



Execution CopyGENERAL SECURITY AGREEMENT

EXECUTED by the parties hereto as of the 18~~th~~ day of January, 2007.

**TO:** **BANK OF AMERICA, N.A. (acting through its Canada branch),**  
As Canadian Lender and as Canadian Agent, for and on behalf of all the  
Canadian Lenders and the other Secured Parties described in clause (ii) of  
the definition of "Secured Parties" (as such term is defined in the  
hereinafter defined Loan and Security Agreement and for the purposes  
hereof, the "Secured Parties")  
200 Front Street West, Suite 2700  
Toronto, Ontario M5V 3L2

(in such capacities, hereinafter the "Canadian Agent")

**GRANTED BY:** **CROSSLEY CARPET MILLS LIMITED**  
435 Willow Street  
Truro, Nova Scotia B2N 5G2

(hereinafter the "Debtor")

**SECTION 1 – GRANT OF SECURITY INTEREST****1.1 Security Interest**

As a general and continuing security for the prompt payment and performance of any and all of the Canadian Obligations of the Debtor (hereinafter collectively called the "Secured Obligations") the Debtor, **IN CONSIDERATION OF THE SECURED OBLIGATIONS** and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby grants to the Canadian Agent (for itself and on behalf of the Canadian Lenders and the other Secured Parties) a continuing security interest in all of the Debtor's right, title and interest in and to all the property, assets and undertakings of the Debtor of whatsoever nature and kind, whether now owned or hereafter-acquired by or on behalf of the Debtor, wherever located (the "Collateral"), including, without limitation:

**(a) Accounts**

All rights to payment arising from the sale, lease, use or other disposition or alienation of personal (movable) property, including, without limitation, any debts, book debts, book accounts, rentals, revenues, incomes, loan receivables, rebates, refunds, accounts, accounts receivable, customer accounts, claims, demands, monies, cash and choses in action, claims under insurance policies, which are now owned by or are due, owing or accruing due to the Debtor or which may hereafter be owned by or become due, owing or accruing due to the Debtor as a result of any such sale, lease, use or other disposition or alienation, and including, but not limited to, all such claims and accounts in respect of the

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Inventory arising under the Debtor's trade names or styles, or through any of its divisions, whether or not such claims and accounts: (A) are certain, liquid and exigible; (B) are litigious; (C) have previously been or are to be invoiced; (D) constitute under Applicable Law accounts, general intangibles, contract rights, documents, chattel paper, instruments or any other classification of property; together with all of the Debtor's rights, titles and interest in, to and under contracts (including all renewals thereof), supporting obligations, letter of credit rights, securities, bills, notes, lien notes, judgments, chattel mortgages, mortgages, security interests, hypothecs, assignments, guarantees, suretyships, accessories, bills of exchange, negotiable instruments, invoices and all other rights, benefits and documents now or hereafter taken, vested in or held by the Debtor in respect of or as security for the same and the full benefit and advantage thereof, and all rights of action or claims which the Debtor now has or may at any time hereafter have against any person or persons, firm or corporation in respect thereof and any other rights to payment for a sale or lease and delivery of goods or rendition of services, whether or not earned by performance, including rights of the Debtor in its capacity as seller of any Inventory returned, repossessed or recovered, under an instalment or conditional sale or otherwise (all of the foregoing being herein collectively called the "Accounts");

(b) Inventory

All "inventory" as such term is defined in the PPSA, and also all inventory of whatever kind now or hereafter owned by the Debtor (whether in its possession, in transit or held on its behalf) or in which the Debtor now or hereinafter has an interest or right of any kind, and all accessions thereto and products thereof, including, without limitation, all property in stock, all goods, wares, merchandise, raw materials, goods in process, finished goods (whether manufactured or transformed by the Debtor or by others), goods in transit, as well as any returned or rejected goods and all packaging, packing or shipping materials, labels, samples or supplies and other tangible personal or movable property related to the foregoing now or hereafter held for sale, lease, rental or resale or that are to be furnished or have been furnished under a contract of service or that are to be used or consumed in the business of the Debtor (all of the foregoing being herein collectively called the "Inventory");

(c) Deposit Accounts

Any depositary account at any financial institution into which proceeds of the Collateral or proceeds of loans or other extensions of credit under the Loan and Security Agreement may be deposited from time to time (all of the foregoing being herein collectively called the "Deposit Accounts");

(d) Equipment

All goods now or hereafter owned by the Debtor which are not inventory or consumer goods as defined in the PPSA, including, without limitation, all fixtures, equipment, machinery, tools, furniture, vehicles and other tangible personal property (all of the foregoing being herein collectively called the "Equipment");

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(e) **Chattel Paper, Instruments, Securities, etc.**

All "chattel paper" and "instruments" as such terms are defined in the PPSA, and also all chattel paper (including electronic chattel paper), instruments, warehouse receipts, bills of lading, promissory notes, drafts, bills of exchange, trade acceptances and other documents of title, whether negotiable or non-negotiable, now or hereafter owned by the Debtor (all of the foregoing being herein collectively called "**Chattel Paper and Instruments**");

