

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.

SEVENTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.

June 12, 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 On December 9, 2011, on the application of the Petitioner Parties, this Honourable Court made an order approving among other things:
- a) the execution by the Partnership of an agreement (the "**Century Agreement**") between the Partnership and Century Services LP, by its general partner, Century Services Inc., which allowed the Company to undertake a liquidation of store merchandise in 53 retail locations in accordance with a store closure plan (the "**Phase I Store Closure Plan**");
 - b) a sale and investment solicitation process ("**SISP**") to be undertaken with the assistance of, and in consultation with, the Company's financial advisor, Capital West Partners ("**CapWest**");
 - c) a key employee incentive plan ("**KEIP**") for select management and employees of the Company and a charge in favour of the Key Employees in respect of the Company's obligations pursuant to the KEIP; and
 - d) an extension of the forbearance agreement between the Company and its primary operating lender, Bank of Montreal ("**BMO**") to March 31, 2012 (which was subsequently extended to May 25, 2012).
- 1.3 On April 2, 2012, on the application of the Petitioner Parties, this Honourable Court made an order (the "**Claims Process Order**") (i) approving a claims process (the "**Claims Process**") for the determination of the nature and quantum of claims against the Petitioner Parties, and (ii) extending the stay of proceedings under the Initial Order to June 30, 2012 (the "**Stay Period**").
- 1.4 On April 30, 2012, on the application of the Petitioner Parties, this Honourable Court made two orders as follows:

- a) approving, and authorizing Sterling GP and the Partnership to enter into, the asset purchase agreement dated April 16, 2012 (the “**APA**”) among Sterling GP, the Partnership, Town Shoes Limited (“**Town**”) and the Monitor; and
 - b) assigning to Town 69 leases of retail premises located in British Columbia, Alberta, Manitoba, Saskatchewan and Ontario and certain contracts required for the continued operation of the Company’s business.
- 1.5 On May 8, 2012, on the application of the Petitioners Parties, this Honourable Court, approved, and authorized Sterling GP and the Partnership to enter into, an agency agreement (the “**Agency Agreement**”) with Great American Group, LLC (“**Great American**”), which allows the Company to undertake a liquidation of store merchandise in 36 retail locations in accordance with the second store closure plan (the “**Phase II Store Closure Plan**”).
- 1.6 The Petitioner Parties have filed a notice of application dated June 7, 2012 (the “**Notice of Application**”), to be heard on June 14, 2012, seeking an order approving an extension of the Stay Period to October 15, 2012.
- 1.7 In support of the Notice of Application, the Petitioner Parties are relying on the Eighth Affidavit of Mr. Daniel Gumprich (Sterling’s Chief Financial Officer), sworn June 7, 2012 (the “**Gumprich #8 Affidavit**”).
- 1.8 The Initial Order, together with the Notice of Application, the Gumprich #8 Affidavit and select motion material and other documentation filed in the CCAA, are posted on the Monitor’s website at www.alvarezandmarsal.com/sterling.

2.0 PURPOSE OF REPORT

- 2.1 This is the Monitor’s seventh report (the “**Seventh Report**”) and it 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, including the sale of certain Company assets and store locations to Town pursuant to the APA, the Phase II Store Closure Plan and the liquidation undertaken by Great American pursuant to the Agency Agreement;
 - b) an update on the Claims Process generally;
 - c) a review of the Company’s cash receipts and disbursements for the period ended June 2, 2012;

- d) the Company's revised cash flow forecast to October 13, 2012; and
- e) the Monitor's comments regarding the above and the Monitor's recommendation with respect to the Petitioners' request for an extension of the Stay Period to October 15, 2012.

3.0 **TERMS OF REFERENCE**

- 3.1 In preparing this 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 report.
- 3.2 Certain of the information referred to in this 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 report are expressed in Canadian dollars.

4.0 **COMPLETION OF THE TOWN SHOES TRANSACTION**

Background

- 4.1 In accordance with the provisions of the APA, the sale of the Company's operating assets (inventories, furniture, fixtures, information systems, bank accounts, other store related assets and working capital items) at 69 retail locations was completed on May 22, 2012.
- 4.2 By its terms, the APA contemplated Town acquiring the operating assets of 72 stores and offering employment to approximately 575 Transferred Employees, subject to a limited right to adjust those numbers prior to closing. Town subsequently opted to reduce the number of store locations acquired and the employees transferred to 69 and 552, respectively.

