

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.

SIXTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.

May 4, 2012

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED
AND
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APPENDICES

Appendix A – List of Proposed Phase II Store Closures

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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 has subsequently been extended to May 25, 2012).
- 1.3 On April 2, 2012, on the application of the Petitioner Parties, this Honourable Court made an order (i) approving a 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 The Petitioner Parties have filed a notice of application dated May 3, 2012 (the “Notice of Application”), to be heard on May 8, 2012, seeking orders approving the second phase of store closures (the “**Phase II Store Closure Plan**”) and execution by the Partnership of an agency agreement (the “**Agency Agreement**”) between the Partnership and Great American Group, LLC (“**Great American**”), which will allow the Partnership to complete the liquidation of store merchandise in the 36 remaining retail store locations (the “**Remaining Stores**”).
- 1.6 In support of the Notice of Application, the Petitioner Parties are relying on the Seventh Affidavit of Mr. Daniel Gumprich (Sterling’s Chief Financial Officer), sworn May 3, 2012 (the “**Gumprich #7 Affidavit**”).
- 1.7 The Initial Order, together with the Notice of Application, the Gumprich #7 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 sixth report (the “**Sixth Report**”) and it has been prepared as a special purpose report to provide this Honourable Court and the Company’s stakeholders with the Monitor’s comments and recommendations in respect of:
 - a) the Notice of Application; and
 - b) the Company’s budget to actual cash flow variance analysis for the period ended April 28, 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 **PHASE II STORE CLOSURE PLAN AND AGENCY AGREEMENT**

Background

- 4.1 The Petitioner Parties launched the Phase I Store Closure Plan in December 2011 and Century, pursuant to the Century Agreement, completed the liquidation of merchandise in 53 store locations by February 29, 2012. Closure of these store locations was part of the Company's overall operational restructuring plan, involving a rationalization of unprofitable store locations and/or retail banners. These closures were also aligned with the objective and approach of the SISP which was undertaken with the assistance of CapWest, who sought out and focused on investors/purchasers of the more strategic and desirable retail locations.
- 4.2 The APA that was approved by this Honourable Court on April 30, 2012 provides for the sale of the Company's operating assets (inventories, furniture, fixtures, information systems, bank accounts, equipment and other such assets used in the store operations) at 69 specific retail locations. The Remaining Stores were, for a number of reasons, not deemed to be a strategic fit for Town and as such, the Company's options with respect to the Remaining Stores appear to be (i) continue to operate and solicit offers to purchase specific store locations and related merchandise inventories, or (ii) liquidate the merchandise at the Remaining Store locations and disclaim the respective realty leases in due course.
- 4.3 After consideration of the recent operating performance and the potential strategic value of the Remaining Stores, Management took the decision to undertake a process to effect the liquidation of merchandise at the Remaining Stores and the Phase II Store Closure Plan. The Monitor was consulted on the decision and is satisfied that Management adequately considered and balanced

the risks of effecting the Phase II Store Closure Plan in advance of the closing of the APA with Town, which is scheduled for May 22, 2012 as well as the cost-benefit of continuing to operate the Remaining Stores.

Phase II Store Closure Plan

4.4 The Monitor reviewed an analysis prepared by Management of the operating performance of the Remaining Stores for the twelve months ended December 31, 2011 and for the 3 months ended March 31, 2012, respectively. In addition, the Monitor discussed with Management other factors that may support a liquidation rather than a going concern sale and is satisfied that Management has made an informed and commercially reasonable decision. These factors include:

- a) recent operating performance and trend of the Remaining Stores;
- b) cost structure;
- c) competition in adjacent locations;
- d) gross margin performance;
- e) tenure of lease commitments; and
- f) other market factors and the apparent strategic rationale of prospective purchasers.

4.5 The breakdown of the Remaining Stores by retail banner, province and impacted employees is summarized in the table below:

Sterling Shoes, Inc. et al. Number of Employees Impacted by Phase II Store Closure Plan				
Province	Retail Banner			Total
	Freedman	Shoe Warehouse	Sterling	
Alberta	18	28	17	63
BC	-	57	61	118
Manitoba	-	-	12	12
Saskatchewan	-	-	8	8
Ontario	-	32	-	32
	18	117	98	233

4.6 Management advised all its employees impacted by the Phase II Store Closure Plan of its intentions with respect to the Remaining Stores on April 27, 2012. As indicated above, 233 employees are expected to be impacted by the decision to close the Remaining Stores.

4.7 The Phase II Store Closure Plan will necessitate the disclaimer of 36 realty leases once the liquidation of the merchandise at the Remaining Stores is complete. Management has reviewed

the leases that relate to the Remaining Stores and has determined that there is limited market value in these leases. Attached as Appendix “A” is a summary listing of the Remaining Stores.

- 4.8 The Monitor has confirmed that BMO takes no issue with Management’s decision in respect of the Phase II Store Closure Plan and the Agency Agreement (refer to 4.16 below).

Request for Proposals – Liquidation Firms

- 4.9 Given its experience with the Phase I Store Closure Plan, Management was able to prepare a request for proposal document, a form of confidentiality agreement and a draft agency agreement (collectively, the “**Request for Proposal**”), and launch an expedited solicitation process. Attached hereto as Appendix “B” is a copy of the proposal document included in the Request for Proposal.