(f) **Intangibles**

All "intangibles" as such term is defined in the PPSA, and also all intangibles now owned or hereafter acquired by the Debtor or its interest therein, and all warranties of title, warranty claims, contractual rights, licences and permits, rights to payment for credit extended, deposits, amounts due to the Debtor, credit memoranda in favour of the Debtor, tax refunds and abatements, insurance refunds and premium rebates, records, customer lists, telephone numbers, causes of action, judgments, payments under any settlement or other agreement, internet addresses and domain names, computer software programs, together with all goodwill connected with and symbolized by any of the foregoing and all other general intangible and intangible property of the Debtor in the nature of the Intellectual Property (all of the foregoing being herein collectively called the "**Intangibles**");

(g) **Intellectual Property**

All (i) patents, patent applications and patents pending, (ii) trade secret rights, (iii) copyrights and copyright applications, including derivative works, (iv) registered and unregistered trade names, brand names, trademarks, trademark applications, service marks, and service mark applications, (v) industrial designs, formulae and processes, and (v) all other general intangible property in the nature of intellectual property recognized by any Applicable Law (all of the foregoing being herein collectively called the "**Intellectual Property**"), including, without limitation, the Intellectual Property described in Schedule "A" hereto;

(h) **Books and Records, etc.**

All books, statements of account, invoices, purchase orders, deeds, documents, documents of title, receipts, writings, letters, papers, waybills, security certificates and other records (including files, correspondence and print-outs) and information in any form (whether in written, electronic format or in any other medium) evidencing, covering, representing or relating to any of the property described in paragraphs (a) to (g) inclusively (all of the foregoing being herein collectively called the "**Books and Records**"), and all rights of access to such Books and Records;

(i) **Insurance**

All policies and certificates of insurance and all insurance proceeds, refunds, and premium rebates, including, without limitation, in respect of fire and credit insurance or

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business interruption insurance, the whole in respect of any of the foregoing paragraphs (a) to (h) inclusively;

(j) **Liens**

All liens, guarantees, rights, remedies, and privileges pertaining to any of the foregoing (paragraphs (a) to (i) inclusively), including the right of stoppage in transit;

(k) **Supporting Obligations**

All secondary obligations that support the payment or performance of an Account, a Chattel Paper or Instrument, Books and Records or an Intangible;

(l) **Other Property**

All cash, whether or not in the possession or under the control of the Canadian Agent, a Canadian Lender or other Secured Party, or a bailee or Affiliate of the Canadian Agent, a Canadian Lender or other Secured Party, including any Cash Collateral, and Cash Equivalents of any kind (a) at any time deposited with or held by the Canadian Agent or any Canadian Lender or other Secured Party or (b) acquired at any time by the Debtor with proceeds of any of the Collateral or proceeds of Revolver Loans or other extensions of credit under the Loan and Security Agreement;

(m) **Replacements, etc.**

Any of the foregoing (paragraphs (a) to (l) inclusively) whether now owned or now due, or in which the Debtor has an interest, or hereafter acquired, arising, or to become due, or in which the Debtor obtains an interest, and all products, substitutions, replacements, increases, additions, accessions and accessories of or to any of the foregoing; and

(n) **Proceeds**

With respect to the personal (movable) property described in paragraphs (a) to (m) inclusively, all personal (movable) property in any form or fixtures derived directly or indirectly from any dealing with such property or that indemnifies or compensates for such property destroyed or damaged and proceeds of proceeds whether or not of the same type, class or kind as the original proceeds, including, without limitation, fruits and revenues, cash, non-cash proceeds, bank accounts, goods, contract rights, any indemnity or proceeds of expropriation or reimbursement of all taxes, rates, assessments, levies, surtaxes and any other impositions, ordinary and extraordinary, which may be assessed on or payable in respect of any of the foregoing as well as any and all interest thereon and penalties imposed in respect thereof now or hereafter payable.

(o) **Unassigned Property**

To the extent that any property, asset or undertaking of the Debtor (each, an "Unassigned Property") (i) is not assignable or cannot be subject to a security interest without the consent of the other party or parties thereto and such consent has not been obtained as of the date hereof; (ii) the same is not assignable or cannot be subject to a security interest without complying with stated conditions and such conditions have not been satisfied as

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of the date hereof; (iii) the same is the subject of an express prohibition or limitation against assignment or the grant of a security interest which has not been waived as of the date hereof; or (iv) the assignment of or the grant of a security interest in, the same would otherwise constitute a breach or permit the acceleration or termination of such property, asset or undertaking of the Debtor or any agreement or instrument relating thereto, the security interest created hereby on any such Unassigned Property shall, until such consent to such security interest, compliance with such conditions or waiver of such express prohibition or limitation, breach or right to accelerate or terminate has been obtained, be suspended and shall take effect retroactively as of the date hereof when such consent or waiver has been obtained.