Net Sales Proceeds and Preliminary Statement of Adjustments

- 4.3 The net sales proceeds from the sale to Town was \$21.3 million as summarized in the table below:

Sterling Shoes Limited Partnership and Sterling Shoes GP Inc. Analysis of the Purchase Price received from Town Shoes Limited (\$000's)	
Purchase Price Agreed	\$ 17,500
Working Capital Adjustment (note 1)	3,987
Total Purchase Price	21,487
Expenses incurred at closing	(164)
Net proceeds received by the Company per the table in section 7.4 (note 2)	21,323
Disposition of the Proceeds:	
Amounts paid to BMO to settle the indebtedness as at May 22, 2012	939
Escrow amounts held in trust by the Monitor (note 3)	3,000
Administrative Charge held in trust by the Monitor (note 4)	500
	4,439
Net proceeds received directly by the Company	\$ 16,884

Notes:

(1) This adjustment is based on a preliminary estimate of the Working Capital at closing.

(2) This amount includes amounts held in trust by the Monitor totalling \$3.5 million.

(3) This amount is subject to adjustment when the final working capital adjustments have been agreed and other potential claims have been settled or expired.

(4) This charge primarily relates to professional fees of the Company's counsel, the Monitor and the Monitor's counsel and is expected to be released to the Company at the conclusion of the CCAA proceedings.

- 4.4 It is contemplated that the final working capital adjustment will be confirmed and agreed between the parties in August 2012. Once any final adjustment has been paid, the balance of the \$3.0 million currently held in escrow by the Monitor will be released to the Company.

5.0 UPDATE ON PHASE II STORE CLOSURE PLAN

- 5.1 Under the Agency Agreement, the liquidation of inventory at 36 stores (the “**Remaining Stores**”) commenced on May 10, 2012. To date, the net proceeds received from the liquidation totals \$3.5 million which was utilized to pay down the Company’s indebtedness to BMO.

- 5.2 On May 22, 2012, the Company issued Notices of Disclaimer or Resiliation (“**NOD**”) of leases to 13 of the 36 landlords of the Remaining Stores advising them of the Company’s intention to disclaim their leases.
- 5.3 The liquidation of inventory at the Remaining Stores is expected to be completed by the end of July 2012.
- 5.4 The balance of the Guaranteed Amount due from Great American under the Agency Agreement, after various adjustments, will be paid upon completion of a final inventory reconciliation and accounting between Great American and the Partnership.
- 5.5 Upon the completion of the liquidation of all 36 stores by Great American and subject to the Monitor’s satisfaction, the Company will release the letters credit received to support the store operating expenses and 10% of the Guaranteed Amount (subject to adjustment), and will seek this Court’s approval, if necessary, to release the Agent’s Charge granted to Great American as security for the Company’s obligations to Great American under the Agency Agreement.

6.0 UPDATE ON THE CLAIMS PROCESS

- 6.1 On April 2, 2012, this Honorable Court granted the Claims Process Order, the key elements of which are described in the Fourth Report of the Monitor dated March 29, 2012 and are not repeated herein.
- 6.2 The Claims Process Order contemplates dealing with the following claims:
 - a) pre-filing claims, being those claims in existence at the Order Date (“**Pre-Filing Claims**”), including the claims of creditors holding convertible debentures issued by Sterling;
 - b) claims resulting from the disclaimer, resiliation or termination of an agreement on or after the Order Date (“**Restructuring Claims**”). These claims relate primarily to landlords whose leases were terminated and employees whose employment was terminated in connection with the Phase I and Phase II Store Closure Plans; and
 - c) claims against Directors or Officers of the Petitioner Parties, whether arising before or after the Order Date (“**D&O Claims**”).
- 6.3 In accordance with the Claims Process Order, creditors and potential creditors of the Petitioner Parties were notified of the Claims Process as follows:

- a) a Claims Package or Landlord Claims Package was mailed to each creditor on April 5, 2012 with a potential claim as evidenced by the books and records of the Petitioners. With respect to the convertible debentures issued by Sterling, the transfer agent, Computershare Trust Company of Canada was notified and provided a Claims Package on April 5, 2012;
- b) creditors with known Pre-Filing Claims were provided with a Claim Amount Notice specifying the amount of their claim as evidenced by the books and records of the Company, and were advised that they could accept the amount owing as set forth in the Claim Amount Notice or dispute the amount by filing a Proof of Claim;
- c) notices of the Claims Process were published in the Vancouver Sun and Globe and Mail (National Edition) on April 5, 2012;
- d) a copy of the Claims Process Order, Instruction Letter, Proof of Claim Form, Landlord Instruction Letter, Landlord Proof of Claim Form and Blank Notice of Dispute forms were posted to the Monitor's website on April 4, 2012; and
- e) each party that received a NOD subsequent to the Claims Process Order date of April 2, 2012 (primarily landlords) was also delivered a Claims Package or Landlord Claims Package as appropriate.

