

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

AMENDMENT ONE OF

CONSOLIDATED PLAN OF COMPROMISE AND ARRANGEMENT

PURSUANT TO THE

COMPANIES' CREDITORS ARRANGEMENT ACT

OF

**ATLANTIC YARNS INC. &
ATLANTIC FINE YARNS INC.**

March 28, 2009

AMENDMENT ONE OF PLAN OF ARRANGEMENT AND REORGANIZATION

ARTICLE 1

INTERPRETATION

1.1 Definitions

“Plan” means the consolidated plan of compromise and arrangement pursuant to the CCAA of the Atlantic Yarns Companies; as such Plan may be amended, varied, supplemented or replaced from time to time in accordance with its terms.

1.2 Certain Rules of Interpretation

In this Amendment:

- (a) the use of words in the singular or plural, or with a particular gender, shall not limit the scope or exclude the application of any provision of this Plan or a schedule hereto to such Person (or Persons) or circumstances as the context otherwise permits;
- (b) the capitalized terms used in this amendment which are not defined herein shall have the meanings ascribed thereto in the Plan.

ARTICLE 2 AMENDMENTS

2.1 Deletions and Insertions

- (a) The Plan is hereby amended by the deletion of paragraph 4.2 (a) of the Plan in its entirety which provides as follows:
 - (a) *Unsecured Claims of the Province of New Brunswick*
 - (i) In relation to Unsecured Claims of the Province of New Brunswick arising from or related to loans evidenced by account numbers 530499, 530230 and 529231, in the aggregate amount of approximately \$3.3 million and by the loan account number 530500 in the approximate amount of \$640,559.00:
 - a. the agreements in respect of these loans shall be re-instated and be in good standing allowing the Companies to draw advances and make repayments in respect of these agreements in accordance with their terms; and
 - b. all principal payments that may have been required prior to December 31, 2008 shall be deferred to, and begin amortization in, January of 2009.

- (ii) In relation to the Unsecured Claim of the Province of New Brunswick arising from or related to the loan evidenced by account number 528851, in the principal amount of approximately \$3.7 million plus accrued interest, no payment will be made by the Atlantic Yarn Companies and such Claim fully compromised and forgiven.
 - (iii) In relation to the Unsecured Claim of the Province of New Brunswick in relation to the \$1 million loan pursuant to a letter of offer dated April 18, 2007 for capital investment in waste recovery equipment, this agreement shall remain in force and the Atlantic Yarn Companies shall provide a first fixed charge on the equipment to be purchased pursuant to this loan agreement as required and make all payments required under the letter of offer dated April 18, 2007.
- (b) The Plan is hereby amended by the insertion the following as paragraph 4.2 (a) of the Plan in substitution of the provision deleted pursuant to paragraph 2.1(a) of this amendment:
- (a) *Unsecured Claims of the Province of New Brunswick*
 - (i) In relation to Unsecured Claims of the Province of New Brunswick arising from or related to loans evidenced by:
 - a. Account number 530499 in the amount of \$984,385, which loan was advanced for payment of property taxes, shall survive and interest shall continue to accrue in accordance with the loan agreement. Repayment of the loan and all accrued interest shall commence in January 2009 and be repaid over a period of 36 months;
 - b. Account number 530230 in the approximate amount of \$600,000 shall be written off;
 - c. Account number 529231 in the approximate amount of \$1,678,000 shall be written off;
 - d. Account number 530500 in the approximate amount of \$640,000, which loan was advanced for payment of property taxes shall survive and interest shall continue to accrue on this loan in accordance with the loan agreement. Repayment of the loan and all accrued interest shall commence in January 2009, to be repaid over a period of 36 months.
 - (ii) In relation to the Unsecured Claim of the Province of New Brunswick arising from or related to the loan evidenced by account number 528851, in the principal amount of approximately \$3.7 million plus accrued interest, no payment will be made by the Atlantic Yarn Companies and such Claim fully compromised and forgiven.

- (iii) In relation to the Unsecured Claim of the Province of New Brunswick in relation to the \$1 million loan pursuant to a letter of offer dated April 18, 2007 for capital investment in waste recovery equipment, this agreement shall be terminated and rescinded.

Any vote in favour of this plan by the Province of New Brunswick is not binding on the Province of New Brunswick until and unless the above is approved by the Government of New Brunswick and, if necessary, the Lieutenant Governor in Council.

- (c) The Plan is hereby amended by the deletion of paragraphs 4.3 (c) and 4.3 (d) of the Plan in their entirety and which provide as follows:

- (c) First Treasury Financial Inc. ("First Treasury")

First Treasury shall receive 100% of its Proven Distribution Claim excluding any Claim for costs, penalties, accelerated payments or increased interest rates resulting from any default of either of the Atlantic Yarn Companies occurring prior to the Plan Implementation Date as follows:

- (i) All accrued interest not paid as of the Plan Implementation Date shall be paid within 30 days;
- (ii) Interest shall accrue at the non-default rate and be paid in accordance with the existing loan agreements;
- (iii) Principal repayment shall be deferred in accordance with existing agreements except there shall be no payments until the maturity of the loan in December 2012;
- (iv) The Proven Distribution Claims of First Treasury shall be secured by the existing Charges held by First Treasury, subject to the February DIP Order; and
- (v) This section shall be binding on any guarantor of the Companies obligations.

