

No. S117081
Vancouver Registry

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

AND

IN THE MATTER OF THE *CANADA BUSINESS CORPORATIONS ACT*,
R.S.C. 1985, c. C-44

AND

IN THE MATTER OF STERLING SHOES INC. and STERLING SHOES GP INC.

FOURTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.

MARCH 29, 2012

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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1.0 INTRODUCTION

- 1.1 Alvarez & Marsal Canada Inc. ("**A&M**" or the "**Monitor**") was appointed as Monitor pursuant to the order (the "**Initial Order**") pronounced by this Honourable Court on October 21, 2011 (the "**Order Date**") on the application of Sterling Shoes Inc. ("**Sterling**") and Sterling Shoes GP Inc. ("**Sterling GP**") (together, the "**Petitioners**") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). The proceedings brought by the Petitioners under the CCAA will be referred to herein as the "**CCAA Proceedings**". The Petitioners and Sterling Shoes Limited Partnership (the "**Partnership**") will be referred to herein as the "**Petitioner Parties**" or the "**Company**".
- 1.2 The Initial Order granted a stay of proceedings (the "**Stay of Proceedings**") against or in respect of the Petitioner Parties and their assets until November 18, 2011. The Stay of Proceedings was subsequently extended by Court order dated December 9, 2011, to April 2, 2012.
- 1.3 The Petitioner Parties have filed a Notice of Application dated March 28, 2012 (the "**Notice of Application**") seeking approval of:
- a) An order (the "**Claims Process Order**") in the form attached as Schedule "B" to the Notice of Application; and
 - b) an extension of the Stay of Proceedings provided in the Initial Order to June 30, 2012.
- 1.4 The Petitioner Parties filed the Fifth Affidavit of Mr. Daniel Gumprich, sworn March 28, 2012 (the "**Gumprich #5 Affidavit**"), in support of the Notice of Application.
- 1.5 Capitalized terms not defined in this report are used as defined in the Gumprich #5 Affidavit, the Notice of Application and the Initial Order.
- 1.6 The Initial Order together with select motion material and other documentation filed in the CCAA, are posted on the Monitor's website at www.alvarezandmarsal.com/sterling (the "**Monitor's Website**").

2.0 PURPOSE OF REPORT

- 2.1 This is the Monitor's fourth report (the "**Fourth Report**") and has been prepared to provide this Honourable Court and the Company's stakeholders with:
- a) an update on the status of the Company's restructuring efforts;
 - b) its cash receipts and disbursements for the period ended March 24, 2012;
 - c) revised cash flow forecast to June 30, 2012; and

- d) the Monitor's comments and recommendations in respect of the proposed Claims Process Order and the Company's request for an extension of the Stay of Proceedings to June 30, 2012.

3.0 **TERMS OF REFERENCE**

3.1 In preparing this Fourth Report, A&M has necessarily relied upon unaudited financial and other information supplied, and representations made to us, by certain senior management of the Company ("**Management**"). Although this information has been subject to review, A&M has not conducted an audit nor otherwise verified the accuracy or completeness of any of the information prepared by Management or otherwise provided by the Petitioner Parties. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy of any information contained in this report, or otherwise used to prepare this Fourth Report.

3.2 Certain of the information referred to in this Fourth Report consists of financial forecasts and/or projections prepared by Management. An examination or review of financial forecasts and projections and procedures, as outlined by the Canadian Institute of Chartered Accountants, has not been performed. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections and the variations could be material.

3.3 Unless otherwise stated, all monetary amounts contained in this Fourth Report are expressed in Canadian dollars.

4.0 **UPDATE ON THE COMPANY'S RESTRUCTURING EFFORTS**

4.1 During the period since the Monitor's last report to the Court, the Company has undertaken a number of strategic operational and financial restructuring activities pursuant to the terms of the Initial Order and subsequent Court Order of December 9, 2011. The Monitor has briefly summarized below the Company's activities with respect to the SISP and the Company's efforts to extend the Forbearance Agreement with Bank of Montreal ("**BMO**").

