 p.m. on the Claims Bar Date shall not be entitled to attend or vote at any Creditors Meeting and shall not be entitled to receive any distribution pursuant to the Plan, and all Claims, if any, of such Creditor other than Excluded Claims shall be forever extinguished and barred.
11. THIS COURT ORDERS that the Applicants, with the assistance of the Monitor, shall review all Proofs of Claim received by the Claims Bar Date, and determine whether to accept, revise or disallow each Claim set out therein.
12. THIS COURT ORDERS that, on or before January 22, 2008, the Monitor shall send a Notice of Revision or Disallowance to each Creditor whose Claim the Applicants have determined, with the assistance of the Monitor, 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 shall be deemed to have accepted the Claim of such Creditor set out in the Proof of Claim for all purposes.
13. THIS COURT ORDERS that any Creditor who wishes to dispute its Claim as set out in a Notice of Revision or Disallowance shall file a motion to have the Claim determined by the Court by serving on the Applicants and the Monitor and filing with the Court by January 29, 2008, a record on motion in respect of such Creditor's motion, unless the Monitor and the Applicants agree with the Creditor to extend such timeframe.
14. THIS COURT ORDERS that any Creditor who does not serve and file a motion to have the Claim determined by the Court in the manner detailed in paragraph 13 of this Order, shall be deemed to have accepted the Claims as set out in the Notice of Revision or Disallowance, and all other Claims of such Creditor, if any, other than Excluded Claims shall be forever extinguished and barred.

Other Claims Process Matters

15. THIS COURT ORDERS that, notwithstanding the terms of this Order, the Applicants may apply to this Court from time to time for such further order or orders as it considers necessary or desirable to amend, supplement or replace the Claims Procedure Order or to establish a new process for the determination of

Handwritten initials: HSCAD



Claims, including, without limitation, an order to establish a supplemental claims process in connection with Restructuring Claims arising after October 26, 2007 or any Excluded Claims.

16. THIS COURT ORDERS that the Monitor shall assist the Applicants in connection with the administration of the Claims Procedure, as requested by the Applicants from time to time or as required by the CCAA, this Order or any other order in these proceedings.
17. THIS COURT ORDERS that copies of all Proofs of Claim and Notices of Revision or Disallowance shall be maintained by the Monitor prior to the Creditors Meeting.
18. THIS COURT ORDERS that, for the purposes of the Claims Procedure, all Claims that are denominated in a foreign currency shall be converted to Canadian dollars at the Bank of Canada spot rate of exchange for exchanging such currency to Canadian dollars at the noon rate on the Filing Date.
19. THIS COURT ORDERS that the Applicants and the Monitor are hereby authorized to use reasonable discretion as to adequacy of compliance with respect to the manner in which Proofs of Claim and Notices of Revision or Disallowance are completed and executed, and may, if they are satisfied that a Claim has been adequately proven, waive strict compliance with the requirements of the Claims Procedure as to completion and execution of Proofs of Claim and Notices of Revision or Disallowance.
20. THIS COURT ORDERS that any document to be sent pursuant to the Claims Procedure may be sent by ordinary mail, registered mail, courier, email or facsimile transmission. The recipient shall be deemed to have received any document sent pursuant to the Claims Procedure four (4) days after such document is sent by ordinary mail, one (1) Business Day after such document is sent by registered mail or courier, and the same Business Day as such document is sent by e-mail or facsimile transmission where such document is transmitted at or prior to 5:00 p.m. and the next Business Day where such document is transmitted after 5:00 p.m.
21. THIS COURT ORDERS that any document, or notice required to be filed with the Monitor or provided or delivered to the Monitor under the Claims Procedure shall be so filed with, or provided or delivered to the Monitor at the following address:

M/S/007



PricewaterhouseCoopers Inc.
 PO Box 789
 Saint John, NB E2L 4B9

Attention: Robert Smith
 Telephone: (506) 653-9425
 Fax: (506) 632-8997
 Email: robert.smith@ca.pwc.com

22. THIS COURT ORDERS that the Applicants and the Monitor may, in their discretion, generally or in individual circumstances, waive in writing the time limits imposed on Creditors under this Claims Procedure Order if the Applicants and the Monitor deem it advisable to do so (without prejudice to the requirement that all other Creditors must comply with this Claims Procedure Order and the Claims Procedure), and in so doing, may extend any related time period applicable to the Monitor or the Applicants by the same period of time.
23. THIS COURT ORDERS that all references to time herein shall mean local time in New Brunswick, Canada and any reference to an event occurring on a Business Day shall mean prior to 5:00 p.m. on such Business Day unless otherwise indicated herein.

