

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

COURT OF QUEEN'S BENCH
CLERK / SAINT JOHN

RECU
RECUE

JUN 27 2008

FILED
DEPOSE

COUR DU BANC DE LA REINE
GREFFIER / SAINT-JEAN

ORDER
(Re: DIP Financing)

UPON READING the Notice of Motion of the Applicants dated June 20, 2008, the Affidavits of Pasqual Alles sworn to June 20, 2008 and June 25, 2008, the Sixth Report of the Monitor dated June 25, 2008;

UPON HEARING Joshua J.B. McElman, Counsel for the Applicants;

UPON HEARING John Logan, Counsel for the Province of New Brunswick;

UPON HEARING M. Robert Jette, Q.C., Counsel for GE Canada Finance Holding Company;

UPON HEARING Nadia M. MacPhee, Counsel for Staple Cotton Cooperative and Paul Reinhart Inc.;

AND UPON HEARING Robert C. Smith, of PricewaterhouseCoopers Inc. Court appointed Monitor in this matter;

IT IS ORDERED THAT:

Defined Terms

1. All terms defined in this Court's Initial Order dated October 26th, 2007 (the "Initial Order") shall have the same meaning when used in this Order.

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Service

2. The time for any required service or notice of the Motion herein be and it is hereby abridged and validated such that the Motion is properly returnable today.
3. There has been good and sufficient notice, service, and delivery of the within Notice of Motion and Record on Motion and further service on any interested party is hereby dispensed with.

DIP Facility

4. Each Applicant is hereby authorized and empowered to enter into arrangements to obtain a credit facility (collectively the "DIP Facilities" and each a "DIP Facility") from Sunflag Canada Inc. (the "DIP Lender") substantially on the terms and conditions set out in the term letters dated June 16, 2008 between each of the Applicants respectively and the DIP Lender, copies of which are annexed hereto as Schedule "A" (collectively the "DIP Agreements" and each a "DIP Agreement").
5. Each Applicant shall be authorized to borrow and otherwise obtain credit under the applicable DIP Facility in accordance with the terms of the applicable DIP Agreement, as such terms may from time to time hereafter be amended by the parties thereto with the consent of the Monitor and approved by the Court, to fund the ongoing, ordinary course activities of the Applicants and to permit the Applicants, or either of them, to pay such amounts as may be permitted by the terms of this Order, the Initial Order and their amended consolidated plan of arrangement dated June 27, 2008 (the "Plan").
6. Each Applicant shall pay when due all principal and interest under the applicable DIP Facility, provided that nothing in this Order shall oblige the DIP Lender to make any advance to an Applicant.
7. All of the Property of each Applicant may be charged in favour of the DIP Lender as security for the applicable DIP Facility by way of a fixed and floating charge, mortgage, hypothec, lien, pledge and security interest as security for repayment of the applicable DIP Facility, together with interest, fees, expenses, charges and other amounts payable in respect thereof (in relation to each Applicant, a "DIP Charge").
8. Notwithstanding any other provision of this Order, the Applicants are hereby authorized and empowered to execute and deliver such mortgages, charges, hypothecs, security agreements, debentures (in relation to each Applicant, the "DIP Security") and such other agreements and

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documents as may be reasonably required by the DIP Lender from time to time in respect of the borrowings under the DIP Facilities.

9. The DIP Charge shall immediately attach to all present and after-acquired Property of the applicable Applicant, and shall have the priority set out in paragraph 15 below.