Sale and Investment Solicitation Process ("SISP**")**

4.2 As indicated in the Gumprich #5 Affidavit, after concluding the first phase of its investor solicitation process, the Company and its advisor, CapWest Partners identified one party to work with on a potential sales transaction. The Company is currently in negotiations with a potential purchaser in respect of a purchase and sale of all or substantially all of the assets and business of

the Partnership. Should negotiations proceed to a finalized asset purchase agreement, the Monitor understands that the Company will be seeking this Honourable Court's approval as soon as possible thereafter.

Extension of Forbearance Agreement with BMO

- 4.3 The Company's existing forbearance agreement with BMO expires on March 31, 2012. The Monitor understands that the Company is currently negotiating with BMO for an extension of the Forbearance Agreement on broadly similar terms to the existing agreement with additional provisions to address the potential sale of the Company and/or its assets and business.

5.0 REVISED CASH FLOW STATEMENT AND VARIANCE ANALYSIS

- 5.1 The Company previously filed with this Honourable Court a weekly cash flow forecast for the period ending March 31, 2012 (the "**Revised Cash Flow Statement**") which was reviewed by A&M in its capacity as Monitor of the Petitioner Parties. A&M's comments with respect to the Revised Cash Flow Statement and its review thereof are included in the Monitor's Second and Third Reports and are not repeated herein.
- 5.2 As part of the Monitor's ongoing oversight and monitoring of the business and financial affairs of the Company, the Monitor has undertaken weekly reviews of the Company's actual cash flow in comparison with that forecast by Management and contained in the Revised Cash Flow Statement.
- 5.3 Readers are referred to the Monitor's Third Report dated February 15, 2012 for a summary of the Company's actual consolidated cash flows compared to the Revised Cash Flow Statement for the 15 week period October 16, 2011 to January 28, 2012.
- 5.4 The Company's actual cash receipts and disbursements for the 23 week period October 16, 2011¹ through March 24, 2012 as compared to the Revised Cash Flow Statement, is summarized in the table below:

¹ The date of the Initial Order was October 21, 2011; however, the first week of the Revised Cash Flow Statement includes a forecast for the week of October 16 through 22, 2011 which captures the date of the Initial Order.

Sterling Shoes Inc. et al.

Actual Consolidated Cash Flow Compared to Revised Cash Flow Statement (Note 1)

For the 23 Week Period from October 16, 2011 to March 24, 2012

	October 16, 2011 to March 24, 2012 (Cumulative)		
(\$000's)	Actual	Forecast	Variance
Gross sales receipts	\$ 41,615	\$ 42,921	\$ (1,306)
Cash received on behalf of Century (Note 2)	11,167	-	11,167
Inventory liquidation	8,620	7,572	1,048
Receipts (incl. taxes)	61,401	50,493	10,908
Disbursements			
Vendors	(13,542)	(14,644)	1,102
Payroll	(9,781)	(9,608)	(173)
Rent	(6,223)	(6,333)	110
Sales tax	(2,344)	(1,611)	(733)
Deposits	(213)	(312)	99
Pre-filing related payments	(1,113)	(1,106)	(7)
Other	(4,003)	(5,493)	1,490
Amounts paid to Century (Note 2)	(10,455)	-	(10,455)
	(47,673)	(39,107)	(8,567)
Cash Flow from Operations	13,728	11,386	2,341
CAPEX	-	(416)	416
Professional fees	(1,948)	(3,650)	1,702
Interest / Forbearance fee	(519)	(359)	(160)
Net Cash Flow	11,260	6,961	4,299
Bank Position			
Opening bank exposure (Note 3)	(14,270)	(14,443)	173
Closing Bank Position	(3,010)	(7,482)	4,472
Opening balance	\$ (2,344)	\$ (2,344)	\$ -
(Opened) / Cancelled	(732)	(2,351)	1,619
Drawn	2,893	4,480	(1,587)
LCs	(183)	(214)	31
Total Bank Position	\$ (3,193)	\$ (7,696)	\$ 4,503

Notes:

- (1) "Revised Cash Flow Forecast" as defined in and attached to the Second Report of the Monitor dated December 7, 2011.
- (2) Cash received on behalf of Century and Amounts paid to Century relate to receipts at stores being liquidated by Century Services under an agency agreement.
- (3) Adjustments to opening balances previously reported include cancellation of certain outstanding cheques during the post filing period.