NOTICE SUFFICIENT

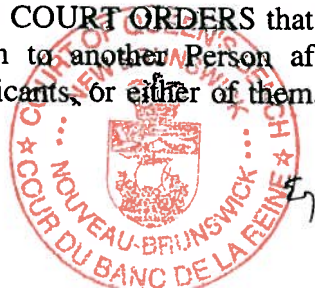
24. THIS COURT ORDERS that the publication of the Notice to Creditors and the mailing to the Creditors of the Claims Materials in accordance with the requirements of this Claims Procedure Order shall constitute good and sufficient service and delivery of notice of this Claims Procedure Order, the Claims Procedure and the Claims Bar Date on all Persons who may be entitled to receive notice and who may wish to assert Claims (other than Excluded Claims) and that no other notice or service need be given or made and no other document or material need be sent to or served upon any Person in respect of this Order, the Claims Procedure or the Claims Bar Date.

TRANSFERS OF CLAIMS

Transfer of Whole Claim

25. THIS COURT ORDERS that if the holder of a Claim transfers the whole of such Claim to another Person after the Filing Date, neither the Monitor nor the Applicants, or either of them, shall be obligated to give notice or otherwise deal

[Handwritten signature]



with the transferee of such Claim in respect thereof unless and until actual notice of transfer, together with satisfactory evidence of such transfer (a "Transfer Notice"), shall have been received and acknowledged by the Monitor in writing and thereafter such transferee shall for the purposes hereof constitute the Creditor in respect of such Claim. Any such transferee of a Claim shall be bound by any notices given or steps taken in respect of such Claim in accordance with this Claims Procedure Order and any other orders in these proceedings prior to receipt and acknowledgment by the Monitor of satisfactory evidence of such transfer. A transferee of a Claim takes the Claim subject to any rights of set-off to which the Applicants, or either of them, may be entitled with respect to such Claim. For greater certainty, a transferee of a Claim is not entitled to set off, apply, merge, consolidate or combine any Claims transferred to it against or on account or in reduction of any amounts owing by such Person to the Applicants. No transfer shall be acknowledged for voting purposes unless a Transfer Notice in respect of such transfer shall have been received by the Monitor no later than ten (10) Business Days prior to a Creditors Meeting. Reference to a transfer of a Claim in this Order includes a transfer or assignment, whether absolute or intended as security.

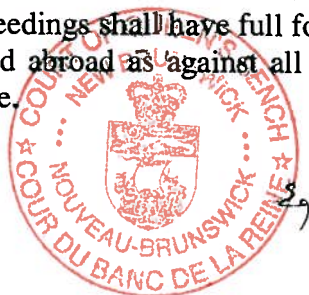
Transfer of Part of a Claim

26. THIS COURT ORDERS that if the holder of the whole of a Claim transfers the whole of such Claim to more than one Person or part of such Claim to another Person after the Filing Date, such transfer shall not create a separate Claim and such Claim shall continue to constitute and be dealt with as a single Claim. Notwithstanding such transfer, the Applicants and the Monitor shall not be bound to recognize or acknowledge any such transfer and shall be entitled to give notices to and to otherwise deal with such Claim only as a whole and only to and with the Person last holding such Claim in whole as the Creditor in respect of such Claim, provided such Creditor may, by notice in writing to the Monitor in accordance with the preceding paragraph and subject to the provisions of the preceding paragraph, direct the subsequent dealings in respect of such Claim, but only as a whole, shall be with a specified Person and in such event, such transferee of the Claim and the whole of such Claim shall be bound by any notices given or steps taken in respect of such Claim in accordance with this Claims Procedure Order and any other orders in these proceedings.

GENERAL PROVISIONS

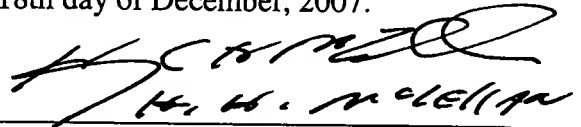
27. THIS COURT ORDERS that this Claims Procedure Order and any other order in these proceedings shall have full force and effect in all provinces and territories in Canada and abroad as against all Persons against whom they may otherwise be enforceable.