- (d) The Province of New Brunswick shall receive the following as a compromise of its Proven Distribution Claim:

- (i) a non-interest bearing promissory note in the amount of \$1 million, payable on demand after GE has been paid in accordance with this Plan, which note shall be full payment and satisfaction of obligations of Atlantic Yarns Inc. to the Province as a result of the Province's payment of the \$5 million guarantee to Integrated Private Debt. This note shall continue to be secured by the existing Charges of the Province providing a Charge on the inventory of Atlantic Yarns Inc. subject to the February DIP Order; and

(ii) a non interest bearing promissory note in the amount of \$12 million to be repaid on terms to be agreed (but in any event no amount shall be paid in respect of this note until GE has been paid in full in accordance with this Plan) over a period of 20 years. This note shall be full payment and satisfaction of the obligations of the Atlantic Yarn Companies to the Province for the remaining balance of the Province's Proven Distribution Claim of approximately \$39 million. After the demand, or at the agreed upon commencement date, the principal amount of this promissory note shall be amortized over a 20 year period in equal monthly instalments sufficient to repay the note in full. This note shall continue to be secured by the existing Charges of the Province subject to the February DIP Order.

(d) The Plan is hereby amended by the insertion the following as paragraphs 4.3 (c) and 4.3 (d) of the Plan in substitution of the provisions deleted pursuant to paragraph 2.1(c) of this amendment:

(c) First Treasury Financial Inc. ("First Treasury")

First Treasury shall receive 100% of its Proven Distribution Claim excluding any Claim for costs, penalties, accelerated payments or increased interest rates resulting from any default of either of the Atlantic Yarn Companies occurring prior to the Plan Implementation Date as follows:

- (i) The Province of New Brunswick shall pay out the amount guaranteed of the loan without penalty in accordance with its guarantee. It is the intention of the parties that the full amount of the guarantee will be paid by the Guarantor shortly after the Sanction Order is issued.
- (ii) Principal repayment of the balance of the Proven Distribution Claims of First Treasury remaining due after payment of the guarantee by the Province of New Brunswick shall be deferred until and commence on January 31, 2009 and continue in 48 equal monthly instalments until paid in full;
- (iii) All accrued interest not paid as of the Plan Implementation Date shall be paid within 30 days;
- (iv) Interest shall accrue at the non-default rate and be paid in accordance with the existing loan agreements;
- (v) The Proven Distribution Claims of First Treasury (and after payout in full, the Province of New Brunswick) shall continue to be secured by the existing Charges held by First Treasury, subject to the February DIP Order;
- (vi) The Atlantic Yarn Companies shall have the right to prepay the principal amount owed without penalty at any time; and
- (vii) This section shall be binding on any guarantor of the Atlantic Yarn Companies' obligations.

Thereafter, this loan shall be settled and repaid to the guarantor by the issue of a debenture in the amount of \$12 million less the balance of the Proven Distribution Claims of First Treasury remaining due after payment of the guarantee by the Province of New Brunswick, which debenture shall provide that the Province will continue to hold as security the existing First Treasury security, and that no interest or principal shall be payable on this debenture until after GE loan has been repaid in full or such later date as the parties may agree, and thereafter interest shall accrue and be payable at a rate of 5% per annum, payable monthly not in advance, with principal repayment over 20 years with an agreement that excess cash generated will be used to repay the loan.

(d) The Province of New Brunswick shall receive the following as a compromise of its Proven Distribution Claim:

(iii) a promissory note in the amount of \$2.5 million, which note shall be full payment and satisfaction of obligations of Atlantic Yarns Inc. to the Province as a result of the Province's payment of the \$5 million guarantee to Integrated Private Debt. This note shall continue to be secured by the existing Charges of the Province providing a Charge on the inventory of Atlantic Yarns Inc. subject to the February DIP Order, and shall accrue interest at 5% commencing after GE is repaid in full, with principal repayment terms such that the loan principal amount shall be repaid over a period of 20 years; and

(iv) a debenture (or promissory note) in the amount of \$23 million to be repaid on terms to be agreed (but in any event no amount shall be paid in respect of this debenture until GE has been paid in full in accordance with this Plan) over a period of 20 years. This debenture shall be full payment and satisfaction of the obligations of the Atlantic Fine Yarns Inc. to the Province for the remaining balance of the Province's Proven Distribution Claim of approximately \$39 million. No interest shall be paid on this debenture until GE has been repaid in full. After GE has been repaid, or at the agreed upon commencement date thereafter, interest shall accrue at a rate of 5% per annum, and be paid monthly, and the principal amount of this debenture shall be amortized and repaid over a 20 year period in equal monthly instalments sufficient to repay the debenture in full. This debenture shall continue to be secured by the existing Charges of the Province subject to the February DIP Order.

Any vote in favour of this plan by the Province of New Brunswick is not binding on the Province of New Brunswick until and unless the above is approved by the Government of New Brunswick and, if necessary, the Lieutenant Governor in Council.

**ARTICLE 3
GENERAL**

3.1 Plan Unaffected

All other provisions of the Plan which are not amended hereby shall remain in full force and effect and unaltered.

Dated as of this 28th day of March, 2008.

Atlantic Fine Yarns Inc.



Per: Pasqual Alles

Atlantic Yarns Inc.



Per: Pasqual Alles