5.5 In summary, the Company has experienced a net favourable cash flow variance of approximately \$4.5 million for the 23 week period ended March 24, 2012. The principal components of the net favourable variance are described below:

- a) sales receipts – the negative variance of \$1.3 million relates primarily to lower same-store sales receipts than forecast for the approximate 6 month period;

- b) cash received on behalf of Century – the positive variance of \$11.2 million relates to cash received from credit card and debit card transactions at Closing Stores that were received in the Company’s bank account and then disbursed to Century net of certain withholdings. The Company has paid Century \$10.5 million as at March 24, 2012 after adjustments for rent, sales tax and other expenses paid by the Company on behalf of Century of approximately \$900,000;
- c) inventory liquidation – the positive variance of approximately \$1 million relates to receipt of the balance of the net guaranteed minimum owed to the Company by Century under the Agency Agreement;
- d) vendor payments – the positive variance of \$1.1 million is primarily due to timing differences with respect to 2012 spring inventory orders;
- e) sales tax – the negative variance of \$733,000 primarily relates to sales tax remittances made on behalf of Century pursuant to the agency agreement and previously not forecast;
- f) other – the favourable variance of \$1.5 million is due to timing differences as well as lower than expected costs for marketing, information technology, supplies and other sales, general and administrative expenses;
- g) professional fees – the favourable variance of \$1.7 million relates primarily to lower than estimated professional fees being incurred although the Monitor anticipates that fees will increase as negotiations with a potential purchaser progress (refer to comments on SISF at paragraph 4.2); and
- h) interest and forbearance fees – the unfavourable variance of \$160,000 relates to higher than expected fees payable under the Forbearance Agreement.

6.0 **UPDATED CASH FLOW STATEMENT**

- 6.1 The Company has prepared an updated weekly cash flow forecast of its receipts and disbursements for the fourteen week period ending June 30, 2012 which supersedes the “**Revised Cash Flow Statement**” referred to in section 5.0 above. (For purposes of this Fourth Report, the updated cash flow forecast to June 30, 2012 will be referred to as the “**Updated Cash Flow Statement.**”)
- 6.2 In preparing the Updated Cash Flow Statement, Management has adopted the probable and hypothetical assumptions set out in accompanying notes to the Updated Cash Flow Statement. A

copy of the Updated Cash Flow Statement and accompanying notes are attached hereto as Appendix “A”.

6.3 In summary and as indicated in the Updated Cash Flow Statement:

- a) total cash receipts forecast from the sales of inventory (including applicable sales taxes) during the fourteen week period ending June 30, 2012 (the “**Forecast Period**”) are approximately \$19.3 million;
- b) total payments to trade vendors are forecast to be approximately \$9.6 million for the Forecast Period and it is assumed that a number of trade vendors, primarily overseas vendors, will continue to insist on more restrictive trade terms, including in some cases deposits;
- c) total payroll and payroll remittances (for both store and corporate employees) and store and head office rent are forecast to be consistent with historical levels, after taking into account store closures in late 2011 and staff reductions at head office, and will be approximately \$5.0 million and \$3.3 million , respectively, for the Forecast Period
- d) statutory sales tax remittances are forecast to be maintained on a current basis throughout the Forecast Period;
- e) other operating expenses of \$2.3 million relate to general overhead costs;
- f) estimated net cash flow from operations for the Forecast Period is expected to be approximately negative \$1.4 million before anticipated professional fees, restructuring costs and interest;
- g) professional fees are estimated to be \$1.5 million during the Forecast Period. As noted above in section 5.5 (g) although there was a favourable variance in professional fees in the period to March 24, 2012, it is anticipated that the professional fees will increase as negotiations on a possible sales transaction continue; and
- h) forecast indebtedness to BMO including outstanding letters of credit is expected to increase by approximately \$4.5 million during the period from March 25, 2012 to June 30, 2012 with a forecast balance at June 30, 2012 of approximately \$7.7 million. Outstanding letters of credit are expected to increase by approximately \$0.8 million with the remaining \$3.7 million increase in bank indebtedness being accounted for by operating losses.