W. S. S. S.

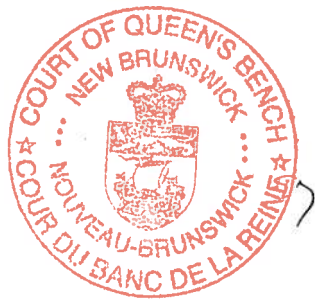


28. THIS COURT ORDERS AND REQUESTS the aid and recognition of any court or any judicial, regulatory or administrative body in any province or territory of Canada (including the assistance of any court in Canada pursuant to section 17 of the CCAA) and the Federal Court of Canada and any judicial, regulatory or administrative tribunal or other court or any judicial, regulatory or administrative body of the United States and the states or other subdivisions of the United States and of any other nation or state to act in aid of and be complimentary to this Court in carrying out the terms of this Claims Procedure Order.

DATED at Saint John, New Brunswick this 18th day of December, 2007.



Judge of the Court of Queen's Bench
of New Brunswick

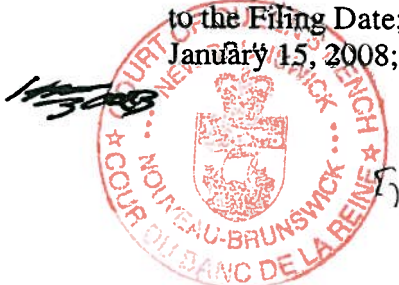


APPENDIX "A"

DEFINITIONS

In this Order, the following terms shall have the following meanings:

- (a) **"Business Day"** means a day, other than Saturday, Sunday or statutory holiday, on which banks are generally open for business in Saint John, New Brunswick;
- (b) **"CCAA"** means the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended;
- (c) **"CCAA Proceedings"** means the proceedings commenced by the Applicants under the CCAA pursuant to the Initial Order;
- (d) **"Claim"** means: (i) any right or claim of any Person that may be made in whole or in part against the Applicants, or either of them, whether or not asserted, in connection with any indebtedness, liability or obligation of any kind, in existence on, or which is based on, an event, act or omission which occurred in whole or in part prior to the Filing Date at law or in equity, by reason of the commission of a tort (intentional or unintentional), any breach of duty (including, without limitation, any legal, statutory, equitable or fiduciary duty), any right of ownership of or title to property or assets or to a trust or deemed trust (statutory, express, implied, resulting, constructive or otherwise) or for any other reason whatsoever against any property or assets, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured, unsecured, perfected, unperfected, present, future, known, or unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, or any right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, based in whole or in part on facts which existed prior to the Filing Date together with any other rights or claims not referred to above that, in whole or part, would have been claims provable in bankruptcy had the Applicants (or either of them) become bankrupt at the Filing Date, together with any other rights or claims, whether or not asserted, made after the Filing Date in any way, directly or indirectly related to any action taken or power exercised prior to the Filing Date; and (ii) a Restructuring Claim arising on or before January 15, 2008;



- (e) **“Claims Materials”** means this Claims Procedure Order, the Instruction Letter and Proof of Claim form;
- (f) **“Claims Bar Date”** means 5:00 p.m. (Saint John time) on January 15, 2008, or such later date as may be ordered by this Court;
- (g) **“Claims Procedure”** means the procedure for the filing and determination of Claims as set out in this Claims Procedure Order and the schedules substantially in the form attached to this Claims Procedure Order, as such procedures and schedules may be amended from time to time;
- (h) **“Claims Procedure Order”** refers to this Claims Procedure Order dated December 18, 2007 as amended from time to time;
- (i) **“Contract”** means any indenture, contract, agreement, lease (including any lease of personal, real, movable or immovable property), permit, license or arrangement whether written or oral;
- (j) **“Court”** means the New Brunswick Court of Queens' Bench;
- (k) **“Creditor”** means any Person having a Claim and may, where the context requires, include the assignee of a Claim recognized as a Creditor in accordance with this Claims Procedure Order, or a trustee, interim receiver, receiver, receiver and manager, liquidator or other Person acting on behalf of such Person;
- (l) **“Creditors Meeting”** means the meeting or meetings of Creditors called for the purpose of considering and approving a Plan, and includes any adjournment of such meetings;
- (m) **“Disputed Claim”** means the Claim of a Creditor that has not been finally determined as a Proven Claim in accordance with the Claims Procedure but that has not been extinguished or barred pursuant to the Claims Procedure;
- (n) **“Excluded Claim”** means, without prejudice to the Applicants' right to seek amendments to this Claims Procedure Order or a further order of this Court supplementing this Claims Procedure Order or to propose treatment of claims under the Plan, and only for the purposes of the Claims Procedure described herein:
- (A) Claims of affiliates of the Applicants;