- 4.10 The Request for Proposal included, among other things, the following terms:
- a) confidentiality agreements were required to be signed and returned prior to obtaining certain confidential information;
 - b) confidential proposals were to be submitted to Company before 5:00pm (Pacific time) on April 26, 2012 (the “**Proposal Deadline**”);
 - c) proposals received and determined to be “Conforming Proposals” were to be in the form of a draft agency agreement similar in form to the agency agreement adopted in the Phase I Store Closure Plan; and
 - d) provision of a “Guaranteed Amount” (defined below) and an up-front payment of 90% of the Guaranteed Amount and a refundable deposit of CAD\$250,000 to be paid to and held in trust by the Monitor.

- 4.11 The Request for Proposal was dispatched by the Company to five liquidation firms on or around April 25, 2012. The selected liquidation firms were identified as having the requisite expertise, financial and human resources and retail experience in the Canadian market to undertake a liquidation of the Remaining Stores’ merchandise. The following issues were considered by the Company and the Monitor in selecting potential liquidation firms:

- a) familiarity with Sterling and prior involvement in the first liquidation;
- b) the scope and scale of the proposed liquidation;
- c) the proposed timing of the liquidation given the closing date of the APA;
- d) the geographic dispersion of the Remaining Stores;
- e) the relative value of the merchandise to be liquidated at the Remaining Stores;
- f) the particular retail segment, being shoe wear and accessories; and

- g) the degree of independence and objectivity of the liquidator firm (i.e. had it previously performed any appraisals or valuations of Sterling merchandise and/or had it previously been involved in the Phase I Store Closure Plan).
- 4.12 Confidentiality agreements were executed and returned to the Company by three of the five selected liquidation firms and they were provided with detailed information, including a data file containing the inventory quantities, current retail pricing and cost detail, as well as a summary of the Remaining Stores and certain store operating cost details (monthly lease costs and store payroll).
- 4.13 Three proposals and/or expressions of interest were received by the Company before the Proposal Deadline and two interested parties remitted the required deposit of CAD\$250,000 to the Monitor in accordance with the Request for Proposal.
- 4.14 On or around April 30, 2012, the Company, in consultation with the Monitor and the financial advisor to BMO, selected Great American as having the preferred proposal to undertake the liquidation of the merchandise at the Remaining Stores. The Monitor is advised that the two other liquidation firms who submitted proposals have been notified that they have not been selected.

Agency Agreement

- 4.15 Pursuant to the Notice of Application, the Company is seeking an order of this Honourable Court authorizing the Partnership to enter into the Agency Agreement and approving the transaction contemplated therein. A redacted version of the Agency Agreement has been attached to the Gumprich #7 Affidavit. The Petitioners have filed a redacted version of the Agency Agreement on the basis that the Agency Agreement contains commercially sensitive and confidential information which, if it were made publicly available, could be detrimental to the interests of the Petitioner Parties and Great American. On the same basis, certain commercial terms of the Agency Agreement are not disclosed herein; however, a number of key terms are summarized below:
 - a) the liquidation sale contemplated under the Agency Agreement will commence forthwith upon the issuance of an order approving the Agency Agreement provided the Initial Guaranty Payment (defined in the Agency Agreement) and certain letters of credit (refer to 4.15(f) below) are received by the Company, but no later than May 10, 2012 (the “**Sale Commencement Date**”) and will conclude on or before July 31, 2012 unless extended by mutual agreement between Great American and the Partnership and with the consent of

the landlord of the affected Remaining Stores, but in any event by no later than 90 days following closing of the APA (the “**Sale Termination Date**”);

- b) Great American is appointed by the Partnership as its exclusive agent for the purpose of conducting the liquidation of merchandise at the Remaining Stores;
- c) “Sales Guidelines” (as defined in the Agency Agreement) form part of the Agency Agreement and will govern certain aspects of the proposed liquidation of merchandise at the Remaining Stores. The Sale Guidelines are the same/substantially similar to the ones that were used/approved by this Honourable Court in respect of the Century Agreement and under the proposed order sought by the Petitioners, the Monitor will be notifying all landlords not served with the Notice of Application should an order be granted by this Honourable Court approving the Agency Agreement and Sales Guidelines;
- d) Great American will pay a guaranteed percentage of the aggregate cost value of the merchandise as at the Sales Commencement Date to the Partnership (the “**Guaranteed Amount**”). Ninety percent (90%) of the Guaranteed Amount will be paid to the Partnership within two (2) days of the Agency Agreement being approved by this Honourable Court. The balance of the Guaranteed Amount will be paid upon completion of a final inventory reconciliation process and accounting between the Great American and the Partnership;
- e) Great American is responsible for all normal store operating expenses incurred with respect to the Remaining Stores during the liquidation, but shall be entitled to recover the expenses incurred from the sales proceeds realized on the sales of merchandise after payment of the Guaranteed Amount;
- f) Great American is to provide a letter of credit in support of a portion of the store operating expenses for which it is responsible and is to provide a letter of credit in support of the remaining balance (10%) of the Guaranteed Amount; and
- g) Great American is entitled to a fee based on the aggregate cost value of the liquidated merchandise as well as a commission on the sale of the Company owned furniture, fixtures and equipment located at the Remaining Stores.