6.4 While not reflected on the Updated Cash Flow Statement, the net book value of the Company’s inventories during the Forecast Period are estimated to decrease slightly from approximately \$19.6 million as at March 24, 2012 to approximately \$19.2 million as at June 30, 2012.

- 6.5 The Monitor has undertaken a review of the Updated Cash Flow Statement. A&M's review consisted of inquiries, analytical procedures and discussions related to information supplied to us by Management and certain employees of the Company. Since hypothetical assumptions need not be supported, A&M procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Updated Cash Flow Statement. The Monitor has also reviewed the information and documents provided by Management in support of the probable assumptions, as well as the preparation and presentation of the Updated Cash Flow Statement.
- 6.6 Based on our review, nothing has come to the Monitor's attention that causes it to believe that, in all material respects:
- a) the hypothetical assumptions are not consistent with the purpose of the Updated Cash Flow Statement;
 - b) as at the date of this report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Updated Cash Flow Statement, given the hypothetical assumptions; or
 - c) the Updated Cash Flow Statement does not reflect the probable and hypothetical assumptions.
- 6.7 Since the Updated Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, A&M expresses no assurance as to whether the Updated Cash Flow Statement will be achieved.
- 6.8 The Updated Cash Flow Statement has been prepared solely for purposes described in Note 1 of the Updated Cash Flow Statement (at Appendix A) and readers are cautioned that it may not be appropriate for any other purpose.
- 7.0 **CLAIMS PROCESS ORDER**
- 7.1 The Claims Process Order as proposed by the Company sets out a process for Creditor(s) with a Claim (both terms as defined by the Claims Process Order) to determine the nature and quantum of their claim for voting and/or distribution within the context of the CCAA Proceedings. 'Claim', as defined by the Claims Procedure Order, generally refers to:
- a) any right or claim of any person against the Petitioner Parties in existence on or relating to liabilities (contingent or otherwise) accrued and unpaid as at the Order Date defined by

the Claims Process Order as a “**Pre-Filing Claim**” including those parties holding convertible debentures of Sterling;

- b) any right or claim of against the Petitioner Parties as defined by the Claims Process Order as a “**Restructuring Claim**” generally arising from disclaimer, resiliation, termination or breach on or after the Order Date. It is expected that the majority of the Restructuring Claims are claims by Landlords of Closing Stores that received Notices of Disclaimer or Resiliation after the Order Date; and
- c) any right or claim of any person against one more of the Directors or Officers of the Petitioner Parties relating to a Pre-Filing Claim or Restructuring Claim, however arising, for which the Directors and/or Officers of the Petitioner Parties are by statute or otherwise by law liable to pay.