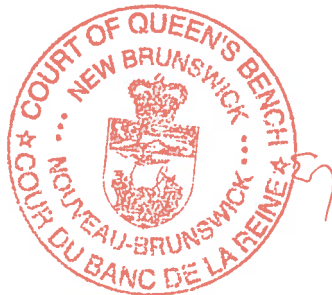


- (B) Claims of any director pursuant to any indemnity from the Applicants which are not otherwise secured by charges created in the Initial Order; and
- (C) Claims referred to in Section 18.2 of the CCAA.
- (o) **“Filing Date”** means October 26, 2007, being the date that the Initial Order was issued by the Court pursuant to the CCAA;
- (p) **“Initial Order”** means the Order made by the Court pursuant to the CCAA on October 26, 2007 in respect of the Applicants, as amended, confirmed, extended or varied from time to time;
- (q) **“Instruction Letter”** means the instruction letter to Creditors pertaining to proving Claims, substantially in the form attached hereto as Schedule “4”;
- (r) **“Monitor”** means PricewaterhouseCoopers Inc., in its capacity as monitor of the Applicants as appointed under the Initial Order, and any successor thereto appointed by any further order;
- (s) **“Notice to Creditors”** means the notice for publication substantially in the form attached hereto as Schedule “1”;
- (t) **“Notice of Revision or Disallowance”** means a notice of revision or disallowance substantially in the form attached as Schedule “3” hereto, advising a Creditor that the Applicants have revised or disallowed all or part of its Claim as set out in its Proof of Claim;
- (u) **“Person”** means any individual, firm, corporation, limited or unlimited liability company, general or limited partnership, association, trust, unincorporated organization, joint venture, government or any agency, officer or instrumentality thereof or any other entity, wherever situate or domiciled;
- (v) **“Plan”** means the plan or plans of compromise or arrangement to be filed by the Applicants under the CCAA, as such plan or plans may be amended, varied or supplemented by the Applicants from time to time;
- (w) **“Proof of Claim”** means a proof of claim of a Creditor substantially in the form attached as Schedule “2” hereto and delivered in accordance with the Claims Procedure



- (x) **“Proven Claim”** means a Claim the amount of which has been finally determined in accordance with the Claims Procedure;
- (y) **“Restructuring Claim”** means any right of any Person against one or more of the Applicants in connection with any indebtedness, liability or obligation of any kind owed to such Person arising out of the restructuring, repudiation or termination by the Applicants on or after the Filing Date of any Contract, provided however that a “Restructuring Claim” shall not include Excluded Claims;
- (z) **“Secured Claim”** means any Claim or portion thereof, other than an Excluded Claim, which is secured by a validly attached and existing security interest or any other encumbrance, including but not limited to liens, charges, mortgages, pledges, hypothecs, trusts or deemed trusts or taxes, on the property of the Applicants which was duly and properly registered or perfected in accordance with applicable legislation at the Filing Date or in accordance with the Initial Order, to the extent of the realizable value of the property of the Applicants subject to such security having regard to, among other things, the priority of such security;
- (aa) **“Unsecured Claim”** means any Claim or portion thereof that is not a Secured Claim or an Excluded Claim; and
- (bb) **“Website”** means the website at www.pwc.com/car-atlyarns maintained by the Monitor in respect of these proceedings.

Handwritten signature
5008



SCHEDULE "1"

**NOTICE TO CREDITORS OF
ATLANTIC FINE YARNS INC. AND
ATLANTIC YARNS INC.**

On October 26, 2007, Atlantic Yarns Inc. and Atlantic Fine Yarns Inc. (collectively, the "Applicants") filed for and obtained protection from their creditors under the *Companies' Creditors Arrangement Act* (the "CCAA") pursuant to an order of the New Brunswick Court of Queens' Bench (the "Initial Order"). Pursuant to the Initial Order, PricewaterhouseCoopers Inc. was appointed by the court as monitor in the CCAA proceedings (the "Monitor").

