

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.**

**TENTH REPORT OF THE MONITOR**  
**ALVAREZ & MARSAL CANADA INC.**

**January 8, 2013**

**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.**

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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 April 2, 2012, on the application of the Petitioner Parties, this Honourable Court made an order (the "**Claims Process Order**") approving among other things, a claims process (the "**Claims Process**") for the determination of the nature and quantum of claims against the Petitioner Parties.
- 1.3 On October 11, 2012, this Honourable Court approved an extension of the stay of proceedings provided in the Initial Order and subsequent orders to January 11, 2013.
- 1.4 On December 12, 2012, the Company filed a notice of application to this Honourable Court seeking an order permitting them to make one or more distributions to the creditors of Sterling GP and the Partnership (the "**Distribution Order**").
- 1.5 The Petitioners have filed a notice of application dated January 7, 2013 (the "**Notice of Application**") seeking an extension of the stay of proceedings to March 29, 2013. In support of the Notice of Application, the Petitioner Parties are relying on the Eleventh Affidavit of Mr. Daniel Gumprich (Sterling's Chief Financial Officer), sworn January 7, 2013 (the "**Gumprich #11 Affidavit**").
- 1.6 The Initial Order, together with the Notice of Application, the Gumprich #11 Affidavit and other motion material and other documentation filed in the CCAA, are posted on the Monitor's website at [www.alvarezandmarsal.com/sterling](http://www.alvarezandmarsal.com/sterling).

## 2.0 PURPOSE OF REPORT

- 2.1 This is the Monitor's tenth report (the "**Tenth Report**") and it has been prepared to provide this Honourable Court and the Company's stakeholders with:

- a) an update on the Claims Process generally, including an updated estimate of the potential distributions to creditors and the timing thereof;
- b) a review of the Company's cash receipts and disbursements for the period ended December 29, 2012;
- c) the Company's revised cash flow forecast to March 30, 2013; and
- d) the Monitor's recommendation with respect to the Petitioners' request for an extension of the stay of proceedings to March 29, 2013.

### 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 **UPDATE ON THE CLAIMS PROCESS**

#### **Summary of Creditor Claims Filed to Date**

- 4.1 A summary of creditor claims filed as at January 7, 2013 is set forth in the table below.

**Sterling Shoes Limited Partnership and Sterling Shoes GP Inc.**  
**Summary of Creditor Claims**  
**As at January 7, 2013**  
**(\$000's)**

Nature of Claim	Number of Claims Received	Allowed Claims	Amount of Allowed Claims (\$000's)	Number of Notices of Dispute Unresolved	Note	Amount of Notices of Dispute (\$000's)	Total Number of Claims	Gross Amount of Claims (\$000's)
Pre-filing Claims	412	407	\$14,546	2	(a)	\$1,402	409	\$15,948
Restructuring Claims:								
Employee Claims	163	161	2,892	2		129	163	3,021
Landlord Claims	68	58	5,109	2		1,081	60	6,190
Director and Officer Claims	-	-	-	-		-	-	-
Total	643	626	\$22,547	6		\$2,612	632	\$25,159

Note (a) – Notice of Disputes includes an unresolved claim by Canada Revenue Agency in the amount of approximately \$1.4 million. The Company and the Monitor are reviewing the quantum and validity of the claim. This claim was not previously referenced in the Monitor's earlier reports.

- 4.2 There are two remaining employee claims which have yet to be resolved but the Company has made settlement proposals to each of the respective individuals.
- 4.3 As part of the restructuring process 68 leases were disclaimed by the Company. Of those 68, 46 claims by landlords were disallowed or revised, in response to which 38 Notices of Dispute (“**NOD’s**”) were filed. Of those NOD’s filed, 37 claims have been settled. In addition to the NOD’s filed, there remains one claim which is subject to settlement discussions between the Company and the particular landlord.
- 4.4 As a result of settling the Disputed Landlord Claims, the estimated total gross amount of claims has been reduced from \$32.8 million as noted in the Monitor’s Ninth Report to \$25.2 million as noted in section 4.1 above.
- 4.5 To date, no claims have been filed against any Directors or Officers of the Petitioners.

## 5.0 **UPDATED CCAA 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 January 12, 2013 (the “**January 2013 Cash Flow Statement**”), which has been reviewed by the Monitor.
- 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 regular reviews of the Company’s actual cash flow in comparison to that forecast by Management.
- 5.3 The Company’s actual cash receipts and disbursements for the 63 week period from October 16, 2011 to December 29, 2012 as compared to the January 2013 Cash Flow Statement are set out as an Appendix “A”.