7.2 A summary of the key terms and dates of the Claims Procedure Order is tabled below:

Claims Process Order – Notices and Other Particulars	Applicable Dates/Timing
1. Monitor’s Website Post on Monitor’s Website a copy of: <ul style="list-style-type: none"> (a) the Claims Process Order, (b) the Instruction Letter, (c) a blank Proof of Claim form, (d) the Landlord Instruction Letter, (e) a blank Landlord Proof of Claim form, and (f) a blank Notice of Dispute form. 	2 days following issuance of Claims Process Order
2. Notice of Claims Claims Package, Landlord’s Claim Package and Claim Amount Notice dispatched to: <ul style="list-style-type: none"> a. Creditors with Claims, b. Transfer Agent for Convertible Debenture Holders, and c. Counter-party to any contract or agreement with Petitioner Parties where a Notice of Disclaimer or Resiliation has been issued 	3 days following issuance of Claims Process Order (tentatively, April 2, 2012)
3. Newspaper Notice Publication of Notice of Claims Process in one (1) Business Day in Globe & Mail (National Edition) and Vancouver Sun	4 days following issuance of Claims Process Order
4. Claims Bar Date Applies to all Creditor Claims except Restructuring Claims	May 9, 2012 5:00pm (Pacific Time)
5. Restructuring Claims Bar Date	The later of May 9, 2012 and 10 days after a Notice of Disclaimer or Resiliation is issued

Claims Process Order – Notices and Other Particulars	Applicable Dates/Timing
<p>6. Adjudication of Claims</p> <p>(a) Monitor in consultation with Petitioner Parties shall review all Proofs of Claim received on or before the Claims Bar Date or the Restructuring Claims Bar Date</p> <p>(b) If applicable, issue a Notice of Revision or Disallowance Creditor</p> <p>(c) Creditor issues a Notice of Dispute in respect of a disputed Notice of Revision or Disallowance Creditor</p> <p>(d) If necessary, a Claims Officer will be appointed to determine the validity and/or amount of a disputed Creditor Claim</p>	<p>Following receipts of Proofs of Claim and Landlords Proofs of Claim</p> <p>No later than 10 days after Claims Bar Date or the Restructuring Claims Bar Date</p> <p>No later than 5:00pm (Pacific Time) on date that is 7 days after Notice of Revision or Disallowance Creditor</p> <p>As soon as practicable after receipt of the Notice of Dispute</p>

7.3 The Monitor views the terms of the proposed Claims Procedure Order as well as the indicated timeline as reasonable in the circumstances.

8.0 STAY EXTENSION

8.1 The Stay of Proceedings against the Petitioners as extended by the Court is due to expire on April 2, 2012. The Claims Process Order contains a term at paragraph 6 which requires approval by this Honourable Court of an extension of the Stay of Proceedings to June 30, 2012.

8.2 The Monitor has considered the following in its consideration of the Company's request for an extension of the Stay of Proceedings to June 30, 2012:

- a) the expected timing of a potential sales transaction with a third party purchaser and the extent of on-going operating losses;
- b) the Updated Cash Flow Statement of the Petitioner Parties up to and including the June 30, 2012 and the liquidity of Sterling during that period of time;
- c) whether there would be any additional material financial prejudice to any of the Company's creditors (including landlords and BMO) and employees as a result of an extension of the Stay of Proceedings; and

- d) whether, on balance, the Company's prospects of effecting a viable restructuring would be enhanced for the benefit of its unsecured creditors by an extension of the Stay of Proceedings.

9.0 **RECOMMENDATIONS**

- 9.1 The Company is acting in good faith and with due diligence and has made, and continues to make, significant progress with its restructuring efforts in the period of time since the commencement of the CCAA Proceedings. As such, the Monitor respectfully recommends that this Honourable Court approve the following orders being sought by the Company:
- a) the Claims Process Order; and
 - b) an extension of the Stay of Proceedings to June 30, 2012.

All of which is respectfully submitted to this Honourable Court this 29th day of March, 2012.

**Alvarez & Marsal Canada Inc.,
in its capacity as Monitor of Sterling Shoes Inc.
and Sterling Shoes GP Inc.**



Per: Todd M. Martin
Senior Vice President

APPENDIX A

Sterling Shoes Inc., Sterling Shoes CP Inc. and Sterling Shoes Limited Partnership
 Consolidated Cash Flow Forecast (Note 1)
 For the Thirty-eight Week Period from October 16, 2011 to June 30, 2012
 (CDN \$000's)