## 1.2 Definitions and Interpretation

In this Security Agreement:

- (a) Terms used herein and defined in the *Personal Property Security Act* (Nova Scotia) or similar legislation of any other Canadian jurisdiction the laws of which are required by such legislation to be applied in connection with the issue, perfection, enforcement, opposability, validity or effect of security interests (collectively the "PPSA") shall have the same meanings as in the PPSA unless the context otherwise requires;
- (b) Capitalized terms not otherwise defined herein shall have the same meanings as ascribed to them in the Loan and Security Agreement, unless the context otherwise requires;
- (c) Any reference to "Collateral" shall, unless the context otherwise requires, refer to "Collateral or any part thereof";
- (d) The terms "security" and "security interest" and the grant of the "security interest" herein provided for shall include, without limitation, a fixed mortgage, hypothecation, pledge, charge and assignment of the Collateral in favour of the Canadian Agent (for itself and on behalf of the Canadian Lenders and the other Secured Parties), provided, however, that such aforesaid terms shall only include a security interest (as defined in the PPSA) in each and all Intellectual Property;
- (e) The term "encumbrance" shall include, without limitation, a security interest, lien, hypothec, claim, charge, deemed trust or encumbrance of any kind whatsoever;
- (f) "Default" shall mean an Event of Default under the Loan and Security Agreement;
- (g) "Loan and Security Agreement" shall mean that certain Loan and Security Agreement, dated as of the date hereof, between, amongst others, the Debtor, the other Canadian Obligors, the various financial institutions listed on the signature pages thereof from time to time, as Lenders, and Bank of America, N.A. (acting through its Canada branch), as a Canadian Lender and in its capacity as Canadian Agent, as said Loan and Security Agreement may be amended, restated, replaced, revised, supplemented or otherwise modified from time to time; and

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(h) "Receiver" shall have the meaning provided to such term in section 7.4 hereof.

### 1.3 Leases

The last day of the term of any lease, oral or written, or any agreement therefor, now held or hereafter acquired by the Debtor, shall be excepted from the security interest hereby granted and shall not form part of the Collateral, but the Debtor shall stand possessed of such one day remaining, upon trust to assign and dispose of the same as the Canadian Agent or any assignee of such lease or agreement shall direct. If any such lease or agreement therefor contains a provision which provides in effect that such lease or agreement may not be assigned, sub-leased, charged or encumbered without the leave, license, consent or approval of the lessor, the application of the security interest created hereby to any such lease or agreement shall be conditional upon such leave, license, consent or approval having been obtained.

### 1.4 Debtor Remains Liable

Notwithstanding anything herein to the contrary:

- (a) the Debtor shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform all its duties and obligations thereunder to the same extent as if this Security Agreement had not been executed;
- (b) the exercise by the Canadian Agent of any of the rights or remedies hereunder shall not release the Debtor from any of its duties or obligations under the contracts and agreements included in the Collateral; and
- (c) neither the Canadian Agent nor any Canadian Lender or any other Secured Party shall have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Security Agreement, nor shall the Canadian Agent be obligated to perform any of the obligations or duties of the Debtor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

## SECTION 2 - REPRESENTATIONS AND WARRANTIES

### 2.1 Incorporation by Reference

In addition to and not in substitution for any representation and warranty contained in this Security Agreement, the Debtor does hereby represent and warrant to and in favour of the Canadian Agent, the Canadian Lenders and the Applicable Issuing Bank that each representation and warranty made in the Loan and Security Agreement, inasmuch as applicable to the Debtor, is hereby reiterated and restated by the Debtor and each such representation and warranty is hereby incorporated by reference, *mutatis mutandis*.

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### SECTION 3 – COVENANTS OF THE DEBTOR

#### 3.1 Incorporation by Reference

In addition to and not in substitution for any covenant, agreement, undertaking and condition contained in this Security Agreement, the Debtor does hereby covenant and agree with the Canadian Agent, the Canadian Lenders and the Applicable Issuing Bank, that it shall comply with, and ensure the compliance of, all covenants, agreements, undertakings and conditions given by it in the Loan and Security Agreement, and each such covenant, agreement, undertaking and condition is hereby incorporated by reference, *mutatis mutandis*.

#### 3.2 Certain After-Acquired Collateral

The Debtor shall promptly notify the Canadian Agent in writing if, after the Closing Date, it obtains any interest in any Collateral consisting of Deposit Accounts, Chattel Paper and Instruments or Intellectual Property (but not more frequently than the first day of each calendar quarter with respect to after-acquired Intellectual Property unless an Event of Default exists), and, upon the Canadian Agent's request, shall promptly take such actions as the Canadian Agent reasonably deems appropriate to effect the Canadian Agent's duly perfected, first priority Lien upon such Collateral (subject to Permitted Liens), including obtaining any appropriate possession, control agreement or Lien Waiver; provided, that perfection with respect to any Collateral consisting of Intellectual Property shall be required with respect to the Applicable Law of Canada but not with respect to any jurisdiction other than Canada. If any Collateral of the Debtor with a value in excess of US\$100,000 is in the possession of a third party, at the Canadian Agent's request, the Debtor shall obtain an acknowledgment that such third party holds the Collateral for the benefit of the Canadian Agent.

### SECTION 4 – SURVIVAL OF REPRESENTATIONS, WARRANTIES AND COVENANTS

#### 4.1 Survival

All representations, warranties, covenants, agreements, undertakings and conditions made in the Loan and Security Agreement and the other Loan Documents shall survive the execution and delivery of this Security Agreement.