10. Nothing in this Order shall apply to prevent, enjoin, restrain or stay:

- (a) any right of the DIP Lender to terminate the making of or refuse to make advances to an Applicant under the applicable DIP Facility and to make demands thereunder, or from issuing any notices of intention to enforce security, notices of powers of sale, notices of disposition or other such notices, and from exercising any acceleration rights or rights of set-off or combination of accounts, or any rights and remedies under the applicable DIP Facility, the applicable DIP Charge or the DIP Security;
- (b) without limiting paragraph (a) above, prevent the DIP Lender from applying to this Court for the appointment of an interim receiver, receiver and manager and/or for the appointment of a trustee in bankruptcy in connection with the enforcement of a DIP Charge and the DIP Security or the payment of indebtedness under the applicable DIP Facility or for other relief;
- (c) the right of the DIP Lender to receive and apply all amounts received from an Applicant in accordance with the applicable DIP Facility and this Order, provided the prior leave of the Court is first obtained;
- (d) the DIP Lender from exercising its rights and remedies as against an Applicant in respect of the applicable DIP Charge or the DIP Security; and
- (e) an Applicant from paying amounts from time to time on account of the applicable DIP Facility to the extent permitted by this Order in accordance with the DIP Security.

Notwithstanding any other provision of this Order, the DIP Lender shall not enforce any security (or exercise any right of set-off or combination of accounts) against the Applicants or their Property without the prior leave of this Court, provided that the DIP Lender may deliver to the Applicants demands and notices and exercise acceleration rights without the leave of the Court.

11. The DIP Lender, in such capacity, shall, unless it otherwise agrees, be treated in all respects as an Unaffected Creditor in these proceedings and in the Plan.
12. Each Applicant shall execute the documents and take the other actions necessary or appropriate to give effect to the applicable DIP Charge.
13. Except as otherwise expressly provided for herein, an Applicant shall not grant any encumbrance of any Property that ranks in priority to, or *pari passu* with a DIP Charge unless the Applicant obtains the prior written consent of the DIP Lender and approval of the Court.
14. None of the DIP Facilities, the applicable DIP Charge, the DIP Agreements, or the DIP Security, the obligations of an Applicant pursuant to a DIP Facility, a DIP Charge, the DIP Agreements or the DIP Security, or any of the documents delivered pursuant thereto, shall be illegal, invalid or non-binding obligations of the Applicants or otherwise be rendered unenforceable against an Applicant or any of the Property, nor shall they be void or voidable by creditors or shareholders of an Applicant, a trustee in bankruptcy of an Applicant or any other person, by reason of:
 - (a) the pendency of these proceedings and the declarations of insolvency made herein;
 - (b) the pendency of any applications for any bankruptcy orders or any bankruptcy orders issued under the *Bankruptcy and Insolvency Act* ("BIA") in respect of the Applicants, or any assignment under the BIA being made or deemed to have been made; or
 - (c) the provisions of any federal or provincial law.
15. The priority of the applicable DIP Charge in relation to all other security interests in the Property of each Applicant shall be as set out in Schedule "A" to the Plan, or as otherwise agreed to by the applicable parties.
16. The DIP Lender shall not be required to file, register, record or perfect the DIP Charge, notice thereof or any financing statement with respect thereto and the DIP Charge shall be valid and enforceable for all purposes against all existing and after-acquired Property for all purposes, with priority over any right, title or interest filed, registered, recorded or perfected subsequent to the DIP Charge coming into existence, despite any failure to file, register, record or perfect the DIP Charge, notice thereof, or any financing statement with respect thereto. Despite anything in this Order, DIP Lender may take such steps as they deem necessary or appropriate to register,

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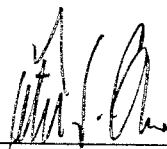
record or perfect the DIP Charge, notice thereof or any financing statement with respect thereto, if they deem it advisable to do so.

17. The creation of a DIP Charge and any payments made by an Applicant, and any agreements, instruments or other documents delivered pursuant to this Order do not constitute fraudulent preferences, fraudulent conveyances, oppressive conduct, settlements or other challengeable or reviewable transactions under any applicable law.