On December 18, 2007, the Applicants were granted an Order (the "Claims Procedure Order") that establishes a process for Creditors to prove Claims against the Applicants outstanding as of October 26, 2007 and Restructuring Claims arising after this date.

A copy of the Initial Order, the Claims Procedure Order and the Claims Materials can be obtained from the following website: www.pwc.com/car-atlyarns or may be obtained by contacting the Monitor at the address below. Capitalized terms used in this notice are as defined in the Claims Procedure Order unless otherwise noted.

CLAIMS PROCEDURE

NOTICE IS HEREBY GIVEN that a procedure to determine the amount of Claims against the Applicants (the "Claims Procedure") was established by the Claims Procedure Order. Please take notice that Excluded Claims are not subject to this Claims Procedure.

THE CLAIMS BAR DATE for proving Claims is 5:00 p.m. (Atlantic Standard time) on January 15, 2008.

Any Creditor (other than Creditors with Excluded Claims, with respect to and to the extent of such Excluded Claims), must file a properly completed Proof of Claim with the Monitor on or before 5:00 p.m. Saint John, New Brunswick time on the Claims Bar Date.

CREDITORS who do not file a Proof of Claim with the Monitor on or before 5:00 pm (Atlantic Standard Time) on the Claims Bar Date will not be entitled to vote at the Creditors Meeting or obtain any distribution under a Plan, and their Claims (other than Excluded Claims), if any, will be forever extinguished and barred.

Any additional information required may be obtained from the Monitor at the address below:



PricewaterhouseCoopers Inc.
PO Box 789
Saint John, NB E2L 4B9

Attention: Robert Smith
Telephone: (506) 653-9425
Fax: (506) 632-8997
Email: robert.smith@ca.pwc.com

MS



SCHEDULE "2"

Cause No.: S/M/92/07

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-36, AS AMENDED

and

IN THE MATTER OF THE
APPLICATION OF ATLANTIC YARNS
INC., a body corporate and ATLANTIC
FINE YARNS INC., a body corporate,
(collectively the "Applicants")

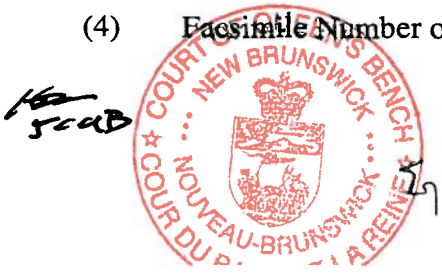
PROOF OF CLAIM

Please read the accompanying Instruction Letter carefully for completing this Proof of Claim form. Defined terms not defined within this Proof of Claim form have the meanings ascribed thereto in the Claims Procedure Order dated December 18, 2007.

A. PARTICULARS OF CREDITOR:

- (1) Full Legal Name of Creditor: _____
- (2) Full Mailing Address of Creditor: _____

- (3) Telephone Number of Creditor: _____
- (4) Facsimile Number of Creditor: _____



- (5) E-mail Address of Creditor: _____
- (6) Attention (Contact Person): _____

B. PARTICULARS OF ORIGINAL CREDITOR FROM WHOM YOU ACQUIRED CLAIM, IF APPLICABLE:

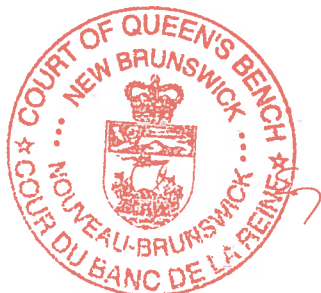
- (1) Have you acquired this Claim by assignment? Yes No
 - (a) (if yes, attach documents evidencing assignment)
- (2) Full Legal Name of original creditor(s): _____

C. CLAIM:

I, _____, [name of Creditor or authorized representative of the Creditor], do hereby certify:

- (a) that I am a Creditor of/hold the position of _____ of the Creditor and have knowledge of all the circumstances connected with the Claim described herein;
- (b) the Creditor makes the following Claim against Atlantic Yarns Inc. ("AY"):

(i) Claim arising on or prior to October 26, 2007		(ii) Restructuring Claim – claim arising between October 26, 2007 and January 15, 2008 (both dates included)		(iii) Total Claim (Sum of (i) + (ii))	
Secured Claim	Unsecured Claim	Secured Claim	Unsecured Claim	Secured Claim	Unsecured Claim
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

(c) The Creditor makes the following claim against Atlantic Fine Yarns Inc. ("AFY")

(i) Claim arising on or prior to October 26, 2007		(ii) Restructuring Claim – claim arising between October 26, 2007 and January 15, 2008 (both dates included)		(iii) Total Claim (Sum of (i) + (ii))	
Secured Claim	Unsecured Claim	Secured Claim	Unsecured Claim	Secured Claim	Unsecured Claim
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

*If you are claiming a security interest over any of the assets of the Applicants, you must attach a written statement which sets out the full particulars of your security, you must value your security, and you must enclose a copy of any security documentation.