### SECTION 5 – COLLECTION OF PROCEEDS.

#### 5.1 Power of Attorney

The Debtor hereby irrevocably constitutes and appoints the Canadian Agent (and all Persons designated by the Canadian Agent) as its true and lawful attorney (and agent-in-fact) for the purposes provided in this Section. The Canadian Agent, or its designee, may, without notice and in either its or the Debtor's name, but at the cost and expense of the Debtor:

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(a) Endorse the Debtor's name on any Payment Item or other proceeds of Collateral of the Debtor (including proceeds of insurance) that come into the Canadian Agent's possession or control; and

(b) During an Event of Default, (i) notify any account debtors of the assignment of their Accounts, demand and enforce payment of Accounts, by legal proceedings or otherwise, and generally exercise any rights and remedies with respect to Accounts; (ii) settle, adjust, modify, compromise, discharge or release any Accounts or other Collateral, or any legal proceedings brought to collect Accounts or the Collateral; (iii) sell or assign any Accounts and other Collateral upon such terms, for such amounts and at such times as the Canadian Agent deems advisable; (iv) take control, in any manner, of any proceeds of the Collateral; (v) prepare, file and sign the Debtor's name to a proof of claim or other document in a bankruptcy of an account debtor, or to any notice, assignment or satisfaction of Lien or similar document; (vi) receive, open and dispose of mail addressed to the Debtor, and notify postal authorities to change the address for delivery thereof to such address as the Canadian Agent may designate; (vii) endorse any Chattel Paper and Instrument, Book and Record, invoice, freight bill, bill of lading, or similar document or agreement relating to any Accounts, Inventory or other Collateral; (viii) use the Debtor's stationery and sign its name to verifications of Accounts and notices to account debtors; (ix) use the information recorded on or contained in any data processing equipment and computer hardware and software relating to any Collateral; (x) make and adjust claims under policies of insurance; (xi) take any action as may be necessary or appropriate to obtain payment under any letter of credit or banker's acceptance for which the Debtor is a beneficiary; and (xii) take all other actions as the Canadian Agent deems advisable to fulfill the Debtor's obligations under the Loan Documents.

## 5.2 Account Verification

Whether or not a Default or Event of Default exists, the Canadian Agent (or its designee, which may include another Agent) shall have the right at any time, in the name of the Canadian Agent, any designee of the Canadian Agent or the Debtor, to verify the validity, amount or any other matter relating to any Accounts of the Debtor by mail, telephone or otherwise. The Debtor shall cooperate fully with the Canadian Agent in an effort to facilitate and promptly conclude any such verification process.

## SECTION 6 - DEFAULT

The security interests hereby constituted shall become fully enforceable upon the occurrence and continuance of a Default and during such time, the Canadian Agent shall be entitled to exercise and enforce any or all of the remedies herein provided or which may otherwise be available to the Canadian Agent by statute, at law or in equity and all amounts secured hereby shall immediately be paid to the Canadian Agent (for itself and on behalf of the Canadian Lenders and the other Secured Parties) by the Debtor.

## **SECTION 7 - REMEDIES ON DEFAULT**

Upon and after the security interests hereby constituted become enforceable and continue to be so, the Canadian Agent shall have, in addition to any other rights, remedies and powers which it may have under the Loan and Security Agreement and any other Loan Document, at law, in equity or under the PPSA the following rights, remedies and powers:

### **7.1 Power of Entry**

The Debtor shall forthwith upon demand assemble and deliver to the Canadian Agent possession of all of the Collateral at such place or places as may be specified by the Canadian Agent. The Canadian Agent may take such steps as it considers necessary or desirable to obtain possession of all or any part of the Collateral and, to that end, the Debtor agrees that the Canadian Agent, its servants or agents or Receiver (as hereinafter defined) may, at any time, during the day or night, enter upon lands and premises where the Collateral may be found for the purpose of taking possession of and/or removing the Collateral or any part thereof. In the event of the Canadian Agent taking possession of the Collateral, or any part thereof, the Canadian Agent shall have the right to maintain the same upon the premises on which the Collateral may then be situate. The Canadian Agent may, in a reasonable manner, take such action or do such things as to render any Equipment unusable.

### **7.2 Power of Sale**

The Canadian Agent may sell, lease or otherwise dispose of all or any part of the Collateral, as a whole or in separate parcels, by public auction, private tender or by private contract, with or without notice, except as otherwise required by applicable law, with or without advertising and without any other formality, all of which are hereby waived by the Debtor. Such sale, lease or disposition shall be on such terms and conditions as to credit and otherwise and as to upset or reserve bid or price to the Canadian Agent, in its sole discretion, may seem advantageous. If such sale, transfer or disposition is made on credit or part cash and part credit, the Canadian Agent need only credit against the Secured Obligations the actual cash received at the time of the sale. Any payments made pursuant to any credit granted at the time of the sale shall be credited against the Secured Obligations as they are received. The Canadian Agent may buy in or rescind or vary any contract for sale of all or any of the Collateral and may resell without being answerable for any loss occasioned thereby. Any such sale, lease or disposition may take place whether or not the Canadian Agent has taken possession of the Collateral. The Canadian Agent may, before any such sale, lease or disposition, perform any commercially reasonable repair, processing or preparation for disposition and the amount so paid or expended shall be deemed advanced to the Debtor by the Canadian Agent, shall become part of the Secured Obligations, shall bear interest at the rate per annum being charged by the Canadian Agent on the Secured Obligations pursuant to the Loan and Security Agreement and shall be secured by this Security Agreement.

