

This is the 5th affidavit of
D. Gumprich in this case and was
made on March 28, 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 in respect of its overall restructuring under the CCAA since the date of the Initial Order, made October 21, 2011 (as amended by orders made on November 18, 2011 and December 9, 2011, the "**Initial Order**"), including:

- (a) engaging in numerous discussions with creditors and suppliers to ensure the continued delivery of goods and services during the CCAA proceedings;
- (b) analyzing its five retail banners and wholesale division in order to assess the viability of each on a going-forward basis;
- (c) continuing the strategic and financial review of all store locations to determine which locations do not effectively reach the Company's target audience, do not fit the Company's long-term vision for its operations or do not contribute to the financial viability of the business;
- (d) evaluating the Company's personnel requirements;
- (e) investigating and commencing the process of contacting potential liquidators to assist with store closures and related inventory sales;
- (f) investigating and commencing the process of contacting interested parties relating to potential lease assignments in respect of certain closing store leases;
- (g) reviewing its on-going borrowing requirements and other related matters with its primary secured lender, Bank of Montreal ("**BMO**") and BMO's financial advisors;
- (h) working with its financial advisor to review the Company's financial and liquidity issues, develop an overall restructuring strategy and improve the Company's long-term financial prospects and enterprise value;
- (i) working with the Monitor in preparing its weekly cash flow forecasts, actual to budget variance analyses and other related matters; and

- (j) fielding inquiries from numerous parties who have provided an initial expression of interest with respect to participating in a restructuring of the Company.

4. The Company has made progress on a number of the above-noted matters and, in particular, has:

- (a) closed the Gia and Joneve retail banners to further the Company's restructuring efforts;
- (b) closed 53 underperforming stores (the "**Closing Stores**"), which include all of the Gia and Joneve stores, to further the Company's restructuring efforts;
- (c) closed its wholesale division, B-Code Imports;
- (d) successfully completed an inventory liquidation process at the Closing Stores, from December 10, 2011 to February 29, 2012;
- (e) entered into an extension agreement (the "**BMO Extension Agreement**") with BMO to extend the terms of a forbearance agreement dated October 21, 2011 (the "**Forbearance Agreement**"), between the Company and BMO, which will allow the Company to continue accessing its current credit facility until March 31, 2012, subject to certain conditions;
- (f) considered and prepared a key employee incentive program (the "**KEIP**") to assist with the retention of a limited number of employees during the restructuring process; and
- (g) worked diligently with its financial advisor Capital West Partners LLP ("**Capital West**") to conduct a sales and investment solicitation process to solicit offers to acquire, restructure or recapitalize the Company, which efforts are described in greater detail below.

The Solicitation Process

5. As referenced in my Affidavit #3, filed December 6, 2011, in August 2011 a special committee of Sterling Shoes Inc.'s board of directors engaged Capital West to assist the Company in developing a viable restructuring plan and exploring strategic alternatives for the Company to permit it to continue operating as a going concern.
6. Between August and October 2011, Capital West undertook a comprehensive review of the Company, including its past, current and future financial conditions and projections. Capital West also assisted in the development and production of a detailed business restructuring plan that outlined various restructuring possibilities.
7. As part of this process (the "**Solicitation Process**"), Capital West identified and approved approximately 50 investor groups regarding a potential investment in the Company. Most of those potential investor groups executed non-disclosure and standstill agreements ("**NDAs**") and were provided with the Company's information concerning possible restructuring options. The Company was informed by Capital West that certain investor groups would not invest in the Company outside of a formal restructuring.
8. To date, the Company, with the assistance of Capital West, has completed the following in support of the Solicitation Process:
 - (a) entered into NDAs with a number parties;
 - (b) distributed a revised business plan and granted access to numerous potential investors that executed confidentiality agreements to an electronic data room in December 2011;
 - (c) delivered numerous presentations to potential investors in January 2012;
 - (d) received and reviewed several non-binding proposals for the purchase of all or substantially all of the Company and its assets in February 2012 (the "**Initial Bids**"); and

- (e) responded to due diligence requests in February and March 2012 in respect of the Initial Bids.

9. Currently, the Company is in negotiations with a potential purchaser in respect of the purchase of all or substantially all of the assets of Sterling Shoes Limited Partnership. If the transaction is finalized, the Company will seek court approval for such agreement forthwith.

The Claims Process

10. In furtherance of the Company's restructuring efforts and in contemplation of a potential sale of Sterling Shoes Limited Partnership and its assets, a claims process is required (the "Claims Process"). A draft Claims Process Order is attached as Schedule "B" to the Notice of Application.

11. The Claims Process is designed to be an efficient means of providing fair and reasonable notice to various creditors or potential creditors of the requirement to file proofs of claim in respect of all potential claims in relation to the Company.

12. The Company seeks to proceed with the Claims Process as quickly as possible to ensure that the determination of creditors' claims does not unduly or unnecessarily delay the implementation of any restructuring, sale process or distribution of proceeds from a sale.

13. Terms not previously defined in paragraph 14 are defined in the Claims Process Order.

Overview of Proposed Claims Process

14. By way of general overview only, and as more particularly described in the draft Claims Process Order, the Claims Process involves the following:

- (a) advertisement regarding the Claims Process in newspaper publications and on the Monitor's website;
- (b) delivery of a Claims Package to Creditors;
- (c) delivery of a Landlord Claims Package to Landlords with Restructuring Claims;

- (d) establishment of Proof of Claim and Landlord Proof of Claim processes for the submission of Claims by Creditors;
- (e) review of all Claims by the Monitor, in consultation with the Company, to accept, revise or disallow such Claims;
- (f) establishment of a review process for Creditors in receipt of Notices of Revision or Disallowance for Proofs of Claim or Landlord Proofs of Claim;
- (g) authority for the Company to appoint a Claims Officer, on terms approved by the Monitor, to determine the validity and amount of disputed Claims; and
- (h) establishment of a review process for the Claim Officer's Determination, if appointed.

Bank of Montreal

15. The Company is presently in negotiations with BMO to further extend the Forbearance Agreement and anticipates that it will reach an agreement with BMO on or before March 31, 2012, which would allow the Company to continue accessing its current credit facility, subject to certain conditions.

Cash Flow

16. As the Company is continuing to negotiate with BMO for a further extension agreement, it is unclear at this time how long the Forbearance Agreement will be extended for. However, the Company expects that it will have sufficient cash flow through June 30, 2012 to continue meeting its ongoing obligations for its day-to-day operations and obligations arising in connection with these CCAA proceedings, such as professional fees and incentive bonuses pursuant to the KEIP, by virtue of entering into further extension agreement with BMO or, alternatively, through the sale of the assets of Sterling Shoes Limited Partnership.

General

17. 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.

18. The Company continues to work diligently and in good faith in an effort to stabilize its business operations and towards a viable restructuring plan. The Company believes that the efforts taken to date, and those expected to take place, will allow the Company to emerge as a stronger business.

AFFIRMED BEFORE ME at Vancouver,
British Columbia on March 28, 2012.

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A Commissioner for taking Affidavits for
British Columbia

A handwritten signature in black ink, appearing to be 'Daniel Gumprich', written over a horizontal line.

Daniel Gumprich

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