- 4.16 In addition to the foregoing, the Agency Agreement is conditional upon the proposed order being sought granting a charge (the “**Agent’s Charge**”) over the Merchandise and Proceeds, except for the Guaranteed Amount (all as defined in the Agency Agreement) in favour of Great American. The amount of the Agent’s Charge is \$5.0 million and represents security for all of the obligations of the Partnership to Great American under the Agency Agreement. The Agent’s Charge is sought in recognition of the fact that Great American will be paying the Partnership

90% of the Guaranteed Amount within two (2) days of the Approval Order being obtained, notwithstanding Great American will not recover that amount until well into the liquidation process. The Monitor is advised that the Agent's Charge is intended to rank in priority to all of charges provided for in the Initial Order including the security of BMO except to the extent of any unpaid portion of the Guaranteed Amount and other amounts due to the Partnership under the Agency Agreement. The Monitor has confirmed that BMO has agreed to the terms of the Agency Agreement and in particular, to the quantum and priority of the Agent's Charge.

- 4.17 The Monitor understands that the Petitioners will also be seeking a discharge of the charge granted to Century pursuant to the December 9, 2011 order of this Honourable Court. The Monitor confirms that all amounts due to Century under the Century Agreement have been paid and all net deposits previously held by the Monitor have been returned to Century and that a discharge and release of the charge in favour of Century is appropriate.

Summary of the Monitor's Assessment

- 4.18 The Monitor is of the view that a Management has carefully considered and analyzed the commercial and financial implications and risks of its decision to close 36 stores within the context of the APA and otherwise.
- 4.19 Given that the Request for Proposal was replicated and the same liquidation firms as previously solicited were asked to make a proposal in respect of the second liquidation, albeit on an extremely expedited basis, the Monitor is satisfied with the process undertaken by Management in soliciting proposals for the liquidation of the merchandise under the Phase II Store Closure Plan. Further, the Monitor is of the belief that the process was conducted fairly and that there was sufficient transparency built into the process such that the Monitor can report to this Honourable Court with such assurances.
- 4.20 The Monitor, in conjunction with Management and the financial advisor to BMO, reviewed the three competing proposals or expressions of interest received from the submitting liquidators and confirms that the Company's selection of Great American as the preferred bidder is commercially reasonable. The Monitor has based its assessment on a number of the commercial terms of Great American's proposal which are superior to the terms of the other proposals received, including with respect to, among other things, the Guaranty Percentage and Guaranteed Amount, the Agent's fee and the Partnership's participation level in the recovery of liquidation sales proceeds that are over and above the Guaranteed Amount and related expenses and fees.

- 4.21 The Monitor is of the view that the Agent's Charge is appropriate within the context of the Agency Agreement as currently drafted and that the quantum and priority ranking of the Agent's Charge is appropriate and reasonable.
- 4.22 The Monitor should point out to this Honourable Court that the Stay Period (June 30, 2012) pre-dates the Sales Termination Date. The Monitor understands that the Company will be bringing a notice of application to extend the Stay Period in due course.

5.0 CCAA CASH FLOW STATEMENTS

- 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**") and for the period ending June 30, 2012 (the "**Updated 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 the Updated Cash Flow Statement and its review thereof are included in the Monitor's Second, Third and Forth 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 and the Updated Cash Flow Statement.
- 5.3 Readers are referred to the Monitor's Forth Report dated March 30, 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.
- 5.4 The Company's actual cash receipts and disbursements for the 29 week period October 16, 2011 through April 28, 2012 as compared to the Updated 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 Updated Cash Flow Statement (Note 1) For the 29 Week Period from October 16, 2011 to April 28, 2012			
	October 16, 2011 to April 28, 2012 (Cumulative)		
(\$000's)	Actual	Forecast	Variance
Gross Sales Receipts	\$ 48,649	\$ 48,414	\$ 235
Cash received on behalf of Century (Note 2)	11,167	11,167	-
Inventory Liquidation	8,620	8,620	-
Receipts (incl. taxes)	68,436	68,201	235
Disbursements			
Vendors	(16,957)	(17,248)	291
Payroll	(11,508)	(11,421)	(87)
Rent	(7,246)	(7,335)	89
Sales tax	(2,699)	(2,499)	(200)
Deposits	(213)	(213)	-
Pre-filing related payments	(1,113)	(1,113)	-
Other	(4,657)	(4,958)	301
Amounts paid to Century (Note 2)	(10,455)	(10,455)	-
	(54,848)	(55,242)	394
Cash Flow from Operations	13,588	12,959	629
CAPEX	(13)	(120)	107
Professional fees	(2,169)	(2,606)	437
Interest / Forbearance fee	(824)	(666)	(158)
Net Cash Flow	10,582	9,567	1,015
Bank Position			
Opening Bank Exposure	(14,270)	(14,270)	-
Closing Bank Position	(3,688)	(4,703)	1,015
Opening balance	\$ (2,344)	\$ (2,344)	\$ -
(Opened) / Cancelled	(715)	(1,123)	408
Drawn	3,039	3,164	(125)
LCs	(20)	(303)	283
Total Bank Position	\$ (3,708)	\$ (5,006)	\$ 1,298
Notes:			
(1) "Updated Cash Flow Statement" as defined in and attached to the Fourth Report of the Monitor dated March 29, 2012.			
(2) Cash received on behalf of Century and Amounts paid to Century relate to receipts at stores that were liquidated by Century Services under an agency agreement.			