### **7.3 Validity of Sale**

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No person dealing with the Canadian Agent or its servants or agents shall be concerned to inquire whether the security hereby constituted has become enforceable, whether the powers which the Canadian Agent is purporting to exercise have become exercisable, whether any money remains due on the security of the Collateral, as to the necessity or expedience of the stipulations and conditions subject to which any sale, lease or disposition shall be made, otherwise as to the propriety or regularity of any sale or any other dealing by the Canadian Agent with the Collateral or to see to the application of any money paid to the Canadian Agent. In the absence of fraud on the part of such persons, such dealings shall be deemed, so far as regards the safety and protection of such person, to be within the powers hereby conferred and to be valid and effective accordingly.

#### 7.4 Receiver-Manager

The Canadian Agent may, in addition to any other rights it may have, appoint by instrument in writing a receiver or receiver and manager (both of which are herein called a "Receiver") of all or any part of the Collateral or may institute proceedings in any court of competent jurisdiction for the appointment of such a Receiver. Any such Receiver is hereby given and shall have the same powers and rights and exclusions and limitations of liability as the Canadian Agent has under this Security Agreement, at law or in equity. In exercising any such powers, any such Receiver shall, to the extent permitted by law, act as and for all purposes shall be deemed to be the agent of the Debtor and the Canadian Agent, the Canadian Lenders and the other Secured Parties shall not be responsible for any act or default of any such Receiver. The Canadian Agent may appoint one or more Receivers hereunder and may remove any such Receiver or Receivers and appoint another or others in his or their stead from time to time. Any Receiver so appointed may be an officer or employee of the Canadian Agent. A court need not appoint, ratify the appointment by the Canadian Agent of or otherwise supervise in any manner the actions of any Receiver. Upon the Debtor receiving notice from the Canadian Agent of the taking of possession of the Collateral or the appointment of a Receiver, all powers, functions, rights and privileges of each of the directors and officers of the Debtor with respect to the Collateral shall cease, unless specifically continued by the written consent of the Canadian Agent.

#### 7.5 Carrying on Business

The Canadian Agent may carry on, or concur in the carrying on of, all or any part of the business or undertaking of the Debtor, may, to the exclusion of all others, including the Debtor, enter upon, occupy and use all or any of the premises, buildings, plant and undertaking of or occupied or used by the Debtor and may use all or any of the tools, machinery, equipment and intangibles of the Debtor for such time as the Canadian Agent sees fit, free of charge, to carry on the business of the Debtor and, if applicable, to manufacture or complete the manufacture of any Inventory and to pack and ship the finished product.

#### 7.6 Dealing with the Collateral

The Canadian Agent may seize, collect, realize, dispose of, enforce, release to third parties or otherwise deal with the Collateral or any part thereof in such manner, upon such terms

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and conditions and at such time or times as may seem to it advisable, all of which without notice to the Debtor except as otherwise required by any Applicable Law. The Canadian Agent may demand, sue for and receive any Accounts with or without notice to the Debtor, give such receipts, discharges and extensions of time and make such compromises in respect of any Accounts which may, in the Canadian Agent's absolute discretion, seem bad or doubtful.

The Debtor shall reimburse the Canadian Agent for all Extraordinary Expenses incurred by the Canadian Agent in respect of the Secured Obligations or the Collateral. The Debtor shall also reimburse the Canadian Agent for all accounting, appraisal, consulting, reasonable legal fees and other fees, costs and expenses incurred by it in connection with (a) the negotiation and preparation of any Loan Documents, including any amendment or other modification thereof; (b) the administration of and actions relating to any Collateral, Loan Documents and transactions contemplated thereby, including any actions taken to perfect or maintain priority of the Canadian Agent's Liens on any Collateral of the Debtor, to maintain any insurance required hereunder or to verify the Collateral; and (c) each inspection, audit or appraisal with respect to the Debtor or any Collateral, whether prepared by the Canadian Agent's personnel or a third party (subject to Section 10.1.1(b) of the Loan and Security Agreement). All amounts payable by the Debtor under this Section shall be due on demand.

#### 7.7 Right to Use

For the purposes of enabling the Canadian Agent to exercise its rights and remedies under this Security Agreement (including, without limiting the terms of this Section 7, in order to take possession of, hold, preserve, process, assemble, prepare for sale, market for sale, complete production of, advertise for sale and sell or otherwise dispose of the Collateral) at such time as the Canadian Agent shall be lawfully entitled to exercise such rights and remedies and subject to applicable privacy laws, the Canadian Agent is hereby granted an irrevocable, non-exclusive license or other right to use, license or sub-license (without payment of royalty or other compensation to any Person) any or all of the Intellectual Property of the Debtor, computer hardware and software, trade secrets, brochures, customer lists, promotional and advertising materials, labels, packaging materials and other Collateral, in advertising for sale, marketing, selling, collecting, completing manufacture of, or otherwise exercising any rights or remedies with respect to, any Collateral. The Debtor's rights and interests under the Intellectual Property shall inure to the Canadian Agent's benefit.