Summary of Proofs of Claim Filed to Date

6.4 A summary of creditor claims filed as at June 8, 2012 is set forth in the following tables:

Sterling Shoes Limited Partnership Summary of Proofs of Claim to June 8, 2012 (\$000's)						
	Proofs of Claims Filed		Notices of Disallowance or Revision		Notices of Dispute	
	#	\$	#	\$	#	\$
Pre-filing claims	406	15,822	9	1,612	3	90
Restructuring claims:						
Landlords	48	26,114	45	25,941	22	8,155
Employees	113	2,586	83	785	9	421
Total Restructuring Claims	161	28,700	128	26,726	31	8,576
Total Claims	567	44,522	137	28,338	34	8,666

Sterling Shoes Inc.
Summary of Proofs of Claim to June 8, 2012
(\$000's)

	Proofs of Claims Filed		Notices of Disallowance or Revision		Notices of Dispute	
	#	\$	#	\$	#	\$
Pre-filing claims - Convertible debentures	3	26,558	2	783	-	-
Restructuring claims:						
Landlords	2	1,956	2	1,956	-	-
Employees	-	-	-	-	-	-
Total Restructuring Claims	2	1,956	2	1,956	-	-
Total Claims	5	28,514	4	2,739	-	-

Pre-filing Claims

- 6.5 The claims bar date for Pre-Filing Claims was May 9, 2012. Of the 406 Pre-Filing Claims filed in respect of the Limited Partnership, 316 were the subject of Claim Amount Notices that were not disputed, and 90 arose from filed Proof of Claim forms. A total of three Pre-Filing Claims have been filed against Sterling.
- 6.6 Nine Pre-Filing Claims against the Limited Partnership were disallowed because the Proofs of Claim contained insufficient information to support the claims. Three of the nine parties that received Notices of Revision or Disallowance have subsequently filed Notices of Dispute and provided further information with respect to their claims. The Monitor and the Company are currently in the process of reviewing these Notices of Dispute.
- 6.7 Two Pre-Filing Claims against Sterling were disallowed on the basis that they were claims from parties holding convertible debentures that had already been claimed by the transfer agent on their behalf.

Restructuring Claims

- 6.8 The total Restructuring Claims against the Limited Partnership and Sterling received to date consist of 113 claims by former employees and 50 claims from landlords that received NODs.
- 6.9 A total of 83 former employees that filed claims were issued Notices of Revision or Disallowance on the basis that their claim amounts were not supported by adequate information/documentation and/or were inconsistent with the applicable statutory employment standards amounts in their respective provinces as calculated by the

Company. Nine of the employees that received Notices of Revision or Disallowance have subsequently filed Notices of Dispute.

- 6.10 A total of 47 landlords (Limited Partnership – 45; Sterling – 2) that filed claims were issued Notices of Revision or Disallowance on the basis that insufficient information was provided to support their claim. A total of 22 Notices of Dispute have subsequently been received and are currently being reviewed by the Monitor and the Company. The Monitor expects that while the total amount of the landlords' claims will be significant, it will be substantially less than the amount initially claimed by the landlords.
- 6.11 The Monitor anticipates receiving further Restructuring Claims from landlords and employees arising from store closures under the Phase II Store Closure Plan. The claims bar date for Restructuring Claims is 10 days after the date of the applicable NOD, or such other date as may be ordered by the Court.

Director and Officer Claims

- 6.12 To date, no claims have been filed against any Directors or Officers of the Petitioners.

Summary Comment

- 6.13 The Claims Process is ongoing and a final claims register will not be completed until all the Remaining Stores are closed and the disputed claims are resolved.