5.5 In summary, the Company has experienced a net favourable cash flow variance of approximately \$1.0 million for the 29 week period ended April 28, 2012. The principal components of the net favourable variance are described below:

- sales receipts – the favourable variance of \$235,000 relates primarily to slightly higher store sales receipts over the last 5 weeks;
- vendor payments – the favourable variance of \$291,000 is primarily due to timing differences with respect to inventory orders;
- other – the favourable variance of \$301,000 is due to timing differences as well as lower than expected costs for marketing, information technology, supplies and other sales, general and administrative expenses;

- d) professional fees – the favourable variance of \$437,000 relates primarily to timing differences due to delays in billing by advisors; and
- e) interest and forbearance fees – the unfavourable variance of \$158,000 relates to higher than expected fees payable under the latest extension of the Forbearance Agreement.

6.0 **MONITOR'S RECOMMENDATION**

- 6.1 The Monitor respectfully recommends that this Honourable Court approve the Agency Agreement including the Sales Guidelines and Agent's Charge.

All of which is respectfully submitted to this Honourable Court this 4th day of May, 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

Store List

Exhibit 1A

Str	Phone	Name/Mall	Address	City	ST	Zip	Selling S.F.
4	604-944-0876	Sunwood Square	Unit 980 - 3025 Lougheed Hwy.	Coquitlam	BC	V3B 6S2	4,050
6	604-430-6073	Metrotown	Unit 242 - 4800 Kingsway	Burnaby	BC	V5H 4J2	2,330
9	604-515-9922	King Edward St	Unit C - 15 King Edward Street	Coquitlam	BC	V3K 4S8	4,443
26	604-279-2022	Richmond	Unit 1912 - 6551 No. 3 Road	Richmond	BC	V6Y 2B6	956
31	250-370-2267	Hillside	Unit 55 - 1644 Hillside Avenue	Victoria	BC	V8T 2C5	941
35	250-383-9669	The Bay	Unit 226 - 1150 Douglas Street	Victoria	BC	V8W 3M9	867
36	250-390-0174	Woodgrove	Unit 113 - 6631 Island Highway N.	Nanaimo	BC	V9T 4T7	837
38	250-478-1108	Westshore Town	Unit 111 - 2945 Jacklin Road	Victoria	BC	V9B 5E3	3,008
54	604-585-3411	Guildford Town	Unit 2383 - 2695 Guildford Town Center	Surrey	BC	V3R 7B9	1,506
56	604-985-3475	Capilano	Unit 49 - 935 Marine Drive	N. Vancouver	BC	V7P 1S3	942
68	780-475-6348	North Town	9322 137th Ave	Edmonton	AB	T5E 6C2	3,000
77	403-271-2722	South Centre	Unit 152 - 100 Anderson Road S.	Calgary	AB	T2J 3V1	1,344
78	403-309-9229	Gaetz Avenue Cros	Unit 20C - 5250 22nd street	Red Deer	AB	T4R 2T4	4,491
84	403-590-0609	Sunridge	Unit 256 - 2525 36 Street N.E.	Calgary	AB	T1Y 5T4	811
85	780-449-4910	Sherwood Park	Unit 204 #2020 Sherwood Dr	Sherwood Park	AB	T8A 3H9	3,026
95	204-257-8168	St. Vital	Unit 96 - 1225 St. Mary's Road	Winnipeg	MB	R2M 5E5	874
99	204-943-2821	Portage Place	Unit #145, 393 Portage Ave.	Winnipeg	MB	R3B 3H6	1,074
103	250-383-8473	The Bay	Unit 325A - 1150 Douglas Street	Victoria	BC	V8W 3M9	3,283
106	604-504-5322	Gladwin Crossing	Unit# C3 - 2777 Gladwin Road	Abbotsford	BC	V2T 4V1	3,056
115	250-561-9323	Pine	Unit 192 - 3055 Massey Drive	Prince George	BC	V2N 2S9	1,233
116	778-294-0995	Grandview Corners	Unit 30, 2438 160th Street	Surrey	BC	V3S 0C8	1,399
117	778-294-4255	Grandview Corners	Unit 30, 2411 160th Street	Surrey	BC	V3S 0C8	3,795
121	403-452-7276	Marlborough	Unit 72- 3800 Memorial Dr NE	Calgary	AB	T2A 2K2	3,506
122	250-452-9242	Westbank	Unit 102 - 2310 Louie Drive	Westbank	BC	V4T 1Y2	3,000
125	306-525-5544	Cornwall	Unit TT09C, 2102 11th Ave	Regina	SK	S4P 3Y6	872
126	250-275-1375	Village Green	CRU 134, 4900 27th Street	Vernon	BC	V1T 7G7	1,193
141	604-568-9045	Metrotown	Unit M127A - 4820 Kingsway	Burnaby	BC	V5H 4P1	2,221
145	604-912-0190	Park Royal	Unit 763 - 777 Park royal North	W. Vancouver	BC	V7T 1H9	2,076
170	905-634-9833	Burlington	Unit B2A - 777 Guelph Line	Burlington	ON	L7R 3N2	3,155
188	905-732-9359	Seaway	Unit #J6 - 800 Niagara Street North	Welland	ON	L3C 5Z4	2,903
189	613-834-4562	Place D'Orleans	Unit 485 110 Place D'Orleans Drive	Orleans	ON	K1C2L9	2,929
191	905-453-6469	Hwy 410 @ 7	Unit #2 150 West Drive	Brampton	ON	L6T 4P9	3,667
192	416-466-2979	Gerrard Square	Unit DD4-1000 Gerrard St. East	Toronto	ON	M4M 3G6	2,884
55	604-421-0732	Lougheed Mall	Unit 254 - 9855 Austin Road	Burnaby	BC	V3J 1N4	1,059
79	250-554-6704	Northhills	Unit #54 - 700 Tranquille Rd	Kamloops	BC	V2B 3H9	6,000
114	250-286-6538	Marina Square	Unit #250, 1400 Dogwood St	Campbell River	BC	V9W3A6	3,000