#### 7.8 Retention of the Collateral

Upon notice to the Debtor and subject to any obligation to dispose of any of the Collateral, as provided in the PPSA, the Canadian Agent may elect to retain all or any part of the Collateral in satisfaction of the Secured Obligations or any of them.

#### 7.9 Pay Encumbrances

The Canadian Agent may pay any encumbrance that may exist or be threatened against the Collateral. In addition, the Canadian Agent may borrow money, at standard commercial rates, required for the maintenance, preservation or protection of the Collateral or for the

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carrying on of the business or undertaking of the Debtor and may grant further security interests in the Collateral in priority to the security interest created hereby as security for the money so borrowed. In every such case the amounts so paid or borrowed together with costs, charges and expenses incurred in connection therewith shall be deemed to have been advanced to the Debtor by the Canadian Agent, shall become part of the Secured Obligations, shall bear interest at the rate per annum charged by the Canadian Agent on the Secured Obligations or any part thereof pursuant to the Loan and Security Agreement and shall be secured by this Security Agreement.

#### 7.10 Application of Payments Against the Secured Obligations

Any and all payments made in respect of the Secured Obligations from time to time and moneys realized on the Collateral shall be applied to such part or parts of the Secured Obligations in accordance with the provisions of the Loan and Security Agreement. Any insurance moneys received by the Canadian Agent pursuant to this Security Agreement shall be applied in accordance with the provisions of the Loan and Security Agreement.

#### 7.11 Set-Off

The Secured Obligations will be paid by the Debtor without regard to any equities between the Debtor and the Canadian Agent, any Canadian Lender and/or any Secured Party or any right of set-off or cross-claim. Any indebtedness owing by the Canadian Agent, any Canadian Lender and/or any Secured Party to the Debtor may be set off and applied by the Canadian Agent against the Secured Obligations at any time or from time to time either before or after maturity, without demand upon or notice to anyone.

#### 7.12 Deficiency

If the proceeds of the realization of the Collateral are insufficient to repay the Canadian Agent, the Canadian Lenders and the other Secured Parties all moneys due to them, the Debtor shall forthwith pay or cause to be paid to the Canadian Agent (either for itself or on behalf of the Canadian Lenders and the other Secured Parties) such deficiency.

#### 7.13 Canadian Agent Not Liable

Neither the Canadian Agent nor any of the Canadian Lenders or the other Secured Parties shall be (a) liable or accountable for any failure to seize, collect, realize, dispose of, enforce or otherwise deal with the Collateral, (b) bound to institute proceedings for any such purposes or for the purpose of preserving any rights of the Canadian Agent, the Debtor or any other person, firm or corporation in respect of the Collateral, or (c) liable or responsible for any loss, cost or damage whatsoever which may arise in respect of any such failure including, without limitation, resulting from the negligence of the Canadian Agent or any of its officers, servants, agents, solicitors, attorneys, Receivers or otherwise. Neither the Canadian Agent nor any of the Canadian Lenders or other Secured Parties, nor their respective officers, servants, agents or Receivers shall be liable by reason of any entry into possession of the Collateral or any part thereof, to account as a mortgagee in possession, for anything except actual receipts, for any loss on realization, for any act or omission for which a mortgagee in possession might be liable, for

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any negligence in the carrying on or occupation of the business or undertaking of the Debtor as provided in Section 7.5 or for any loss, cost, damage or expense whatsoever which may arise in respect of any such omissions or negligence.

#### 7.14 Extensions of Time

The Canadian Agent, any of the Canadian Lenders and any of the other Secured Parties may grant renewals, extensions of time and other indulgences, take and give up securities, accept compositions, grant releases and discharges, perfect or fail to perfect any securities, release any part of the Collateral to third parties and otherwise deal or fail to deal with the Debtor, debtors of the Debtor, guarantors, sureties and others and with the Collateral and other securities as they may see fit, all without prejudice to the liability of the Debtor to the Canadian Agent, the Canadian Lenders and the other Secured Parties or the Canadian Agent's, the Canadian Lenders' and the other Secured Parties' rights and powers under this Security Agreement.

#### 7.15 Rights in Addition

The rights and powers conferred by this Section 7 are in supplement of and in addition to and not in substitution for any other rights or powers the Canadian Agent may have from time to time otherwise under this Security Agreement or under Applicable Law. The Canadian Agent may proceed by way of any action, suit, remedy or other proceeding at law or in equity and no such remedy for the enforcement of the rights of the Canadian Agent shall be exclusive of or dependent on any other such remedy. Any one or more of such remedies may from time to time be exercised separately or in combination.

### SECTION 8 – DEALING WITH COLLATERAL BY THE DEBTOR

#### 8.1 Sale of Inventory

Prior to the occurrence of a Default, the Debtor may, in the ordinary course of its business and on customary trade terms, lease or sell items of Inventory, so that the purchaser thereof takes title clear of the security interest hereby created. If such sale or lease results in an Account, such Account shall be subject to the security interest hereby created.