7.0 UPDATED CCAA CASH FLOW STATEMENT AND VARIANCE ANALYSIS

- 7.1 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**”) and for the period ending June 30, 2012 (the “**Updated Cash Flow Statement**”), both of which were reviewed by the Monitor. The Monitor's comments with respect to the Revised Cash Flow Statement and the Updated Cash Flow Statement are included in the Monitor's Second, Third and Fourth Reports and are not repeated herein.
- 7.2 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 to that forecast by Management and contained in the Revised Cash Flow Statement and the Updated Cash Flow Statement.
- 7.3 Readers are referred to the Monitor's Fourth Report dated March 29, 2012 for a summary of the Company's actual consolidated cash flows compared to the Revised Cash Flow Statement for the 23 week period October 16, 2011 to March 24, 2012.

- 7.4 The Company's actual cash receipts and disbursements for the 33 week period from October 16, 2011 to June 2, 2012 as compared to the Updated Cash Flow Statement is summarized in the table below:

Sterling Shoes Inc. et al. Actual Consolidated Cash Flow Compared to Updated Cash Flow Statement (Note 1) For the 33 Week Period from October 16, 2011 to June 2, 2012			
(\$000's)	October 16, 2011 to June 2, 2012 (Cumulative)		
	Actual	Forecast	Variance
Gross sales receipts	\$ 52,866	\$ 55,508	\$ (2,642)
Cash received on behalf of liquidators (Note 2)	12,987	11,167	1,820
Inventory liquidation	12,481	8,620	3,861
Sale to Town Shoes Limited	21,323	-	21,323
Receipts (incl. taxes)	99,657	75,294	24,363
Disbursements			
Vendors	(19,050)	(20,828)	1,778
Payroll	(13,382)	(13,458)	77
Rent	(8,346)	(9,559)	1,213
Sales tax	(2,514)	(2,632)	118
Deposits	(213)	(213)	-
Pre-filing related payments	(1,113)	(1,113)	-
Other	(4,994)	(5,780)	785
Amounts paid to liquidators	(12,089)	(10,455)	(1,634)
	(61,701)	(64,037)	2,336
Cash Flow from Operations	37,956	11,257	26,699
Capital expenditures	(55)	(303)	248
Professional fees	(3,834)	(3,134)	(700)
Interest / Forbearance fee	(898)	(765)	(133)
Net Cash Flow	33,168	7,055	26,113
Bank Position			
Opening bank exposure (Note 3)	(14,270)	(14,270)	-
Closing Bank Position	18,898	(7,215)	26,113
Opening balance	\$ (2,344)	\$ (2,344)	\$ -
(Opened) / Cancelled	(722)	(1,478)	756
Drawn	3,039	3,276	(237)
LCs	(27)	(546)	519
Total Bank Position	\$ 18,871	\$ (7,761)	\$ 26,632
Notes:			
(1) "Updated Cash Flow Forecast" as defined in and attached to the Fifth Affidavit of Daniel Gumpnich dated April 2, 2012.			
(2) Cash received on behalf of liquidators and amounts paid to liquidators relate to receipts and disbursements at stores liquidated under the agency agreements.			
(3) Adjustments to opening balances previously reported include cancellation of certain outstanding cheques post filing.			

- 7.5 In summary, the Company has experienced a net favourable cash flow variance of approximately \$26.1 million for the 33 week period ended June 2, 2012. The key components of the net favourable variance are described below:

Receipts

- a) sales receipts – the unfavourable variance of \$2.6 million relates primarily to the impact on sales arising from the liquidation of inventory by Great American and the sale of the Assets to Town which were not forecast when the Updated Cash Flow Statement was prepared;

- b) cash received on behalf of liquidators – the favourable variance of \$1.8 million relates to cash received from credit card and debit card transactions at the Closing Stores being liquidated by Century and Great American. The main component of this variance relates to stores liquidated by Great American which was not contemplated when the Updated Cash Flow Forecast was prepared. Related to these receipts are the amounts paid to liquidators which had an unfavourable variance of \$1.6 million. The resulting net favourable variance is \$186,000;
- c) inventory liquidation – the favourable variance of \$3.9 million relates to the liquidation of inventory at 36 stores by Great American which, as noted above, was not contemplated when the Updated Cash Flow Forecast was prepared; and
- d) sale of assets – the favourable variance of \$21.3 million relates to the proceeds received on the sale of the assets to Town which was not included in the Updated Cash Flow Forecast.