5.4 In summary, the Company has experienced a net favourable cash flow variance of \$95,000 for the 4 week period since the date of the Monitor's Ninth Report. The key components of the net favourable variance relate primarily to reduced payroll, other costs and professional fees.

#### 6.0 MARCH 2013 CASH FLOW STATEMENT

6.1 The Company has prepared an updated weekly cash flow forecast of its receipts and disbursements for the 13 week period ending March 30, 2013 (the "**March 2013 Cash Flow Statement**") which supersedes the January 2013 Cash Flow Statement referred to in section 5.0 above.

6.2 In preparing the March 2013 Cash Flow Statement, Management has adopted the probable and hypothetical assumptions set out in the accompanying notes. A copy of the March 2013 Cash Flow Statement and accompanying notes is attached hereto as Appendix "**B**".

6.3 In summary and as indicated in the March 2013 Cash Flow Statement:

- a) forecast payroll remittances of \$15,000 relate to wages payable to the Company's CFO who has been retained to assist with, among other things, the Claims Process, distributions to creditors and other ancillary issues;
- b) the Company anticipates receiving refunds from certain landlords totalling \$75,000;
- c) HST refunds totalling \$75,000 are calculated based on Management's latest estimated refund and future refunds of input tax credits;
- d) other operating expenses of \$81,000 relate to general overhead costs and include general and administrative expenses, a part time consultant and Directors' fees;
- e) estimated net cash out-flow from operations for the Forecast Period is expected to be approximately \$54,000 before anticipated professional fees; and
- f) professional fees are estimated to be \$303,000 for the Forecast Period.

6.4 Although the Company intends to make one or more distributions to creditors as noted in section 7.1 below, these amounts have not been included in the March 2013 Cash Flow Statement as the exact timing of the distributions has not been finalized.

6.5 The March 2013 Cash Flow Statement covers the period up to March 30, 2013. However, given recent progress in settling various creditor claims, it is expected that a significant amount of the funds on hand will be distributed by the end of January 2013 and, therefore, expenses incurred beyond that date may be significantly less than forecast.

## 7.0 DISTRIBUTION

- 7.1 This Honourable Court approved the Distribution Order on December 12, 2012, permitting the Company to make one or more distributions to creditors having Allowed Claims (as defined in the Claims Process Order) against Sterling GP or the Partnership.
- 7.2 The Company plans to make an interim distribution to the holders of Allowed Claims against Sterling GP or the Partnership in or about late January 2013.
- 7.3 As summarized in the table below, depending on the ultimate settlement of the remaining unresolved claims, the Monitor's calculations indicate a potential distribution to creditors in the range of 53% to 58% of their claims.

<b>Sterling Shoes Limited Partnership</b>		
<b>Estimated Potential Recoveries to Creditors</b>		
<b>(\$000's)</b>		
	High	Low
	\$	\$
Total Estimated Proceeds Available for Distribution as at January 12, 2013	<u>13,750</u>	<u>13,250</u>
Total Estimated Claims:		
Pre-filing claims	15,300	16,000
Restructuring claims		
Landlords	5,400	6,200
Employees	<u>2,900</u>	<u>3,000</u>
Total Estimated Claims	<u>23,600</u>	<u>25,200</u>
Estimated Potential Recovery Percentage	<u>58%</u>	<u>53%</u>

- 7.4 The total estimated claims used in the low case above are based on the total amount of Allowed Claims and total amount of outstanding disputed claims as set out in the summary of creditor claims in section 4.2. Any change in the status of any claim may have an impact on the potential distribution to creditors.
- 7.5 Based on the total amount of the outstanding disputed claims, the Company is of the view that any distribution made in or about late January 2013 will distribute a significant amount of the funds held by the Company and possibly as much as \$8.0 million to \$10.0 million. This will ensure a sufficient holdback of funds to make distributions in respect of the disputed claims as well as to fund administration costs. For clarity, as noted in section 6.2 of the Monitor's Ninth Report, the Company does not intend to make any distribution to the creditors of Sterling (as defined in section 1.1, Sterling refers to Sterling Shoes Inc.) which are primarily the holders of \$25.8 million in convertible debentures and accrued interest as Sterling has no assets of value.