### SECTION 9 – GENERAL

#### 9.1 Security in Addition

The security hereby constituted is not in substitution for any other security for the Secured Obligations or for any other agreement between the parties creating a security interest in all or part of the Collateral, whether heretofore or hereafter made, and such security and such agreements shall be deemed to be continued and not affected hereby unless expressly provided to the contrary in writing and signed by the Canadian Agent and the Debtor. The taking of any action or proceedings or refraining from so doing, or any other dealing with any other security

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for the Secured Obligations or any part thereof, shall not release or affect the security interest created by this Security Agreement and the taking of the security interest hereby created or any proceedings hereunder for the realization of the security interest hereby created shall not release or affect any other security held by the Canadian Agent for the repayment of or performance of the Secured Obligations.

#### 9.2 Waiver

Any waiver of a breach by the Debtor of any of the terms or provisions of this Security Agreement or of a Default under Section 6 must be in writing to be effective against and bind the Canadian Agent, the Canadian Lenders and/or the other Secured Parties. No such waiver by the Canadian Agent shall extend to or be taken in any manner to affect any subsequent breach or Default or the rights of the Canadian Agent arising therefrom.

#### 9.3 Further Assurances

Promptly upon the Canadian Agent's reasonable request, the Debtor shall deliver such instruments, assignments, title certificates, or other documents or agreements, and shall take such actions, as the Canadian Agent deems necessary under Applicable Law to evidence or perfect its security interest on any Collateral with a value in excess of USD\$100,000, or otherwise to give effect to the intent of this Security Agreement; provided that perfection (or, with respect to the Applicable Law of Canada only, protection through filings at the Canadian Intellectual Property Office) with respect to any Collateral consisting of Intellectual Property shall be required with respect to the Applicable Law of Canada but not with respect to any jurisdiction other than Canada. The Debtor authorizes the Canadian Agent to file any financing statement that indicates the Collateral as "all assets" or "all personal property" of the Debtor, or words to similar effect, and ratifies any action taken by the Canadian Agent before the Closing Date to effect or perfect its security interest on any Collateral.

#### 9.4 No Merger

Neither the taking of any judgment nor the exercise of any power of seizure or sale shall operate to extinguish the liability of the Debtor to make payment of or satisfy the Secured Obligations. The acceptance of any payment or alternate security shall not constitute or create any novation and the taking of a judgment or judgments under any of the covenants herein contained shall not operate as a merger of such covenants.

#### 9.5 Notices

Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the Debtor or the Canadian Agent by the other party, or whenever any of the Debtor or the Canadian Agent desires to give and serve upon the other party any communication with respect to this Security Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and shall be given in the manner as provided for in the Loan and Security Agreement and deemed or otherwise considered to have been received for the purposes of the PPSA at the times provided for in the

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## Loan and Security Agreement.

### 9.6 Continuing Security Interest and Discharge

This Security Agreement shall create a continuing security interest in the Collateral and shall remain in full force and effect until payment and performance in full of the Secured Obligations and the termination of the Borrower Group Commitment in respect of the Canadian Obligors (other than indemnification obligations and other obligations stated to survive the termination of the Borrower Group Commitment in respect of the Canadian Obligors or the payment and performance in full of the other Secured Obligations), notwithstanding any dealing between the Canadian Agent and the Debtor or any other Person in respect of the Secured Obligations or any release, exchange, non-perfection, amendment, waiver, consent or departure from or in respect of any or all of the terms or provision of any security held for the Secured Obligations.

### 9.7 Governing Law

This Security Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein, except as required by mandatory provisions of law and except to the extent that the validity or perfection of the security interests hereunder, or remedies hereunder, in respect of any particular Collateral are governed by the laws of a jurisdiction other than the Province of Ontario.

### 9.8 Security Interest Effective Immediately

Neither the execution or registration of this Security Agreement nor any partial advances by the Canadian Agent, any Canadian Lender or any other Secured Party shall bind the Canadian Agent, any Canadian Lender or any other Secured Party to advance any other amounts to the Debtor. The parties intend the security interest created hereby to attach and take effect forthwith upon execution of this Security Agreement by the Debtor and the Debtor acknowledges that value has been given and that the Debtor has rights in the Collateral and that it has received a copy of this Security Agreement.

### 9.9 Provisions Reasonable

The Debtor expressly acknowledges and agrees that the provisions of this Security Agreement and, in particular, those respecting remedies and powers of the Canadian Agent against the Debtor, its business and the Collateral upon a Default, are commercially reasonable and not manifestly unreasonable.

### 9.10 Number and Gender

In this Security Agreement, words importing the singular number include the plural and vice-versa and words importing gender include all genders.

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**9.11 Invalidity**

In the event that any term or provision of this Security Agreement shall, to any extent, be invalid or unenforceable, the remaining terms and provisions of this Security Agreement shall be unaffected thereby and shall be valid and enforceable to the fullest extent permitted by law.