APPENDIX B



April 25, 2012

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Attention: Mr. [REDACTED]

Dear Sirs/ Mesdames:

**Re: Sterling Shoes Limited Partnership ("Sterling" or the "Company")
Request for Proposal – Potential Inventory Liquidation**

This letter serves as a request for proposal in respect of Sterling's selection of an agent, who would act on an exclusive basis to assist the Company in the potential liquidation of certain inventory (the "**Merchandise**"), as well as select furniture, fixtures and equipment ("**FF&E**"), located at certain of the Company's retail store locations ("**Closing Stores**") through the conduct of "store closing", "sale on everything", "everything must go" or similar theme sales (the "**Sale**") at the Closing Stores, in accordance with the Sales Guidelines attached hereto as Schedule "A".

Confidentiality agreements have previously been dispatched to select interested parties ("**Qualified Parties**"). Upon receipt by the Company of an executed confidentiality agreement from a Qualified Party, that Qualified Party will be provided with select financial and other information relating to the Closing Stores, the Merchandise and FF&E located therein, and store leases, as well as other relevant financial information.

Requests for additional financial information and site visits should be directed to the Company or the Monitor at the addresses below:

Damien Forer
Sterling Shoes Limited Partnership
2580 Viscount Way, Richmond, BC, V6V 1N1
tel: 604.270.6114 ext 129 fax: 604.278.7751
damien.forer@sterlingshoes.com

Todd M. Martin, Managing Director
Alvarez & Marsal Canada ULC
400 Burrard Street
Suite 1680, Commerce Place
Vancouver, BC, V6C 3A6
Direct: 604.638.7445
Mobile: 778.918.0110
tmartin@alvarezandmarsal.com



Important Notice to Qualified Parties

PARTICIPATION BY A QUALIFIED PARTY AND SUBMISSION OF A PROPOSAL IN THIS SOLICITATION PROCESS IS EXPRESSLY SUBJECT TO THE TERMS AND CONDITIONS OF THE CONFIDENTIALITY AGREEMENT SIGNED BY SUCH QUALIFIED PARTY AS WELL AS COMPLIANCE WITH THE TERMS AND PROVISIONS OF THIS REQUEST FOR PROPOSAL. FURTHER, ALL INFORMATION CONTAINED IN THIS REQUEST FOR PROPOSAL IS EXPRESSLY SUBJECT TO TERMS OF AN AGENCY AGREEMENT TO BE PROVIDED ON OR ABOUT APRIL 27, 2012 TO THE QUALIFIED PARTY WHOSE PROPOSAL IS THE ACCEPTED PROPOSAL (AS DEFINED BELOW). THE COMPANY RESERVES THE RIGHT TO SUSPEND OR MODIFY THE PROPOSAL SOLICITATION PROCESS AND TO WITHDRAW OR ADD TO THE NUMBER OF CLOSING STORES INCLUDED IN THE SALE AT ANY TIME PRIOR TO EXECUTION OF A DEFINITIVE AGENCY AGREEMENT AT ITS SOLE DISCRETION FOR ANY REASON WHATSOEVER. THE COMPANY RESERVES THE RIGHT TO ACCEPT ANY PROPOSAL OR REJECT ANY AND ALL PROPOSALS AND TO EXCLUDE ANY QUALIFIED PARTY FROM ANY FURTHER PARTICIPATION IN THIS PROPOSAL SOLICITATION PROCESS AT ITS SOLE DISCRETION FOR ANY REASON WHATSOEVER.

Requests for Proposal ("RFP")

For purposes of this RFP, Qualified Parties are requested and expected to comply with and/or observe and understand the following:

1. To be considered, any and all proposals submitted by Qualified Parties must:
 - (a) conform to each and every one of the requirements outlined herein (subject to such compliance, as may be determined in the sole discretion of the Company) (a "**Conforming Proposal**"), and
 - (b) Be received, in writing by (by e-mail, messenger or facsimile) **no later than 5:00 o'clock pm (Pacific Time) on Thursday, April 26, 2012** (the "**Initial Proposal Deadline**").
2. Proposals must be marked as "**Strictly Confidential**" and delivered by email on or before the Initial Proposal Deadline as follows:

Mr. Dave Alves, President & CEO
Sterling Shoes Limited Partnership
2580 Viscount Way, Richmond, BC, V6V 1N1
Tel: 604.270.6114 ext 104 fax: 604.278.7751
dave.alves@sterlingshoes.com

3. Promptly upon receipt of any Conforming Proposal(s), the Company shall determine, in consultation with the Monitor (as defined below), which of the Conforming Proposals, if any, constitutes the preferred proposal received, taking into account all relevant circumstances as

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determined by the Company in its sole discretion (the "**Accepted Proposal**"). The Accepted Proposal shall be in the form of an agency agreement to be provided to the Qualified Party whose proposal is the Accepted Proposal on about April 27, 2012 (the "Agency Agreement"). The Agency Agreement will be subject to further negotiations between the Company and the Qualified Party who submits the Accepted Proposal. The Company reserves the right, in its sole discretion, to accept any Confirming Proposal or reject all Confirming Proposals, or any components of a Qualified Party's Confirming Proposal, or to seek clarification or enhancement of a Qualified Party's Confirming Proposal. No person shall retract, withdraw or countermand a proposal before notification of acceptance or rejection of the proposal by the Company.