**8.0 EXTENSION OF STAY OF PROCEEDINGS**

- 8.1 The Company is seeking an order of this Honourable Court to extend the stay of proceedings until March 29, 2013.
- 8.2 In relation to the Company's request for an extension of the stay of proceedings, the Monitor has specifically considered 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 of proceedings and the additional work required to resolve remaining claims of the landlords, employees and Canada Revenue Agency.
- 8.3 The Monitor is of the view that an extension of the stay of proceedings to March 29, 2013 is reasonable in the circumstances as it will allow adequate time for completion of the distribution of the funds on hand to creditors.

**9.0 MONITOR'S CONCLUSIONS AND RECOMMENDATION**

- 9.1 It is the Monitor's view that the Company and Management continue to act in good faith and with due diligence in advancing the CCAA Proceedings.
- 9.2 The Monitor respectfully recommends that this Honourable Court approve an extension of the stay of proceedings to March 29, 2013.

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All of which is respectfully submitted to this Honourable Court this 8th day of January, 2013.

**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



## Sterling Shoes Inc. et al.

## Actual Consolidated Cash Flow Compared to the January 2013 Cash Flow Statement (Note 1)

For the 63 Week Period from October 16, 2011 to December 29, 2012

(\$000's)	October 16, 2011 to December 29, 2012 (Cumulative)		
	Actual	Forecast	Variance (Note 4)
Gross sales receipts	\$ 52,866	\$ 52,866	\$ -
Cash received on behalf of liquidators (Note 2)	12,870	12,870	-
Inventory liquidation	12,540	12,540	-
Sale of assets	18,323	18,323	-
<b>Receipts (incl. taxes)</b>	<b>96,599</b>	<b>96,599</b>	<b>-</b>
<b>Disbursements</b>			
Vendors	(19,050)	(19,050)	-
Payroll	(13,246)	(13,262)	16
Rent	(8,952)	(8,920)	(32)
Sales tax	(2,779)	(2,693)	(86)
Deposits	(213)	(213)	-
Pre-filing related payments	(1,113)	(1,113)	-
Other	(5,334)	(5,368)	34
Amounts paid to liquidators (Note 2)	(12,089)	(12,089)	-
	<b>(62,776)</b>	<b>(62,708)</b>	<b>(68)</b>
<b>Cash Flow from Operations</b>	<b>33,823</b>	<b>33,891</b>	<b>(68)</b>
CAPEX	(55)	(55)	-
Professional fees	(4,565)	(4,715)	150
Interest / Forbearance fee	(912)	(925)	13
Term Loan	-	-	-
<b>Net Cash Flow</b>	<b>28,291</b>	<b>28,196</b>	<b>95</b>
<b>Bank Position</b>			
Opening bank exposure (Note 3)	(14,270)	(14,270)	-
<b>Closing Bank Position</b>	<b>14,021</b>	<b>13,926</b>	<b>95</b>
Opening balance	\$ (2,344)	\$ (2,344)	-
(Opened) / Cancelled	(721)	(721)	-
Drawn	3,065	3,065	-
LCs	-	-	-
<b>Total Bank Position</b>	<b>\$ 14,021</b>	<b>\$ 13,926</b>	<b>\$ 95</b>

## Notes:

- (1) "January 2013 Cash Flow Statement" as defined in and attached to the Tenth Report of the Monitor dated December 7, 2012.
- (2) Cash received on behalf of liquidators and amounts paid to liquidators relate to receipts at stores being liquidated under agency agreements.
- (3) Adjustments to opening balances previously reported include cancellation of certain outstanding cheques post filing.
- (4) The variance is only calculated for the 4 week period from December 2, 2012 to December 29, 2012 and not the 63 week period from October 16, 2011 to December 29, 2012.

Sterling Shoes Inc., Sterling Shoes GP Inc. and Sterling Shoes Limited Partnership  
Consolidated Cash Flow Forecast (Note 1)  
For the Seventy-Six Week Period from October 16, 2011 to March 30, 2013  
(CDN \$000's)

