

This is the 8th affidavit of
D. Gumprich in this case and was
made on June 7, 2012

No. S-117081
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.

PETITIONERS

AFFIDAVIT

I, **Daniel Gumprich**, Chartered Accountant and Chartered Business Valuator, of 2580 Viscount Way, Richmond, British Columbia, AFFIRM THAT:

1. I am the Chief Financial Officer of the Petitioners in this proceeding and as such I have personal knowledge of the matters deposed to in this Affidavit except where I depose to a matter based on information from an informant I identify, in which case I believe that both the information from the informant and the resulting statement are true.
2. I am authorized to make this affidavit on behalf of the Petitioners and Sterling Shoes Limited Partnership (together with the Petitioners, the "**Company**").

3. The Company has undertaken a number of steps since the date of the Initial Order, made October 21, 2011 (as amended) (the “**Initial Order**”) and since the most recent Order of this Court approving an extension of a stay of proceedings on April 2, 2004, including:

- (a) conducting a claims process, with the assistance of the Monitor, and reviewing and analyzing the claims of the Company’s creditors, pursuant to the Order of the Court dated April 8, 2012 (the “**Claims Process Order**”);
- (b) executing an asset purchase agreement among the Petitioners, Town Shoes Limited (“**Town Shoes**”) and Alvarez & Marsal Canada Inc., dated April 16, 2012, and approved by Order of the Court dated April 30, 2012, for the sale of certain of the Company’s assets (the “**Purchase Agreement**”);
- (c) closing the Purchase Agreement on May 22, 2012;
- (d) conducting a request for proposal process to engage a third-party liquidator to conduct a liquidation sale at the Company’s remaining 36 retail locations (the “**Liquidation Sale**”), which were not subject to the Purchase Agreement;
- (e) executing an agency agreement between Sterling Shoes Limited Partnership and Great American Group LLC (the “**Agent**”), dated May 3, 2012, for the conduct of Liquidation Sale (the “**Agency Agreement**”); and
- (f) paying out in full the Company’s only secured creditor, the Bank of Montreal.

4. The Company requires time to attend to the outstanding issues under the Claims Process Order, Purchase Agreement, and Agency Agreement, and to attend to matters involving the distribution of proceeds of the Purchase Agreement and the Liquidation Sale.

Claims Process Order

5. The Company received 247 Proofs of Claims submitted by its creditors in connection with the Claims Process Order (the “**Claims**”).

6. The Company, with the assistance of the Monitor, analyzed and reviewed the Claims. For a number of the Claims, the Claims were disallowed due to a lack of information substantiating the value of the Claim. "Notices of Disallowance" have been delivered to a number of creditors where additional information will be required to assess their Claim.

7. In other cases, "Notices of Revision" were issued to the applicable creditors outlining the revised amount that the Company is prepared to accept for each particular Claim.

8. In cases where a Notice of Disallowance or Revision was issued, the creditor was notified of its right to file a "Notice of Dispute". The Company, with the assistance of the Monitor, will analyze and review all Notices of Dispute when they are filed by the creditor.

9. In addition, the Company will continue to receive additional Proofs of Claims for employee terminations and disclaimers of real property leases issued in connection with the Liquidation Sale. The Company will require time to review, analyze and determine the validity and/or quantum of these Proofs of Claims, and, if applicable, issue Notices of Revision and/or Disallowance and address any Notices of Dispute that are filed.

Purchase Agreement

10. Pursuant to the terms of the Purchase Agreement, Town Shoes must deliver to the Company a closing date statement within 60 days after the closing of the Purchase Agreement (the "Statement"). The Company has 15 days from delivery of the Statement to file an Objection Notice, as such term is defined in the Purchase Agreement, in respect of any disputes arising from the Statement. If the parties cannot resolve the dispute within 30 days of the delivery of an Objection Notice, an independent accountant will review the dispute and make a determination within 45 days of its appointment.

Agency Agreement

11. The Liquidation Sale is scheduled to complete on July 31, 2012, subject to any agreements to extend the term thereof among the Company, the Agent and any affected landlords. Pursuant to the terms of the Agency Agreement, the Company and the Agent are

required to complete a final reconciliation of the Liquidation Sale within 30 days of the conclusion of the Liquidation Sale (the “**Reconciliation**”).

12. Following the completion of the Reconciliation, the Agent has five (5) days to make any payments to the Company due and owing or address any issues with the Reconciliation. If the parties cannot resolve any issues with the Reconciliation, either party may request that the Monitor resolve the dispute, which involvement would presumably take place in September 2012.

Cash Flow

13. The Company has prepared a cash flow statement outlining that the Company will have sufficient cash flow to operate through October 15, 2012, and to continue meeting its ongoing obligations for its day-to-day operations and obligations arising in connection with these CCAA proceedings.

14. Attached hereto and marked as Exhibit A is a copy of a cash flow statement dated June 7, 2012.

General

15. Since the date of the Initial Order, the Company has met its post-filing obligations to creditors and suppliers when due and has met its obligations to current employees in the normal course. In particular, the Company has paid its statutory remittances for employees and continues to pay its taxes and make its real property lease payments in accordance with the terms of the Initial Order.

16. The Company continues to work diligently and in good faith for the benefit of its stakeholders.

AFFIRMED BEFORE ME at Vancouver,
British Columbia on June 7, 2012.



A Commissioner for taking Affidavits for
British Columbia


Daniel Gumprich

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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	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	39 to 52	Total
Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	(incl. Actual)
Notes	9-Jun	16-Jun	23-Jun	30-Jun	7-Jul	14-Jul	21-Jul	28-Jul	4-Aug	11-Aug	18-Aug	25-Aug	1-Sep	8-Sep	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	(13,382)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,382)
Rent	(8,346)	(67)	-	-	-	-	(80)	-	(35)	-	-	-	-	-	-	-	(35)	-	-	-	(8,914)
Sales tax	(2,514)	-	-	-	-	-	-	-	20	-	-	-	13	-	-	-	12	-	-	-	(2,569)
Deposits	(213)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(213)
Pre-filing related payments	(1,113)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,113)
Other	(4,994)	(69)	(70)	(70)	(236)	(11)	(11)	(122)	(11)	(9)	(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)	(91)	(122)	(26)	(9)	(9)	(9)	(142)	(8)	(8)	(8)	(159)	(6)	(6)	(1,691)	(63,392)
Cash Flow from Operations	37,956	(274)	(70)	(70)	(521)	(142)	(91)	(122)	(26)	(9)	(9)	(9)	(142)	(8)	(8)	(8)	(159)	(6)	(6)	(1,691)	36,265
Professional fees	(3,834)	(311)	(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	(35)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(35)
Net Cash Flow	33,168	(585)	(123)	(123)	(574)	(195)	(64)	(170)	(74)	(57)	(57)	(57)	(190)	(50)	(50)	(50)	(207)	(43)	(43)	(2,874)	30,294
Bank Position	(14,270)	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	16,618	16,429	16,373	16,317	16,110	16,067	(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	16,618	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	12	(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	\$ 16,618	\$ 16,373	\$ 16,317	\$ 16,110	\$ 16,067	\$ 16,024	\$ 16,024

Dave S. G. J.
Daniel Gumpnich
Chief Financial Officer

June 7, 2012
Date

Notes:

See following page.

This is Exhibit "A" referred to in the affidavit of Daniel Gumpnich sworn before me at Vancouver this 7 day of June 2012.
A Commissioner for taking Affidavits for British Columbia

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.