Claims in foreign currency are to be converted to Canadian dollars at the Bank of Canada spot rate of exchange for exchanging such currency to Canadian dollars at the noon rate of the Bank of Canada on October 26, 2007. The rate of exchange for converting U.S. Dollars to Canadian Dollars at noon on that date was CAD\$_____ to US\$1.00.

D. PARTICULARS OF CLAIM:

The particulars of the undersigned’s total Claim are attached.

(Provide full particulars of the Claim and supporting documentation, including amount, description of transaction (s) or agreement(s) giving rise to the Claim, name of any guarantor(s) which has guaranteed the Claim, and amount of Claim allocated thereto, date and number of all invoices, particulars of all credits, discounts, etc. claimed, description of the security, if any, granted by the Applicants to Creditor or title retention arrangements with the Applicants and estimated value of the assets encumbered by such security or title retention arrangement).



THIS PROOF OF CLAIM MUST BE RETURNED TO AND RECEIVED BY THE MONITOR AT OR BEFORE 5:00 P.M. (ATLANTIC STANDARD TIME) ON THE CLAIMS BAR DATE OF JANUARY 15, 2008 AT THE FOLLOWING ADDRESS:

PricewaterhouseCoopers Inc.
PO Box 789
Saint John, NB E2L 4B9

Attention: Robert Smith
Telephone: (506) 653-9425
Fax: (506) 632-8997
Email: robert.smith@ca.pwc.com

Dated at _____ this ___ day of _____ 2007.

Per: _____

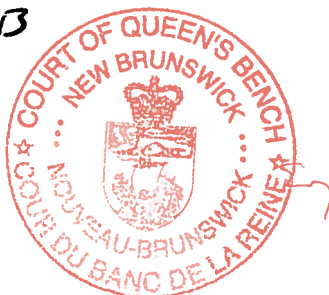
Print name of Creditor:

If Creditor is a Corporation, print name and title of authorized signatory:

Name: _____

Title: _____

MS/colB



SCHEDULE "3"

Cause No.: S/M/92/07

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-36, AS AMENDED

and

IN THE MATTER OF THE
APPLICATION OF ATLANTIC YARNS
INC., a body corporate and ATLANTIC
FINE YARNS INC., a body corporate,
collectively the Applicants

**NOTICE OF REVISION OR DISALLOWANCE
FOR VOTING AND DISTRIBUTION PURPOSES**

Please read the accompanying Instruction Letter carefully. Defined terms not defined within this Notice of Revision or Disallowance form have the meanings ascribed thereto in the Claims Procedure Order dated December 18, 2007.

TO: [insert name and address of creditor]

The Applicants have reviewed your Proof of Claim dated _____, and have revised or rejected your Claim for the following reasons:

Subject to further dispute by you in accordance with the provisions of the Claims Procedure, your Claim will be allowed as follows:



(a) Atlantic Yarns Inc. ("AY")

Claim per Proof of Claim			Allowed as Revised		
Secured Claim*:	Unsecured Claim:	Restructuring Claim:	Secured Claim*:	Unsecured Claim:	Restructuring Claim:
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

(b) Atlantic Fine Yarns Inc. ("AFY")

Claim per Proof of Claim			Allowed as Revised		
Secured Claim*:	Unsecured Claim:	Restructuring Claim:	Secured Claim*:	Unsecured Claim:	Restructuring Claim:
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

*to the extent of the value of the assets encumbered by such security and subject to any prior encumbrances or security interests.

Claims in foreign currency are to be converted to Canadian dollars at the Bank of Canada spot rate of exchange for exchanging such currency to Canadian dollars at the noon rate of the Bank of Canada on October 16, 2007. The rate of exchange for converting U.S. Dollars to Canadian Dollars on that date was CAD\$ _____ to US\$1.00.