Week	1 to 21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39 to 40	Total
Account	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	(Actual Account)
For the Week ending	Actual	31-Mar	7-Apr	14-Apr	21-Apr	28-Apr	5-May	12-May	19-May	26-May	2-Jun	9-Jun	16-Jun	23-Jun	30-Jun	7-Jul	14-Jul	21-Jul	28-Jul	Total
Sales Receipts (incl. HST)	2	\$ 41,615	\$ 1,387	\$ 1,376	\$ 1,277	\$ 1,325	\$ 1,434	\$ 1,461	\$ 1,456	\$ 1,451	\$ 1,396	\$ 1,330	\$ 1,360	\$ 1,372	\$ 1,389	\$ 1,308	\$ 1,322	\$ 1,308	\$ 1,322	\$ 60,937
Cash Received on Behalf of Century	3	\$ 11,167	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,167
Inventory Liquidation	4	8,620	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,620
Gross Receipts	5	\$ 61,401	\$ 1,387	\$ 1,376	\$ 1,277	\$ 1,325	\$ 1,434	\$ 1,461	\$ 1,456	\$ 1,451	\$ 1,396	\$ 1,330	\$ 1,360	\$ 1,372	\$ 1,389	\$ 1,308	\$ 1,322	\$ 1,308	\$ 1,322	\$ 80,723
Disbursements	6	(13,542)	(947)	(508)	(900)	(764)	(587)	(850)	(819)	(677)	(577)	(657)	(671)	(560)	(581)	(548)	(546)	(546)	(546)	(23,188)
Vendors	7	(9,781)	(137)	(534)	(134)	(701)	(134)	(701)	(134)	(534)	(134)	(534)	(134)	(534)	(134)	(534)	(134)	(534)	(134)	(14,794)
Payroll	8	(6,223)	-	(1,112)	-	-	(1,112)	-	-	-	-	(1,112)	-	-	-	-	-	-	-	(9,559)
Rent	9	(2,343)	(155)	-	-	-	(10)	-	-	-	-	(123)	-	-	-	(116)	-	-	-	(2,749)
Sales tax	10	(243)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(243)
Deposits	11	(1,113)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,113)
Pre-filing related payments	12	(4,003)	(196)	(246)	(245)	(134)	(134)	(246)	(116)	(116)	(116)	(228)	(103)	(103)	(103)	(214)	(214)	(214)	(214)	(6,503)
Other	13	(10,455)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,455)
Amounts paid to Century	14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Disbursements	15	(47,673)	(1,435)	(2,400)	(1,279)	(1,599)	(855)	(2,919)	(1,069)	(1,327)	(827)	(2,654)	(908)	(1,197)	(816)	(1,412)	(20,699)	(816)	(1,412)	(68,372)
Cash Flow from Operations	16	13,728	(48)	(1,024)	(2)	(274)	579	(1,458)	387	124	569	(1,324)	452	175	571	(164)	(1,377)	12,351	(1,377)	12,351
Professional fees	17	(1,948)	(149)	(146)	(191)	(86)	(86)	(135)	(86)	(86)	(86)	(135)	(86)	(86)	(86)	(86)	(86)	(86)	(86)	(3,478)
Interest Forebearance fee	18	(519)	(7)	(10)	(10)	(10)	(10)	(28)	(10)	(10)	(10)	(41)	(10)	(10)	(10)	(47)	(10)	(47)	(10)	(642)
Capital expenditures	19	-	-	(30)	(30)	(30)	(30)	(30)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(454)
Net Cash Flow	20	11,260	(204)	(1,310)	(233)	(400)	453	(1,651)	253	(10)	435	(1,538)	318	41	437	(275)	(3,684)	7,576	(275)	7,576
Bank Position	21	(14,270)	(3,010)	(3,214)	(4,524)	(4,757)	(5,157)	(4,704)	(6,355)	(6,102)	(6,112)	(5,677)	(7,215)	(6,897)	(6,556)	(6,419)	(3,010)	(14,270)	(3,010)	(14,270)
Operating Bank Exposure	22	(3,010)	(3,214)	(4,524)	(4,757)	(5,157)	(4,704)	(6,355)	(6,102)	(6,112)	(5,677)	(7,215)	(6,897)	(6,556)	(6,419)	(3,010)	(14,270)	(3,010)	(14,270)	(6,694)
Closing Bank Position	23	(2,344)	(183)	(115)	(162)	(209)	(256)	(303)	(350)	(399)	(448)	(497)	(546)	(600)	(641)	(688)	(734)	(774)	(818)	(2,344)
Letters of Credit	24	(732)	(91)	(75)	(75)	(75)	(75)	(70)	(70)	(70)	(132)	(132)	(132)	(132)	(132)	(132)	(132)	(132)	(132)	(2,006)
Operating balance	25	2,893	159	28	28	28	28	28	21	21	21	21	18	18	18	18	18	18	18	3,348
Drawn	26	(183)	(115)	(162)	(209)	(256)	(303)	(350)	(399)	(448)	(497)	(546)	(600)	(641)	(688)	(734)	(774)	(818)	(818)	(1,002)
Closing Letters of Credit	27	(183)	(115)	(162)	(209)	(256)	(303)	(350)	(399)	(448)	(497)	(546)	(600)	(641)	(688)	(734)	(774)	(818)	(818)	(1,002)
Total Bank Position	28	(3,193)	(3,329)	(4,686)	(4,966)	(5,413)	(5,007)	(6,705)	(6,531)	(6,560)	(6,174)	(7,761)	(7,557)	(7,630)	(7,307)	(7,696)	(7,696)	(7,696)	(7,696)	(7,696)