4. The Company is operating and conducting the RFP process after having been granted certain protections under an initial order (as amended and extended, the "**Initial Order**") made by the British Columbia Supreme Court (the "**Court**") under the *Companies' Creditors Arrangement Act* ("**CCAA**") on October 21, 2011, on the application of Sterling Shoes Inc. and Sterling Shoes GP Inc., the Company's general partner. Accordingly, any Accepted Proposal will be subject to Court approval which shall be sought by the Company on or about **May 7, 2012**, or such other time as the Company and the successful Qualified Party agree. Qualified Parties may request a copy of the Initial Order granted in the CCAA proceedings by contacting the Company at the above noted address or obtaining a copy from the website of the monitor appointed by the Court under the Initial Order, Alvarez & Marsal Canada Inc. (the "**Monitor**"), at www.alvarezandmarsal.com/sterling.

Select Terms and Guidelines

Any Qualified Party, who desires to submit a Confirming Proposal to serve as the Company's exclusive agent to conduct the Sale at the Closing Stores, must ensure that its proposal conforms to the following guidelines in order to be considered a Confirming Proposal. As noted above, any proposal that the Company determines not to be a Confirming Proposal may not be considered for designation as the Accepted Proposal.

1. The Qualified Party submitting the Accepted Proposal shall be allowed to conduct the Sale as a "store closing", "sale on everything", "everything must go" or similar theme sale at the Closing Stores consistent with the terms of the Agency Agreement. The Agency Agreement will set forth the specific terms and conditions of the agency relationship desired by the Company. In the event there is any inconsistency between the terms of the Agency Agreement and this RFP, the terms of Agency Agreement shall prevail, unless otherwise determined by the Company, in its discretion. **The Company reserves the right to make such changes to the Agency Agreement as it determines in its sole discretion to be in the Company's interests (prior to execution of the Agency Agreement by the Company and the successful Qualified Party).**



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2. Any proposal that is submitted should include payment of a "Guaranteed Amount" and a "Merchant's Sharing Recovery Amount" to the Company for the Closing Stores. Conforming Proposals should provide that the Company shall receive an initial upfront payment of an amount equal to not less than 90% of the estimated Guaranteed Amount, such amount being determined by reference to the aggregate Cost Value of the Merchandise on the Sale Commencement Date as reflected in the Company's books and records. Qualified Parties will also be required to furnish one or more irrevocable standby letter(s) of credit to the Company for an amount not less than the remaining unpaid portion of the estimated Guaranteed Amount.
3. All proposals must be presented as a percentage of the "Cost Value" of the Merchandise subject to the Sale. "Cost Value" shall be as defined in the Agency Agreement.
4. The aggregate Cost Value of the Merchandise subject to the Sale will be determined based on a SKU and retail price based physical inventory count ("**Inventory Taking**") to be conducted by RGIS or other independent outside inventory service ("**Inventory Taking Service**") to be mutually selected by the Company and the Qualified Party. Fifty percent (50%) of the costs of the Inventory Taking Service shall be an "Expense" of the Sale payable by the Qualified Party. The Company, the Qualified Party, the Monitor and the Company's lender may each have their employees or representatives present at each Closing Store location to observe and test the physical counting, and review and test the listing, tabulation and pricing of the Merchandise. Conforming Proposals should include an estimate of the costs associated with the Inventory Taking.
6. Conforming Proposals should provide that the Qualified Party is unconditionally responsible for all "Expenses" incurred in conducting the Sale. Sale-related Expenses shall be detailed in the Agency Agreement and shall expressly include the costs associated with the transfer of merchandise among and between the Closing Stores. Qualified Parties will also be required to furnish one or more irrevocable standby letter(s) of credit to the Company for an amount equal to not less than two (2) weeks' estimated Expenses.
7. The Company presently projects that the successful Qualified Party will be given undisturbed possession of the Closing Stores on or about **May 10, 2012** (the "**Sale Commencement Date**") **and that inventory at cost will approximate [REDACTED]** The successful Qualified Party will be required to complete the Sale and vacate the Closing Stores by no later than **July 31, 2012**, or such later date as may be agreed to by the Company and the successful Qualified Party, and with the consent of the affected landlord of the Closing Store if the extension is proposed to go beyond the sale termination date provided for in the Sale Guidelines (the "**Sale Termination Date**").
8. All Conforming Proposals shall be accompanied by bank draft or certified cheque in the amount of CDN\$250,000 (the "**Deposit**") to the order of "Alvarez & Marsal Canada Inc., Monitor, in trust" which may be negotiated forthwith by the Monitor notwithstanding that the Qualified Party's Conforming Proposal has not been accepted, the whole to ensure the seriousness of the

proposal and to serve as liquidated damages in the event that the Conforming Proposal is accepted but no definitive Agency Agreement executed due to the fault of the Qualified Party. If the Conforming Proposal is accepted, the Deposit shall be deemed to be a non-refundable cash deposit and shall be held and applied against the Guaranteed Amount. The Deposit shall be returned, without interest, to the unsuccessful Qualified Parties, or in the event a Conforming Proposal is accepted but no definitive Agency Agreement executed due to the fault of the Company or failure to receive Court approval.