If you disagree with this revised amount of your Claim and intend to dispute this Notice of Revision or Disallowance, you must bring a motion to have the amount of such Claim determined by the New Brunswick Court of Queens' Bench (the "Court") in Court File No. S/M/92/07 by serving on the Applicants and the Monitor and filing with the Court by no later than January 29, 2008, a record on motion in respect of your Claim unless the Monitor, the Applicants and you collectively agree to extend such deadline.

Scad



DATED at Saint John, this ____ day of _____ 2007.

PricewaterhouseCoopers Inc.
PO Box 789
Saint John, NB E2L 4B9

Attention: Robert Smith
Telephone: (506) 653-9425
Fax: (506) 632-8997
Email: robert.smith@ca.pwc.com

Handwritten initials/signature



SCHEDULE "4"**INSTRUCTION LETTER CLAIMS PROCEDURE FOR VOTING AND DISTRIBUTION PURPOSES**

On October 26, 2007, Atlantic Yarns Inc. and Atlantic Fine Yarns Inc. (collectively, the "Applicants") filed for and obtained protection from their creditors under the *Companies' Creditors Arrangement Act* (the "CCAA") pursuant to an order of the New Brunswick Court of Queens' Bench (the "Initial Order"). Pursuant to the Initial Order, PricewaterhouseCoopers Inc. was appointed by the court as monitor in the CCAA proceedings (the "Monitor").

Under an Order dated December 18, 2007 (the "Claims Procedure Order"), the Court has established a claims procedure (the "Claims Procedure") to determine the value of Creditors' Claims against the Applicants for the purposes of voting on a plan of compromise or arrangement to be filed with the Court (the "Plan") and receiving distributions under a Plan. A copy of the Claims Procedure Order is included with this package. Defined terms not defined within this instruction letter shall have the meaning ascribed hereto in the Claim Procedure Order.

A. - Claims Procedure

The Claims Procedure establishes a process to determine the value of your Claims (as defined in the Claims Procedure Order), if any, against the Applicants. In addition, the Claims Procedure is intended for any Person with a Restructuring Claim i.e. a Claim arising between October 26, 2007 and January 15, 2008 (both dates included) as a result of the restructuring, repudiation or termination by the Applicants between October 26, 2007 and January 15, 2008 (both dates included) of any contract, lease or other type of agreement.

All notices and enquiries with respect to this Claims Procedure should be addressed to:

PricewaterhouseCoopers Inc.
PO Box 789
Saint John, NB E2L 4B9

Attention: Robert Smith
Telephone: (506) 653-9425
Fax: (506) 632-8997
Email: robert.smith@ca.pwc.com



B - Instructions for Creditors

1. - Proof of Claim

If you do not have any claims against the Applicants, there is no need to file a Proof of Claim.

If you believe that you have a Claim (other than an Excluded Claim) against the Applicants Claim, you should file a Proof of Claim (in the form enclosed herewith). The Proof of Claim must be delivered to, and received by the Monitor by the Claims Bar Date of 5:00 p.m. on January 15, 2008.

Failure to deliver a Proof of Claim so that it is received by the Monitor by the Claims Bar Date will disentitle you from voting and receiving distributions under the Plan, and your Claims (other than Excluded Claims) will be forever extinguished and barred.

2. - Notice of Revision or Disallowance

The Applicants and the Monitor will review your Proof of Claim and will determine whether to accept, revise or disallow your Claim as set out therein. The Monitor shall, no later than January 22, 2008, send a Notice of Revision or Disallowance to each Creditor whose Claim the Applicants and 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, the Applicants shall be deemed to have accepted the Claim of the Creditor as set out in the Proof of Claim for all purposes.

C. - Instructions for Disputing a Notice of Revision or Disallowance

If you disagree with this revised amount of your Claim as set out in the Notice of Revision or Disallowance and intend to dispute the Notice of Revision or Disallowance, you must file a motion to have the amount of such Claim determined by the Court of Queen's Bench of New Brunswick (the "Court") in Court File No. S/M/92/07 by serving on the Applicants and the Monitor and filing with the Court a record on motion in respect of your Creditor's motion by January 29, 2008. If you do not file and serve such a motion by January 29, 2008, you shall be deemed to have accepted the Claim as set out in the Notice of Revision or Disallowance for all purposes.