18. None of the applicable DIP Charge, the DIP Facilities, the DIP Agreements, or the DIP Security shall be, or be deemed to be, invalid or ineffective by reason of any negative covenant, prohibition or other similar provision with respect to incurring debt or other obligations or the creation of any encumbrance contained in any agreement to which an Applicant is a party and, despite any provision to the contrary in such agreements:

- (a) none of the applicable DIP Charge, the DIP Agreements, the obtaining of a DIP Facility, or the creation of any of the DIP Security documentation and none of the execution, delivery, perfection or registration of any agreements, instruments or other documents delivered pursuant thereto shall create or be deemed to constitute a breach by an Applicant of any agreement to which it is a party; and
- (b) no person shall have any liability to any other person whatsoever as a result of any breach of any agreement caused by or resulting from a DIP Charge, the DIP Agreements, the obtaining of a DIP Facility, the creation of any of the DIP Security documentation or the execution, delivery or registration of any agreements, instruments or other documents delivered pursuant thereto.

DATED at Saint John, New Brunswick this 27th day of June, 2008.



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

Schedule A

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J.C.Q.B.
27/06/08

SUNFLAG CANADA INC

2600 Matheson Blvd East
Mississauga, Ontario, L4W 4J1
Phone: 905 602 7272 Fax: 905 624 6757

June 16, 2008

Atlantic Fine Yarns Inc.
12 Comeau Avenue
Atholville, New Brunswick

Dear Sirs:

Re: Term Letter

Based on the information provided to us, Sunflag Canada Inc. (the "Lender"), subject to the successful completion of the conditions set out herein, is pleased to outline the terms of a demand operating facility (the "Facility") that the Lender would be willing to extend to Atlantic Fine Yarns Inc.

1. **BORROWER:** Atlantic Fine Yarns Inc.
2. **FACILITY/AMOUNT** Demand Operating Facility in the maximum amount of CDN \$4,000,000 available for draw down at the request of the Borrower for the purpose of operating its facility
3. **INTEREST RATE:** Prime plus 3% on daily balance outstanding under the Facility. Interest shall be calculated monthly in arrears and payable on the last business day of each calendar month with interest on overdue interest at the same rate as on principal.
4. **TERM** 48 month facility with a minimum of 36 months.

Thereafter, the Facility will be payable by 24 equal monthly principal payments of CDN\$ plus interest.
5. **DOCUMENTATION AND SECURITY:** The liability and obligation herein and any future obligations of any nature and kind of the Borrower shall be

evidenced, governed and secured, as the case may be, by the following documents (collectively, the "Security") completed in form and manner satisfactory to Lender's solicitor:

- Loan Agreement;
- General Security Agreement;
- Collateral Mortgage over all real property of the Borrower; and
- Such further security and other documentation that the Lender and its solicitor may reasonably require.

6. **CONDITIONS:**

The obligation of the Lender to make the Facility available is subject to and conditional upon each of the following:

- acceptance by the Borrowers of this Term Letter;
- approval of the Court of Queen's Bench of New Brunswick;
- delivery and registration of the Security in a form acceptable to Lender;
- Lender's security interest under the Security ranking as set out in the Borrowers' Amended Plan of Arrangement unless other ranking otherwise required by the Lender prior to closing;
- Borrower having obtained sanction of its Amended Plan of Arrangement from the Court of Queen's Bench of New Brunswick; and
- the Borrower having paid statutory liens, trust and other Crown Claims.

7. **ONGOING REPORTING:**

The Borrower is to provide such financial and other information as Lender may reasonably request, from time to time.

8. **ONGOING COVENANTS:**

The Borrower may not pledge assets, acquire or merge with other companies, change the capital structure, voting control and/or shareholder(s) without the Lender's prior written consent, which will not be unduly withheld.

The Borrower may not pay any dividends or make any other shareholder withdrawals and/or management bonus without the written permission of the Lender, which permission will not be unreasonably withheld.

The Borrower may not make loans to or investments in, or give guarantees on behalf of others.

The Borrower shall pay when due all statutory liens, trust and other Crown claims including employee source deductions, HST and Workplace Health & Safety premiums.