9. Sales completed between the Sale Commencement Date and the completion of the Inventory Taking at each particular Closing Store (the "**Gross Rings Period**") shall be recorded and accounted for under the "gross rings" method, inclusive of a shrinkage adjustment of 1.5% of the Cost Value of the Merchandise sold during the Gross Rings Period applicable to each of the Closing Stores.
10. The successful Qualified Party shall be required to provide the Company with not less than fifteen (15) days' advance written notice ("**Vacate Notice**") of its vacating of a Closing Store (as to each such Closing Store, the "**Vacate Date**"). A Qualified Party's obligations to pay all Expenses, including "**Occupancy Expenses**" (as set out in the Agency Agreement), for each Closing Store subject to a Vacate Notice shall continue until the Vacate Date for each such Closing Store. The Vacate Date shall not be later than the Sale Termination Date.
11. The successful Qualified Party shall utilize the Company's existing point-of-sale system for recording all sales of goods in the Closing Stores to ensure accurate sales audit functions, as well as accurate calculations of the proceeds from the Sale.
12. Conforming Proposals may include provisions providing for a Qualified Party's use of the Company's current credit card systems and servicing arrangements (including the Company's credit card terminals and processor(s), and credit card processor coding) during the course of the Sale; provided, however, that the Qualified Parties may make arrangements for the use of their own merchant identification numbers.
13. The successful Qualified Party may use the Company's trade name and logo type in connection with advertising and promotion of the Sale; provided, however, that the form and content of all advertising and promotional material is subject to the prior approval of the Company and Town Shoes, which approval shall not be unreasonably withheld or delayed, and will conform with the Sales Guidelines attached hereto as Schedule "A" negotiate and which will remain subject to negotiations between the Company and its respective landlords and approval of the Court (the "**Sale Guidelines**").
14. Each Qualified Party may also include as part of its proposal an offer to assist the Company in its disposition of the Company's owned FF&E located in the Closing Stores, at the Company's sole election. Each such proposal should conform to the following:

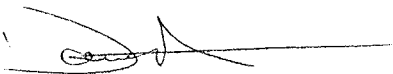
- a) The successful Qualified Party will exercise normal and prudent care of cash registers and all other FF&E at the Closing Stores, whether the property of Company or otherwise;
 - b) Each Qualified Party may include in its proposal a proposed fixtures disposition fee for the disposition of the Company's owned FF&E, which fee should be calculated based upon a percentage of net recoveries thereon by the Company; and
 - c) At the election of the Company, the successful Qualified Party will sell such owned FF&E during the course of or after the conclusion of the Sale, if so requested by the Company.
15. Unless otherwise provided in any Court order or agreement between the Company and a landlord, the Qualified Parties shall comply in all material respects with the terms and provisions of any leases and other occupancy agreements for any of the Closing Stores, as well as federal, provincial, and local laws, ordinances, rules and regulations and with terms of any licenses or permits obtained.
16. Qualified Parties should provide for an employee incentive bonus plan for those Company employees to be utilized in connection with the Sale. The amount of the incentive being offered to retained employees, and the timing of payment, should be set forth with specificity in the proposal and shall not exceed ten percent (10%) of the aggregate base payroll of the Company (excluding commissions and bonuses in effect on the Sale Commencement Date).

AS NOTED ABOVE, THE COMPANY RESERVES THE RIGHT TO REJECT ANY OR ALL PROPOSALS SUBMITTED IN RESPONSE TO THIS REQUEST FOR PROPOSALS AND/OR WITHDRAW ANY OR ALL OF THE CLOSING STORES AT ANY TIME IN ITS SOLE DISCRETION PRIOR TO EXECUTION OF A DEFINITIVE AGENCY AGREEMENT.

Any requests for additional information or clarification of the matters addressed herein shall be directed to the undersigned.

Yours very truly,

Sterling Shoes Limited Partnership



Dave Alves
President & CEO

Schedule "A"
SALES GUIDELINES

The following procedures shall apply to any sale of inventory, assets or other property, other than real estate property leases, (collectively, the "**Merchandise**") in connection with a liquidation sale (the "**Sale**") to be held by Sterling Shoes Limited Partnership (the "**Merchant**") with the assistance of its agent, [●] (the "**Agent**"), at the stores set out in **Schedule "A"** (the "**Closing Stores**"), such Sale to commence on or after [●], 2012 and to end by no later than [●] or such later date as the applicable Landlord (as defined below) may agree or as may be ordered by further order the Court (as defined below):

1. Except as otherwise expressly provided herein, and subject to: (i) an Order of the British Columbia Supreme Court (the "**Court**"); or (ii) any written agreement between the Merchant and any applicable landlord (individually a "**Landlord**" and, collectively, the "**Landlords**"), the Sale shall be conducted in accordance with the terms of the applicable lease for the Merchant (individually a "**Lease**" and, collectively, the "**Leases**"). However, nothing contained herein shall be construed to create or impose upon the Merchant any additional restrictions not contained in the applicable Lease or other occupancy agreement.
2. The Sale shall be conducted so that the Closing Stores remain open during normal hours of operation provided for in the respective Leases or other occupancy agreements for the Closing Stores.
3. The Sale shall be conducted in accordance with applicable federal, provincial and municipal laws, unless otherwise ordered by the Court.