Disbursements

- e) vendor payments – the favourable variance of \$1.8 million is primarily due to delays in receiving inventory and the transfer to Town of purchase obligations which were not contemplated in the Updated Cash Flow Forecast;
- f) payroll – the favourable variance of \$77,000 relates to the lower than expected payroll expenses. Payroll payments include the final KEIP payment of \$167,000 paid upon the closing of the sale of assets to Town;
- g) rent – the favourable variance of \$1.2 million relates to rental payments for stores which were either transferred to Town under the APA or which are being liquidated by Great American as noted in 7.5 (a) above;
- h) sales tax – the favourable variance of \$118,000 relates to lower sales as noted above;
- i) other – the favourable variance of \$785,000 is due to lower than expected costs for sales, marketing, information technology, supplies and other sales, general and administrative expenses;
- j) capital expenditure - the favourable variance of \$248,000 relates to lower capital expenditure requirements than anticipated at the stores and head office;
- k) professional fees – the unfavourable variance of \$700,000 relates primarily to the fees paid to the financial advisor under the SISP which were not forecast in the Updated Cash Flow Forecast; and

- l) interest and forbearance fees – the unfavourable variance of \$133,000 primarily relates to higher than expected fees payable under the extension of the Forbearance Agreement in March 2012 together with lower interest expenses due to BMO being repaid in full during May 2012 from the proceeds of the Great American liquidation and the sale of the assets to Town.
- 7.6 During the period from October 16, 2011 to June 2, 2012, the Company fully repaid its indebtedness to BMO. As at June 2, 2012, the Company had a closing cash balance of \$18.9 million, which includes \$3.5 million held in trust for the Company by the Monitor. It should be noted that the full amount of the funds held in trust by the Monitor may not be released to the Company as they may be used to settle the final working capital adjustment and other potential claims of Town as noted in section 4.3.

8.0 OCTOBER CASH FLOW STATEMENT

- 8.1 The Company has prepared an updated weekly cash flow forecast of its receipts and disbursements for the nineteen week period ending October 13, 2012 (the “**October Cash Flow Statement**”) which supersedes the “**Updated Cash Flow Statement**” for the period to June 30, 2012 referred to in section 7.0 above.
- 8.2 In preparing the October Cash Flow Statement, Management has adopted the probable and hypothetical assumptions set out in accompanying notes to the October Cash Flow Statement. A copy of the October Cash Flow Statement and accompanying notes are attached hereto as Appendix “A”.
- 8.3 In summary and as indicated in the October Cash Flow Statement:
 - a) absent any additional proceeds arising from the Agency Agreement, further cash receipts are not forecast in the nineteen week period ending October 13, 2012 (the “**Forecast Period**”) as stores previously operated by the Company have been either liquidated by Century/Great American or sold to Town;
 - b) forecast payroll remittances of \$138,000 are assumed to be paid in the week of June 9, 2012 and thereafter no further payroll obligations are expected as employee costs are being covered by Great American for the liquidated stores and by Town for the store and head office staff transferred in accordance with the APA;
 - c) forecast rent expenses totalling \$568,000 consist of payment of certain property taxes, head office rent and remaining store rents not covered by Great American;

- d) other operating expenses of \$930,000 relate to general overhead costs and include a payment of \$110,000 for Directors' and Officers' Insurance;
 - e) estimated net cash flow from operations for the Forecast Period is expected to be approximately negative \$1.7 million before anticipated professional fees;
 - f) professional fees are estimated to be \$1.2 million during the Forecast Period, \$220,000 of which were accrued as at June 8, 2012 and relate to the closing of the APA and the Agency Agreement; and
 - g) no further capital expenditures or interest costs are anticipated during the Forecast Period.
- 8.4 The forecast net cash flow during the Forecast Period is negative \$2.9 million resulting in a forecast closing bank position of \$16.0 million as at October 13, 2012.
- 8.5 The Monitor has undertaken a review of the October 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 October 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 October Cash Flow Statement.
- 8.6 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 October 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 October Cash Flow Statement, given the hypothetical assumptions; or
 - c) the October Cash Flow Statement does not reflect the probable and hypothetical assumptions.
- 8.7 Since the October 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 October Cash Flow Statement will be achieved.

- 8.8 The October Cash Flow Statement has been prepared solely for purposes described in Note 1 of the October Cash Flow Statement (at Appendix A) and readers are cautioned that it may not be appropriate for any other purpose.