Daniel Gumpich
 Daniel Gumpich
 Chief Financial Officer

March 29, 2012
 Date

Sterling Shoes Inc., Sterling Shoes GP Inc. and Sterling Shoes Limited Partnership
 Consolidated Cash Flow Forecast (Note 1)
 For the Thirty-eight Week Period from October 16, 2011 to June 30, 2012

Notes:

- 1 The purpose of this Cash Flow Statement is to set out the liquidity requirements of Sterling Shoes Inc., Sterling Shoes GP Inc. and Sterling Shoes Limited Partnership during the CCAA Proceedings. Since projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.
- 2 Cash receipts are based on estimated sales in 2011 and the first three months of 2012. These estimates were calculated using actual weekly sales for 2011 with appropriate adjustments to reflect the recent sales activities at the Company's remaining stores. Cash receipts also assume that the Company will continue to purchase inventory throughout the period. Cash receipts include HST collected.
- 3 Payments to vendors are based on the expected delivery dates for purchase orders currently open.
- 4 Payroll payments are based on recent payroll expenses, after adjustments for store closures and head office staff reductions with appropriate adjustments for the expected sales activity from March 24 to June 30, 2012. These amounts include payroll withholding taxes and other employee related expenses.
- 5 Rent payments are based on ongoing monthly lease obligations to store landlords for the stores currently being operated. Rent payments assume that the current level of stores remain open during the forecast period.
- 6 Sales tax payments are based on the sales tax collected and net of input tax credits based on an 11% effective HST/GST rate across all provinces in which the Company operates.
- 7 No further deposits are expected to be paid to utility providers.
- 8 Pre-filing payments have been dealt with in the period since the CCAA filing and no further payments will be made.
- 9 Other expenses include selling, general and administrative expenses. These expenses include travel and promotion, recurring professional fees (audit and tax), head office rent and communication expenses and insurance. These estimates have been forecast based on recent levels of monthly expenses and assumed to be spread evenly across each month and paid each week.
- 10 Professional fees relating to the filing are based on estimates provided by advisors of the Company and the secured lender for consulting and legal services as well as those of the monitor.
- 11 Interest and forbearance fees include bank interest and fees relating to the anticipated extension of the forbearance agreement with Bank of Montreal.
- 12 Letters of credit are based on those currently open and as well as the new letters of credit which are assumed may be required to place orders for purchases to be delivered in Fall 2012.