All display and hanging signs used by the Merchant and the Agent in connection with the Sale shall be professionally produced and all hanging signs shall be hung in a professional manner. The Merchant and the Agent may advertise the Sale as a "store closing", "sale on everything" or "everything must go" or similar theme sale at the Closing Stores (save that no signs shall advertise the Sale as a "bankruptcy", "going out of business", "liquidation" or "court ordered" sale). Not less than 48 hours prior to the commencement of the Sale, the Merchant and the Agent shall provide proposed signage packages by e-mail or facsimile to the applicable Landlords or to their counsel of record and the applicable Landlords shall, prior to the commencement of the Sale, notify the Merchant and Agent of any requirement for such signage to otherwise comply with the terms of the Leases and/or these Sales Guidelines and where the provisions of the Leases conflict with these Sales Guidelines, these Sales Guidelines shall govern. Attached as **Schedule "B"** are examples of the proposed signage packages. The Merchant and the Agent shall not use neon, day-glo signage or handwritten signs. Furthermore, except as set out below, with respect to enclosed mall locations no exterior signs or signs in



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common areas of a mall shall be used unless permitted by the applicable Lease. In addition, the Merchant and the Agent shall be permitted to utilize exterior banners at non-enclosed mall Closing Stores; provided, however, where such banners are not permitted by the applicable Lease and the Landlord requests in writing that banners not be used, no banners shall be used. Any banners used shall be located or hung so as to make clear that the Sale is being conducted only at the affected Closing Store and shall not be wider than the premises occupied by the Closing Store. All permitted exterior banners shall be professionally hung and to the extent that there is any damage to the façade of the premises of a Closing Store as a result of the hanging or removal of the exterior banner, such damage shall be professionally repaired at the expense of the Merchant.

4. The Merchant and the Agent shall be permitted to utilize sign walkers and street signage; provided, however, such sign walkers and street signage shall not be located on the shopping centre/mall premises.
5. Conspicuous signs shall be posted in the cash register areas of each Closing Store to the effect that all sales are "final" (and the same shall be printed or stamped on customer receipts), the sales are on an "as is, where is" basis and that customers with any questions or complaints subsequent to the conclusion of the Sale may contact a named representative of the Merchant at a specified email address.
6. The Merchant and the Agent shall not distribute handbills, leaflets or other written materials to customers outside of any of the Closing Stores, unless permitted by the applicable Lease or, if distribution is customary in the shopping centre in which the Closing Store is located. Otherwise, the Merchant and the Agent may solicit customers in the Closing Stores themselves. The Merchant and the Agent shall not use any giant balloons, flashing lights or amplified sound to advertise the Sale or solicit customers, except as permitted under the applicable Lease or agreed to by the Landlord.

At the conclusion of the Sale, the Merchant and the Agent shall vacate the Closing Stores in "broom swept" condition, and shall otherwise leave the Closing Stores in the same condition as on the commencement of the Sale, ordinary wear and tear excepted; provided, however, that the Merchant and the Agent shall be authorized to leave any FF&E (as the term is defined herein and in accordance with this paragraph) in the Closing Stores; provided, further, that the Merchant hereby does not undertake any greater obligation than as set forth in an applicable Lease with respect to the Closing Store. The Merchant and the Agent may abandon any furniture, fixtures and equipment ("FF&E") not sold in the Sale at the Closing Stores' premises at the conclusion of the Sale. Any FF&E left in a Closing Store after a Lease is repudiated, terminated or disclaimed shall be deemed abandoned with the Landlord having the right to dispose of the same as the Landlord chooses without any liability whatsoever on the part of the Landlord. No permanent or built-in fixtures may be removed without the Landlord's

written consent unless otherwise provided by the applicable Lease. No property of any Landlord of a Closing Store shall be removed or sold during the Sale.

The Merchant and the Agent may sell FF&E owned by the Merchant and located in the Closing Stores during the Sale. The Merchant and the Agent may advertise the sale of FF&E consistent with these guidelines on the understanding that the Landlord may reasonably require such signs to be placed in discreet locations within the Closing Store acceptable to the Landlord. Additionally, FF&E to be removed from the Closing Store shall only be removed either through the back shipping areas or through other areas after store business hours, with Landlord's supervision as required by the Landlord. The Merchant shall repair any damage resulting from the removal of any FF&E.

7. The Merchant and the Agent shall not make any alterations to interior or exterior Closing Store lighting. No property of any Landlord of a Closing Store shall be removed or sold during the Sale. The hanging of permitted exterior banners or other signage shall not constitute an alteration to a Closing Store.
8. The Agent and its agents and representatives shall have the same access rights to the Closing Stores as the Merchant under the terms of the applicable Lease, and the Landlord shall have the rights of access to the Closing Stores during the Sale provided for in the applicable Lease, subject, for greater certainty, to the stay of proceedings set out in the Initial Order.
9. The Merchant and the Agent shall not conduct any auctions of the Merchandise or FF&E at any of the Closing Stores. Subject to any agreement between the Merchant and a Landlord, the Merchant and the Agent shall not augment the Merchandise included in the Sale; provided, however, that the Merchant is expressly permitted to transfer Merchandise between and among the Closing Stores during the Sale.
10. The Merchant shall designate a party to be contacted by the Landlords should an issue arise concerning the conduct of the Sale. The initial contact person for the Merchant shall be [●], [Email], work phone number [●]. If the parties are unable to resolve the dispute between themselves, the Landlord or Merchant shall have the right to schedule a "status hearing" before the Court on no less than two (2) days written notice to the other party or parties, during which time the Merchant shall cease all activity in dispute pending the determination of the matter by the Court.
11. Nothing herein is, or shall be deemed to be, consent by any Landlord to the sale, assignment or transfer of any Lease or grant to the Landlord any greater rights than already exist under the terms of any applicable Lease.