**9.12 Indemnity**

The Debtor agrees to indemnify and save harmless the Canadian Agent, the Canadian Lenders and the other Secured Parties from and against any and all claims, losses and liabilities arising out of or resulting out of or resulting from this Security Agreement (including, without limitation, enforcement of this Security Agreement), except for any claims, losses and liabilities resulting from the intentional fault or gross negligence of the Canadian Agent, the Canadian Lenders or the other Secured Parties.

**9.13 Binding Effect**

All rights of the Canadian Agent, the Canadian Lenders and the other Secured Parties hereunder shall enure to the benefit of their respective successors and assigns and all obligations of the Debtor hereunder shall bind the Debtor and its administrators, legal personal representatives, successors and assigns.

**9.14 Precedence**

In addition to those specific terms and provisions of the Loan and Security Agreement made applicable to this Security Agreement and the Collateral, the Canadian Agent shall have all rights, powers, remedies and authority with respect to the Collateral as set forth in the Loan and Security Agreement and other Loan Documents to which the Debtor is a party, the terms of which are hereby incorporated into this Security Agreement by reference. The Debtor shall have all duties, obligations and responsibilities for compliance with the terms of the Loan and Security Agreement with respect to the Collateral and the Canadian Agent's Liens therein. In the event that any provisions of this Security Agreement contradict or are inconsistent or directly conflict with the provisions of the Loan and Security Agreement, the provisions of the Loan and Security Agreement shall take precedence over those contained in this Security Agreement. Notwithstanding the foregoing, in the event that granting of security interest provisions in the Loan and Security Agreement contradict or are inconsistent or directly conflict with the provisions of this Security Agreement, such provisions of this Security Agreement shall take precedence over those contained in the Loan and Security Agreement.

**9.15 Sections and Headings**

The division of this Security Agreement into sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof.

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**9.16 Judgment Currency**

If, for the purposes of obtaining or enforcing judgment in any court or for any other purpose hereunder or in connection herewith, it is necessary to convert a sum due hereunder in any currency into another currency, such conversion shall be carried out to the extent and in the manner provided in the Loan and Security Agreement.

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Security Agreement at the place and as of the date first above written.

CROSSLEY CARPET MILLS LIMITED,  
as Debtor

Per: *Leonard J. Foran*  
Name: Leonard J. Foran  
Title: Vice President & Chief Financial Officer

Per: *Ralph H. Grogan*  
Name: Ralph H. Grogan  
Title: Vice President

BANK OF AMERICA, N.A.  
(acting through its Canada branch)  
as Canadian Agent

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Security Agreement at the place and as of the date first above written.

**CROSSLEY CARPET MILLS LIMITED,**  
as Debtor

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Per: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BANK OF AMERICA, N.A.**  
(acting through its Canada branch)  
as Canadian Agent

Per: \_\_\_\_\_  
Name: NELSON LAM  
Title: VICE PRESIDENT

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**Schedule "A"**  
**Intellectual Property**

**Copyrights**

Nil.

**Patents**

Nil.

**Trade-Marks****CANADA:**

TRADE-MARK	STATUS	REGISTRATION OR APPLICATION NO.	REGISTRATION DATE
AT HOME WITH CROSSLEY & DESIGN	Registered	TMA538,154	12/1/2000
BEAUTY THAT LASTS	Registered	TMA388,756	9/6/1991
CHEZ SOI AVEC CROSSLEY & DESIGN	Registered	TMA538,125	11/30/2000
COLOURS BY CROSSLEY & DESIGN	Registered	TMA538,124	11/30/2000
CONFIDENCE IN CARPET SELECTION & DESIGN	Registered	TMA491,576	3/18/1998
COULEURS PAR CROSSLEY & DESIGN	Registered	TMA538,153	12/1/2000
CROSSBASE	Registered	TMA626,798	11/26/2004
CROSSCUSHION	Registered	TMA646,490	8/24/2005
CROSSLEY AT HOME	Registered	TMA578,907	4/30/2003
CROSSLEY CARPETS	Registered	TMA388,755	9/6/2006
CROSSLEY CARPETS & DESIGN	Registered	TMA406,910	1/15/1993
CROSSLEY L'ART DU TISSAGE ALLIE A L'INNOVATION & DESIGN	Registered	TMA422,360	1/21/1994
CROSSLEY WEAVING ART W/INNOVATION & DESIGN	Registered	TMA422,359	1/21/1994
CROSSWEAVE	Registered	TMA405,624	11/27/1992
LOOM DESIGN	Registered	TMA422,361	1/21/1994
NATURALLY YOURS	Registered	TMA420,151	11/26/1993
NATURALLY YOURS & DESIGN	Registered	TMA422,362	1/21/1994
WIREWEAVE	Registered	TMA626,925	11/29/2004

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**UNITED STATES:**

TRADE-MARK	STATUS	REGISTRATION OR APPLICATION NO.	REGISTRATION DATE
CONFIDENCE IN CARPET SELECTION	Pending	APPL#78/776,511	N/A
CROSSBASE	Registered	2,935,855	3/29/2005
CROSSCUSHION	Registered	3,061,828	2/28/2006
CROSSWEAVE	Registered	1,823,822	2/22/1994
WIREWEAVE	Registered	2,999,758	9/27/2005