Week	1 to 63	64	65	66	67	68	69	70	71	72	73	74	75	76	64 to 76	Total
For the Week ending	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	(incl. Actual)
	Notes	Total	5-Jan	12-Jan	19-Jan	26-Jan	2-Feb	9-Feb	16-Feb	23-Feb	2-Mar	9-Mar	16-Mar	23-Mar	30-Mar	Total
Sales Receipts (incl. HST)		\$ 52,866	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,866
Cash Received on Behalf of Liquidators		\$ 12,870	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 12,870
Inventory Liquidation		\$ 12,540	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 12,540
Sale of Assets		\$ 18,323	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 18,323
<b>Gross Receipts</b>		<b>\$ 96,599</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 96,599</b>
Disbursements																
Vendors		(19,050)	-	-	-	-	-	-	-	-	-	-	-	-	-	(19,050)
Payroll		(13,246)	-	(8)	-	-	-	-	-	-	-	-	-	-	-	(13,254)
Rent		(8,952)	-	75	-	-	-	-	-	-	-	-	-	-	-	(8,877)
Sales tax		(2,779)	-	-	-	75	-	-	-	-	-	-	-	-	-	(2,704)
Deposits		(213)	-	-	-	-	-	-	-	-	-	-	-	-	-	(213)
Pre-filing related payments		(1,113)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,113)
Other		(5,334)	(17)	2	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(5,415)
Amounts paid to liquidators		(12,089)	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,089)
<b>Total Disbursements</b>		<b>(62,776)</b>	<b>(17)</b>	<b>69</b>	<b>(13)</b>	<b>69</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(62,722)</b>
<b>Cash Flow from Operations</b>		<b>33,823</b>	<b>(17)</b>	<b>69</b>	<b>(13)</b>	<b>69</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	<b>33,877</b>
Professional fees		(4,565)	(33)	(42)	(28)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(4,868)
Interest / Forbearance fee		(912)	-	6	12	-	12	-	-	12	-	-	-	-	12	(859)
Capital expenditures		(55)	(33)	(36)	-	-	-	-	-	-	-	-	-	-	-	(124)
<b>Net Cash Flow</b>		<b>28,291</b>	<b>(83)</b>	<b>(3)</b>	<b>(29)</b>	<b>49</b>	<b>(14)</b>	<b>(26)</b>	<b>(26)</b>	<b>(14)</b>	<b>(26)</b>	<b>(26)</b>	<b>(26)</b>	<b>(26)</b>	<b>(14)</b>	<b>28,027</b>
Bank Position																
Opening Bank Exposure		(14,270)	14,021	13,938	13,935	13,906	13,955	13,941	13,915	13,889	13,863	13,849	13,823	13,797	13,771	(14,270)
<b>Closing Bank Position</b>		<b>14,021</b>	<b>13,938</b>	<b>13,935</b>	<b>13,906</b>	<b>13,955</b>	<b>13,941</b>	<b>13,915</b>	<b>13,889</b>	<b>13,863</b>	<b>13,849</b>	<b>13,823</b>	<b>13,797</b>	<b>13,771</b>	<b>13,757</b>	<b>13,757</b>
Letters of Credit																
Opening balance		\$ (2,344)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Opened		(721)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Drawn		3,065	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closing Letters of Credit</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Bank Position</b>		<b>\$ 14,021</b>	<b>\$ 13,938</b>	<b>\$ 13,935</b>	<b>\$ 13,906</b>	<b>\$ 13,955</b>	<b>\$ 13,941</b>	<b>\$ 13,915</b>	<b>\$ 13,889</b>	<b>\$ 13,863</b>	<b>\$ 13,849</b>	<b>\$ 13,823</b>	<b>\$ 13,797</b>	<b>\$ 13,771</b>	<b>\$ 13,757</b>	<b>\$ 13,757</b>

*Daniel Gumpich*  
Daniel Gumpich  
Chief Financial Officer

January 07, 2013  
Date

Notes:

See following page

Sterling Shoes Inc., Sterling Shoes GP Inc. and Sterling Shoes Limited Partnership  
 Consolidated Cash Flow Forecast (Note 1)  
 For the 76 Week Period from October 16, 2011 to March 30, 2013

**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 Payroll payments are based on estimated payroll for the remaining employee of the Company. These amounts include payroll withholding taxes and other employee related expenses.
- 3 Rent receipts relate to amounts held in trust which will be released shortly.
- 4 Sales tax refunds are based on estimated input tax credits during the forecast period.
- 5 Other expenses include directors' fees and general and administrative expenses. These estimates have been forecasted based on estimated monthly expenses and the timing reflects when these expenses are expected to be paid.
- 6 Although the Company is working towards making one or more distributions to creditors, the Cash Flow Statement does not include these distributions to creditors during the period of the forecast.
- 7 Professional fees relating to the filing are based on estimates provided by legal advisors and the monitor.
- 8 The opening bank balance as at December 30, 2012 of \$14.0 million comprises of cash balances held in the Company's various bank accounts and includes amounts held in trust by the Monitor on behalf of the Company of \$0.5 million (which represents an Administrative Charge of \$0.5 million).