9.0 POTENTIAL RECOVERIES TO CREDITORS

- 9.1 In order to assist creditors in estimating their potential recoveries, the Monitor has disclosed the estimated net cash on hand as at October 13, 2012 (refer to section 8.0 and Appendix A) and assumed that amount would be available for distribution to creditors on or around that date. Readers should be aware that the estimated cash on hand as at October 13, 2012 of approximately \$16.0 million remains subject to change, including any adjustments arising under the APA and the Agency Agreement.
- 9.2 In addition, as the Claims Process has not been completed and additional Restructuring Claims are expected to arise as the Remaining Stores are closed, it is difficult to estimate the final amount of all claims against the Petitioner Parties. The Restructuring Claims of landlords remain the largest variable in estimating the total claim amounts and, therefore, providing a meaningful estimate of the pro rata recoveries by creditors is not possible at this time.
- 9.3 It should be noted that, given the Monitor's understanding that Sterling has no assets of value, creditors of Sterling (which are primarily the holders of convertible debentures issued by Sterling) whose claims total approximately \$25.8 million as at June 8, 2012 are not expected to recover anything in respect of their claims.

10.0 EXTENSION OF STAY PERIOD

- 10.1 The Company is seeking an order of this Honourable Court to extend the Stay Period until October 15, 2012.
- 10.2 In relation to the Company's request for an extension of the Stay Period, the Monitor has specifically considered the following factors:
- a) the October Cash Flow Forecast up to October 13, 2012 and the Company's liquidity during that period of time;
 - b) whether there would be any material financial prejudice to any of the Company's creditors, employees or customers as a result of an extension of the Stay Period;
 - c) the expected timing for the final adjustments to the proceeds received under the APA and the Agency Agreement;

- d) the additional work required to resolve and/or adjudicate Proofs of Claim, particularly Restructuring Claims; and
- e) the Company's obligation under the APA to continue to offer employment to the remaining members of Management until mid-October 2012.

10.3 The Monitor is of the view that an extension of the Stay Period to October 15, 2012 is reasonable in the circumstance as it will allow for the resolution of any disputed claims as well as the completion of the APA and the Agency Agreement. These matters should be concluded by around the end of September 2012, barring any protracted settlement negotiations and/or litigation surrounding the Restructuring Claims.

10.4 This Honourable Court should note that although the extension of the Stay Period has been requested to October 15, 2012, the October Cash Flow Forecast ends on Saturday October 13, 2012 which reflects the Company's normal cash flow reporting period and cut off just prior to October 15, 2012.

11.0 **MONITOR'S CONCLUSIONS AND RECOMMENDATIONS**

11.1 The Monitor respectfully recommends that this Honourable Court approve the extension of the Stay Period to October 15, 2012.

All of which is respectfully submitted to this Honourable Court this 11th day of June, 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



Per: Callum D.M. Beveridge
Senior Director

APPENDIX A

Sterling Shoes Inc., Sterling Shoes GP Inc. and Sterling Shoes Limited Partnership
Consolidated Cash Flow Forecast (Note 1)
For the Fifty-two Week Period from October 16, 2011 to October 13, 2012
(CDN \$000's)