9. **COSTS/EXPENSES:** The Borrower shall be responsible for all legal, financial and other advisory fees, disbursements and out of pocket expenses of the Lender in connection with the transaction contemplated herein including, but not limited to, all fees incurred by the Lender in connection with the preparation of this Term Letter, the Security and all court attendances in Canada or elsewhere. All such fees and expenses shall be secured by the Lender's security, whether or not the loan is advanced and shall include the time spent by the Lender and its representatives in retaking, holding, repairing, processing and preparing for disposition and disposing of the Lender's security calculated at the Lender's standard rates.
10. **ACCEPTANCE:** If these terms and conditions are acceptable, the Borrower must sign and return this Terms Letter before 5:00 p.m. E.S.T. on June 16, 2008 failing which this Term Letter is of no force and effect.
- The Borrower shall pay a facility fee of 2% CDN\$80,000 on closing
11. **GOVERNING LAW:** All agreements shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the Province of New Brunswick and the federal laws of Canada applicable therein.
12. **COUTERPARTS:** This Term Letter may be executed in two or more counterparts, (including counterparts by facsimile) each of which shall be deemed to be an original and all of which together shall constitute one and the same agreement.

Yours Truly,

Sunflag Canada Inc.

Per: _____

Borrower hereby accepts the terms and conditions of this Term Letter, agrees to be bound thereby and agrees to provide the required Security.

Dated at Mississauga, Ontario this 16th day of June, 2008

Atlantic Fine Yarns Inc.

per: _____

SUNFLAG CANADA INC

2600 Matheson Blvd East
Mississauga, Ontario, L4W 4J1
Phone: 905 602 7272 Fax: 905 624 6757

June 16, 2008

Atlantic Yarns Inc.
Keystone Building,
270 Avenue Douglas, Suite 200,
Bathurst, New Brunswick

Dear Sirs:

Re: Term Letter

Based on the information provided to us, Sunflag Canada Inc. (the "Lender"), subject to the successful completion of the conditions set out herein, is pleased to outline the terms of a demand operating facility (the "Facility") that the Lender would be willing to extend to Atlantic Yarns Inc.

1. **BORROWER:** Atlantic Yarns Inc.
2. **FACILITY/AMOUNT** Demand Operating Facility in the maximum amount of CDN \$5,000,000 available for draw down at the request of the Borrower for the purpose of operating its facility
3. **INTEREST RATE:** Prime plus 3% on daily balance outstanding under the Facility. Interest shall be calculated monthly in arrears and payable on the last business day of each calendar month with interest on overdue interest at the same rate as on principal.
4. **TERM** 48 month facility with a minimum of 36 months.

Thereafter, the Facility will be payable by 24 equal monthly principal payments of CDN\$ plus interest.
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- Such further security and other documentation that the Lender and its solicitor may reasonably require.

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- acceptance by the Borrowers of this Term Letter;
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- delivery and registration of the Security in a form acceptable to Lender;
- Lender's security interest under the Security ranking as set out in the Borrowers' Amended Plan of Arrangement unless other ranking otherwise required by the Lender prior to closing;
- Borrower having obtained sanction of its Amended Plan of Arrangement from the Court of Queen's Bench of New Brunswick; and
- the Borrower having paid statutory liens, trust and other Crown Claims.

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The Borrower may not pay any dividends or make any other shareholder withdrawals and/or management bonus without the written permission of the Lender, which permission will not be unreasonably withheld.

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10. **ACCEPTANCE:** If these terms and conditions are acceptable, the Borrower must sign and return this Terms Letter before 5:00 p.m. E.S.T. on June 16, 2008 failing which this Term Letter is of no force and effect.
- The Company shall pay a facility fee of 2% CDN\$100,000 on closing
11. **GOVERNING LAW:** All agreements shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the Province of New Brunswick and the federal laws of Canada applicable therein.
12. **COUTERPARTS:** This Term Letter may be executed in two or more counterparts, (including counterparts by facsimile) each of which shall be deemed to be an original and all of which together shall constitute one and the same agreement.

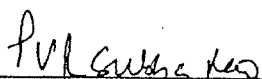
Yours Truly,
Sunflag Canada Inc.

Per:  _____

Borrower hereby accepts the terms and conditions of this Term Letter, agrees to be bound thereby and agrees to provide the required Security.

Dated at Mississauga, Ontario this 16th day of June, 2008

Atlantic Yarns Inc.

per:  _____