Week	1 to 33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	39 to 57	Total	
For the Week ending	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	(incl. Actual)	
	Total	9-Jul	16-Jul	23-Jul	30-Jul	6-Aug	13-Aug	20-Aug	27-Aug	3-Sep	10-Sep	17-Sep	24-Sep	1-Oct	8-Oct	15-Sep	22-Sep	29-Sep	6-Oct	13-Oct	Total		
Sales Receipts (incl. HST)	\$ 52,866	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,866	
	Cash Received on Behalf of Liquidators	12,987	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,987	
	Inventory Liquidation	12,481	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,481	
Sale of Assets	21,323	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,323	
Gross Receipts	3 \$ 99,657	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 99,657	
Disbursements																							
Vendors	(19,050)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(19,050)	
Payroll	4 (13,382)	(138)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,520)	
Rent	5 (8,346)	(67)	-	-	(185)	(131)	-	-	-	(35)	-	-	-	(35)	-	-	-	(35)	-	-	-	(8,914)	
Sales tax	6 (2,514)	-	-	-	(100)	-	-	-	-	20	-	-	-	13	-	-	-	12	-	-	-	(2,569)	
Deposits	(213)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(213)	
Pre-filing related payments	(1,113)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,113)	
Other	7 (4,994)	(69)	(70)	(70)	(236)	(11)	(11)	(11)	(9)	(122)	(11)	(9)	(9)	(120)	(8)	(8)	(8)	(136)	(6)	(6)	(930)	(5,924)	
Amounts paid to liquidators	(12,089)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,089)	
Total Disbursements	(61,701)	(274)	(70)	(70)	(521)	(142)	(11)	(91)	(91)	(122)	(26)	(9)	(9)	(142)	(8)	(8)	(8)	(159)	(6)	(6)	(1,691)	(63,392)	
Cash Flow from Operations	37,956	(274)	(70)	(70)	(521)	(142)	(11)	(91)	(91)	(122)	(26)	(9)	(9)	(142)	(8)	(8)	(8)	(159)	(6)	(6)	(1,691)	36,265	
Professional fees	8 (3,834)	(311)	(53)	(53)	(53)	(53)	(53)	(53)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(37)	(37)	(1,183)	(5,017)	
Interest / Forbearance fee	(898)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(898)	
Capital expenditures	(55)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(55)	
Net Cash Flow	33,168	(585)	(123)	(123)	(574)	(195)	(64)	(144)	(170)	(170)	(74)	(57)	(57)	(190)	(56)	(56)	(56)	(207)	(43)	(43)	(2,874)	30,294	
Bank Position																							
Opening Bank Exposure	(14,270)	18,898	18,313	18,190	18,067	17,493	17,298	17,234	17,234	17,090	16,920	16,846	16,789	16,732	16,675	16,485	16,429	16,373	16,317	16,110	16,067	18,898	(14,270)
Closing Bank Position	2	18,898	18,313	18,190	18,067	17,493	17,298	17,234	17,090	16,920	16,846	16,789	16,732	16,675	16,485	16,429	16,373	16,317	16,110	16,067	16,024	16,024	
Letters of Credit																							
Opening balance	12 \$ (2,344)	\$ (27)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Opened	12 (722)	27	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Drawn	12 3,039	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Closing Letters of Credit	(27)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Bank Position	13 \$ 18,871	\$ 18,313	\$ 18,190	\$ 18,067	\$ 17,493	\$ 17,298	\$ 17,234	\$ 17,090	\$ 16,920	\$ 16,846	\$ 16,789	\$ 16,732	\$ 16,675	\$ 16,485	\$ 16,429	\$ 16,373	\$ 16,317	\$ 16,110	\$ 16,067	\$ 16,024	\$ 16,024	16,024	

Danels.gf June 7, 2012
Daniel Gumpich Date
Chief Financial Officer

Notes:
See following page.

Sterling Shoes Inc., Sterling Shoes GP Inc. and Sterling Shoes Limited Partnership
Consolidated Cash Flow Forecast (Note 1)

For the Fifty-two Week Period from October 16, 2011 to October 13, 2012

Notes:

- 1) The purpose of this October Cash Flow Statement is to set out the cash position 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 variations may be material.
- 2) The opening bank balance as at June 3, 2012 of \$18.8 million comprises of cash balances held in the Company's bank accounts and includes amounts held in trust by the Monitor on behalf of the Company of \$3.5 million (escrow account of \$3.0 million and Administrative Charge of \$0.5 million). The full amount of the escrow account has been included although the final adjustments with Town have yet to be determined. As a result the closing bank balance as at October 13, 2012 may be materially different from the amount forecast by the amount of any adjustment.
- 3) There are no further cash receipts expected from the sale of the assets to Town Shoes or from the liquidation of inventory by Great American.
- 4) Payroll relates to remaining source deductions to be paid. The Company has no payroll expenses during the forecast period.
- 5) Rent payments are based on amounts due for property taxes, head office rent based on monthly lease obligations and remaining store rents not covered by the liquidator.
- 6) Sales tax receipts and payments are based on the sales tax collected and net of input tax credits based on an 11% effective HST/GST rate. The forecast amounts are based on estimated payments for May which are due in June and HST recovered on expenses going forward.
- 7) Other expenses include selling, general and administrative expenses. These expenses include public company expenses, professional fees, office and communication expenses and D&O insurance. These estimates have been forecast based on expected levels of monthly expenses.
- 8) Professional fees relating to the filing are based on estimates provided by advisors for consulting and legal services as well as those of the Monitor.